



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Management Controls over
Meal Expenses at Management
and Operating Contractors



Department of Energy

Washington, DC 20585

April 20, 2005

MEMORANDUM FOR THE ASSOCIATE ADMINISTRATOR FOR MANAGEMENT
AND ADMINISTRATION, NNSA
CHIEF OPERATING OFFICER FOR ENVIRONMENTAL
MANAGEMENT
DEPUTY DIRECTOR FOR OPERATIONS, OFFICE OF
SCIENCE

FROM:

George W. Collard
George W. Collard

Assistant Inspector General for Audit Operations
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "Management Controls
over Meal Expenses at Management and Operating
Contractors"

BACKGROUND

As a general rule, meals (including refreshments) during the course of a workday are the personal expense of the employee. The Federal Acquisition Regulation permits such meals (1) when they are provided as part of a meeting, convention, conference, or seminar designed to disseminate information or stimulate production or improved productivity or (2) when the employee is on official travel. Expenses for food that do not fall within these exclusions generally should not be reimbursed by the Department.

In prior audits, the Office of Inspector General reported that certain Department contractors had been reimbursed for meals that, in our opinion, were inappropriate. For example, the Los Alamos National Laboratory and Thomas Jefferson National Accelerator Facility provided local meals to on-site employees that were engaged in routine, non-conference related activities. Because of these practices, we initiated this audit to determine whether the Department's contracting offices were consistent in their approach to reimbursing contractors for the cost of local employee meals. Specifically, we conducted detailed testing at six significant Departmental contractor sites, and reviewed the policies and procedures applicable to local meal costs of seven other contractors.

RESULTS OF AUDIT

Our audit disclosed that four of the six Department contractors, at which we conducted detailed test work, sought and were reimbursed about \$255,000 for questionable meal costs. In contrast, we found no evidence that the other two contractors provided local meals to employees during routine business activities. We also found that the policies and procedures of the seven other contractors generally prohibited such costs. Of those that permitted reimbursement, we noted that during Fiscal Year 2003:



- Lawrence Berkeley National Laboratory was paid over \$148,000 for meals provided at routine functions such as weekly group meetings, program reviews, training, and new employee orientation;
- Sandia National Laboratories claimed and was reimbursed over \$70,000 for meals provided at activities such as training sessions, program meetings, and regularly scheduled meetings;
- Y-12 National Security Complex received about \$30,000 for meals provided at activities such as training, project review meetings, and meetings hosted by the laboratory general manager; and,
- Fermi National Accelerator Laboratory received about \$7,000 for local meals provided at functions such as program reviews.

The Department reimbursed some contractors for employee meal costs because it had not provided specific guidance regarding contractor meals. We also found no evidence that the contracting offices had reviewed and approved contractors' written policies or determined whether meal charges were reasonable. Without adequate Department guidance and contracting office oversight, the Department lacks assurance that policies regarding meals are consistent, contractors are equitably reimbursed for costs across the complex, and unallowable costs are not reimbursed.

Because meals are reimbursed at certain sites and strictly prohibited at others, we recommended that the Department provide contractors with guidance on when reimbursement of meal costs would be appropriate and instruct contractors to revise their written policies and practices in accordance with such guidance. Once guidance is in place, contracting officials should also specifically review meal-related costs.

MANAGEMENT REACTION

Management generally concurred with the recommendations. The Director of Management, Budget and Evaluation/Chief Financial Officer (CFO) indicated that application guidance regarding contractor meal expenses would be developed for use by contracting personnel. The CFO and the National Nuclear Security Administration also agreed that oversight of contractor meal expenses would be enhanced and the allowability of questionable expenses identified in our audit would be determined and unallowable costs would be recovered. Management's comments are summarized beginning on page 4 of the report and are included in their entirety in Appendix 3.

