



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-23-14

March 2023

**AUDIT COVERAGE IN
OFFICE OF SCIENCE GRANTS**



Department of Energy
Washington, DC 20585

March 6, 2023

MEMORANDUM FOR THE DIRECTOR, OFFICE OF SCIENCE

SUBJECT: Audit Report on Audit Coverage in Office of Science Grants

The attached report discusses our review of Office of Science grants. This report contains five recommendations that, if fully implemented, should help ensure that Office of Science grantees are compliant with Federal audit regulations. Management generally concurred with our recommendations.

We conducted this audit from February 2022 through October 2022 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in black ink, appearing to read "Jennifer L. Quinones", is positioned above the printed name.

Jennifer L. Quinones
Deputy Inspector General
Office of Inspector General

cc: Deputy Secretary
Chief of Staff



Department of Energy Office of Inspector General

Audit Coverage in Office of Science Grants (DOE-OIG-23-14)

WHY THE OIG PERFORMED THIS REVIEW

Prior Office of Inspector General reports identified inadequate controls related to the Department of Energy's administration and oversight of financial assistance awards, and the Department had not ensured that annual independent audits were performed, as required. Financial assistance audits are intended to determine whether the grantee has an internal control structure that provides reasonable assurance that grants are managed in compliance with Federal laws and regulations and award terms and conditions.

We conducted this audit to determine whether the Office of Science (Science) ensured that for-profit grantees were compliant with the audit requirements for Federal awards.

What Did the OIG Find?

We found that Science did not always ensure that for-profit grantees were compliant with audit regulations, including unaudited award expenditures, late audit report submissions, use of incorrect regulations or audit type, and incomplete reporting packages. These issues were due to Science lacking a system or tracking mechanism for monitoring grantees' expenditures that may require an audit. Further, Science did not adequately review reporting packages or follow its reporting package review process. Finally, reduced staffing contributed to inadequate grant oversight.

What Is the Impact?

Award expenditures totaling \$56,835,650 that were not audited, as required per 2 Code of Federal Regulations § 910, exposes the Department to an increased risk of fraud, waste, and abuse. Therefore, we are questioning \$56,835,650 in award expenditures as unresolved costs pending audit. Not adequately reviewing the reporting package and not following the review processes increases the risk of undetected noncompliance with Federal program requirements and grant award terms and conditions. Grantees who did not have the required audits performed have a higher risk of charging unallowable costs to the Department. Although the scope of this audit was grants to for-profit grantees within Science, it is important that the Department consider the report findings across the complex because the Department received significant funding under the Infrastructure Investment and Jobs Act and Inflation Reduction Act of 2022, and some of this funding will be awarded through financial assistance instruments, including grants.

What Is the Path Forward?

To address the issues identified in this report, we have made five recommendations that, if fully implemented, should help ensure that grantees are compliant with Federal grant audit regulations.

BACKGROUND

The Department of Energy's Office of Science (Science) supports research in all 50 states, Puerto Rico, and the District of Columbia through competitively selected awards to over 300 colleges and universities, non-profit and for-profit research organizations, and all 17 of the Department's national laboratories. As part of Science's programs, the Small Business Innovation Research and Small Business Technology Transfer programs are intended to help small, for-profit businesses conduct research and development for projects that have commercialization potential and meet Department mission-specific needs.

2 Code of Federal Regulations (CFR) § 910, *UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS*, contains specific regulations for financial assistance awards to for-profit grantees. Science is required by 2 CFR § 910.513, *Responsibilities*, (c)(1), to ensure that audits are completed, and reports are received in a timely manner and in accordance with the regulations.

The Science Consolidated Service Center's Grant and Contract Analysis Team (GCAT) relies on for-profit auditees to submit audit reports to the Department mailbox. The reports are retrieved by the Office of Chief Financial Officer's Financial Policy and Audit Resolution Team and sent to the Science Audit Coordinator who forwards them to GCAT. Included in the email from the Audit Coordinator is a tasking memo, identifying the lead office (i.e., the program office which awarded the preponderance of Department funds), supporting offices, and whether there are findings to be addressed. GCAT works with the Contracting Officer from the Consolidated Service Center's Office of Grants and Cooperative Agreements (OGCA) to identify if the findings are sustained; if the corrective action plan is sufficient to address the findings, a management decision letter is then generated. After the Contracting Officer signs the management decision letter, GCAT provides it to the auditee and the Science Audit Coordinator who enters the information and uploads the letter into the Departmental Audit Report Tracking System. If GCAT recommends action to be taken by the OGCA, the Contracting Officer and Contract Specialist, in consultation with GCAT, take appropriate action, as needed.

