



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-24-29

September 2024

**UCHICAGO ARGONNE, LLC
COSTS CLAIMED UNDER
DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC02-06CH11357
FOR FISCAL YEAR 2019**



Department of Energy
Washington, DC 20585

September 23, 2024

MEMORANDUM FOR THE ACTING CHIEF FINANCIAL OFFICER AND THE
MANAGER, ARGONNE SITE OFFICE

SUBJECT: Audit Report: *UChicago Argonne, LLC Costs Claimed Under Department of Energy Contract No. DE-AC02-06CH11357 for Fiscal Year 2019*

Since 2006, UChicago Argonne, LLC has managed and operated Argonne National Laboratory under the current contract with the Department of Energy. From October 1, 2018, through September 30, 2019, UChicago Argonne, LLC incurred and claimed costs of \$837,171,636.76.

We initiated this audit to determine whether fiscal year 2019 claimed costs incurred by UChicago Argonne, LLC were allowable, allocable, and reasonable in accordance with the terms of the contract, applicable cost principles, laws, and regulations. Since the initiation of this audit, the Office of Inspector General issued a Special Project Report, *The Transition to Independent Audits of Management and Operating Contractors' Annual Statements of Costs Incurred and Claimed* (DOE-OIG-21-26, April 2021), resulting in the Office of Inspector General and the Department transitioning to an independent audit strategy that will not rely on contractor internal audit organization audits of costs claimed. However, during the course of this audit, we had findings that we are required to communicate. Specifically, we found that UChicago Argonne, LLC fiscal year 2019 costs claimed may not have always been allowable, allocable, or reasonable in accordance with the contract terms, applicable cost principles, laws, and regulations. As a result, we questioned \$169,198 in costs claimed, identified \$3,933,746 in unsupported costs claimed, and observed \$232,495,716 in costs needing further review to resolve, including \$73,634,017 in subcontract costs that UChicago Argonne, LLC failed to audit as required. The attached report contains six recommendations that, if fully implemented, should help ensure that fiscal year 2019 claimed costs incurred by UChicago Argonne, LLC are allowable, allocable, and reasonable in accordance with the terms of the contract, applicable cost principles, laws, and regulations. Management fully concurred with our recommendations.

We conducted this audit from December 2020 through July 2024 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in cursive script, reading "Teri L. Donaldson", is positioned above the printed name.

Teri L. Donaldson
Inspector General

Attachment

cc: Deputy Secretary
Chief of Staff
Director, Office of Science

DOE-OIG-24-29



Department of Energy Office of Inspector General

UChicago Argonne, LLC Costs Claimed Under Department of Energy Contract No. DE-AC02-06CH11357 for Fiscal Year 2019 (DOE-OIG-24-29)

WHY THE OIG PERFORMED THIS AUDIT

In 2016, the Office of Inspector General began evaluating the Department of Energy's management and operating contractors using a series of audits of costs claimed by those contractors. This is the fifth audit in that series. This audit examines fiscal year 2019 costs claimed by UChicago Argonne, LLC, the management and operating contractor that operates the Department's Argonne National Laboratory.

We initiated this audit to determine whether fiscal year 2019 claimed costs incurred by UChicago Argonne, LLC were allowable, allocable, and reasonable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

What Did the OIG Find?

We found that UChicago Argonne, LLC fiscal year 2019 costs claimed may not have always been allowable, allocable, or reasonable in accordance with the contract terms, applicable cost principles, laws, and regulations. Specifically, we found inconsistencies with its indirect cost accounting as well as inaccuracies in disclosed practices. We also found weaknesses in our reviews of payroll and consulting agreement transactions. In total, we questioned \$169,198 in costs claimed, identified \$3,933,746 in unsupported costs claimed, and observed \$232,495,716 in costs needing further review to resolve, including \$73,634,017 in subcontract costs that UChicago Argonne, LLC failed to audit as required.

We attributed these issues to UChicago Argonne, LLC engaging in practices inconsistent with Cost Accounting Standards and not following prescribed requirements.

What Is the Impact?

These issues could result in the Department reimbursing UChicago Argonne, LLC for costs that were unallowable, unallocable, or unreasonable.

What Is the Path Forward?

In response to the Office of Inspector General's Special Project Report, *The Transition to Independent Audits of Management and Operating Contractors' Annual Statements of Costs Incurred and Claimed* (DOE-OIG-21-26, April 2021), the Office of Inspector General and the Department have transitioned to an independent audit strategy that will not rely on contractor internal audit organization audits of costs claimed. This audit commenced before the transition, and we are required to communicate the matters identified. As such, we have made six recommendations that, if fully implemented, should help ensure that the concerns identified are corrected.

BACKGROUND

Since 2006, UChicago Argonne, LLC has managed and operated Argonne National Laboratory (ANL) under the current contract with the Department of Energy. ANL is a member of the National Laboratory system supported by the Department through its Office of Science. ANL conducts research involving basic energy sciences, nuclear physics, fusion energy sciences, computational and technology research, and other related sciences. UChicago Argonne, LLC incurred and claimed costs of \$837,171,636.76 from October 1, 2018, through September 30, 2019, which is fiscal year (FY) 2019.

UChicago Argonne, LLC's financial accounts are integrated with those of the Department, and the results of financial transactions are reported monthly according to a uniform set of accounts. In FY 2019, UChicago Argonne, LLC was required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and in accordance with the terms of the contract as well as applicable cost principles, laws, and regulations.