Attachment

cc: Administrator, National Nuclear Security Administration, NA-1
Principal Deputy Assistant Secretary for Environmental Management, EM-1
Director, Office of Science, SC-1
Director, Office of Nuclear Energy, Science and Technology, NE-1
Director, Office of Procurement and Assistance Management, ME-60
Director, Policy and Internal Controls Management, NA-66

REPORT ON MANAGEMENT CONTROLS OVER MEAL EXPENSES AT MANAGEMENT AND OPERATING CONTRACTORS

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REIMBURSEMENT OF MEAL EXPENSES

Reimbursement Practices

In Fiscal Year (FY) 2003, the Department of Energy (Department) reimbursed four of the six contractors at which we performed detailed audit work for questionable costs of meals and refreshments (local meals). The majority of these costs were for local meals provided by the contractors' on-site cafeteria operators while the balance was for local meals provided by nearby restaurants. Details of our questioned costs were:

- Lawrence Berkeley National Laboratory - \$148,395 for local meals provided to employees at functions such as weekly group meetings, meetings hosted by the laboratory director, program reviews, training, new employee orientation, and meetings with the Department.
- Sandia National Laboratories - \$70,484 for local meals provided at activities such as training sessions, program meetings, annual strategic planning meetings, and regularly scheduled meetings.
- Y-12 National Security Complex - \$29,762 for local meals provided at activities such as supervisor meetings hosted by the laboratory general manager, program reviews, regularly scheduled meetings, and routine training sessions.
- Fermi National Accelerator Laboratory – \$6,784 for local meals provided at functions such as Department program reviews.

Although not specifically prohibited by contract or local policy, we found no evidence that the other two contractors at which we performed detailed test work, the Oak Ridge National Laboratory and the East Tennessee Technology Park, provided local meals to employees during routine business activities.

In contrast to our findings at the six locations discussed above, we observed that Department contracting offices and contractors at seven other sites had adopted policies that did not permit local meal costs. In particular, sites associated with the Chicago Office (Fermi, Argonne, Brookhaven and Princeton) generally did not permit meals

because it considered them to be a personal expense of the individual. Pacific Northwest National Laboratory's contract only permits local meals at formal conferences and specifically prohibits meals at routine internal meetings and at in-house functions. Also, Idaho National Engineering and Environmental Laboratory's policy prohibits meals at company sponsored local training and at working staff meetings. Further, the Yucca Mountain Project followed the procedure outlined by the Office of Civilian Radioactive Waste Management which states that meals for training, staff meetings, and other routine meetings are not allowable.

Our finding related to the reimbursement for local meals is not unique. Our report on the *University of California's Costs Claimed and Related Internal Controls for Operation of the Los Alamos National Laboratory* (DOE/IG-0596, April 2003) projected that \$3.7 million out of \$4.2 million claimed in FYs 2000 through 2002 represented questionable costs for local meals provided to employees. In addition, our audit of *Central Office Expenses for the Thomas Jefferson National Accelerator Facility* (DOE/IG-0629, December 2003) found that the Department had reimbursed the contractor for local meals provided to employees.

Department Oversight

Questionable local meal costs were reimbursed because the Department and the program offices responsible for the contractors who incurred questionable local meal expenses had not issued guidance to ensure that contracting offices and contractors were consistent in their treatment of local meals.

In our opinion, guidance to contractors regarding when it is appropriate and reasonable to provide local meals would provide the Department with greater assurance that meal costs are treated consistently across the complex. During our audit, both Department and contractor representatives told us that they believed there was a need for clear guidance regarding the appropriateness of these costs. Furthermore, responsible contracting offices did not provide sufficient oversight in this area. In particular, we found no evidence that the contracting offices reviewed the contractors' written policies for local meals or provided specific guidance to the contractors as to the circumstances where local meal costs would be appropriate. The written

policies of these contractors permitted wide discretion in routinely allowing local meals for employees and did not reflect the fact that local meals are generally considered to be a personal expense of the employee.