When Science is not the lead office but the supporting office, GCAT provides feedback to the lead program office. The Science Contracting Officer reviews the draft management decision letter and provides concurrence or feedback and changes. The Financial Policy and Audit Resolution Team at Headquarters contacts the auditee if the Federal regulations are reported incorrectly in the audit report, and GCAT informs the Financial Policy and Audit Resolution Team if there is an oversight¹ in the reporting package. While the OGCA does not track expenditures to determine whether the grantee's fiscal year (FY) expenditures exceeded the \$750,000 threshold for conducting an audit, if the Contract Specialist knows that the grantee has exceeded the threshold but is unaware of the grantee providing an audit report, the Contract Specialist should follow up with the grantee.

In August 2022, the Office of Inspector General (OIG) issued a special report² that discussed how internal controls could be improved to help prevent fraud, waste, and abuse as the

¹ Incorrect regulations cited in the audit report or incorrect lead office.

² *Prospective Considerations for Projects Awarded Through Financial Assistance Awards*, DOE-OIG-22-40.

Department launches projects under recently signed or proposed legislation, such as The Infrastructure Investment and Jobs Act, CHIPS and Science Act of 2022, and the Inflation Reduction Act of 2022. These Acts will provide billions in funding to several Department programs, some of which will be distributed through financial assistance instruments. With this significant amount of funding, Department leadership must recognize the immense risks associated with these new programs and take assertive steps to mitigate those risks. In its report, the OIG identified six major risk areas based on previous audits, inspections, and investigations that warrant immediate attention and consideration from Department leadership to prevent similar problems from recurring. For example, one risk area identified was the demonstration of inadequate oversight of projects. Prior reports identified instances when the Department had not ensured that project deliverables such as annual independent audits or final project reports had been completed as required. Further, prior reports reveal instances when the Department had not taken actions to address external audit findings related to financial weaknesses at the recipient level.

Based on the issues and high-risk areas related to grants management, we conducted this audit to determine whether Science ensured for-profit grantees were compliant with audit requirements for Federal awards.

SCIENCE DID NOT ENSURE GRANTEES COMPLIED WITH REQUIREMENTS

Science did not always ensure grantees were compliant with audit regulations. Specifically, we found:

- Grantees expenditures were not audited;
- Audit reports were not always submitted timely to the Department;
- Independent auditors did not always use the correct regulations or audit type; and
- Auditees submitted incomplete reporting packages.

Grantees Expenditures Were Not Audited

Our review of 33 for-profit grantees in our sample disclosed some expenditures that were not audited. For-profit auditees are required to follow 2 CFR § 910.501, *Audit requirements*, which requires compliance audits if annual expenditures in Department awards exceeded \$750,000 during the non-Federal auditee's FY. Based on data provided by Science, the 33 grantees should have submitted 60 audit reports for FY 2019 and FY 2020 disbursements³ that met the audit requirement threshold. As summarized in Table 1, Science received less than half (29 of 60) of the required reports used to verify that the expenditures were audited.

³ The data maintained by Science records disbursements (reimbursements) to the grantee, not award funds expended by the grantee.

Table 1. Summary of the Audit Reports for FY Disbursements that Met the Audit Requirement Threshold as of May 20, 2022

Description	Number of Reports
Expenditures audited (with audit reports)	29
Disbursements that met the audit threshold with no audit reports	17
Disbursements with no audit report due to COVID-19 (according to Science)	1
Disbursements where Science is waiting for responses from the grantees	13
Total	60

As shown in Table 1, 29 audit reports were received for FY expenditures that exceeded \$750,000; however, there were 31 audit reports (17+1+13) that were not submitted by May 20, 2022, and therefore, the costs were not audited. Specifically:

- In 17 instances, the data provided by Science showed the grantee’s disbursements exceeded the expenditure threshold during the FY, but no audit report was submitted to the Department. The grantees confirmed to Science that they did not have the required audits, and future audit submission dates were not provided.
- One auditee stated its report was delayed due to COVID-19. After reviewing the Office of Management and Budget (OMB) Memorandum M-21-20⁴ and the Department Policy Flash 2021-30,⁵ we confirmed that the reporting extension was applicable to this auditee. The auditee’s FY 2020 ended December 31, 2020, so the 9-month report was due by September 30, 2021, with an extended due date of March 31, 2022. At this time, we have not received this report for review.
- In 13 instances, the grantee did not respond to Science’s requests for copies of audit reports. We requested the audit reports for the sample items, and Science contacted the grantees to obtain the copies. In these 13 cases, Science has not yet received a response from the grantee.

Without the required audit reports, Science was unable to verify that \$50,479,307 in expenditures were audited. Therefore, we are questioning these expenditures as unresolved costs pending audit.

⁴ Issued March 19, 2021, OMB Memorandum M-21-20 Appendix 3 (IX), *Extension of Single Audit Submission*, allows not-for-profit auditees who have not yet filed their single audits as of the date of the memorandum and have FY end dates through June 30, 2021, to delay submission to 6 months beyond the normal due date.

⁵ Department Policy Flash 2021-30, *Implementation of OMB Memorandum, M-21-20, for Extension of Compliance Audit Submission (Subpart F of 2 CFR 910)*, extends the same flexibility for audit submission to for-profit auditees.