As part of their contracts with the Department, contractors are required to maintain an internal audit activity with the responsibility for conducting audits of the allowability of incurred costs claimed by the contractors. Since FY 2016, the Office of Inspector General has selected one management and operating contractor each year to perform the annual incurred cost audit in place of the internal audit group. For FY 2019, UChicago Argonne, LLC was selected for our review. The criteria used in our review included Federal Acquisition Regulation (FAR) allowability requirements, Cost Accounting Standards (CAS), Department Directives, and Acquisition Letters, as well as clauses contained within UChicago Argonne, LLC's contract with the Department. Within the Department, the Contracting Officer (CO), or the Cognizant Federal Agency Official, is responsible for administering the contract.

We initiated this audit to determine whether FY 2019 claimed costs incurred by UChicago Argonne, LLC were allowable, allocable, and reasonable in accordance with the terms of the contract, applicable cost principles, laws, and regulations. Although this audit was initially performed to evaluate the Cooperative Audit Strategy, which is no longer the Department's policy, we identified questioned costs and other findings where we make recommendations to Department officials that require us to communicate these matters in our report. Specifically, we found that FY 2019 claimed costs incurred by UChicago Argonne, LLC may not have always been allowable, allocable, or reasonable in accordance with the contract terms, applicable cost principles, laws, and regulations.

INDIRECT COST TESTING FOUND INCONSISTENCIES WITH COST ACCOUNTING STANDARDS

In our review of indirect costs, we identified numerous UChicago Argonne, LLC accounting practices that were not compliant with CAS. Specifically, we found that UChicago Argonne, LLC:

- Misallocated \$111,987 of indirect costs to the Federal Government because it did not always properly dispose of its material indirect rate variances and fragmented its allocation bases at year-end;
- Did not support \$994,713 in division overhead costs specially allocated to incoming joint appointment (JA) projects;
- Was unable to support costs of \$560,150 claimed as General and Administrative (G&A) pool cost variance;
- Significantly understated its G&A allocation base by approximately \$158,861,699; and
- Claimed \$2,378,883 in costs that were inconclusive as to whether the project costs were allocable to the contract.

Finally, we identified many instances where UChicago Argonne, LLC improperly zeroed out project costs, such as unallowable costs, through revenue offsets and transfers before determining whether these costs were direct, indirect, and received their proper allocation of indirect burden.

Improper Disposition of Indirect Rate Variances

We found that UChicago Argonne, LLC misallocated \$111,987 of indirect costs to the Federal Government because it did not always properly dispose of its indirect rate variances and fragmented its allocation bases. Per CAS 418-50(g)(4), *Allocation of direct and indirect costs*, where variances of a cost accounting period are material, these variances shall be disposed of by allocating them to cost objectives in proportion to the costs previously allocated to these cost objectives by use of the pre-established rates. Per the disclosed practices in its CAS Board Disclosure Statement (Disclosure Statement) for FY 2019, UChicago Argonne, LLC considered a material variance to be greater than 5 percent of the forecasted year-end rate clarified as 5 percent of the year-end pool costs for its institutional overhead accounts. Contrary to the requirement, we found material variances in many of its indirect cost pools and service centers that were not disposed of in proportion to the costs previously allocated to them. For example, the Building and Utility pool had a variance of \$4,787,668, which was 7.36 percent of the pool. UChicago Argonne, LLC did not allocate the variance in proportion to the previously allocated Building and Utility costs; rather, it allocated the variance over the G&A base. In another example, we noted that a relatively small pool for Universities and Other DOE Laboratories experienced a material variance of \$463,538, which was 172 percent of the \$268,780 pool.

Additionally, we found that UChicago Argonne, LLC fragmented its allocation bases at year-end by only allocating year-end indirect cost pool variances to open projects and not including closed projects in the allocation. For example, we noted that there were 842 closed projects that should have received G&A cost pool variance allocations, not just the 3,752 open projects that did. UChicago Argonne, LLC defended the practice because it was disclosed in its Disclosure Statement. However, the disclosure did not make the practice correct. FAR 31.203(d), Indirect Costs, states, “Once an appropriate base for allocating indirect costs has been accepted, the

contractor shall not fragment the base by removing individual elements.” Accordingly, we questioned indirect costs of \$111,987 that were misallocated to the Department because of the issues with material variances being allocated to the G&A base projects and base fragmentation.

Unsupported Special Allocation Costs

UChicago Argonne, LLC did not support \$994,713 in division overhead costs specially allocated to incoming JA projects that lacked a causal beneficial relationship. Specifically, UChicago Argonne, LLC charged division overhead costs to incoming JA projects by applying the JA overhead special allocation (SA) rate to those projects. The JA SA rate was based on outgoing JA labor and not incoming JA project costs. CAS 418-50(f), *Allocation of direct and indirect costs, Special allocation*, requires SAs from indirect cost pools to particular cost objectives to be commensurate with the benefits received. FAR 31.201-2(d), Determining allowability, requires contractors to maintain records adequate to demonstrate that costs claimed have been incurred. By not including incoming JA project costs in the SA rate development, specifically the base, UChicago Argonne, LLC neither demonstrated that the incoming JA projects had a causal or beneficial relationship with the claimed division overhead costs nor caused division overhead costs to be incurred. The subsequent application of unsubstantiated JA SA rate on incoming JA projects resulted in UChicago Argonne, LLC claiming JA SA costs that were not actually incurred. UChicago Argonne, LLC made an equally unsubstantiated credit of approximately \$994,710 to open projects in the G&A base. While this may look like a correction, our analysis determined that not all the inbound JA projects had a corresponding JA project in the G&A base. Therefore, we questioned \$994,713 of the JA SA on incoming JA projects and the offsetting credit totaling \$994,710 to G&A base projects as unsupported.

