

TESTIMONY OF INGRID KOLB
DIRECTOR, OFFICE OF MANAGEMENT
U.S. DEPARTMENT OF ENERGY
BEFORE THE
SUBCOMMITTEE ON CONTRACTING OVERSIGHT
COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS
U.S. SENATE

FEBRUARY 1, 2011

Madam Chairman and Members of the Subcommittee, my name is Ingrid Kolb. I serve as the Director, Office of Management at the U.S. Department of Energy. I am pleased to be here today to discuss with you how the Department uses audit services to detect and prevent waste, fraud, and abuse in government contracts, to provide contracting officers reasonable assurance whether contractor submissions are free of material misstatement, and provide them assistance and advice in the establishment of fair and reasonable prices for products and services.

In fiscal years 2009 and 2010, the Department spent approximately \$32 billion and \$26 billion on contracts, respectively. The bulk of dollars in each year, about 80 percent, was spent under management and operating (M&O) contracts. These contracts are used to manage Department's laboratories and other government-owned or controlled facilities. The remaining portion was spent on non-management and operating contracts.

The Department's Office of Inspector General (OIG) is the auditor for management and operating contracts. In fiscal years 2009 and 2010, the Department spent approximately \$1.3 million (for 13 audits) and \$1.1 million (for 17 audits), respectively, for these OIG audits. The limited dollar amount for contract audits performed by the Department's OIG reflects the Department's Cooperative Audit Strategy, which incorporates the work of management and operating contractors' internal audit activities. The Department requires its management and operating contractors to maintain internal audit activities that perform operating and financial audits. The Department's OIG monitors the work of the contractors' internal auditors periodically to ensure their work can be relied on to the extent appropriate.

The Cooperative Audit Strategy (Strategy) was developed in 1992 by the Department's Contractor Internal Audit Council, OIG, Office of the Chief Financial Officer (CFO), and Office of Procurement and Assistance Management. The Strategy jointly leverages the resources of these organizations to maximize overall audit coverage of the Department's Management and Operating contractors. Individual roles under the Strategy are as follows: Internal Audit organizations are required to produce an annual risk-based Audit Plan and Audit Report, an allowable Cost Audit, and an audit of subcontractor costs. In all cost audits, auditors ensure adequate coverage and test items for allowability, meeting contractual limitations or ceilings and requirements to have Contracting Officer's prior approval. All questioned costs are reported to the appropriate Departmental Contracting Officer and are described in the annual Audit Report.

The M&O Contractor produces an annual Statement of Costs Incurred and Claimed (SCIC) that contains line items summarizing the amount of costs incurred and claimed by the contractor for reimbursement by the Department and that attests that costs incurred are allowable, contractor internal controls are adequate, and work of Internal Auditors meets standards and can be relied on.

DOE's OIG auditors conduct SCIC audits in which they review the quality of Internal Audit's work and whether the OIG can rely on that work, whether Internal Audit conducted or arranged for audits of its subcontractors when costs incurred were excessive and whether previously identified questioned costs and internal control weaknesses that impacted allowable costs have been adequately resolved.

The DOE CFO provides expert guidance on the adequacy of the contractor's financial management system and approves plans for new financial management systems or system upgrades.

The DOE Office of Procurement and Assistance Management provides guidance on the Strategy and audit-related contract clauses for inclusion in contracts.

In the summer of 2009, the DOE OIG published two reports evaluating the effectiveness of the Cooperative Strategy —one covering seven NNSA M&O Contractors and the other covering 17 non-NNSA M&O Contractors. The reports found that the contractors had,

for the most part, effectively implemented the requirements, and as a whole, the Strategy was meeting its overall goal of improving accountability in the Department. In both reports, the OIG made suggestions for improvements and stated that it will monitor the contractors' compliance with the requirements of the Strategy in future assessments.

The Defense Contract Audit Agency (DCAA) has traditionally been the primary auditor for non-management and operating contracts. In fiscal years 2009 and 2010, the Department spent approximately \$9.8 million (for 376 audits of varying types) and \$9.4 million (for 273 audits of varying types), respectively, on contract audits performed by DCAA. The Department typically obtains the following pre-award and post award audit services from DCAA: financial condition/capability reviews; accounting system surveys; forward pricing proposal audits; incurred cost audits; management systems reviews; internal control reviews; cost accounting standards compliance reviews; equitable adjustment proposal reviews; termination settlement reviews; and progress payments reviews. The majority of services are for incurred cost audits. DCAA has provided excellent service in the past and remains our primary source of audit service for non-M&O contracts. DCAA has had challenges with an increasing workload and fewer resources which have caused us some concerns in the past several years. The Department's ability to obtain cost-incurred audits was diminished and, for some DOE procurement sites, caused a backlog of contract closeouts. Other DCAA audit support such as that relating to forward pricing proposals has also declined, which has impacted the Department's ability to negotiate fair and reasonable prices in a timely fashion. In early January of this year, due to shared concerns over the Agency's capacity to meet

expected demand for audit services, senior officials of the Department, along with those of three other civilian agencies, met with the Defense Contract Audit Agency director to explore ways to utilize the Agency's services more efficiently. The meeting was productive, and future meetings are planned to help streamline the ordering process and better identify the products we are seeking as well as to better understand the capabilities of DCAA to support our needs. I believe ongoing dialogue with DCAA will go a long way towards allowing us to maximize its capabilities while identifying service gaps that can be met through other measures.

In response to the increased workload associated with the American Reinvestment and Recovery Act (the Act) and the corresponding expected increase in demand for DCAA audit services around the Government, the Department conducted a competitive procurement to obtain supplemental contract audit services. A private sector accounting firm was awarded the contract in May, 2010, to provide audit services related primarily to financial assistance awards under the Act. The contract also provides for full contract audit services. To date, the contractor's performance has been timely and satisfactory, and we expect to increase our use of contract audit services.

I would like to note, however, that the services provided by DCAA and the audit contractor are not "apples to apples." DCAA generally strives to provide a complete audit, whereas we have been using the audit contractor primarily to provide contract-specific information to Contracting Officers to assure they can make timely, sound

business decisions. The quality of services provided by both DCAA and the contractor has been high, however, the range of services provided by DCAA is much broader. We intend to utilize our audit contractor where necessary to help our Contracting Officers receive the information necessary for them to make sound business decisions. This has generally been on the less complex actions; however we may ultimately use audit contractors for more complex reviews.

The Department of Energy will continue to use DCAA's audit service. At the same time, however, the use of an audit contractor has proven very successful, and we expect that such auxiliary private sector support will continue to be yet another effective "tool" for accomplishing our acquisition function.

The Department does not see a need for the creation of a Federal Contract Audit Agency. The challenges we have recently faced in obtaining contract audits from DCAA appear to reflect a diminished capacity at DCAA, not an inherent weakness in the Federal contract audit construct. As long as increased capacity is added at DCAA to serve our needs, we don't see a real benefit that would justify the cost of creating a new entity.

.
Again, thank you for this opportunity to testify before the Subcommittee. This completes my prepared statement. I would be happy to answer any questions you may have.