



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-20-34

March 2020

**AUDIT COVERAGE OF COST
ALLOWABILITY FOR BATTELLE ENERGY
ALLIANCE, LLC FROM OCTOBER 1, 2013,
TO SEPTEMBER 30, 2015, UNDER
DEPARTMENT OF ENERGY CONTRACT
NO. DE-AC07-05ID14517**



Department of Energy
Washington, DC 20585

March 5, 2020

MEMORANDUM FOR THE MANAGER, IDAHO OPERATIONS OFFICE

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

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC from October 1, 2013, to September 30, 2015, Under Department of Energy Contract No. DE-AC07-05ID14517”

BACKGROUND

Since fiscal year (FY) 2005, Battelle Energy Alliance, LLC (BEA) has managed and operated the Idaho National Laboratory under contract with the Department of Energy. The Idaho National Laboratory is part of the Department’s Office of Nuclear Energy. During FYs 2014 through 2015, BEA incurred and claimed costs of \$1,642,970,047.26. The following table illustrates BEA’s annual costs during the period:

Fiscal Year	Incurred and Claimed Costs
2014	\$ 778,287,092.69
2015	\$ 864,682,954.57
Total	\$1,642,970,047.26

As a management and operating contractor, BEA’s financial accounts are integrated with those of the Department, and the results of transactions are reported monthly. BEA is required by 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, integrated management and operating contractors, and other select contractors implement the Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department’s contractors claim only allowable costs. The Cooperative Audit Strategy places

reliance on the contractors' internal audit activities to provide audit coverage of the allowability of costs claimed by contractors. Consistent with the Cooperative Audit Strategy, BEA's contract requires it to maintain an internal audit activity (Internal Audit) with the responsibility for conducting audits, including audits of the allowability of claimed costs. In addition, BEA is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. During FYs 2014 through 2015, BEA's Internal Audit was responsible for ensuring subcontract audits were conducted. The objectives of our assessment for FYs 2014 through 2015 were to determine, based on our limited sampling, whether:

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

RESULTS OF ASSESSMENT

During our assessment, nothing came to our attention to indicate that allowable cost-related audit work performed by BEA's Internal Audit for FYs 2014 and 2015 could not be relied upon. 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. Based on our limited sampling, we did not identify any material internal control weaknesses with allowable cost audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. In audits performed since our last assessment, Internal Audit identified internal control weaknesses and questioned costs totaling \$361,456. The internal control weaknesses and the questioned costs identified had all been resolved.

We also found that BEA provided audit coverage of its cost reimbursable subcontracts. In particular, Internal Audit selected subcontractors for review according to a risk-based approach applied to the entire population of cost reimbursable subcontracts. For each subcontractor selected, Internal Audit reviewed a sample of invoices to determine whether costs claimed by and reimbursed to subcontractors were allowable, allocable, reasonable, and consistent with contract terms and conditions.

Although we ultimately determined we could rely on Internal Audit's work for this assessment period, we identified potential internal control weaknesses and Cost Accounting Standards (CAS) noncompliance while performing concurrent work on another Office of Inspector General audit that may affect FYs 2014 and 2015. We reported upon these findings in our 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). Specifically,

we identified BEA practices that were not compliant with CAS 418 and CAS 402. These findings related to concerns with BEA's procedures to disposition indirect cost pool rate variances and average labor rate variances. In that report, we observed that BEA had accumulated large over-recovered rate variances at year-end for FYs 2014 and 2015. We concluded that there is a high probability that similar CAS noncompliant situations occurred in FYs 2014 and 2015, as we reported upon for FY 2016. In that report, we recommended that, once the identified issues are resolved, the Contracting Officer should require BEA to prepare detailed Cost Impact Proposals for those CAS noncompliant issues that may pertain to years prior to FY 2016, which would include the period of time covered by this assessment. In formal comments to our audit report, management generally concurred with our findings and recommendations. We found management's comments to be generally responsive to our concerns and we were pleased with the intended actions.