Unsupported General and Administrative Variance Claim

UChicago Argonne, LLC was unable to support \$560,150 in costs claimed as a G&A variance. CAS 418-40(c), *Fundamental requirements*, states, “Pooled costs shall be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives.” Additionally, FAR 31.201-2(a), Determining allowability, states, “[A] cost is allowable only when the cost complies with all of the following requirements [to include] (2) Allocability.” FAR 31.201-4, Determining allocability, defines an allocable cost as “assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship.” Despite these requirements, UChicago Argonne, LLC charged \$560,150 in the variance amount that it originally described as a prior-year reconciling difference. When we looked at the costs, we found FY 2019 costs in that amount. After further inquiry, UChicago Argonne, LLC stated that this amount was the difference between its books and the Department’s books, which was discovered in a July 2019 reconciliation. UChicago Argonne, LLC was unable to support how these costs were allocable on a beneficial or causal basis to the G&A base; therefore, we questioned the allocability and allowability of the \$560,150 as unsupported.

Understated General and Administrative Allocation Base

UChicago Argonne, LLC significantly understated its G&A allocation base by approximately \$158,861,699. The Disclosure Statement defines the G&A allocation base as total cost input (TCI) base, excluding Laboratory Directed Research and Development (LDRD) projects costs. CAS 410-50(d), *Allocation of business unit general and administrative expenses to final cost objectives*, requires that the G&A TCI allocation base include all significant elements of cost input which represent the total activity of the business unit. FAR 31.203(d), Indirect costs, also states that a base shall not be fragmented by excluding individual elements that are properly includable in the base. We found that UChicago Argonne, LLC fragmented its G&A TCI allocation base by excluding many spend categories and the associated indirect cost allocations such as the following indirect elements:

- Common Support (CS)
- CS—Institutional General Plant Projects
- Materials & Subcontracts

In addition to excluding indirect elements, UChicago Argonne, LLC excluded other costs from the G&A TCI base by reducing certain project costs to zero through revenue offsets and transfers to the balance sheet or an unspecified ledger, which is an improper practice discussed in the *Zeroed-Out Project Costs* section. By excluding project costs from the G&A TCI base, the projects did not receive their pro-rata share of the G&A indirect allocation, thereby increasing the costs of the rest of the projects that were included in the G&A TCI base. The \$158,861,699 represents an upward adjustment to the G&A TCI base. UChicago Argonne, LLC's accounting system data and explanations did not adequately facilitate a final determination as to whether these exclusions resulted in a material noncompliance with CAS 410-50(d). Therefore, we considered the \$158,861,699 to be unresolved costs.

Inconclusive Project Costs

In addition, we questioned \$2,378,883 in costs claimed for several projects that were inconclusive as to whether the costs were allocable to the contract. FAR 31.201-2(d), Determining allowability, requires a contractor to account for costs appropriately and to maintain records adequate to demonstrate that costs claimed are allocable to the contract and comply with applicable cost principles. The accounting for several projects was insufficient to determine whether the projects' activities were direct or indirect, but not G&A, which is a key factor in determining whether to include the project's costs in the G&A TCI base. Specifically, the projects' costs were allocated to cost centers that were associated with indirect cost pools although the projects were not specified in the definition of the indirect cost pools. Accordingly, it was unclear whether these project activities and costs were direct or indirect. Therefore, as it relates to the \$2,378,883 in costs questioned as unsupported, we could not determine whether the G&A TCI base was correct, overstated, or understated.

Zeroed-Out Project Costs

Finally, we identified many instances where UChicago Argonne, LLC improperly zeroed out project costs through revenue offsets and transfers to the balance sheet or an unspecified ledger account. FAR 31.203(d), Indirect costs, states that a base shall not be fragmented by removing individual elements that are properly includable in the base. Contrary to the requirement, UChicago Argonne, LLC did not account for the total project costs, including allocable G&A, prior to offsets or transfers to ensure the G&A TCI base is not fragmented. For example, when it hosted conferences, UChicago Argonne, LLC credited revenues that were collected from attendees against the conference project costs and then transferred the remaining balances that totaled \$178,019 to the balance sheet. Since several of the conference activities were properly included in the G&A TCI allocation base, the costs should have received a pro-rata share of indirect costs irrespective of their acceptance as Government contract costs in accordance with FAR 31.203(d). Similarly, there were other groups of transactions offset by revenues collected for activities such as site occupancy support, pollution prevention, training and student support, and employee recreation. UChicago Argonne, LLC also zeroed out certain project costs through transfers to the balance sheet or another ledger, which excluded the project costs from the G&A TCI base. These projects included transactions for in-house energy projects, royalty projects, and guest house student readiness.

Moreover, UChicago Argonne, LLC did not ascertain whether unallowable costs should have been in the G&A TCI base before offsetting them by the funds received from the University of Chicago. In fact, UChicago Argonne, LLC did not properly apply an indirect cost burden to any of its unallowable costs, a practice not compliant with CAS 405, *Accounting for unallowable costs*. According to FAR 31.203(d), Indirect costs, and CAS 405-40(e), *Fundamental requirement*, all unallowable costs are subject to the same cost accounting principles governing cost allocability as allowable costs. In circumstances where these unallowable costs normally would be part of a regular indirect cost allocation base or bases, they shall remain in such base or bases. While it identified and voluntarily removed \$483,155 in unallowable costs, UChicago Argonne, LLC's practice did not apply the appropriate indirect cost burdens to any of its unallowable costs, which is inconsistent with CAS 405.

DISCLOSURE STATEMENT DISCREPANCIES

We found that UChicago Argonne, LLC did not always adequately disclose in writing its actual cost accounting practices. In accordance with contract clause I.50 and FAR 52.230-2, Cost Accounting Standards, UChicago Argonne, LLC is required to submit a Disclosure Statement that adequately discloses its actual accounting practices for accumulating and reporting costs under the contract that comply with the CAS Board's rules, regulations, and standards. Our review found many inaccuracies, omissions, and errors with UChicago Argonne, LLC's Disclosure Statement covering the FY 2019 accounting period.

