



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

The Advanced Research Projects Agency – Energy





Department of Energy

Washington, DC 20585

August 22, 2011

MEMORANDUM FOR THE DIRECTOR, ADVANCED RESEARCH PROJECTS AGENCY – ENERGY

A handwritten signature in cursive script, reading "George W. Collard".

FROM: George W. Collard
Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "The Advanced Research Projects
Agency – Energy"

BACKGROUND

The Advanced Research Projects Agency – Energy (ARPA-E), an agency within the Department of Energy, was authorized in 2007 as part of the America COMPETES Act (COMPETES Act). The goals of ARPA-E are to enhance domestic economic security through the development of energy technologies and to ensure that the United States maintains a technological lead in developing and deploying advanced energy technologies. To accomplish these goals, ARPA-E focuses exclusively on high-risk, high-payoff concepts.

While ARPA-E's creation was authorized in 2007, it did not begin operations until 2009, when the Omnibus Appropriations Act of 2009 provided an initial \$15 million in funding. The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided an additional \$400 million to ARPA-E. Under the provisions of the COMPETES Act, ARPA-E is required to spend 2.5 percent of its appropriated funds on technology transfer and outreach activities. In January 2011, the requirement increased to 5 percent with the signing of the America COMPETES Reauthorization Act of 2010 (Reauthorization Act). As of April 20, 2011, ARPA-E has issued 12 funding opportunity announcements and made 122 awards valued at \$368.6 million to advance battery technology, explore alternative fuels, and improve building efficiencies, among other areas. ARPA-E program directors, with the assistance of support service contractors, provide project oversight.

Due to the importance of its mission and the significant level of Recovery Act funding, we initiated this audit to determine whether ARPA-E implemented safeguards necessary to achieve its goals and objectives and to effectively deploy associated Recovery Act resources.

RESULTS OF AUDIT

ARPA-E generally had systems in place to make research awards and to deploy Recovery Act resources. For example, ARPA-E established selection criteria to make awards that were consistent with its mission objectives and implemented the criteria in award selection. However, we found that ARPA-E:

- Had not established a systematic approach to ensure that it was meeting the technology transfer and outreach requirement of the COMPETES Act. In particular, ARPA-E had not required funding recipients to expend a percentage of their awards on technology transfer; and,
- Had not drafted or, in some cases, approved draft policies and procedures in a number of key areas, including those in the areas of monitoring and oversight of awardees; termination of non-performing awards; technology transfer and outreach; and, invoice review.

Additionally, through transaction testing we performed at three recipient sites, we identified and questioned approximately \$280,387 in unsupported, unreasonable, or unallocable costs, or costs considered to be specifically unallowable, that had been incurred by two recipients.

According to an ARPA-E official, ARPA-E focused its attention on meeting the Recovery Act requirement of expeditiously awarding funds to projects by September 30, 2010; and, as a consequence did not have sufficient time and resources to devote to establishing all its operational controls in the area of policies and procedures. ARPA-E did not require recipients to spend a certain percentage of their awards on technology transfer and outreach nor to track and report these expenditures to ARPA-E. We also found that ARPA-E was unaware that recipients had incurred the types of costs we questioned because they did not require submission of transaction details as part of their invoice review process.

Without improvements in these areas, ARPA-E is at risk of not meeting its goals for the transfer of technology and for reimbursing unallowable recipient costs. Controls to ensure that recipients spend sufficient funds on technology transfer and outreach activities are necessary to help maximize ARPA-E's ability to transfer developed energy technologies to the marketplace as required by the COMPETES Act. Furthermore, without improved controls over costs, such as requiring detailed support for invoiced costs, ARPA-E recipients could incur additional questioned costs similar to those questioned at two of the three recipient sites we visited.

ARPA-E was working to improve its processes and, in doing so, addressed some of the concerns we raised during our audit. For example, ARPA-E finalized the policy governing an invoice review process in October 2010. More recently, in the five funding opportunity announcements it issued in April 2011, ARPA-E included a requirement for recipients to spend a minimum of 5 percent of their awards on technology transfer and outreach and to track and report to ARPA-E on such expenditures. In the interim, ARPA-E surveyed grant recipients about their expenditures for technology transfer and outreach activities. The recipients estimated that, as of February 2011, they had expended approximately \$15.3 million on technology transfer and outreach, in comparison to the approximately \$10.4 million that was required to meet the 2.5 percent technology transfer requirement. However, the estimated expenditures were not a fully reliable indicator of whether the 2.5 percent requirement was being met since ARPA-E had not required recipients to submit documentation to substantiate the estimated amount of expenditures they reported for technology transfer.