Audit Reports Were Not Always Submitted Timely to the Department

Our review identified that only 12 of 29 audit reports were submitted by for-profit auditees in our sample (see Table 1) to the Department within the required timeframe⁶ (plus the extension allowed by the Department Policy Flash 2021-30). The remaining 17 were not submitted within the required timeframe, as summarized in Table 2. These reports were not submitted to Science until April 14, 2022, or later, which is after we requested copies of audit reports in our sample.

Table 2. For-Profit Reports Not Submitted Timely

Auditee Name	FY End Date	9-Month Due Date Plus Extension	Submission Date
EUCLID TECHLABS, LLC	12/31/2019	3/31/2021	4/15/2022
HYPER TECH RESEARCH, INC.	12/31/2019	3/31/2021	5/16/2022
ILLINOIS ROCSTAR LLC	12/31/2020	3/31/2022	4/18/2022
INCOM, INC.	10/31/2019	1/31/2021	4/18/2022
INCOM, INC.	10/31/2020	1/31/2022	4/18/2022
MESA PHOTONICS, LLC	12/31/2019	3/31/2021	4/18/2022
NIOWAVE, INC.	12/31/2019	3/31/2021	4/19/2022
NIOWAVE, INC.	12/31/2020	3/31/2022	4/19/2022
OPUS 12, INC.	12/31/2020	3/31/2022	4/18/2022
PHYSICAL SCIENCES INC.	6/30/2020	9/30/2021	4/14/2022
RADIABEAM SYSTEMS, LLC	12/31/2019	3/31/2021	4/18/2022
RADIABEAM TECHNOLOGIES, LLC	12/31/2019	3/31/2021	4/18/2022
SYDOR INSTRUMENTS, LLC	12/31/2019	3/31/2021	4/19/2022
SYDOR INSTRUMENTS, LLC	12/31/2020	3/31/2022	4/19/2022
TDA RESEARCH, INC.	12/31/2019	3/31/2021	4/18/2022
TDA RESEARCH, INC.	12/31/2020	3/31/2022	4/18/2022
UHV TECHNOLOGIES, INC.	12/31/2019	3/31/2021	4/19/2022

No System or Tracking Mechanism to Identify Expenditures that May Require an Audit

The unaudited expenditures and untimely report submissions occurred because Science lacks a system or tracking mechanism for monitoring grantees' expenditures that may require an audit. *Department of Energy Guide to Financial Assistance*, § 5.2.2 (D)(7), states that the Contracting Officer⁷ is responsible for monitoring compliance with audit requirements and ensuring audits are completed and submitted as part of the administration of the award's reporting requirements. Science only tracks and monitors payments to grantees based on the Department's FY; there are

⁶ 2 CFR § 910.512, *Report submission*, states that the reporting package must be submitted to the appropriate Contracting Officer and the Office of the Chief Financial Officer within the earlier of 30 calendar days after receipt of the audit report, or 9 months after the end of the audit period, whichever is earlier. The reporting package includes the financial statements and schedule of award expenditures, summary schedule of prior audit findings, auditor's report(s), and corrective action plan.

⁷ The October 2020 version replaced the term "Contracting Officer" used in the April 2017 version to "Grants Officer," which is assumed to include Contracting Officers when Contracting Officers perform the same duties.

no reports showing grantee expenditures by the grantees' FY. Science does not track which grantees are required to submit a report and when, but rather relies on the grantees to comply with regulations because only the grantees know what they spent during their FY. If a grantee claims not to have exceeded the threshold, Science relies on that statement and does not validate the grantee's claim. For example, Science does not require the grantee to provide data from its accounting system that clearly shows when expenditures on all Federal awards were incurred, including the cost share requirements for each award.

During fieldwork, we determined that the data provided by Science⁸ was based on the Department's FY, not the grantees' FY. If the Contracting Officer is unaware of the grantee's FY end date, then the Contracting Officer would not know when an audit is required and when the report submission is due. For example:

- In one sample item, the grantee told Science personnel its grant expenditures did not exceed the \$750,000 threshold for that year. Our analysis of the Science data based on the Department's FY (October 1 – September 30) showed that this appeared to be true; however, using monthly disbursement data provided by Science, we also calculated the grantee's disbursement totals for its FY (January 1 – December 31) and found that the grantee had received more than \$750,000 in award funds during its FY.
- Also, Hyper Tech Research, Inc. (see Table 2) would not have been required to submit an audit report based on its reported FY 2019 (January 1 – December 31) expenditures. The auditee reported a total of \$293,597 in expenditures of Department awards (all Science awards) in its FY 2019 Schedule of Expenditures of Federal Awards, which the auditee submitted with the audit report. However, using Science's data, our calculation of disbursements to the auditee during its FY totaled \$1,292,688.

Science's data does not identify the grantee's FY end date and does not reflect the grantees' actual expenditures during the grantees' FY. The data sets identify the amounts reimbursed to the grantees, which do not match the grantees' actual expenditures.