Disclosure Statement Inaccuracies

We found several inaccuracies with UChicago Argonne, LLC's Disclosure Statement. For example, UChicago Argonne, LLC's Disclosure Statement inaccurately described its Offsite

Overhead rate. UChicago Argonne, LLC's Disclosure Statement states that its Offsite Overhead rate is "a determined percentage composite" rate of several rates including its rates for CS, General Plant Projects, and G&A, with its LDRD rate applied to the sum. UChicago Argonne, LLC's actual accounting practices did not use a composite rate. Rather, UChicago Argonne, LLC applied two separate and special offsite allocation rates, an Offsite CS rate and an Offsite G&A rate, and then applied its LDRD rate as it normally does to other costs.

There were also inaccuracies with its Allocation Base Code designations. UChicago Argonne, LLC inaccurately stated that its Offsite CS Rate would be allocated to "[d]irect labor dollars," but the rate was, in fact, applied to labor spend categories plus other costs for travel relocation, division management, consolidated services, and other direct allocations and costs. UChicago Argonne, LLC further stated that its Materials & Subcontracts overhead pool would be allocated over "Direct material cost," but the base description also included costs for service center, travel, and applicable discretionary project costs. UChicago Argonne, LLC designated "[v]alue-added cost input" for its CS overhead pool although the base description included other costs for staff augmentation, directorate shared service costs, employee support costs such as educational reimbursements and memberships, and applicable discretionary project costs. When questioned, UChicago Argonne, LLC responded that "other(s) or more than one basis" would have been more accurate in the Disclosure Statement.

Disclosure Statement Omissions

We noted numerous omissions from UChicago Argonne, LLC's Disclosure Statement. For example, the Disclosure Statement omitted its actual practice of accumulating costs for a Laboratory General Benefit pool and then distributing these pooled costs to other cost pools in a manner similar to an intermediate cost pool. Further, there were 19 SAs, such as those for the Advanced Photon Source Upgrade Project or the Materials Design Laboratory, that were not named, nor were the applicable pools identified as required by the Disclosure Statement's section 4.5.0 instructions. Two directorates referred to as CounterIntelligence and IS-Security, Travel, and Emergency Services were missing from the Disclosure Statement. Finally, UChicago Argonne, LLC omitted from the Disclosure Statement its practice not to allocate its overheads to unallowable costs that it incurred throughout the year. UChicago Argonne, LLC did not comply with its Disclosure Statement because the 110 "BIO-Biosciences Division," 109 "PHY-Physics Division," 137 "HEP-High Energy Physics Division," and 151 "IS-Security, Travel, and Emergency Services" cost centers were not identified by UChicago Argonne, LLC's indirect cost pool definitions as pools of indirect costs, nor did UChicago Argonne, LLC's Disclosure Statement identify these cost centers as an individual indirect cost pool(s) or direct allocation(s), or part of a separate indirect cost pool(s) or direct allocation(s). UChicago Argonne, LLC's grouping of these cost centers did not comply with UChicago Argonne, LLC's Disclosure Statement because the pooling and allocation on a "charge-out" or "distributed" basis was not described in the Disclosure Statement.

Disclosure Statement Errors

There were errors in the Disclosure Statement. In section 4.5.0 of its Disclosure Statement, UChicago Argonne, LLC gave its JA Overhead, an allocation method that was not an option per

the instructions for this section on SAs. The JA Overhead also lacked clarity on how this SA rate is developed or applied. We also found that the code for the LDRD allocation method was incorrectly changed to a “[t]otal cost input” base rather than the “[t]otal cost incurred” that UChicago Argonne, LLC correctly disclosed in a previous version of the Disclosure Statement. To its credit, UChicago Argonne, LLC has acknowledged that there were inaccuracies, omissions, and errors, and it has already acted on some of them. Nine of UChicago Argonne, LLC’s disclosed overhead pools did not meet the definition of an overhead pool per CAS because many of the respective indirect cost allocations were to other indirect cost pools and not to final cost objectives. UChicago Argonne, LLC’s Disclosure Statement defines an overhead pool as “pools of indirect costs, other than G&A expenses, that are allocated to final cost objectives without any intermediate allocations.” Specifically, the following indirect cost pools allocate costs on an intermediate basis to other indirect cost pools: National Security Program Administration; Energy & Global Security Shared Services; Photon Sciences Shared Services; Computing, Environment & Life Sciences Shared Services; Physical Sciences & Engineering Shared Services; Universities and Other DOE Laboratories; CS; CS—Institutional General Plant Projects; and Energy & Global Security Associate Laboratory Director Program Administration. The Disclosure Statement inaccurately describes these pools as overhead pools rather than expense pools.

QUESTIONED COSTS AND COMPLIANCE ISSUES IN TRANSACTION TESTING

We found that UChicago Argonne, LLC did not always follow established timekeeping policies and procedures. Furthermore, we found numerous cases of unallowable costs charged for consulting agreements.

Direct and Indirect Payroll

Through our transaction testing of 60 direct and indirect payroll charges, we found that UChicago Argonne, LLC did not always follow established timekeeping policies and procedures, resulting in \$5,634 of questioned costs. ANL procedure, LMS-PROC-272, Rev 1, *Timekeeping*, states, “Employees are responsible for verifying time records before submitting them for processing.” This same procedure also states, “Managers/Supervisors are responsible for verifying all time reports for their respective employees. No time reports are processed without the appropriate manager’s/supervisor’s manual or electronic signature.” In our review of 60 timecards, we found 2 timecards that were not verified by the employee prior to processing. We also found one timecard that was not verified by a manager or supervisor prior to processing. As a result, we questioned costs of \$5,634 for these timecards that were not properly verified prior to payment.

