



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

ASSESSMENT REPORT

OAI-V-17-03

May 2017

**AUDIT COVERAGE OF
COST ALLOWABILITY FOR
PRINCETON UNIVERSITY
DURING FISCAL YEARS 2013 THROUGH 2015
UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC02-09CH11466**



Department of Energy
Washington, DC 20585

May 11, 2017

MEMORANDUM FOR THE MANAGER, PRINCETON SITE OFFICE

A handwritten signature in black ink, appearing to read "Jack Rouch", is written over a horizontal line.

FROM: Jack Rouch, Deputy Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Princeton University During Fiscal Years 2013 Through 2015 Under Department of Energy Contract No. DE-AC02-09CH11466”

BACKGROUND

Since 1951, Princeton University has operated the Princeton Plasma Physics Laboratory (PPPL) under a contract with the Department of Energy. PPPL is part of the Department’s Office of Science dedicated to developing the scientific and technical knowledge base for fusion energy as a safe, economical, and environmentally attractive energy source for the world’s long-term energy requirements. During fiscal years (FYs) 2013 through 2015, Princeton University incurred and claimed \$253,847,637.75 for PPPL as shown below.

| Fiscal Year | Claimed Costs |
|-------------|------------------|
| 2013 | \$81,071,274.41 |
| 2014 | \$82,862,958.07 |
| 2015 | \$89,913,405.27 |
| Total | \$253,847,637.75 |

As an integrated management and operating contractor, Princeton University’s financial accounts for PPPL are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Princeton University is 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.

The Department’s Office of Inspector General, Office of Acquisition Management, and the integrated management and operating contractors and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department’s contractors claim only allowable costs. This strategy places reliance on

the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs that are claimed by the contractors. Consistent with the strategy, Princeton University is required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, Princeton University is required to conduct or arrange for audits of subcontractors to PPPL when incurred costs are a factor in determining the amount payable to a subcontractor. To help ensure that audit coverage of cost allowability was adequate for FYs 2013 through 2015, the objectives of our assessment were to determine whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- Princeton University conducted or arranged for audits of its subcontracts when costs incurred were a factor in determining the amount payable to the subcontractor; and
- Princeton University adequately resolved questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews.

RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Internal Audit for FYs 2013 through 2015 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (IIA Standards). Further, Princeton University had conducted reviews and arranged for audits of subcontractors to PPPL when costs incurred were a factor in determining the amounts payable to the subcontractors. Internal Audit identified \$1,173.53 in questioned costs during audits of cost allowability and PPPL subcontract reviews identified another \$18,787.53 in questioned costs, all of which have been resolved.

SCOPE AND METHODOLOGY

This assessment was performed from December 2016 to May 2017 at Princeton University and PPPL located in Princeton, New Jersey. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by Princeton University on its Statements of Costs Incurred and Claimed for FYs 2013 through 2015. The assessment was conducted under Office of Inspector General project number A17CH014.

To accomplish our objectives we:

- Assessed allowable cost audit work conducted by Internal Audit, which included review of audit reports, work papers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), and compliance with applicable professional auditing standards;

- Conducted interviews of Princeton Site Office, Princeton University, and PPPL personnel;
- Reviewed policies and procedures, and practices for identifying subcontracts that require audit and arranging for such audits;
- Evaluated resolutions of questioned costs and control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, Internal Audit, and PPPL's Cost Compliance Division; and
- Retested a judgmentally selected sample of 18 of the 157 transactions (approximately 10 percent) reviewed by Internal Audit in its FY 2015 allowable cost audits to determine whether the fieldwork was conducted in accordance with applicable auditing standards. Because our sample selection was not statistical, the results and overall conclusion are limited to the transactions retested and cannot be projected to the entire population.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based upon our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter; accordingly, for this review, no such opinion is expressed. Also, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our objectives and determined that the data was sufficiently reliable for the purposes of our review by comparing the data to source documents.

Management waived an exit conference on April 13, 2017.

This report is intended for the use of Department and Princeton Site Office contracting officers in the management of their contracts and is not intended to be and should not be used by anyone other than these specified parties.

Because no formal recommendations are being made in this report, a response is not required. We appreciate the cooperation of your staff who provided information and assistance.

Attachments

PRIOR REPORT

Assessment report on *Assessment of Audit Coverage of Cost Allowability for Princeton Plasma Physics Laboratory during Fiscal Years 2011 and 2012 under Department of Energy Contract No. DE-AC02-09CH11466* (OAS-V-14-09, March 2014). Based on the assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Internal Audit did not meet Institute of Internal Auditors Standards and could not be relied upon. Further, although no subcontracts met its established criteria for requiring an audit during our assessment period, Princeton Plasma Physics Laboratory chose to arrange for one subcontract audit. The subcontract audit identified \$42,714 in questioned costs that were later resolved based on additional documentation. Princeton Plasma Physics Laboratory policy only required audits of cost-type subcontracts that were deemed high-risk, or those over \$1 million. Finally, nothing came to our attention to indicate that questioned costs and internal control weaknesses impacting allowable costs that were identified in audits and reviews had not been adequately resolve