Independent Auditors Did Not Always Use the Correct Regulations or Audit Types

We found that in the 29 audit reports received (see Table 1), some auditors used incorrect Federal regulations or audit types when auditing for-profit grants and awards. Specifically:

- Five audit reports state that the audit was conducted in accordance with 2 CFR § 200, which is not applicable to for-profit auditees. When an auditor conducts a for-profit compliance audit, the auditor must comply and ensure that the auditee is complying with the requirements of 2 CFR § 910. There are differences in the requirements between 2 CFR § 200 and 2 CFR § 910. For example:
 - 2 CFR § 910.514, *Scope of audit*, requires that compliance testing include tests of transactions and other auditing procedures necessary to provide the auditor with audit

⁸ Grantee draw-down totals from Automated Standard Application for Payment system.

evidence to support an opinion on compliance, while 2 CFR § 200.514, *Scope of audit*, does not include this requirement.

- For-profit auditees are an exception to 2 CFR § 200.305(b)(1), which requires that non-Federal auditees be paid in advance if certain conditions are met.⁹ In the case of for-profit auditees who are paid directly by the Department, reimbursement is the preferred method of payment, per 2 CFR § 910.354(b).
- In the case of for-profit auditees, the cost principles contained in 48 CFR § 31.2, *Contracts with Commercial Organizations*, must be followed in lieu of the cost principles contained in 2 CFR § 200.400–475.
- Additionally, of the five reports discussed in the preceding paragraph, two audit reports were program-specific audits. However, 2 CFR § 910.501, *Audit requirements*, (c), states that program-specific audit election is not applicable to for-profit auditees. Program-specific audits are allowed only under 2 CFR § 200.501, when an auditee expends Federal awards under only one Federal program and that program's statutes, regulations, or award terms and conditions do not require a financial statement audit. According to GCAT, it accepted the reports; however, it requested that the auditee perform future audits in accordance with proper audit requirements. GCAT further stated that it was not requesting the auditee to perform another audit because it would be an inefficient use of Government resources. GCAT considers there are no major differences between the compliance audit and the program specific audit.

Auditees Submitted Incomplete Reporting Packages

Two audit reports refer to a Schedule of Expenditures of Federal Awards that only listed Office of Fossil Energy awards and did not include the Science awards or expenditures, as required by Federal regulations. Specifically, 2 CFR § 910.510, *Financial statements*, (b), states that the auditee must prepare a schedule of expenditures of Department awards for the period covered by the auditee's FY, which must include the total Department awards expended. Therefore, the auditee's expenditures of Science grants totaling \$6,356,343 were not audited. GCAT personnel stated that they considered this an oversight and would contact the auditee to make the change. Without the accurate Schedules of Expenditures of Federal Awards, Science was unable to verify that \$6,356,343 in expenditures were audited. Therefore, we are questioning these expenditures as unresolved costs pending audit.

Further, 11 reporting packages did not include the Summary Schedule of Prior Audit Findings, as required. Specifically, 2 CFR § 910.511, *Audit findings follow-up*, (a) and (b), require the auditee to prepare a summary schedule of prior audit findings that includes the status of all audit

⁹ The conditions include: written procedures maintained to minimize the time elapsed between the transfer of funds and the disbursement of funds; financial management systems meeting the standards for fund control and accountability; and advance payments limited to the minimum needed and timed with the actual cash requirements of the auditee to carry out the program's purpose.

findings in the prior audit's schedule of findings and questioned costs. Additionally, in our sample of nine for-profit grantees with total disbursements between \$725,000 and the \$750,000 reporting threshold,¹⁰ one report did not include the Summary Schedule of Prior Audit Findings.

One audit report contained a current year finding and recommendation related to a reimbursement received by the auditee exceeding what was expended, but the auditee did not include a corrective action plan in the reporting package submitted to the Department. Specifically, 2 CFR § 910.511, *Audit findings follow-up*, (c), states at the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings, a corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date.

Department's Lack of Review and Oversight

The use of incorrect regulations and audit type, as well as incomplete schedules of award expenditures, occurred because Science did not adequately review the reporting packages and did not follow its reporting package review process. According to GCAT, it performs a high-level review of the audit reports for audit findings and any identified questioned costs and confirms that the audit was performed in accordance with the appropriate Federal regulations. GCAT also stated that the analyst reviews the Schedule of Expenditures for Federal Awards and checks to see if there are any audit findings. If there are findings that relate to Science, GCAT coordinates with the Grants Specialist from the OGCA to determine whether special terms and conditions should be included in the award. The reporting package review process would have included a confirmation of whether the audit was performed in accordance with the appropriate regulations and whether the Schedule of Expenditures for Federal Awards included Science awards.