Indirect Consulting Agreements

Additionally, we found multiple internal control deficiencies during our transaction tests of consulting activities. The ANL Controller’s Manual, Chapter 3, *Accounts Payable*, Section 3.3, *Invoice Audit and Processing*, states that, for consultant invoices with individuals, Accounts Payable is to compare the invoice to the contract terms, determine the reimbursability of all items

on the invoice, verify the arithmetic, approve the invoice for payment, and enter the invoice into the Accounts Payable system for payment. From our transaction tests of consulting agreements, we questioned \$51,577 in costs claimed by consultants as follows:

- **Work Outside Normal Working Hours:** Our review found 13 invoices that contained unapproved hours worked outside of normal working hours. The consulting agreements state, “The Laboratory’s normal working hours are 8:30 AM to 5:00 PM, Monday through Friday. The Contractor shall receive no payment for any hours worked outside these specified hours unless specifically authorized by the Laboratory.” UChicago Argonne, LLC considered these costs to be authorized because timesheets were submitted and approved by the contract’s Technical Representative. While this would appear to be acceptance of hours worked after the fact, UChicago Argonne, LLC was unable to provide documentation of its specific authorization to the consultant before work outside the normal working hours started, resulting in \$1,543 in questioned costs.
- **Unapproved Overtime Hours:** Our review found two invoices with unapproved overtime hours. The consulting agreements state, “[W]ork performed in excess of 40 hours per week will be reimbursed at the overtime rate set forth in the rate schedules, provided, however, that such work in excess of 40 hours per week is approved in advance by the Laboratory’s Technical Representative or his/her designee.” Again, UChicago Argonne, LLC was unable to provide documentation approving the overtime hours that were paid, resulting in \$476 in questioned costs.
- **Unapproved Airline Seat Upgrades:** Our review found one invoice under one agreement that had charges for upgraded airline seats with no justification. UChicago Argonne, LLC’s consulting agreements flow down 48 Code of Federal Regulations 31.205-46, Travel costs, states, “Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements.” UChicago Argonne, LLC was unable to provide justification for the upgraded airline seats, resulting in \$3,475 in questioned costs.
- **Missing Timesheets:** Our review found three invoices were missing timesheets, totaling \$36,715. The consultant agreements require that timesheets be attached to the invoices to support the amounts claimed. Since UChicago Argonne, LLC was unable to locate them, we questioned costs totaling \$36,715 for the missing timesheets.
- **Incorrect Taxes Paid:** We found two invoices contained Cook County hotel tax although ANL is in DuPage County, which was the designated travel location. The consultant agreements flow down the 41 Code of Federal Regulations, Chapter 301, Temporary Duty Travel Allowances. Accordingly, we questioned \$6 because the consultant lodged in a county outside the designated travel location. In its response to our draft report, UChicago Argonne, LLC agreed that the incorrect county tax was

applied but calculated a hypothetical savings using DuPage County taxes. We found that the calculation used a different city's tax rate to arrive at the savings. The questioned costs remain when the correct city's tax is applied.

- **Improper Strategic Consultant:** We found that UChicago Argonne, LLC improperly obtained the services of a strategic consultant for which we questioned costs of \$9,362. This strategic consultant agreement for the Laboratory Director had multiple issues, including improper contract selection, missing sole-source justification, and out of scope work hours and travel costs. We questioned the entire \$9,362 in costs associated with this agreement.

It is evident by all the questionable charges above that UChicago Argonne, LLC Accounts Payable personnel did not always properly verify the reimbursability of the charges on the invoices submitted by its consultants prior to payment, as required by its policies and procedures.

LACK OF SUBCONTRACT AUDIT COVERAGE

UChicago Argonne, LLC failed to either conduct an audit of the subcontractor's costs or arrange for such an audit to be performed by the cognizant Government audit agency through the CO as required in Department of Energy Acquisition Regulation 970.5232-3, Accounts, records, and inspection; or in UChicago Argonne, LLC contract clauses I.125, *Accounts, Records, and Inspection*; and I.135, *Contractor Purchasing System*. According to the Internal Audit Director, UChicago Argonne, LLC had 749 cost-type subcontracts valued at \$73,634,017 during FY 2019. Based on the data provided, we were unable to determine which labor hour/time and material subcontracts were required to be audited. When asked why UChicago Argonne, LLC had not complied with the requirements, UChicago Argonne, LLC responded that in FY 2019, there was a staffing shortage. Additionally, in May 2019, UChicago Argonne, LLC determined that a new risk-based methodology would be developed in FY 2020 for auditing cost-type subcontracts, and these audits would be conducted by an external firm. In response to our preliminary findings, UChicago Argonne, LLC told us, without providing supporting documentation, that it examined its subcontract population and identified some audit coverage for the year under review. However, pending receipt of support to demonstrate sufficient audit coverage, we considered the \$73,634,017 in subcontract costs to be unresolved.

DEPARTMENT AT RISK OF OVERPAYING

Because UChicago Argonne, LLC did not comply with CAS, we could not determine whether the indirect rates are correct, overstated, or understated. For example, we questioned \$111,987 as unallowable because UChicago Argonne, LLC improperly dispositioned its indirect rate variances and fragmented its allocation bases at year-end. UChicago Argonne, LLC could not support \$3,933,746 costs claimed for division overhead, G&A pool cost variance, and other project costs. Further, UChicago Argonne, LLC understated its G&A allocation base by approximately \$158,861,699. We found that UChicago Argonne, LLC improperly zeroed out project costs before determining the proper treatment of these costs, and it did not always

adequately disclose in writing its actual cost accounting practices. These issues impacted the indirect rates that UChicago Argonne, LLC used in its billing to other entities as well as to different projects and activities within the Department.