In the absence of specific Departmental guidance, we noted that one organization – the Chicago Office – provided contractor guidance indicating that contractor meals are generally prohibited. Specifically, we noted that in October 2002, the Chief Counsel of the Department's Chicago Office concluded in an October 2002 Advisory Opinion, that, generally, meals for contractor employees are unallowable because the cost of meals is considered a personal expense of the individual.

Operational Impacts

The Department reimbursed four contractors included in our review about \$255,000 for local meal costs that could have been used in mission-related activities. Moreover, the practice of providing local meals could create the appearance that Department funds are not always being used prudently and in the Government's best interest. In addition, without adequate guidance and oversight, the Department can not be assured that only reasonable and allowable costs are being reimbursed and that contractors are equitably reimbursed for costs across the complex.

RECOMMENDATIONS

We recommend that the Associate Administrator for Management and Administration, National Nuclear Security Administration (NNSA), the Chief Operating Officer for Environmental Management (EM) and the Deputy Director for Operations, Office of Science (Science):

1. Require responsible contracting officers to determine the allowability of the questioned costs cited in our report and recover costs determined to be unallowable;
2. Provide guidance to clarify the circumstances when it is permissible to provide local meals to employees and instruct contractors to revise written policies consistent with such guidance; and,

-
3. Enhance financial oversight, by performing periodic reviews of meal costs, to ensure that future payments only cover allowable expenses.

MANAGEMENT REACTION

NNSA generally agreed with our recommendations. Specifically, NNSA stated that by September 30, 2005, the contracting officers for the Sandia Site Office and the Y-12 Site Office will make a cost determination for the questionable meal costs identified in our report. NNSA stated that by March 2006, its Senior Procurement Executive will issue a policy related to meals and the allowability of their associated costs based on best business practices. NNSA noted that it disagreed with the implication that there was any wrongdoing or laxity on the part of its contract administrators. NNSA pointed out that it has taken action to enforce the stated goals of its Senior Procurement Executive to improve contract administration holistically and improve the oversight function on the part of its site offices.

The CFO provided comments for Science and EM. The CFO generally concurred with recommendations 1 and 3 and partially concurred with recommendation 2.

For recommendation 1, the CFO stated that Science will direct its contracting officers to determine the allowability of costs questioned in the audit and recover those costs determined to be unallowable. The CFO will monitor the contracting officers' conclusions to ensure consistency with Government-wide policy and contract terms.

For recommendation 2, the CFO did not agree with a statement in a draft version of this report that the Department and responsible program offices had not developed policies regarding the extent to which reimbursement for meals was permitted. The CFO indicated that the Department's policy is the same as the Federal Acquisition Regulation (FAR). However, the CFO agreed that contracting activities should be refreshed as to the FAR/contract requirements and agreed to provide additional guidance on how to apply them. The CFO agreed to develop application guidance suitable for use by contracting personnel and coordinate the product with the Office of Inspector General.

For recommendation 3, the CFO stated that contracting activities will be required to: (1) review contractor internal policies, procedures, and internal controls on claiming contractor meal expenses as allowable costs; (2) ensure those policies and procedures are compliant with the FAR/contract requirements; and, (3) require contractors to direct the attention of their internal audit staffs to these costs.

In addition, the CFO pointed out that a draft version of our report did not sufficiently reflect that the FAR provides the applicable Government-wide standards for cost allowability including meal costs. The CFO also pointed out that the policies of other Federal agencies and the Defense Contract Audit Agency's (DCAA's) audit guidance are not more restrictive than the FAR standard regarding reimbursing meal costs.

Management's comments are included in their entirety as Appendix 3.

AUDITOR COMMENTS

Management's comments and planned actions are responsive to our recommendations.

With respect to NNSA's concern that our report implied wrongdoing or laxity on the part of its contract administrators, we did not identify any instances of wrongdoing by contract administrators. However, for the four contractors where we identified questionable costs, we found no evidence that the contracting offices had reviewed and/or approved the contractors' written policies regarding meal charges.