According to OGCA officials, reduced staffing also led to inadequate oversight over the Science grants. The OGCA stated that the staffing level of Contract or Grants Specialists with an assigned requisition and award workload is 30 and currently includes 6 vacancies. The workload varies between 100–200 awards per specialist each year, depending on the complexity of the agreements. The OGCA also stated that the Contract Specialists on the Small Business Innovation Research and Small Business Technology Transfer team have high workloads consisting primarily of for-profit awards. However, the OGCA informed us that there is no standard workload for the Contract or Grants Specialists. The OGCA further stated that because of the Contract Specialists' high workloads, they focus on issuing awards and do not have adequate resources to verify whether the grantee is compliant with audit requirements. It was also noted that the Contract or Grants Specialist workload will likely increase due to programmatic funding increases and the implementation of recent legislation.

¹⁰ We sampled grantees with total FY disbursements just under the \$750,000 reporting threshold because Science records the disbursement data based on the Department's FY, not the grantees' FY, which may not reflect the actual total expenditures. Science provided one audit report related to this sample where the auditee had exceeded the reporting threshold.

INCREASED RISK OF UNDETECTED NONCOMPLIANCE

Lack of compliance with the required Federal audit regulations per 2 CFR § 910 exposes the Department to an increased likelihood of fraud, waste, and abuse. Not adequately reviewing the reporting package and not following the review process increases the risk of undetected noncompliance with Federal program requirements, as well as with grant award terms and conditions. In addition, unaudited disbursements totaling \$56,835,650 to grantees in our sample increases the risk that questionable or unallowable costs could be charged to the Department. Further, relying on self-verification by grantees that they did not exceed the audit threshold does not provide adequate oversight; self-reporting is prone to fraud when no checks are performed.

Oversight of all Department grants to for-profit grantees is critical to ensure that the Department executes its stewardship responsibilities, including protecting the Government and taxpayers. As identified through prior OIG reports, inadequate financial monitoring of receipt costs increases the risk that questionable or unallowable costs could be charged to the Department, reducing the amount of funds available to complete projects. These reports demonstrate a need for more stringent monitoring of projects awarded under financial assistance agreements. Although the scope of this audit was grants to for-profit grantees, it is important that the Department consider the report findings across the complex because the Department received significant funding under the Infrastructure Investment and Jobs Act and Inflation Reduction Act of 2022, and some of this funding will be awarded through financial assistance instruments, including grants. Sufficient oversight by the Department helps to ensure that programs meet their goals.

RECOMMENDATIONS

We recommend that the Director, Science, direct the Manager, Office of Science Consolidated Service Center (CSC) to:

1. Establish a formal process to monitor and track expenditures when grantees' expenditures exceed the \$750,000 threshold to identify if compliance audits are required and verify that the audits, past due and future, are performed.
2. Develop a process to validate a grantee's claim that it did not exceed the \$750,000 audit threshold during its FY, including a requirement that the grantee provide data from its accounting system to show when all award expenses were incurred.
3. Provide refresher or updated training to staff regarding the requirements and processes for reviewing auditees' reporting packages.
4. Ensure Contracting Officers make a determination on the allowability of any questioned costs from past due audits when completed.

We also recommend that the Director, Science, direct the Assistant Manager, OGCA to:

5. Identify the optimal size of the Contracting Officer and Specialist workforce to ensure it is appropriate for the workload distribution.

MANAGEMENT RESPONSE

Management generally concurred with our recommendations, fully concurring with Recommendations 1 through 4 and partially concurring with Recommendation 5. The following list includes the details of our recommendations.

- Recommendation 1: The CSC will use available data to develop a formal process to monitor and track for-profit recipients' expenditures and verify the audit status. Science will also coordinate with the Office of Management to make a dashboard report available across the Department to assist offices in monitoring compliance with for-profit audit requirements.
- Recommendation 2: The CSC will request verification of a for-profit grantee's FY expenditures when a for-profit grantee without an audit disagrees that it has exceeded the yearly threshold. If it is determined the grantee exceeded the threshold, the grantee will be required to provide an audit report. Science plans to complete these actions by December 31, 2023.
- Recommendation 3: The CSC will ensure that necessary training is provided to appropriate staff, 60 days after Recommendations 1 and 2 are established.
- Recommendation 4: Science will determine the allowability of questioned costs from past due audits within 45 days of the Contracting Officer's receipt of information from the for-profit recipient sufficient to disposition questioned costs.
- Recommendation 5: The Head of Contracting Activity for Science will examine the optimal size of the Contracting Officer and Specialist workforce, taking into consideration funding constraints and other critical resourcing needs, by May 31, 2023.

Management also agreed to actively pursue receipt of the overdue audit reports that were the basis of the monetary impact calculation of unresolved costs. It also noted that while the report states there were 60 actions identified that met the audit threshold and audits were completed for 29 of those actions, there was no discussion of the monetary impact of those 29 audits within the report.

Management's comments are included in Appendix 3.

AUDITOR COMMENTS

We agree with the planned actions to be taken and that they were responsive to our recommendations. We also recognize that Science officials are coordinating with other Department offices and programs to monitor compliance with for-profit audit requirements. We appreciate their efforts to work with other Department programs. Recommendations should remain open until these actions are completed.