In addition to the CAS noncompliant practices, we found deficiencies in UChicago Argonne, LLC's review of payroll and consulting agreement errors that lead to questioned costs of \$57,211 as unallowable. UChicago Argonne, LLC also did not identify whether \$73,634,017 in cost-type subcontracts required an audit consideration, which increased the risk that unallowable costs from its subcontractors were passed along to the Department.

In total for FY 2019, we questioned \$169,198 as unallowable and \$3,933,746 as unsupported. Further, we considered \$232,495,716 as unresolved, pending further review or audit. For more information, see *Summary of Questioned Costs* in Appendix 2.

OTHER MATTERS

In April 2021, the Office of Inspector General issued a Special Project Report, *The Transition to Independent Audits of Management and Operating Contractors' Annual Statements of Costs Incurred and Claimed* (DOE-OIG-21-26, April 2021), highlighting its concerns with the effectiveness of the Cooperative Audit Strategy in providing adequate audit coverage of contractors' costs. The report recommends that the Office of Inspector General and the Department transition to an independent audit strategy due to identified systemic threats to auditor independence; the increased likelihood of fraud, waste, and abuse; significant lapses in the audits of subcontracts; and other major deficiencies. Given the expected cessation of future reliance on audits conducted by UChicago Argonne, LLC's Internal Audit, we did not make any recommendations regarding improvements to Internal Audit's subcontract auditing processes identified in this audit.

RECOMMENDATIONS

We recommend that the Manager, Argonne Site Office, direct the CO, in consultation with the Cognizant Federal Agency Official if not the same individual, to require UChicago Argonne, LLC to:

1. Implement changes to comply with CAS;
2. Revise and submit a Disclosure Statement to adequately capture its actual cost accounting practices;
3. Comply with the established payroll and timekeeping policies and procedures; and
4. Comply with the established consulting policies and procedures.

We recommend that the Manager, Argonne Site Office, direct the CO, in consultation with the Cognizant Federal Agency Official if not the same individual, to:

5. Ensure that UChicago Argonne, LLC complies with its contractual obligations to conduct an audit of the subcontractor's costs, or arrange for such an audit to be performed, and make a final determination on the allowability of the unresolved subcontract costs upon completion of audits; and
6. Determine the allowability of \$4,102,944 in costs questioned in this report, determine the impact of the understated G&A allocation base, as summarized in Appendix 2, and seek appropriate recoveries.

MANAGEMENT RESPONSE

Management fully concurred with our recommendations and provided dates for corrective actions on each recommendation that are expected to be completed by June 30, 2025. Management stated that it will review and address the identified issues and, as necessary, the CO will direct UChicago Argonne, LLC to make changes to ensure ongoing compliance with CAS principles. Management added that some of the identified areas were compliant with Department polices and will continue. Management also stated that it would direct UChicago Argonne, LLC to comply with its payroll and timekeeping policies and procedures but did not believe there were any systematic issues. Management stated that it would also direct UChicago Argonne, LLC to review and revise its policies and procedures for procurement of consulting services, as necessary, for the Argonne Site Office's approval. Although the subcontract population requiring audit was in question, management stated it would direct UChicago Argonne, LLC to re-evaluate the existing population for FY 2019 and ensure it has completed the required audits. Finally, management stated that the CO would review the identified questioned costs and make a cost allowability determination.

Management's comments are included in Appendix 4.

AUDITOR COMMENTS

Management agreed to take corrective actions consistent with our recommendations. As noted in the report, we refer to the subcontract population that the Internal Audit Director provided to us during the audit. Additionally, we reminded the Department that its contractors must be CAS compliant in accordance with FAR 31.201-2 that states a cost is only allowable when it complies with CAS. As such, we will not close any corrective actions that are not in compliance with CAS.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We initiated this audit to determine whether fiscal year 2019 claimed costs incurred by UChicago Argonne, LLC were allowable, allocable, and reasonable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

SCOPE

The audit was performed from December 2020 through July 2024 at Argonne National Laboratory in Lemont, Illinois. The audit scope was limited to costs incurred during fiscal year 2019. Most of the information was obtained via remote access techniques. The audit was conducted under Office of Inspector General project number A21CH005.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable laws, regulations, policies, and procedures.
- Reviewed relevant reports issued by the Office of Inspector General, UChicago Argonne, LLC's Internal Audit, and the Government Accountability Office.
- Conducted interviews with Federal and contractor personnel.
- Selected sample transactions for testing. We initially planned a statistical sample; however, during transaction testing, we determined that for some samples, the audit universe was not homogeneous. In other cases, a judgmental methodology was used to review transactions which made the results judgmental in nature. Judgmental or non-statistical sample results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of costs. The following transaction samples were selected for testing:
 - 60 of 264,172 direct and indirect labor/payroll transactions;
 - 20 of 12,778 direct and indirect subcontract transactions;
 - 60 of 1,093 indirect equipment transactions;
 - 60 of 410 indirect consulting transactions; and
 - 4 of 15 fringe Health Maintenance Organization retiree claims transactions.
- Tested transactions using the requirements contained in the Federal Acquisition Regulation, internal directives, contract terms and conditions, and other applicable guidance. Transactions were tested by tracing transactions to supporting records and documentation and comparing them to criteria.

Appendix 1: Objective, Scope, and Methodology

- Evaluated indirect rate policies and practices to determine whether management of indirect rates complied with Cost Accounting Standards. In addition, we reviewed UChicago Argonne, LLC's approved Cost Accounting Standards Disclosure Statement in effect during fiscal year 2019.
- Reviewed policies and procedures for identifying subcontracts that require audits and arranging such audits.