We agree with the CFO's comments that the FAR provides Government-wide standards for determining cost allowability and the Department's policy is to follow FAR standards. We have modified our report to clarify this issue and have removed the reference to the DCAA Audit Manual mentioned in management's comments. While we do not disagree with management's opinion that the DCAA audit guidance does not modify or impose more stringent reimbursement requirements, we believe it does reflect a generally held audit interpretation of FAR requirements for a large, and in some cases, similarly situated Federal agency. In that connection, we concur with management's plan to develop "application" guidance that would serve the same purpose for the Department.

Appendix 1

OBJECTIVE	To determine whether the Department's contracting offices were consistent in their approach to reimbursing contractors for the cost of local employee meals.
SCOPE	The audit was performed between November 2003 and April 2005 at Department Headquarters, Washington, DC and at various contractors. Specifically, detailed testing was performed at Lawrence Berkeley National Laboratory, in Berkeley, CA; East Tennessee Technology Park, Y-12 National Security Complex, and Oak Ridge National Laboratory, in Oak Ridge, TN; Sandia National Laboratories in Albuquerque, NM and Livermore, CA; and, Fermi National Accelerator Laboratory in Batavia, IL. In addition, we reviewed contractor policies and procedures applicable to local meal costs for Pacific Northwest National Laboratory, Savannah River Site, Idaho National Engineering and Environmental Laboratory, Yucca Mountain Project, Brookhaven National Laboratory, Princeton Plasma Physics Laboratory, and Argonne National Laboratory. Our testing was limited to non-travel related meal costs charged to contracts during FY 2003.
METHODOLOGY	<p>To accomplish our audit objective, we:</p> <ul style="list-style-type: none">• Obtained and reviewed applicable laws, regulations, contract terms, and applicable Department contracts and contractor policies;▪ Reviewed schedules of non-travel related meal transactions for FY 2003;• At Berkeley Laboratory, tested a randomly selected sample of 287 transactions valued at \$73,945, identified \$43,282 of questionable costs, and projected questioned costs to be \$148,395 using statistical sampling software provided by the Defense Contract Audit Agency;• At Sandia, tested a judgmental sample of 167 meal transactions valued at \$829,472 and identified \$70,484 of questionable costs;

- At Y-12, tested a judgmental sample of 85 meal transactions valued at \$54,560 and identified \$29,762 of questionable costs;
- At Fermi, tested a judgmental sample of 24 meal transactions valued at \$60,066 and identified \$6,784 of questionable costs; and,
- Interviewed Department and contractor representatives concerning local meals provided to on-site employees.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent 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. We did not identify any performance measures or goals applicable to local meal costs as required by the *Government Performance and Results Act of 1993*. We relied on computer-processed data to accomplish the audit objective. When appropriate, we performed limited test work of data reliability and determined that we could rely on the computer-processed data.

Management waived the exit conference.

PRIOR AUDIT REPORTS

- *University of California's Costs Claimed and Related Internal Controls for Operation of Los Alamos National Laboratory*, (DOE/IG-0596, April 2003). The Department reimbursed the contractor approximately \$14.6 million for questionable costs, including \$3.7 million for "working" meals. Control weaknesses existed that contributed to an environment in which potentially unallowable costs could be incurred and claimed. As a result of identified weaknesses, the Department had less than adequate assurance that costs claimed by Los Alamos National Laboratory were allowable under the contract.
- *Central Office Expenses for the Thomas Jefferson National Accelerator Facility*, (DOE/IG-0629, December 2003). This audit questioned about \$4.6 million of the \$4.8 million claimed by and paid to the contractor for central office expenses from November 1999 to September 2002. Questioned costs included central office expenses that were specifically not allowable and local meal expenses, as well as expenses that were not adequately supported or documented. Lack of attention by Federal administrators to contractor claims created an atmosphere in which the contractor sought and received reimbursement for questionable and inadequately documented home office expenses. The federal funds used to pay these claims should have been employed directly for advancing the scientific mission of Jefferson Laboratory.