Regarding the monetary impact of the 29 reports for audits that were completed, we have recalculated the monetary impact figure to include 2 reports submitted to Science that did not identify expenditures for Office of Science grants; additionally, we added an explanation in the Auditees Submitted Incomplete Reporting Packages section on page 6. The total expenditures for these 2 reports, according to Science's data, is \$6,356,343. This amount has been added to the unaudited expenditures total for the audit reports not submitted to Science for a new total of \$56,835,650 in unresolved costs pending audit. We did not identify any monetary impact associated with the remaining 27 audit reports received by the Department.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We conducted this audit to determine whether the Office of Science (Science) ensured that for-profit grantees were compliant with audit requirements for Federal awards.

SCOPE

The audit was performed from February 2022 through October 2022 and covered Science grants from fiscal year (FY) 2019 through FY 2020. All information was obtained via remote access techniques. The audit was conducted under Office of Inspector General project number A22LV002.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed Federal, Department of Energy, and program-specific policies and procedures related to the audit of grants.
- Obtained a list of grantees (not-for-profit and institutions of higher education, for-profit, and Small Business Innovation Research and Small Business Technology Transfer) who expended Science award funds during the scope period.
- Selected and reviewed a sample of grantees to determine compliance with Federal requirements and Department policies, procedures, and guidance for auditing grants. We judgmentally sampled 20 percent of the for-profit universe of grantees who, according to Science's disbursement data, had exceeded the expenditure threshold. Sample selection was based on such factors as dollar value, auditees whose FY 2019 expenditures had been audited, and grantees whose FY 2019 and FY 2020 expenditures had not been audited. We also judgmentally sampled for-profit grantees who did not exceed the threshold, based on Science's data. Sample selection was based on grantees who had disbursements between \$725,000 and \$750,000 during the Department FY as they were very close to the reporting threshold. Because judgmental sampling of grantees was used, results are limited to the grantees selected.
- Interviewed Science and Department officials to determine their roles in the grant process and related internal controls in place.

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 the internal control components of Control Environment and Monitoring and underlying principles of: Establish Structure, Responsibility, and Authority; Exercise Oversight

Appendix 1: Objective, Scope, and Methodology

Responsibility; and Perform Monitoring Activities. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

To assess the reliability of the data needed to answer the audit objectives, we: (1) performed electronic testing, (2) reviewed related documentation, and (3) interviewed Science officials knowledgeable about the data. The results of our data assessment showed that Science data does not identify the grantees' FY end date and does not reflect the grantees' actual expenditures during the grantees' FY. The total and monthly disbursements by grantee data sets identify the amounts that Science reimbursed to grantees and provide an approximation if an audit is required, which do not match the grantees' actual expenditures.

Both the grantees' FY end date and the actual expenditures during the grantees' FY are crucial for determining if the total expenditures require an audit. Science would need a system of tracking the amounts expended by the grantees during their FY to identify who expended \$750,000 or more and to ensure that audits are completed and reports are received in a timely manner, as required by 2 Code of Federal Regulations § 910.501, *Audit requirements*, and 2 Code of Federal Regulations § 910.513, *Responsibilities*. We are making a recommendation to establish a formal process to monitor and track expenditures when grantees' expenditures exceed the \$750,000 threshold to identify when compliance audits are needed and that the audits, past due and future, are performed as required.

Management officials waived an exit conference on February 13, 2023.

Office of Inspector General

- Special Report on [*Prospective Considerations for Projects Awarded Through Financial Assistance Awards*](#) (DOE-OIG-22-40, August 2022). The Office of Inspector General (OIG) notes that while the \$26 billion in Infrastructure Investment and Jobs Act funding for clean energy and innovative technology projects was the impetus for the report, the CHIPS and Science Act is expected to increase the Department of Energy's budget more than \$30 billion, while it is unclear at this time whether these funds will be awarded through financial assistance agreements. Additionally, the Inflation Reduction Act of 2022 is expected to authorize \$25 billion in new spending authority for the Department's energy security programs, some of which will be distributed through financial assistance instruments. Given the significant amount of funding and potential new appropriations for projects, it is imperative that Department leadership recognize the immense risks associated with these new programs and take assertive steps to mitigate the risks. The OIG has identified six major risk areas based on prior audits, inspections, and investigations that warrant immediate attention and consideration from Department leadership to prevent similar problems from recurring. These risk areas include:
 - *Recipient fraud*, such as false claims, false statements, and misrepresentations;
 - *Insufficient Federal staffing*, such as key oversight functions not performed due to limited staffing and heavy workloads of project oversight officials;
 - *Inadequate oversight of projects*, including insufficient financial monitoring of recipient costs and cost share contributions, not ensuring project deliverables such as annual independent audits or final project reports have been completed as required, and not taking actions to address external audit findings related to financial weaknesses at the recipient level;
 - *Circumvention of project controls*, such as performance milestones, budget phases, and cost share requirements, and selecting projects despite significant financial or technical issues identified during the merit review process;
 - *Inadequate internal controls* related to administering and monitoring financial assistance awards; and
 - *Lack of recipient-level controls*, including not ensuring recipient procurement practices were adequate to protect the Government's interests and comply with applicable policies, procedures, and best practices.

