



Department of Energy
Acquisition Regulation

No. AL 90-3R

Date November 30, 1992

ACQUISITION LETTER

This Acquisition Letter (AL) is issued by the Director, Office of Procurement and Assistance Management, pursuant to a delegation from the Secretary.

CONTENTS

DEAR

970.5204-9(h)

TITLE

Internal Audit

- I. Purpose. To clarify the Internal Audit clause requirements and ensure uniform implementation throughout the Department of Energy (DOE) Government-owned, contractor-operated (GOCO) facilities.
- II. Background. The Department of Energy's Acquisition Regulation (DEAR) include a standard "Internal Audit Requirement Clause," which essentially requires that Management and Operating (M&O) contractors maintain audit groups to conduct internal audits of contractor operations. Effective internal audit is an important part of the Department's overall internal control structure to ensure that contractor costs paid by the Department are allowable in accordance with the terms and conditions of the contract and that contractor operations are economical and efficient. The need for an increased emphasis on ensuring an effective and independent M&O contractor audit program was outlined in AL 90-3, dated June 21, 1990. An Office of Inspector General Report IG-0312, dated July 1, 1992, recommended that additional guidance be provided in the areas of M&O contractor staffing, training, audit documentation, and methodology.
- III. Guidance. This document consists of six parts that are intended to provide guidance in the understanding and administration of the internal audit provision at DEAR 970.5204-9(h). They are: Text of the clause; the Purpose of the provision; Requirements necessary to conclude the contractor's audit program and examinations are satisfactory to the DOE; Responsibilities that set forth general operations and administration requirements for the clause; Support that will be provided in the administration of the internal audit requirements of DOE's facilities; Peer Review of the Internal Auditors' work and organizational position.
- IV. Effective date. This AL is effective upon receipt.
- V. Expiration date. This AL will remain in effect until its content is incorporated, as appropriate, in regulatory or directive coverage, unless otherwise superseded or canceled.

3. The contractor's Internal Audit group must perform financial, performance, and (to the extent possible) specific audits requested by the contracting officer. Audits performed by Internal Audit groups are expected to meet the audit standards prescribed by the Institute of Internal Auditors and/or similar standards prescribed by the Comptroller General of the United States, i.e. "the Yellow Book."
4. Each M&O contractor is required to prepare a satisfactory audit plan for each ensuing fiscal year. To be satisfactory, a plan should be based on an acceptable risk ranking methodology and avoid any unnecessary duplication of DOE Office of Inspector General and contractor audits. To avoid any duplication, Office of Inspector General guidance, relating to their audit program, will be provided to the cognizant field element for issuance to the Internal Audit staff by May 1st of each year. Each plan will be coordinated with the cognizant Office of the Inspector General. A copy of the Internal Auditor's final annual audit plan deemed satisfactory to the DOE, shall be provided to the cognizant Office of Inspector General office no later than July 15th of each year.
5. Audit plans must include programs that sufficiently test the contractor's internal controls over costs to ensure that costs incurred in operating DOE's facilities are reasonable and allowable under the terms of the contractual agreement between DOE and the contractor. While an annual audit for all costs incurred is recommended, it is not required. However, all areas that are subject to the incurrence of unallowable cost shall be covered within a 5-year period. Audit programs for findings of unallowable costs may be based on 100 percent review of all incurred costs in a specific account, department, category or subject matter, or a review may be based on a scientific statistical approach sufficient to project identified unallowable cost to the audit population. Furthermore, annual internal audit coverage of incurred costs and other audit coverage conducted during the year must be sufficient to support the contractor's assertion on the Voucher Accounting for Net Expenditures Accrued (VANE) statement that all costs are allowable under the contract.
6. The contractor's Internal Audit group must provide by January 31st for the previous fiscal year, an annual report of its activities to the HCA or designee with a copy to the cognizant Office of Inspector General office. This annual report will list all audits conducted during the year, and will include summaries of audit reports and highlights of specific contractor practices which resulted in unallowable or unreasonable costs. It will describe the allowability of cost audit coverage and audit methodology. The report shall also identify (for each audit) the dollar value of the cost element or audit population, the dollar value of the sample, and the dollar value of unallowable or unreasonable costs.