Department of Energy
National Nuclear Security Administration
Washington, DC 20585



FEB 28 2005

MEMORANDUM FOR George W. Collard
Assistant Inspector General
for Audit Operations

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

SUBJECT: Comments to IG's Draft Report on Meal Expenses

The National Nuclear Security Administration (NNSA) appreciates the opportunity to have reviewed the Inspector General's (IG) draft report, "Management Controls Over Meal Expenses at Management and Operating Contractors." We understand that this audit was conducted because in prior audit reports, the IG reported that certain contractors had been reimbursed for meals that, in the opinion of the IG, were inappropriate. Therefore, the IG wanted to determine whether the Department's contracting offices were consistent in their approach to reimbursing contractors for the cost of local employee meals.

While NNSA agrees with the IG that the recommendations are appropriate, we disagree with the implication that there was any wrongdoing or laxity on the part of our contract administrators. Regardless of the fact that each of our contractors have corporate policies in place that address meals, we agree that interpretation of guidance and incorporation of policy into contracts is not consistently applied across the NNSA complex. To remove any inconsistencies and to establish a uniform policy for meals, the Senior Procurement Executive will request the members of his Contractor Purchasing Council to deliberate and make recommendations to the Senior Procurement Executive as to what the NNSA policy for meals should look like. Specific comments to the recommendations are attached.

Should you have any questions related to this response, please contact Richard Speidel, Director, Policy and Internal Controls Management. He may be contacted at 202-586-5009.

Attachment

cc: Robert Braden, Senior Procurement Executive
Karen Boardman, Director, Service Center



**Comments to
IG's Draft Report
"Management Controls Over Meal Expenses
at Management and Operating Contractors"**

The comments to the below recommendations are for NNSA only.

RECOMMENDATIONS

We recommend that the Associate Administrator for Management and Administration, National Nuclear Security Administration, the Chief Operating Officer for Environmental Management, and the Deputy Director for Operations, Office of Science:..."

Recommendation 1

Require responsible contracting officers to determine the allowability of the questioned costs cited in our report and recover costs determined to be unallowable.

Management Comment

Concur

The draft report gives the reader the impression that generally meals are an unallowable cost. For the sake of clarity, the costs should be considered questionable and the Contracting Officers should make the determination as to allowability. Therefore, the respective Contracting Officers for Sandia Site Office and Y-12 Site Office will make a cost determination related to the questioned costs mentioned in the report. This cost determination will be accomplished by September 30, 2005.

Recommendation 2

Provide guidance to clarify the circumstances when it is permissible to provide local meals to employees and instruct contractors to revise written policies consistent with such guidance.

Management Comment

Concur

The Senior Procurement Executive will have his Supply Chain Management Forum deliberate and make recommendations to the Senior Procurement Executive as to what the NNSA policy for meals should look like. The Senior Procurement Executive, after further deliberations, will

issue policy related to meals and the allowability of their associated costs. This policy will be based on best business practices that will be determined through a benchmarking study. Benchmarking, policy issuance, and implementation of policy will be completed by March 2006.

Recommendation 3

Enhance financial oversight, by performing periodic reviews of meal costs, to ensure that future payments only cover allowable expenses.

Management Comment

Concur

NNSA understands the intent of the IG's recommendation. However, it appears to be redundant. When all actions are implemented from Recommendation 2, processes and procedures will be in place related to the cost allowability of meals. The ensurance of future payments only covering allowable expenses is a judgmental obligation of each contracting officer. However, this recommendation does afford NNSA the opportunity to reenforce the stated goals of the Senior Procurement Executive to improve Contract Administration holistically. Actions that have begun include a side-by-side review of the Appendix A's of each contract with the intent to achieve some standardization across the complex; the development of a series of Business Operating Policies (BOP) that focus on Contract Administration, including Peer Reviews, Self Assessments, Contract Management Plans, etc.; and, Objectives Matrices (Performance Measurement system) for each site and contractor to determine status of goals within the Contract Administration area. All of these elements will improve the oversight function on the part of the Site Offices, exceeding the intent of the recommendation.