ARPA-E also finalized a policy in February 2011, outlining what were considered to be allowable costs in the area of technology transfer and outreach. However, we are concerned that this policy allows recipients to incur several types of costs that are typically unallowable as direct costs under Federal Acquisition Regulations, such as the costs of procuring additional Government funding and for meeting with investors, without providing a justification as to reasons for their allowability.

We recommended that several management best practices be implemented, all of which are designed to help improve ARPA-E's administration and stewardship of taxpayer furnished resources.

MANAGEMENT REACTION

Management concurred with our recommendations and stated that it had already taken corrective actions or would be taking actions on each of the recommendations. Management stated, for example, that the Contracting Officer made an official determination regarding the direct costs we questioned in the report. Management also stated that it had communicated to recipients the types of costs that are allowable and unallowable as technology transfer and outreach costs. Overall, management's comments were generally responsive to our recommendations.

Management's comments are included in their entirety in Appendix 3.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary of Energy
Chief of Staff

REPORT ON THE ADVANCED RESEARCH PROJECTS AGENCY – ENERGY

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THE ADVANCED RESEARCH PROJECTS AGENCY – ENERGY

Program Management

The Advanced Research Projects Agency – Energy (ARPA-E) generally had systems in place to make research awards and to deploy American Recovery and Reinvestment Act of 2009 (Recovery Act) resources. However, we found that ARPA-E had not established a systematic approach to ensure that it was meeting the technology transfer and outreach requirement of the America COMPETES Act (COMPETES Act) and had not drafted or, in some cases, approved draft policies and procedures in a number of significant areas. We further identified and questioned approximately \$280,387 in unsupported, unreasonable, or unallowable costs, or costs considered to be specifically unallowable at two of the three recipient sites we visited.

Technology Transfer and Outreach

ARPA-E had not established a systematic approach to ensure that it was meeting the technology transfer and outreach requirement of the COMPETES Act that it spend 2.5 percent of its budget on technology transfer and outreach activities. Technology transfer and outreach activities are a means through which ARPA-E can achieve its statutory goal of ensuring that the United States maintains a technological lead in developing and deploying advanced energy technologies.

Senior ARPA-E officials told us that, in addition to an in-house commercialization team, which held summits and workshops to bring researchers and investors together, they included recipient technology transfer and outreach costs in measuring total technology transfer and outreach expenditures. A Headquarters Procurement and Assistance Policy official told us that including recipient efforts was a reasonable approach to meet the requirement, stating that recipients would be in the best position to market their technologies.

However, ARPA-E had not included a requirement for recipients to spend a certain percentage of their awards on technology transfer and outreach activities nor had it required the recipients to track and report to ARPA-E on such expenditures in the funding opportunity announcement. Management, accordingly, determined that imposing these requirements on an after-the-fact basis on current recipients was inappropriate because the requirement was not specified in the funding opportunity announcements. ARPA-E management told us that they were encouraging current recipients to spend project funding on technology transfer and

outreach activities and planned to include the specific expenditure requirement in future funding opportunity announcements.

In February 2011, ARPA-E surveyed award recipients about their technology transfer and outreach activities and expenditures. According to the recipient responses, an estimated \$15.3 million had been expended on technology transfer and outreach activities. However, the estimated expenditures was not a reliable indicator of whether ARPA-E was meeting its requirement to expend 2.5 percent of its appropriated funds on technology transfer and outreach activities since ARPA-E had not required recipients to submit documentation to substantiate the estimated amount of expenditures they reported for technology transfer.

In the five funding opportunity announcements it issued in April 2011, ARPA-E included a requirement for recipients to spend a minimum of 5 percent of their awards on technology transfer and outreach activities, consistent with the 5 percent requirement in the America COMPETES Reauthorization Act of 2010, and to track and report to ARPA-E on such expenditures. ARPA-E management officials told us that they plan to notify recipients of the types of costs that qualify as technology transfer and outreach.

