



U.S. Department of Energy  
Office of Inspector General  
Office of Audits and Inspections

# Audit Report

## Recovery Act Funded Projects at the Lawrence Berkeley National Laboratory





**Department of Energy**  
Washington, DC 20585

January 12, 2012

MEMORANDUM FOR THE MANAGER, BERKELEY SITE OFFICE

A handwritten signature in black ink, appearing to read "David Sedillo".

FROM: David Sedillo  
Director, Western Audits Division  
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Recovery Act Funded Projects at the Lawrence Berkeley National Laboratory"  
Audit Report Number: OAS-RA-L-12-02

BACKGROUND

In February 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law. The goals of the Recovery Act were to retain and create jobs, increase economic efficiency, and invest in infrastructure that would provide long-term economic benefits. The Department of Energy's (Department) Office of Science received \$1.6 billion through the Recovery Act which it used to invest in various projects. The Lawrence Berkeley National Laboratory (Berkeley) received approximately \$333.4 million in Recovery Act funds, primarily from the Department for infrastructure upgrades and a broad array of research efforts. These funds were allocated to 130 projects related to infrastructure, energy, science, computing, and health. Berkeley is managed and operated by the University of California (University). The Berkeley Site Office (Site Office) is responsible for overseeing Berkeley, including its management of these projects.

Berkeley's Internal Audit Services Department (Internal Audit) performed a considerable amount of prior audit work regarding Berkeley's Recovery Act activities. Internal Audit found that Berkeley substantially complied with all of the requirements of the Recovery Act. We reviewed the work of Internal Audit and determined that it met the Institute of Internal Audit Standards and could be relied upon. Based on the importance of the Recovery Act's investment in science projects, however, we performed additional testing on five Berkeley Recovery Act funded projects, accounting for \$129.5 million, to determine if Berkeley efficiently and effectively managed its Recovery Act projects.

CONCLUSIONS AND OBSERVATIONS

The five Berkeley Recovery Act funded projects we reviewed were on schedule and within budget. In addition, we found that Berkeley's project managers generally employed project management practices required by the Department. We also found that Berkeley was generally in compliance with selected Recovery Act requirements, including the segregation of funds. We

did, however, identify one instance where Berkeley's actions did not comply with Recovery Act requirements to ensure that subcontractor invoices were always clearly identified as Recovery Act funded work.

### Recovery Act Designation

Berkeley did not always ensure that subcontractor invoices clearly identified Recovery Act funded work. Based on our review of 71 invoices, we identified 48 that did not clearly delineate the work was Recovery Act funded. The purpose of separating charges by funding source was to ensure that the contractor and subcontractor segregated obligations and expenditures related to Recovery Act funding. Berkeley's prime contract, *Clause H.33 – Special Provisions Relating to Work Funded Under the Recovery Act*, as well as Berkeley's internal policy, *Recovery Act Procurement Guidelines*, stated that invoices must clearly indicate the portion of the invoice that is for work funded by the Recovery Act. Although the above requirement was included in subcontract terms and conditions, Berkeley accepted the invoices for payment even though the subcontractors did not designate Recovery Act funded work on their invoices.

Berkeley recognized that expecting subcontractors to track and label Recovery Act invoices separately could be an overwhelming prospect and reduced the risk of comingling by minimizing the opportunities for subcontractors to make errors in identifying portions of invoices that were funded by the Recovery Act. Specifically, for most invoices, Berkeley does not allow Recovery Act and non-Recovery Act funding to be included as part of the same transaction. Berkeley stated that Recovery Act invoices are appropriately segregated by developing systems and business rules that prevent the issuance of transactions with mixed funding. For example, Berkeley established separate purchase order and requisition numbers to charge Recovery Act purchases. There were only three subcontracts that Berkeley allowed to use mixed funding and a special process was created to manage the invoices for those subcontracts. In these cases, Berkeley required those subcontractors to clearly indicate the portion that was attributable to Recovery Act funding.

Despite the lack of inclusion of the Recovery Act classification requirement, we determined that subcontractor costs were appropriately segregated for the items we tested, in part, because the invoices were linked to purchase orders that were specific and clearly designated as funded by the Recovery Act. Therefore, it appears that Berkeley reduced the potential for comingling of Recovery Act and non-Recovery Act funding, as required by Department regulations.

Since no formal recommendations are being made in this report, a formal response is not required. We appreciated the cooperation of your staff and the various Departmental elements that provided information or assistance during this effort.

Attachment

cc: Deputy Secretary  
Associate Deputy Secretary  
Director, Office of Science  
Chief Financial Officer  
Chief of Staff

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine if Lawrence Berkeley National Laboratory (Berkeley) efficiently and effectively managed its American Recovery and Reinvestment Act of 2009 (Recovery Act) projects.

### **SCOPE**

The audit was performed between May 2011 and November 2011, at Berkeley and the Berkeley Site Office, located in Berkeley, California. Our audit included a review of selected Berkeley Recovery Act projects.

### **METHODOLOGY**

To accomplish the audit objective, we:

- Assessed compliance with policies and procedures, laws and regulations, and contract terms applicable to Berkeley projects funded by the Recovery Act;
- Reviewed project management activities of selected Recovery Act funded projects;
- Reviewed and tested a judgmental sample of Berkeley subcontracts funded by the Recovery Act including the flow down of required clauses, central contractor registration, utilization of competition, and small business consideration;
- Selected transactions using statistical sampling techniques and tested for cost allowability and allocability under the Department of Energy contract cost principles; and,
- Reviewed Internal Audit's work related to project management and monitoring practices of Recovery Act projects.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. During the audit, we reviewed performance measures related to the Recovery Act in accordance with the *Government Performance and Results Act of 1993*. We utilized computer-processed data to identify the population of costs spent using Recovery Act funding in order to accomplish our audit objective. Based on our comparison of computer-processed data to supporting documentation, we determined that the data were sufficiently reliable to achieve our objective.

Management waived an exit conference.

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