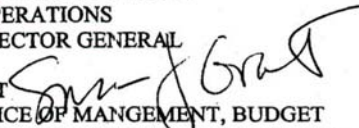


Department of Energy

Washington, DC 20585

MAR 14 2005

MEMORANDUM FOR GEORGE W. COLLARD
ASSISTANT INSPECTOR GENERAL
FOR AUDIT OPERATIONS
OFFICE OF INSPECTOR GENERAL

FROM: SUSAN J. GRANT 
DIRECTOR, OFFICE OF MANAGEMENT, BUDGET
AND EVALUATION/CHIEF FINANCIAL OFFICER

SUBJECT: IG Draft Report on Management Controls Over Meal
Expenses at Management and Operating (M&O) Contractors

Thank you for your January 28, 2005, memorandum in which you asked the Office of Environmental Management (EM), the Office of Science (SC), and the National Nuclear Security Administration (NNSA) for comments on the subject draft report. The NNSA has submitted its comments under separate cover. This response is on behalf of EM, SC, and this office.

In the course of the audit, you reviewed costs incurred for meal expenses under four M&O contracts and found potentially unallowable costs. Three of the four contractors were under the cognizance of NNSA, and one was under the cognizance of SC. The auditors also reviewed seven other contracts where no unallowable meal expense costs were identified.

In summary, the draft report opined that potentially unallowable costs may have been reimbursed because: (1) the Department had not provided specific guidance regarding contractor meals; and (2) local contracting office oversight was not sufficient. The report asserted that the Department and responsible program offices had not developed policies regarding the extent to which reimbursement for meals was permitted.

The report's recommendations were to:

1. Require contracting officers to determine the allowability of questioned costs cited in the report and recover costs determined to be unallowable;
2. Provide guidance to clarify the circumstances when it is permissible to provide local meals to employees and instruct contractors to revise written policies consistent with such guidance; and
3. Enhance financial oversight by performing periodic reviews of meal costs to ensure that future payments only cover allowable expenses.



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The following are our comments on the draft report's conclusions and recommendations.

The Standard for Reimbursement

The draft audit report summarized the Government-wide standard for reimbursing contractor meal costs by stating the following:

Meals, however, may be provided when they are an integral part of a conference or symposium or when the employee is on official travel. Expenses for food that do not fall within this exclusion are ... unallowable.

We do not believe that this statement correctly reflects the applicable Government-wide standards. We believe that the standards for determining allowability are found at Federal Acquisition Regulation (FAR) 31.201-2, which provides that:

- (a) A cost is allowable only when the cost complies with all of the following requirements:
- (1) Reasonableness;
 - (2) Allocability;
 - (3) Standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances;
 - (4) Terms of the contract; and
 - (5) Any limitations set forth in the FAR subpart.

With respect to criterion (1) above, what is reasonable depends upon a variety of considerations and circumstances, including: whether it is the type of cost generally recognized as ordinary and necessary for the conduct of the contractor's business or the contract performance; generally accepted sound business practices; the contractor's responsibilities to the Government, other customers, the owners of the business, employees, and the public at large; and any significant deviations from the contractor's established practices.