Policies and Procedures

ARPA-E had not drafted or, in some cases, approved draft policies and procedures in significant areas such as technology transfer and outreach, monitoring and oversight of awardees, termination of non-performing awards, and the review of awardee invoices. Specifically, at the time of our review, ARPA-E had not drafted policies and procedures for:

- Meeting its expenditure goals for technology transfer and outreach, and tracking and verifying recipient expenditures in such activities. ARPA-E, for example, had not required recipients to include technology transfer and outreach costs in their budgets nor to track their expenditures in this area. Further, existing procedures did not address the type of technology transfer and outreach activities for which expenditures were allowable under the award; and,

-
- Terminating non-performing awards. As approximately 30 percent of the awards have been in effect for one year or more, policies are needed to document the procedures for how go and no-go milestones are verified, the basis for determining whether to continue or terminate a project, and who has the authority to make such determinations.

Additionally, ARPA-E had not approved draft policies and procedures governing the:

- Monitoring and oversight of awardees. Absent specific guidelines, we noted that the emphasis of monitoring and oversight activities, particularly during site visits, was on technical performance and not on business aspects of the awards such as the recipient's internal control structure. Policies are needed to require an evaluation of awardees' business performance, including an evaluation of the appropriateness of expenditures; and,
- Reviewing grant recipient invoices. Our audit looked at costs from the first funding opportunity announcement and we found issues regarding the consistency of documentation submitted by recipients. Procedures are needed to ensure that all recipients submit consistent levels of supporting documentation.

ARPA-E told us that go/no-go milestones were verified during quarterly reviews. However, these reviews were not documented in any policy or procedures. This is especially important to ensure consistency between program directors who are short-term employees. The COMPETES Act specifies that program directors serve terms of not more than three years, although they may be renewed.

In relation to our concerns, ARPA-E took a number of steps to formalize its operations. For example, ARPA-E developed a policy statement regarding its approach to meeting the COMPETES Act's technology transfer and outreach requirements. Additionally, as discussed below, ARPA-E has approved procedures for reviewing invoices.

Allowable Costs

We identified \$280,387 in questionable costs at two of the three recipient sites we visited. We questioned these costs based on the allowable cost provisions contained in Subpart 31.2 of the Federal Acquisition Regulation (FAR). For example, in our visit to one small business recipient, we identified \$39,992 in questionable direct costs with respect to:

- meetings with bankers to raise capital;
- securing other government funding that should instead be included in the indirect cost pool;
- costs which do not appear to be allocable to the cooperative agreement because they are related to selling a piece of equipment;
- a fee to appear on a local television program; and,
- meal costs.

We also noted that this recipient did not have support for its indirect cost rate. Rather, it was using the rate of an affiliated firm, to whom the award was originally made, a rate that had not been reviewed by an independent party. The total amount of indirect costs that the recipient had claimed as of June 30, 2010, was \$239,497. ARPA-E officials informed us that the delay in having the recipient's indirect rate reviewed by an independent party stemmed from the fact that the award was novated to a spin-off of the original recipient and a review was needed of the recipient's accounting system. The review of the accounting system was completed by an independent party in January 2011, and ARPA-E requested a review of the recipient's indirect rate in April 2011. We also identified \$898 in meal costs at a second recipient, a university, which are unallowable per Office of Management and Budget Circular A-21.

Subsequent to our questioning the above costs, the ARPA-E contracting officer told us that he concluded \$39,189 of the above direct costs were allowable since they were part of technology transfer and outreach activities. The contracting officer agreed that the \$1,701 in meal costs were unallowable. However, according to a Headquarters Procurement and Assistance Policy official, if a determination is made that a

normally unallowable cost will be allowable; it should be made in advance of the cost being incurred and be documented. In the above cases, the costs were not justified in advance and a determination was not contained in the file. While the contracting officer provided us with an oral determination of the allowability of costs, he did not provide his formal determination, in writing, outlining his basis for deviating from the FAR.

Therefore, we question \$40,890 in recipient expenditures. In addition we question \$239,497 in indirect costs, because the indirect cost rate was unsupported, for total questioned costs of \$280,387.