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 objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed internal controls related to costs claimed such as accounting controls over payments. However, because our review was limited, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit. Finally, we relied on computer-processed data to accomplish our audit objective. We assessed this data by tracing it to source documents and determined the data to be sufficiently reliable to provide a basis for our conclusions.

Management officials waived an exit conference on September 20, 2024.

Appendix 2: Summary of Questioned Costs

Fiscal Year 2019 Costs Claimed	Questioned Costs		Unresolved
	Unallowable	Unsupported	
Improper Disposition of Indirect Rate Variances	\$111,987		
Unsupported Special Allocation Costs		\$994,713	
Unsupported General and Administrative Variance Claim		\$560,150	
Understated General and Administrative Allocation Base			\$158,861,699
Inconclusive Project Costs		\$2,378,883	
Zeroed-Out Project Costs*			
Direct & Indirect Payroll	\$5,634		
Indirect Consulting Agreements			
Work Outside of Working Hours	\$1,543		
Unapproved Overtime Hours	\$476		
Unapproved Airline Seat Upgrades	\$3,475		
Missing Timesheets	\$36,715		
Incorrect County Taxes on Hotel Charges	\$6		
Improper Strategic Consultant	\$9,362		
Cost-Type Subcontract Costs Not Audited			\$73,634,017
Totals	\$169,198	\$3,933,746	\$232,495,716

*Specifically highlights the improper practice. This row is blank because the associated costs described in the report, like the \$483,155 in unallowable costs that were voluntarily removed, are included in the total Understated General and Administrative Allocation Base.

Appendix 3: Prior Reports

- Audit Report on [*UT-Battelle, LLC Costs Claimed Under Department of Energy Contract No. DE-AC05-00OR22725 for Fiscal Year 2017*](#) (DOE-OIG-23-37, September 2023). We found that UT-Battelle, LLC's fiscal year (FY) 2017 costs claimed may not have always been allowable, allocable, or reasonable. We identified issues with UT-Battelle, LLC's year-end indirect rate variance disposition practice and treatment of unallowable costs. As a result, we questioned \$20.8 million of over-recovered funds, \$11.1 million of under-recovered funds from year-end indirect cost pool variances, and \$33,815 of indirect cost burdens related to unallowable costs. We also identified a material control weakness in the subcontract audit function that resulted in our considering \$379.4 million in subcontract costs as unresolved, pending audit. Further, we questioned an additional \$5.6 million in costs related to unapproved real estate transactions and unallocable or unsupported subcontract costs. Finally, we identified issues related to travel costs, legal settlement costs, and UT-Battelle, LLC's Internal Audit peer reviews. Therefore, we provided recommendations to the Department of Energy on addressing the questioned costs identified.
- Audit Report on [*Fermi Research Alliance, LLC, Costs Claimed Under Department of Energy Contract No. DE-AC02-07CH11359 for Fiscal Year 2018*](#) (DOE-OIG-23-29, August 2023). We found that Fermi Research Alliance, LLC (FRA) FY 2018 costs claimed may not have been allowable, allocable, or reasonable in accordance with the contract terms, applicable cost principles, laws, and regulations. Specifically, we found that FRA was unable to support the cost bases used to determine its indirect cost rates. As a result, we questioned the unsupported allocation of about \$159.5 million of indirect costs for FY 2018. Additionally, we found that FRA had not always identified cost-type subcontracts for audit consideration as required by its contract, resulting in \$14.9 million in subcontract costs as unresolved, pending audit. We also found that FRA did not obtain external vendor invoices to support over \$2.4 million in small dollar purchases. Finally, we questioned \$143,109 for other claims such as subsistence, pay, travel, and disbursements. As a result, we provided 10 recommendations to ensure that the concerns identified were corrected.
- Audit Report on [*Battelle Energy Alliance, LLC Costs Claimed Under Department of Energy Contract No. DE-AC07-05ID14517 for Fiscal Year 2016*](#) (DOE-OIG-20-02, October 2019). We identified Battelle Energy Alliance, LLC (BEA) practices that were not compliant with Cost Accounting Standards (CAS); other issues for which we were not always able to quantify the full monetary impact; and weaknesses in BEA's Internal Audit (Internal Audit) procedures. For FY 2016, we questioned \$17.66 million of over-recovered funds and \$8.4 million of under-recovered funds from year-end indirect cost pool variances. We also questioned \$11,176 of Laboratory Directed Research and Development burdens. Also, for areas where Internal Audit had provided audit coverage in FY 2016 (e.g., subcontract costs), we reviewed its work to determine whether we could rely on the audit work in lieu of performing our own testing. Based on our review, we determined that Internal Audit work could be relied upon in the select areas reviewed and identified minor additional questioned costs of \$8,013. These issues occurred because BEA did not properly follow the contract terms and conditions, including the Federal Acquisition Regulation and CAS, and did not sufficiently adhere to internal policy. We

Appendix 3: Prior Reports

identified areas that require improvement by Internal Audit. The audit procedures used by Internal Audit did not identify certain CAS noncompliance issues in BEA's cost accounting and management practices. We considered these areas to be fundamental for proper accounting of costs on Government contracts. Accordingly, we recommended certain corrective actions and additional oversight to ensure that these problems do not recur.