With respect to criterion (5), the FAR reflects Government-wide policy limitations (cost principles) that may specifically preclude certain costs that otherwise meet the other criteria for reimbursement. There are two such principles that are relevant to the issue of whether a contractor's meal costs are reimbursable. Meal expenses are addressed specifically at FAR 31.205-43, "Trade, business, technical and professional activity costs," which reads as follows:

"The following types of costs are allowable: ... (c) When the principal purpose of a meeting, convention, conference, symposium, or seminar is the dissemination of trade, business, technical or professional information or the stimulation of production or improved productivity -- (1) Costs of organizing, setting up, and sponsoring the meetings, conventions,

symposia, etc., including rental of meeting facilities, transportation, subsistence, and incidental costs; ...”

Additionally, FAR 31.205-14, “Entertainment costs,” provides that:

“Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable. Costs made specifically unallowable under this cost principle are not allowable under any other cost principle.”

DOE incorporates by reference the foregoing standards for reimbursement into all of its Federal cost-type contracts, including M&O contracts. The FAR standards provide both the contractual basis as well as the “decision tree” for analytical purposes for determining the appropriate reimbursement of costs under the contracts.

The draft audit report also states that other agencies do not allow for the reimbursement of local meals. It provides the Defense Contract Audit Agency (DCAA) audit guidance as an example of an agency providing a cost reimbursement standard that is presumably more restrictive than the FAR standard. We do not agree with either of these statements.

The cited DCAA guidance specifically provides:

“b. For individuals not on official travel, assure that any meal expense is an integral part of the meeting as described in FAR 31.205-43(c), necessary for the continuation of official business during the meal period, and not a social function.”

The DCAA guidance to its auditors does not provide a more restrictive policy. Rather, it merely states that to be reimbursable, meal costs (outside those incurred while on travel) must be directly tied to the purposes stated in the FAR (that is, a meeting, convention, conference, symposium, or seminar whose principle purpose is the dissemination of trade, business, technical or professional information or the stimulation of production or improved productivity).

Additionally, it should be noted that the DCAA audit guidance is not Department of Defense policy. Rather it is analytical information provided to the audit staff for applying FAR standards.

Clearly, given FAR standards which specifically allow for meal expenses which meet applicable criteria, the Office of Inspector General’s (OIG’s) statement that local meal expenses are categorically not allowed for reimbursement by other Federal agencies is incorrect.

Inadequate Policy

The draft report concludes that DOE policy in this area is inadequate. We don't agree. DOE's policy in this area is the same as the Government-wide policy, the regulatory coverage in the FAR. Nothing in the OIG's report supports concluding that DOE components have established local policies that are less restrictive. Further, in our research, we could not identify any other agency that has promulgated a more restrictive policy than the one contained in the FAR cost principles. Further, as previously noted, the DCAA guidance is not Department of Defense policy, it is audit guidance issued by the Department of Defense audit function to its auditors to assist them in the application of the FAR standards to specific costs incurred and, as previously noted, it does not purport to establish different standards or criteria from the FAR. Accordingly, we can not agree with the contention that DOE's policy is inadequate.

However, we do agree that providing additional information to DOE contracting offices would be useful in applying the Government-wide standard. Indeed, that is what the Chicago Operations Office, whose guidance is cited in the draft report, appears to have done. In the absence of DCAA-like audit guidance at DOE, we would agree to a recommendation that such "application" guidance be provided. We would be pleased to develop and coordinate the guidance with your office.

With the above general comments noted, we offer the following in response to the recommendations contained in the draft report.

Recommendation 1

Concur. SC will direct its contracting officers to determine the allowability of costs questioned in the audit and recover those costs determined to be unallowable. This office will monitor their conclusions to ensure consistency with the Government-wide policy and the contract terms. We request that you provide the affected contracting officers with any additional audit information that you have that would allow them to make their determinations.

Recommendation 2

Partially concur. While we do not agree that the facts support a conclusion that the potentially unallowable costs identified were the result of an absence of DOE policy, we do agree that contracting activities should be refreshed as to the FAR/contract requirements and provided additional guidance on how to apply them. We will develop application guidance suitable for use by DOE contracting personnel and audit staff and coordinate the product with your office.

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