As the Department's programs move forward with Infrastructure Investment and Jobs Act projects and other potential appropriations awarded through financial assistance instruments, the OIG has identified several prospective considerations to help prevent fraud, waste, and abuse. As a top priority, the OIG suggests that Department programs identify and set aside sufficient resources for Federal staffing, develop comprehensive policies and procedures, and build strong internal controls to ensure that the Government and taxpayers are protected.

- Inspection Report on [*The Use of Grant DE-EM0003780 by the Regional Coalition of LANL Communities*](#) (DOE-OIG-19-53, September 2019). The inspection found that the Regional Coalition of Los Alamos National Laboratory Communities (RCLC) did not

Appendix 2: Related Reports

properly account for Department grant funds or use the funds in accordance with Federal requirements and the terms of the grant; in addition, the OIG found that the Department did not provide effective oversight of RCLC's spending and activities. RCLC commingled Department funds with funds received from other sources and subsequently engaged in activities prohibited by the U.S. Code and the terms of the grant agreement. Due to the commingling of funds, RCLC could not demonstrate how Department funds were used, and the OIG was unable to determine the extent to which RCLC spent Department funds on allowable activities. As a result of these issues, the OIG questioned \$300,000 in Department grant funds provided to RCLC.

- Audit Report on [*Followup on the Small Business Innovation Research and Small Business Technology Transfer Programs*](#) (OAI-M-17-06, April 2017). The audit found that Office of Science (Science) and Advanced Research Projects Agency-Energy (ARPA-E) had not always efficiently and effectively managed their Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs in the areas of financial management, adherence to award terms and conditions, and with respect to Science, award closeout. Through the review of eight Science grants and one ARPA-E cooperative agreement, the OIG found: three recipients had not properly accounted for or maintained adequate supporting documentation for a portion of their project expenses; the Department had not ensured that three recipients met all terms and conditions of their awards; and although Science had significantly improved the timeliness of its award closeout process in response to previous recommendations, two areas of concern remained.

Government Accountability Office

- Report to the Committee on Armed Services, U.S. Senate on [*Improvements Needed to Strengthen Strategic Planning for the Acquisition Workforce*](#) (GAO-22-103854, November 2021). The U.S. Government Accountability Office (GAO) found that staff in most Federal positions in the Department are involved in the acquisition process, according to Science, Office of Environmental Management, and National Nuclear Security Administration officials. The Department generally requires acquisition-related training only for certified staff, which represents about 15 percent of the Department's workforce and maintains training requirements for only those staff through the agency's Acquisition Career Management Program. However, the GAO noted that the Department generally does not require acquisition-related training for noncertified staff, many of whom may play a critical role in the acquisition process. Additionally, the GAO found that the three Department offices reviewed have each implemented two of the five leading practices for effective strategic planning for their acquisition workforces and have partially implemented the remaining three practices. Further, Department and National Nuclear Security Administration officials have raised concerns that they do not have enough staff or staff with the right skills in the acquisition workforce to properly oversee contracts but have not fully assessed their needs and identifying skill and competency gaps or determining the ideal size and composition of their acquisition workforces.

Appendix 2: Related Reports

While the National Nuclear Security Administration has conducted limited evaluations of gaps in skills and competencies for some positions in its acquisition workforce, neither Science nor the Office of Environmental Management have conducted such analyses.

- Report to Congressional Committees on [*Small Business Research Programs: Agencies Should Further Improve Award Timeliness*](#) (GAO-22-104677, October 2021). The GAO found that most Federal agencies that participate in the SBIR and STTR programs did not consistently issue timely awards to small businesses in fiscal year (FY) 2020. The Small Business Administration's SBIR and STTR policy directive provides timeframes for notification and award issuance—90 days for award notification and 180 days for award issuance. The GAO found that the Department's Office of Science notified awardees on time, but ARPA-E did not always notify awardees within the required period. Additionally, the GAO found that 98 percent of Science awards were issued on time and only 19 percent of ARPA-E awards were issued within the required period.
- Report to Congressional Committees on [*Small Business Innovation Research: Agencies Need to Fully Implement Requirements for Managing Fraud, Waste, and Abuse*](#) (GAO-21-413, June 2021). The GAO found the 11 agencies participating in the SBIR and STTR programs largely implemented the Small Business Administration's 10 minimum requirements for preventing fraud, waste, and abuse in the programs. Of the 10 minimum requirements, Science fully implemented 8 and partially implemented 2. The GAO found that Science collected certifications but used certification language that differed materially from the language required in the SBIR and STTR policy directive. Additionally, the GAO found that the Department's OIG provides a template on its website for reporting fraud, waste, and abuse, but Science program officials told the GAO they have only made a very small number of referrals and have not needed a process for tracking them.
- Report to Congressional Committees on [*Small Business Research Programs: Many Agencies' Award Issuances Are Not Timely; Some Practices May Improve Timeliness*](#) (GAO-20-693, September 2020). The GAO found that in FY 2019, many agencies that participate in the SBIR and STTR programs were not consistently on time in notifying awardees or issuing awards, similar to FY 2016 through FY 2018, which the GAO previously reviewed. The GAO noted that Science consistently notified awardees or issued awards on time.