**Actions and
Organizational
Priorities**

In response to our concerns, ARPA-E finalized policies governing the invoice review process in October 2010, and technology transfer and outreach in February 2011. However, the policy on technology transfer and outreach allows recipients to incur costs that are typically unallowable per the FAR. The policy does not reference the FAR or refer to the fact that the types of costs listed are typically unallowable and require prior justifications for the costs before they are incurred. According to ARPA-E officials, the policy was developed in part by personnel who were embedded in ARPA-E but who reported directly to the Director, Office of Headquarters Procurement Services and to the Office of General Counsel. However, the Director, Office of Headquarters Procurement Services told us that, while he had seen the draft policy, he supported the need for an in-depth review of the policy.

According to an ARPA-E official, ARPA-E focused its attention on meeting the Recovery Act requirement of expeditiously awarding funds to projects by September 30, 2010; and, as a consequence did not have sufficient time and resources to devote to establishing its operational controls in the area of policies and procedures. While ARPA-E had drafted many policies and procedures, relatively few were finalized.

**Goal
Achievement**

Without improvements in the areas we discovered, ARPA-E is at risk of not meeting its goals for the transfer of technology, and for reimbursing unallowable recipient costs. Controls to ensure that recipients spend sufficient funds on technology transfer and outreach activities are needed to maximize ARPA-E's ability to transfer developed energy technologies to the marketplace as required by the COMPETES Act. Furthermore, without improved controls over costs,

such as requiring detailed support for invoiced costs, ARPA-E recipients could incur additional questioned costs similar to those questioned at two of the three recipient sites we visited.

RECOMMENDATIONS

To address the issues noted in this report and ensure that ARPA-E meets its goals, we recommend that the Director, ARPA-E:

1. Finalize the remaining policies and procedures related to the operation of ARPA-E, such as those related to monitoring and oversight of awardees; and termination of non-performing awards;
2. Consult with the Headquarters Office of Procurement and Assistance Policy on the allowability of costs contained in the newly developed policy on technology transfer and outreach;
3. Establish a process to accurately measure progress toward meeting the technology transfer and outreach spending requirement;
4. Obtain a Contracting Officer official determination regarding the allowability of costs questioned in this report and to recover costs determined to be unallowable; and,
5. Communicate to recipients the types of costs that are allowable and unallowable as technology transfer and outreach costs.

MANAGEMENT AND AUDITOR COMMENTS

Management concurred with the report's recommendations and indicated that it had already taken corrective actions or would be taking action on each of the recommendations.

Management stated that agency specific policies both for the monitoring and oversight of awardees and the termination of non-performing awardees had been developed. For example, management stated that they had developed a written policy related to terminating non-performing awards that is currently under review by the Office of General Counsel and Office of Procurement and Assistance Policy. Management also stated that it is deploying a web-based project management system to facilitate the monitoring and oversight of awardees. Regarding allowable technology transfer and outreach costs, management stated a written policy has been submitted for review by the Office of Procurement and Assistance Policy. Management

also stated that it had established a process to accurately measure progress toward meeting the technology transfer and outreach spending requirement. Specifically, management stated that recipients in the five most recent funding opportunity announcements are required to submit their spending in the area of technology transfer and outreach with each invoice.

Regarding the costs questioned in this report, management stated that the Contracting Officer has made an official determination regarding the questioned direct costs. Management also expressed concern that the inclusion of questioned indirect costs incorrectly implies a failure to comply with Departmental policies and procedures. We acknowledge that ARPA-E has a plan of action to address the unaudited indirect costs; however, we questioned the costs because the basis provided by the recipient for the rate was not reviewed by an independent party.

Finally, management stated that it had communicated to recipients the types of costs that are allowable and unallowable as technology transfer and outreach costs through five funding opportunity announcements issued in April 2011. While ARPA-E listed the allowable cost principles of the FAR in these funding opportunities, management should also distribute the technology transfer and outreach policy after it has been reviewed by Procurement.

Management's comments were generally responsive to the recommendations. Management's verbatim comments can be found in Appendix 3.

Appendix 2

OBJECTIVE

The objective of the audit was to determine whether the Advanced Research Projects Agency - Energy (ARPA-E) implemented safeguards necessary to achieve its goals and objectives and to effectively deploy associated American Recovery and Reinvestment Act of 2009 (Recovery Act) resources.

SCOPE

The audit was performed between May 2010 and August 2011, at ARPA-E headquarters in Washington, DC, and at three recipient sites.

METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable laws and regulations, as well as internal ARPA-E policies and procedures that were in place when the audit started and those that were developed during the course of the audit;
- Selected a sample of 47 applications that were submitted for funding to ARPA-E from the first four funding opportunity announcements (submissions made between May 2009 and March 2010). We reviewed the concept papers and full applications and the associated reviewer comments to determine whether the applications were reviewed consistent with the associated funding opportunity announcement;
- Visited the sites of three recipients who received awards under the first funding opportunity announcement (awards announced in October 2009) and reviewed costs claimed by those recipients to determine allowability of costs;
- Held discussions with recipient personnel to determine the involvement of ARPA-E in the work being performed;
- Assessed ARPA-E's management control structure over the disbursement and reporting processes as they relate to Recovery Act funding, monitoring of research performance, and transfer of technology; and,
- Interviewed ARPA-E and Department of Energy officials.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. During the audit, we assessed ARPA-E's compliance with the *Government Performance and Results Act of 1993* and found that a performance measure had been established related to obligation of funding beginning in Fiscal Year 2011. We utilized computer-processed data to identify the populations of costs incurred by the recipient sites we visited. Based on our comparisons of computer-processed data to supporting documentation, we determined that the data were sufficiently reliable for the purposes of our report.

We held an exit conference with management on August 11, 2011.

RELATED AUDIT REPORT

Government Accountability Office (GAO)

[*America COMPETES Act: It Is Too Early to Evaluate Programs Long-Term Effectiveness, but Agencies Could Improve Reporting of High-Risk, High-Reward Research Priorities*](#) (GAO-11-127R, October 2010). The audit found that three of the four agencies reviewed – Department of Energy, National Science Foundation, and National Institute of Science and Technology – conducted basic scientific research but did not consistently set a percentage funding goal to support high-risk, high-reward research – as required by Congress. In addition, two of these three agencies did not report this information with their annual budget submissions, as the law provides. Agency officials indicated that they faced challenges in defining such research, and as a result, each program applied the criteria in the America COMPETES Act (COMPETES Act) differently. Because the new programs authorized and funded under the America COMPETES Act had only recently received and obligated funding, and because of the difficulties reported by GAO and others as being inherent in measuring outcomes of research and educational programs, the audit determined that it was too early to assess the effectiveness of these programs.



TO: GEORGE COLLARD
ASSISTANT INSPECTOR GENERAL FOR AUDITS
OFFICE OF INSPECTOR GENERAL (OIG)

FROM: ARUN MAJUMDAR
DIRECTOR
ADVANCED RESEARCH PROJECTS AGENCY – ENERGY (ARPA-E)

RE: ARPA-E's Response to OIG Draft Audit Report on "The Advanced Research Projects Agency – Energy"

A handwritten signature in blue ink, appearing to read "Arun Majumdar", with a horizontal line underneath.

The Advanced Research Projects Agency – Energy (ARPA-E) thanks the Office of Inspector General (OIG) for the opportunity to comment on the above-referenced draft Report, which is the culmination of a thorough, year-long audit of ARPA-E's operations and programs. ARPA-E concurs, with comments, on the five recommendations in the Report. These comments seek to clarify the current disposition of the issues raised in the Report and the accompanying cover memorandum. The Report focuses on awards that were executed under ARPA-E's first funding opportunity announcement (FOA) in December 2009 and January 2010. Of note, at that time ARPA-E had been in existence for less than a year, so it employed approved, pre-existing Federal government and Departmental processes and mechanisms to conduct its operations and FOAs. Approximately 18 months have passed since then, during which time ARPA-E has established its own standard operating procedures. ARPA-E appreciates the Report's finding that ARPA-E "was working to improve its processes and, in doing so, addressed some of the concerns we raised during the audit." ARPA-E is committed to continuously improving its operations so as to better fulfill its statutory mission to enhance our nation's economic and energy security and maintain a U.S. technological lead in the development and deployment of advanced energy technologies.

Recommendation 1: Finalize the remaining policies and procedures related to the operation of ARPA-E, such as those related to monitoring and oversight of awardees and termination of non-performing awards.

Management Response: ARPA-E's policies and procedures both for the monitoring and oversight of awardees and the termination of non-performing awards have been developed via a process that began before, and continued through, the OIG audit. Initial ARPA-E procedures were based on pre-existing Federal government and Departmental processes, and have since been strengthened through the development of agency-specific processes.

