



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

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# Assessment Report

Assessment of Audit Coverage of Cost Allowability for Bechtel Marine Propulsion Corporation During October 1, 2012, Through September 30, 2013, Under Department of Energy Contract No. DE-NR0000031

OAS-V-15-01

November 2014

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**Department of Energy**  
Washington, DC 20585

November 25, 2014

**MEMORANDUM FOR THE MANAGER, NAVAL REACTORS LABORATORY  
FIELD OFFICE**

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

**FROM:** Jack Rouch, Director  
Central Audits Division  
Office of Inspector General

**SUBJECT:** INFORMATION: Report on "Assessment of Audit Coverage of Cost Allowability for Bechtel Marine Propulsion Corporation During October 1, 2012, Through September 30, 2013, Under Department of Energy Contract No. DE-NR0000031"

**BACKGROUND**

Since 2009, the Bechtel Marine Propulsion Corporation (BMPC) has operated the Bettis Atomic Power Laboratory (Bettis) in West Mifflin, Pennsylvania, and the Knolls Atomic Power Laboratory (Knolls) in Schenectady, New York, under contract with the Department of Energy (Department). BMPC was established solely to operate the Naval Nuclear Propulsion Program, which is a joint Navy–Department program responsible for the research, design, construction, operation, and maintenance of U.S. nuclear-powered warships. During the period of October 1, 2012, through September 30, 2013, BMPC expended and claimed over \$924 million in costs incurred.

As an integrated management and operating contractor, BMPC's financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. BMPC was required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department's Office of Inspector General, Office of Acquisition and Project Management, and the integrated management and operating contractors and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. This strategy places reliance on the contractors' Internal Audit to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, BMPC was required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. The strategy also requires that audits

performed internally must, at a minimum, meet the standards prescribed by the Institute of Internal Auditors. In addition, BMPC was required to conduct or arrange for audits of its cost-type subcontracts to ensure that associated costs incurred were allowable.

The management structure of Naval Reactors facilities, Bettis and Knolls, is unique from other Department facilities. Specifically, Federal auditors employed by the Naval Reactors Laboratory Field Office (NRLFO) Audit Division performed some functions normally conducted by BMPC's internal audit group under the Cooperative Audit Strategy, such as the allowability of incurred cost audits. NRLFO auditors conducted their audits in accordance with generally accepted Government auditing standards. Additionally, each audit conducted by the NRLFO auditors and the BMPC Audit Group included steps that reviewed the allowability of costs.

To help ensure audit coverage of cost allowability was adequate for the period of October 1, 2012, through September 30, 2013, the objectives of our assessment were to determine whether:

- NRLFO and BMPC audit groups conducted cost allowability audits that complied with professional standards and could be relied upon;
- BMPC's audit group conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and
- Questioned costs and internal control weaknesses impacting allowable costs that were identified in audits and reviews had been adequately resolved.

## RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by the NRLFO auditors and the BMPC Audit Group did not meet generally accepted Government auditing standards and Institute of Internal Auditors standards, respectively, and could not be relied upon. In addition, we found BMPC had adequately addressed the subcontract audit concerns identified in our previous report, *Assessment of Audit Coverage of Cost Allowability for Bechtel Marine Propulsion Corporation during October 1, 2011 through September 30, 2012 under Department of Energy Contract No. DE-NR0000031 (OAS-V-14-08, March 2014)*. Specifically, BMPC developed Operating Instructions for Cost Incurred Audits on Cost-Reimbursable Subcontracts, which established a formal, risk-based approach to performing interim or postaward audits of cost-reimbursable contracts. Based on our review of the three interim/postaward audit reports conducted by the NRLFO and BMPC audit groups as prescribed by the new instructions, we concluded that subcontract audits had been arranged or conducted as required. Further, costs questioned in the allowable cost audits conducted by the NRLFO auditors and BMPC Audit Group had been adequately resolved. We identified no other audits and/or reviews that reported questioned costs and/or internal control weaknesses affecting the allowability of costs claimed for October 1, 2012, through September 30, 2013.

## SCOPE AND METHODOLOGY

This assessment was performed from September 2014 to November 2014 at the NRLFO and BMPC, located in West Mifflin, Pennsylvania. The assessment was limited to the NRLFO Audit Division and BMPC Audit Group activities, subcontract audits and reviews, and resolution of questioned costs and internal control weaknesses that affected costs claimed by BMPC on its Statement of Costs Incurred and Claimed for the period of October 1, 2012, through September 30, 2013. The assessment was conducted under Office of Inspector General Project Number A14PT060. To accomplish our objectives, we did the following:

- Assessed allowable cost audit work conducted by the NRLFO Audit Division and BMPC Audit Group. Specifically, we judgmentally selected four NRLFO and four BMPC audit files for a complete file review, which consisted of a review of audit work papers, auditor qualifications, independence, audit planning, risk assessments, overall audit strategy, and compliance with applicable professional auditing standards.
- Conducted interviews of NRLFO and BMPC key management officials and audit staff members as well as members of the NRLFO Acquisition Division and Contracts Division.
- Reviewed BMPC's policies, procedures, and practices for identifying subcontracts that required interim or postaward audit coverage.
- Obtained and reviewed the three interim/postaward audit reports conducted by the NRLFO and BMPC audit groups on cost-reimbursable subcontracts.
- Evaluated the questioned costs and internal control weaknesses review process. Specifically, we met with contracting officers to determine the thoroughness of the questioned costs determination process.

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

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

No formal recommendations are being made in this report; therefore, a response is not required. We appreciate the cooperation of the NRLFO and BMPC staff members, as well as their time and assistance.