Appendix 3: Management Comments



Department of Energy
Office of Science
Washington, DC 20585

February 6, 2023

MEMORANDUM FOR EARL OMER

ASSISTANT INSPECTOR GENERAL FOR AUDITS
OFFICE OF INSPECTOR GENERAL

FROM:

JUSTON K. FONTAINE *Juston Fontaine*
DEPUTY DIRECTOR FOR FIELD OPERATIONS
AND HEAD OF CONTRACTING ACTIVITY
OFFICE OF SCIENCE

SUBJECT:

Office of Science Response to Inspector General Draft Report,
Audit Coverage of Office of Science Grants

Thank you for the opportunity to review and response to the Inspector General Draft Report, *Audit Coverage of Office of Science Grants*. The Office of Science response to the recommendations and the Monetary Impact Statement are attached.

There are no technical comments on the draft report.

If you have any questions on these comments, please contact Steven C. Jones at steven.jones@science.doe.gov.

Attachment

Management Response
Inspector General (IG) Draft Report
Audit Coverage in Science Grants

The IG recommends that the Director, Office of Science, direct the Manager, Office of Science Consolidated Service Center to:

Recommendation 1: Establish a formal process to monitor and track expenditures when grantees' expenditures exceed the \$750,000 threshold to identify if compliance audits are required and verify that the audits, past due and future, are performed.

Management Response: Concur. The Office of Science (SC), Consolidated Service Center agrees to use available data to develop a formal process to monitor and track for-profit recipient's SC expenditures and verify the for-profit grantee's audit status.

Additionally, SC will coordinate with the Office of Management to make a dashboard report available across DOE to assist offices in monitoring compliance with the for-profit audit requirements.

Estimated Completion Date: December 31, 2023

Recommendation 2: Develop a process to validate a grantee's claim that it did not exceed the \$750,000 audit threshold during its fiscal year, including a requirement that the grantee provide data from its accounting system to show when all award expenses were incurred.

Management Response: Concur. When a for-profit grantee, without an audit, disagrees that they have exceeded the yearly threshold, the CSC agrees to request verification of the for-profit grantee's fiscal year DOE expenditures and re-evaluate their reported costs. If the for-profit grantee exceeds the yearly threshold, they will then be required to provide an audit. Grantees' fiscal year end dates and corresponding DOE expenditures are not currently available to the SC-CSC in Departmental data systems.

Estimated Completion Date: December 31, 2023

Recommendation 3: Provide refresher or updated training to staff regarding the requirements and processes for reviewing auditees' reporting packages.

Management Response: Concur. Upon completion of recommendation 1 and 2, CSC management will ensure that necessary training is provided to appropriate staff to include training addressing the regulatory audit requirements, the review of auditee's reporting packages and training addressing the newly established processes to be implemented as a result of the audit findings.

Estimated Completion Date: 60 days after Recommendation 1 and 2 are established.

Appendix 3: Management Comments

Recommendation 4: Ensure Contracting Officers make a determination on the allowability of any questioned costs from past due audits when completed.

Management Response: Concur.

Estimated Completion Date: Within 45 days of Contracting Officer receipt of information from the for-profit recipient sufficient to disposition questioned costs.

The IG also recommends that the Director, Office of Science, direct the Assistant Manager, Office of Grants and Cooperative Agreements to:

Recommendation 5: Identify the optimal size of the Contracting Officer and Specialist workforce to ensure it is appropriate for the workload distribution.

Management Response: Partially Concur. The Office of Science Head of Contracting Activity will examine the optimal size of the Contracting Officer and Specialist workforce taking into consideration funding constraints and other critical resourcing needs.

Estimated Completion Date: May 31, 2023

Questioned Costs:

The IG identified \$50,479,307 in questioned costs. In fiscal year 2019 and fiscal year 2020, the Office of Science received less than half of the required reports used to verify the expenditures were audited. Thirty-one audit reports were not submitted by May 20, 2022. Without the required audit report, the Office of Science was unable to verify that \$50,479,307 in expenditures were audited; therefore, we are questioning these expenditures as unresolved costs pending audit.

Management Response to Questioned Costs: The CSC will actively pursue receipt of the overdue audit reports. However, it is noted in the report that there were 60 actions identified that met the audit requirement threshold and that audits were completed for 29 of those actions. There is no discussion of the monetary impact of those 29 audits within the report.

FEEDBACK

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We aim to make our reports as responsive as possible and ask you to consider sharing your thoughts with us.

Please send your comments, suggestions, and feedback to OIG.Reports@hq.doe.gov and include your name, contact information, and the report number. You may also mail comments to us:

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.