- Audit Report on [*Lawrence Livermore National Security, LLC, Costs Claimed Under Department of Energy Contract No. DE-AC52-07NA27344 for Fiscal Year 2015*](#) (DOE-OIG-18-12, December 2017). Based on our audit, we questioned costs totaling \$1.26 million, identified weaknesses in internal controls, and identified weaknesses in Lawrence Livermore National Security, LLC's (LLNS) Internal Audit procedures. Except for the reported questioned costs and internal control weaknesses, nothing came to our attention to indicate that other costs incurred by LLNS were unallowable. Also, based on our review of LLNS' Internal Audit work, we determined that it could be relied upon in the select areas reviewed and identified minor questioned costs of \$725.68. We did, however, identify internal control weaknesses in LLNS' accounting system that had not previously been reported by LLNS' Internal Audit. Those two weaknesses included LLNS' management of its strategic partnership project cost overruns and underruns as well as unallowable costs. This occurred because LLNS did not properly follow the contract terms and conditions, including the Federal Acquisition Regulation and CAS. In addition, we identified two minor internal control weaknesses where LLNS did not maintain its own complete records of supplemental labor costs and demonstrated an incomplete understanding of supplemental labor cost documents. Further, LLNS did not always adhere to internal policy and contract requirements to properly allocate travel and associated labor costs to the same projects. As a result, we recommended that the Contracting Officer request an improvement plan from LLNS' Internal Audit to ensure that unallowable costs and internal control weaknesses identified in the report are properly audited in future costs claimed audits.

Appendix 4: Management Comments



Department of Energy

Office of Science
Argonne Site Office
9800 South Cass Avenue
Lemont, Illinois 60439

September 11, 2024

VIA ELECTRONIC MAIL

MEMORANDUM FOR: JENNIFER L. QUINONES
DEPUTY INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL

FROM: WHITNEY S. BEGNER-ROMOZZI
ARGONNE SITE OFFICE MANAGER
OFFICE OF SCIENCE

SUBJECT: Response to Office of Inspector General Draft Audit Report, *UChicago Argonne, LLC Costs Claimed Under Department of Energy Contract No. DE-AC02-06CH11357 for Fiscal Year 2019*

Whitney Begner-Romozzi
Romozzi

Digitally signed by
Whitney Begner-Romozzi
Date: 2024.09.12
13:55:48 -05'00'

Thank you for the opportunity to review and respond to the Office of Inspector General's (OIG's) Draft Report entitled, "*UChicago Argonne, LLC Costs Claimed Under Department of Energy Contract No. DE-AC02-06CH11357 for Fiscal Year 2019.*" The Argonne Site Office concurs with the OIG's recommendations and has provided Management Responses in the attached Corrective Action Plan.

If you have any questions regarding this memorandum, please contact John Kasprovicz at 630-697-6722 or at John.Kasprovicz@science.doe.gov.

Attachment

File: AUD.10
ASODOCLOG2024-267

A Component of the Office of Science

Appendix 4: Management Comments

Management Response
Office of Inspector General (OIG) Draft Report,
UChicago Argonne, LLC Costs Claimed Under Department of Energy Contract No.
DE-AC02-06CH11357 for Fiscal Year 2019

We recommend that the Manager, Argonne Site Office, direct the Contracting Officer, in consultation with the Cognizant Federal Agency Official if not the same individual, to require UChicago Argonne, LLC to:

Recommendation 1: *Implement changes to comply with CAS.*

Management Response: Concur. While the Argonne Site Office (ASO) agrees with the need to be Cost Accounting Standards (CAS) compliant, some of the identified areas in the report are in compliance with Departmental policies and will continue. ASO, along with UChicago Argonne, LLC, will review and address the identified issues and as necessary, the Contracting Officer will direct UChicago Argonne LLC to make changes to ensure ongoing compliance with CAS principles.

Estimated Completion Date: March 31, 2025

Recommendation 2: *Revise and submit a Disclosure Statement to adequately capture its actual cost accounting practices.*

Management Response: Concur. While ASO agrees with the need to be CAS compliant, some of the identified areas in the report are in compliance with Departmental policies and will continue. ASO, along with UChicago Argonne, LLC, will review and address the identified issues and as necessary, the Contracting Officer will direct UChicago Argonne LLC to make changes to ensure ongoing compliance with CAS principles.

Estimated Completion Date: March 31, 2025

Recommendation 3: *Comply with the established payroll and timekeeping policies and procedures.*

Management Response: Concur. While ASO does not believe there are any systemic issues, the Contracting Officer will direct UChicago Argonne LLC to comply with documented payroll and timekeeping policies and procedures.

Estimated Completion Date: December 31, 2024

Appendix 4: Management Comments

-2-

Recommendation 4: *Comply with the established consulting policies and procedures.*

Management Response: Concur. ASO will direct UChicago Argonne LLC to review and revise, as necessary, the policies and procedures with respect to procurement of consulting services for ASO approval.

Estimated Completion Date: March 31, 2025

We recommend that the Manager, Argonne Site Office, direct the Contracting Officer, in consultation with the Cognizant Federal Agency Official if not the same individual, to:

Recommendation 5: *Ensure that UChicago Argonne, LLC complies with its contractual obligations to conduct an audit of the subcontractor's costs or arrange for such an audit to be performed and make a final determination on the allowability of the unresolved subcontract costs upon completion of audits.*

Management Response: Concur. While ASO disagrees with the cited subcontract population, implementation of a cost-type subcontract review process has been documented. The Contracting Officer will direct UChicago Argonne LLC to re-evaluate the existing population for FY 2019 and ensure it has completed required audits.

Estimated Completion Date: June 1, 2025

Recommendation 6: *Determine the allowability of \$4,102,944 in costs questioned in this report and determine the impact of the understated G&A allocation base, as summarized in Appendix 2, and seek appropriate recoveries.*

Management Response: Concur. The Contracting Officer will review the identified questioned costs and make a cost allowability determination.

Estimated Completion Date: June 30, 2025

FEEDBACK

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Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at 202-586-1818. For media-related inquiries, please call 202-586-7406.