For monitoring and oversight of awardees: Each ARPA-E award agreement includes a detailed schedule of technical milestones and deliverables, which is used to measure recipients' progress on a quarterly basis. ARPA-E program managers hold a meeting or conference call with each recipient every quarter, including at least two site visits per year. ARPA-E is deploying a web-based project management system to facilitate the monitoring and oversight of awardees.

For terminating non-performing awards: Once a program manager determines that a project is non-performing, ARPA-E notifies the awardee in writing that it must achieve specific corrective actions by a certain date. If the awardee fails to do so, the Contracting Officer suspends the award and begins the termination process. Any funding that was obligated under the American Recovery and Reinvestment Act (ARRA) is returned to the U.S. Treasury. Non-ARRA funding is re-invested in other ARPA-E projects. ARPA-E's written policy on terminations is under review by the Office of General Counsel and Office of Procurement and Assistance Policy.

The Report recognizes that "ARPA-E finalized the policy governing an invoice review process in October 2010" and "finalized a policy in February 2011 outlining what were considered to be allowable costs in the area of technology transfer and outreach." (ARPA-E also included specific instructions in its awards on the types of documentation that need to be submitted in order to receive reimbursement for project expenditures.)

Appendix 4

Recommendation 2: Consult with the Headquarters Office of Procurement and Assistance Policy on the allowability of costs contained in the newly developed policy on technology transfer and outreach.

Management Response: ARPA-E's written policy has been submitted for review by Office of Procurement and Assistance Policy. As noted in the Report, ARPA-E finalized the policy in February 2011 "outlining what were considered to be allowable costs in the area of technology transfer and outreach" and that this "policy was developed in part by personnel who were embedded in ARPA-E but who reported directly to the Director, Office of Headquarters Procurement and to the Office of General Counsel."

Recommendation 3: Establish a process to accurately measure progress toward meeting the technology transfer and outreach spending requirement.

Management Response: ARPA-E implemented this recommendation through five FOAs issued in April 2011. ARPA-E required applicants to include technology transfer and outreach (TT&O) costs in their proposed budgets. Every invoice submitted by awardees must provide a breakdown by budget category of all incurred TT&O costs and provide supporting documentation. The invoice must show the TT&O budgeted costs and actual costs incurred for the relevant billing period and cumulative TT&O costs incurred to date. The budgeted and actual costs incurred must comport with the Prime Recipient's budget and particular objectives in the Statement of Project Objectives.

Recommendation 4: Obtain a Contracting Officer determination regarding the allowability of costs questioned in this Report and to recover costs determined to be unallowable.

Management Response: The Contracting Officer has made an official determination on the questioned direct costs (\$40,890). As noted in the Report, the Contracting Officer "concluded \$39,189 of the above direct costs were allowable since they were part of technology transfer and outreach activities," but he "agreed that \$1,701 in meal costs were unallowable." The Contracting Officer is seeking recovery of the unallowable costs. The Contracting Officer's written determination will be included in the award file.

The Report refers to a small business that incurred \$239,497 in questioned indirect costs. The inclusion of the questioned indirect costs in the Report incorrectly implies a failure to comply with Departmental policies and procedures. At the time of award (January 2010), the Contracting Officer determined to first require an audit of the original recipient's accounting system and then an audit of its indirect rate. The original recipient's proposed indirect rates were provisionally accepted for award by the Contracting Officer, subject to the results of the third party audits and the implementation of the audit findings. In the award, both parties agreed to implement the audit findings retroactive to the effective date of the award. Therefore, any risk to ARPA-E was appropriately minimized. The initial audit was delayed by the novation of the award from the original recipient to a spinoff small business in March 2010. Following the novation, ARPA-E requested the Defense Contract Audit Agency (DCAA) to audit the small business' accounting system. The resulting audit report, which was completed in January 2011, shows that the small business agreed to implement DCAA's recommendations and that DCAA found the small business' proposed corrective actions to be "responsive." In April 2011, the Contracting Officer requested the DCAA to audit the small business' indirect rate. The indirect rate audit is ongoing. In addition to the foregoing audits, the Contracting Officer requested an incurred cost audit to be conducted. Upon completion of these audits, ARPA-E will adjust the indirect rate and recover any excess payments made to the small business, retroactive to the effective date of the award.

Recommendation 5: Communicate to recipients the types of costs that are allowable and unallowable as technology transfer and outreach costs.

Management Response: ARPA-E implemented this recommendation through five FOAs issued in April 2011.

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