Finally, in our previous report, *Assessment of Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC05ID14517 during Fiscal Year 2013* (OAS-V-14-16, September 2014), we noted that BEA had unresolved questioned costs of \$16,087; however, all of those costs have since been resolved.

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.

SCOPE AND METHODOLOGY

This assessment was performed from December 2017 to December 2019 at the Idaho National Laboratory, located in Idaho Falls, Idaho. 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 BEA on its Statements of Costs Incurred and Claimed for FYs 2014 and 2015. This assessment also included a reference to a concurrent audit we performed on BEA's FY 2016 incurred costs. The assessment was conducted under Office of Inspector General project number A17ID043.

To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit. Our assessment 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.
- Conducted interviews with Department and BEA personnel.
- Reviewed policies, procedures, and contract requirements relevant to our audit objectives.
- Assessed subcontract audit status.

- 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 and BEA's Internal Audit.
- Reviewed 14 audits conducted by BEA's Internal Audit that covered allowable costs, 6 audits from FY 2014 and 8 audits from FY 2015.
- Retested a sample of incurred cost transactions tested by Internal Audit in its allowable costs audits. We judgmentally selected a sample of 52 of the 1,056 transactions that Internal Audit reviewed from FYs 2014 through 2015. Because sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population of transactions.
- Conducted a concurrent audit of *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 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 that the evidence obtained provides a reasonable basis for our findings and 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 a limited amount of computer-processed data to accomplish our assessment objectives. We verified the accuracy of the data and determined that it was sufficiently reliable for the purposes of the assessment.

Management waived the exit conference.

This report is intended for the use of the Department Contracting Officers and site officials 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 REPORTS

- Audit Report on the [*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). Based on our audit, we identified Battelle Energy Alliance, LLC (BEA) practices that were not compliant with Cost Accounting Standards (CAS). We also identified other issues for which we were not always able to quantify the full monetary impact, and weaknesses in BEA's Internal Audit (Internal Audit) audit procedures. For fiscal year 2016, we questioned \$17.66 million of positive (over-recovered) funds and \$8.4 million of negative (under-recovered) funds from year-end indirect cost pool variances. We also questioned \$11,176 of Laboratory Directed Research and Development burdens. In particular, the CAS noncompliant practices and other issues we identified included:
 - The disposition of year-end indirect cost pool rate variances – CAS 418 noncompliant;
 - Charging year-end direct labor rate variances as indirect costs – CAS 402 noncompliant;
 - Lack of indirect cost burden for unallowable costs – CAS 405 noncompliant;
 - Allocation of travel and associated labor costs – BEA policy noncompliant; and
 - Allocation of certain indirect rates – incorrect application.

These issues occurred because BEA did not properly follow contract terms and conditions, including the Federal Acquisition Regulation and CAS, and did not sufficiently adhere to internal policy. Also, for areas where Internal Audit had provided audit coverage in fiscal year 2016, e.g., subcontract costs, we determined that Internal Audit's work could be relied upon in the select areas reviewed and identified minor additional questioned costs of \$8,013. In addition, we identified areas that require improvement by Internal Audit. The audit procedures used by Internal Audit did not identify certain CAS noncompliant issues in BEA's cost accounting and management practices. We consider these areas to be fundamental for proper accounting of costs on Government contracts. Finally, we identified concerns in our testing of BEA's joint appointment agreements. Although we did not make a formal recommendation for this area, we suggested that BEA take steps to strengthen its formal policies and training procedures.

- Assessment Report on the *Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC Under Department of Energy Contract No. DE-AC07-05ID14517 during Fiscal Year 2013* (OAS-V-14-16, September 2014). Based on our assessment, nothing came to our attention to indicate that the allowable cost related audit work performed by BEA's Internal Audit could not be relied upon. We did not identify any material internal

control weaknesses with cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing. In the prior report covering fiscal year 2013 costs, we recommended that the Department of Energy make a determination on the allowability of \$16,087 in remaining unresolved costs that had been questioned or deemed unallowable by BEA's Internal Audit.

FEEDBACK

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