



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-20-14

November 2019

**AUDIT COVERAGE OF
COST ALLOWABILITY FOR
JEFFERSON SCIENCE ASSOCIATES LLC
FROM OCTOBER 1, 2014, THROUGH
SEPTEMBER 30, 2018, UNDER
DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC05-06OR23177**



Department of Energy
Washington, DC 20585

November 26, 2019

MEMORANDUM FOR THE MANAGER, THOMAS JEFFERSON SITE OFFICE

FROM: Debra K. Solmonson
Deputy Assistant Inspector General
for Audits and Inspections, East
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Jefferson Science Associates LLC from October 1, 2014, Through September 30, 2018, Under Department of Energy Contract No. DE-AC05-06OR23177”

BACKGROUND

Jefferson Science Associates LLC (JSA) has managed and operated the Thomas Jefferson National Accelerator Facility since April 2006. JSA is a partnership between Southeastern Universities Research Association and PAE Applied Technologies that contracts with the Department of Energy. The Thomas Jefferson National Accelerator Facility, as part of the Department of Energy’s Office of Science, provides a nuclear physics user facility to enable the international user community to conduct scientific research. During the period of October 1, 2014, through September 30, 2018, JSA incurred and claimed costs of \$675,932,868. The following table illustrates JSA’s annual costs during the period:

Fiscal Year	Incurred and Claimed Costs
2015	\$157,847,815
2016	\$184,003,428
2017	\$162,108,905
2018	\$171,972,720
Total	\$675,932,868

As a non-integrated management and operating contractor, JSA’s financial management system is linked with the Department’s accounts through the use of the U.S. Department of Energy Cost Management Report (DOE form 533M), which is provided to the Contracting Officer on a monthly and fiscal year basis in accordance with the requirement of Department of Energy Acquisition Regulation 970.5204-2, *Laws, Regulations, and DOE Directives*. JSA 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 allowable in accordance with the terms of the contract, 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 to provide audit coverage of the allowability of incurred costs that are claimed by contractors. Consistent with the strategy, JSA is required by its contract to maintain an internal audit activity with the responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, JSA is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to the subcontractor.

To help ensure that audit coverage of cost allowability was adequate for the period of October 1, 2014, through September 30, 2018, the objectives of our assessment were to determine whether:

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

RESULTS OF ASSESSMENT

During our assessment¹, nothing came to our attention to indicate that the allowable cost-related audit work performed by JSA's Internal Audit could not be relied upon. Based on our limited judgment sampling, we did not identify any material internal control weaknesses with the allowable cost reviews Internal Audit conducted, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. In audits performed during the period under review, Internal Audit questioned \$126,634 in costs, which had been resolved. Additionally, we found that JSA conducted or arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor and had resolved costs questioned in those audits.

SCOPE AND METHODOLOGY

This assessment was performed from July 2019 to October 2019 at the Thomas Jefferson National Accelerator Facility, located in Newport News, Virginia. The assessment was limited

¹ We conducted our assessment as a review attestation. A review is substantially less in scope than an examination or audit. Our review was limited and would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review.

to JSA's Internal Audit activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affect costs claimed by JSA on its Statement of Costs Incurred and Claimed from October 1, 2014, through September 30, 2018. The assessment was conducted under Office of Inspector General project number A19OR038. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit that included a review of allowable cost audit reports, workpapers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), and compliance with applicable professional auditing standards;
- Reviewed policies, procedures, and practices for identifying subcontracts that require audit and arranging such audits;
- Assessed subcontract audit status; and
- Evaluated resolution of questioned costs and internal control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, JSA's Internal Audit, and other organizations.

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 conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of opinion on the subject matter and accordingly, for this review, no such opinion is expressed. Additionally, 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 assessment objectives. We determined that the data was sufficiently reliable for the purposes of this review by comparing it to source documents.

Management waived an exit conference on October 22, 2019.

This report is intended for the use of the Department Contracting Officers and field offices in the management of their contracts and is not intended to be and should not be used by anyone other than these specified parties.

Attachment

PRIOR REPORT

Assessment Report on the [*Audit Coverage of Cost Allowability for Jefferson Science Associates LLC During Fiscal Years 2011 - 2014, Under Department of Energy Contract No. DE-AC05-06OR23177*](#) (OAI-V-17-01; January 2017). Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Jefferson Science Associates LLC's Internal Audit could not be relied upon. We did not identify any material control weaknesses with the cost allowability audits, which generally met Institute of Internal Auditors standards. We noted improvements in Internal Audit's work on engagement planning, workpaper documentation, and supervision issues identified in our previous assessment. Additionally, we found that Jefferson Science Associates LLC generally arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. Specifically, Jefferson Science Associates LLC had 16 active cost-reimbursable subcontracts valued at approximately \$11 million during our review. We found that Jefferson Science Associates LLC arranged for an audit of 1 commercial subcontract and obtained results for audits conducted under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the remaining 15 cost-reimbursable subcontracts with universities. Finally, Jefferson Science Associates LLC's Internal Audit identified \$26,672.23 in questioned costs as part of its allowable cost audits and other reviews in fiscal years 2011 through 2014, of which \$5,031 identified during the audit of the commercial subcontract had not been resolved. As of March 2018, these questioned costs had been resolved.

FEEDBACK

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