



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

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# ASSESSMENT REPORT

Audit Coverage of Cost Allowability  
for URS | CH2M Oak Ridge LLC During  
Fiscal Years 2011, 2012, and 2013  
Under Department of Energy Contract  
No. DE-SC0004645

OAI-V-16-09

June 2016

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**Department of Energy**  
Washington, DC 20585

June 10, 2016

MEMORANDUM FOR THE MANAGER, OAK RIDGE OFFICE OF ENVIRONMENTAL  
MANAGEMENT

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

SUBJECT: INFORMATION: Assessment Report on the “Audit Coverage of  
Cost Allowability for URS | CH2M Oak Ridge LLC During  
Fiscal Years 2011, 2012, and 2013 Under Department of Energy  
Contract No. DE-SC0004645”

BACKGROUND

The East Tennessee Technology Park (ETTP), formerly the Oak Ridge Gaseous Diffusion Plant, began operations during World War II as part of the Manhattan Project. As the mission of the Department of Energy changed, operations at the plant ceased and the Department began a massive environmental remediation effort. In 2011, the Department contracted with URS | CH2M Oak Ridge LLC (UCOR) for the completion of the decontamination and demolition and environmental remediation of ETTP under a Cost-Plus-Award-Fee contract that included performance based incentives. The following table illustrates the costs incurred and claimed by UCOR under Contract No. DE-SC0004645 during fiscal years (FYs) 2011 through 2013:

FISCAL YEAR	CLAIMED COSTS
2011	\$ 60,315,980 <sup>1</sup>
2012	312,499,599
2013	270,101,696
Total	\$642,917,275

UCOR’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. UCOR is required by its contract to account for all funds advanced by the Department annually on its Statement of

<sup>1</sup> The Department awarded Contract No. DE-SC0004645 to UCOR on April 29, 2011; however, UCOR did not assume full responsibility for all contract requirements until the base period of performance began on August 1, 2011. UCOR reported \$60,315,980 as its net cost of operations for FY 2011.

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 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 (Strategy) to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. The Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. The Strategy also requires that audits performed by Internal Audit must, at a minimum, meet the standards prescribed by the Institute of Internal Auditors. Consistent with the Strategy, UCOR is required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, UCOR is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to the subcontractor.

To help ensure that audit coverage of cost allowability was adequate for FYs 2011 through 2013, the objectives of our assessment were to determine whether:

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

## RESULTS OF ASSESSMENT

Based on our assessment, no material concern came to our attention to indicate that the allowable cost-related audit work performed by UCOR's Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors (IIA Standards). UCOR's Internal Audit questioned \$404,252 of the costs incurred and claimed during FYs 2011 through 2013, of which \$112,613 had not been resolved. Therefore, we are questioning this amount. In addition, we identified certain weaknesses that need to be addressed to ensure that only allowable costs are claimed and reimbursed to the contractor. Specifically:

- UCOR did not always conduct or arrange for audits of its subcontracts when costs incurred were a factor in determining the amount payable to the subcontractor. Consequently, subcontract costs totaling \$250,577,133 incurred during FYs 2011 through 2013 are considered unresolved pending audit.

- Internal Audit’s work papers did not always include sufficient documentation to support their conclusions. We also identified instances where the audit conclusions reported by Internal Audit were not accurate. Consequently, we are questioning \$4,929 in unresolved costs and recommending corrective actions.

**Subcontract Audits**

UCOR did not always conduct or arrange for audits of its subcontracts when costs incurred were a factor in determining the amount payable to the subcontractor, as contractually required. Specifically, we found that UCOR’s procurement policies did not require interim or closeout audits of its fixed-unit-price, fixed-unit-rate, combination fixed-price/fixed-unit-rate, and staff augmentation subcontracts. These are cost-type contracts because the total amount payable to the subcontractor is not fixed, but rather, varies based on the actual quantity of labor hours worked or materials supplied. In addition, some of these subcontracts include provisions that allow the subcontractor to charge other direct costs on a reimbursable basis. We identified 161 cost-type subcontracts with incurred costs totaling \$250,577,133 during FYs 2011 through 2013 that had not been audited. We consider these subcontract costs unresolved pending audit.

FISCAL YEAR	UNRESOLVED COSTS
2011	\$ 13,965,982
2012	135,292,951
2013	101,318,200
Total	\$ 250,577,133

We noted that UCOR’s Internal Audit had taken steps to provide some subcontract audit coverage using a risk-based approach; however, the subcontract audit coverage provided by Internal Audit was limited. Specifically, Internal Audit started including subcontract audits in its annual audit plans beginning with its FY 2013 plan. However, at the time of our assessment, Internal Audit had only completed five subcontract audits.

**Audit Documentation and Reporting**

Although we ultimately determined that we could rely on Internal Audit’s work, we found instances where Internal Audit’s work papers did not contain sufficient documentation to support their conclusions. We also found instances where the conclusions reported by Internal Audit were not accurate. After discussing our concerns with Internal Audit, we were provided additional documentation to support their conclusions for all costs except for \$4,929 in relocation costs. Internal Audit did not provide sufficient documentation to reach a conclusion regarding these costs; therefore, we are questioning them. As required by IIA Standards, sufficient documentation is necessary to achieve the engagement’s objectives and to support the conclusions.

**RECOMMENDATIONS**

We recommend that the Manager of the Oak Ridge Office of Environmental Management direct the Contracting Officer to:

1. Ensure that UCOR establishes appropriate policies and procedures regarding subcontract audit requirements;
2. Ensure that UCOR uses a risk-based approach to provide adequate and timely audit coverage of the \$250,577,133 in subcontract costs considered unresolved pending audit;
3. Ensure the \$112,613 in questioned costs identified by Internal Audit are resolved and recover those amounts determined to be unallowable;
4. Ensure the \$4,929 in questioned relocation costs are resolved and recover those amounts determined to be unallowable; and
5. Ensure that Internal Audit maintains sufficient documentation to support audit conclusions and prepares accurate, clear, and complete audit reports.

### MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management agreed with the report and concurred with the recommendations, and its proposed corrective actions are responsive to our recommendations. Management's comments are included in Attachment 1.

### SCOPE AND METHODOLOGY

This assessment was performed from March 2015 to June 2016, at the East Tennessee Technology Park, located in Oak Ridge, Tennessee. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by UCOR on its Statements of Costs Incurred and Claimed for FYs 2011 through 2013. This assessment was conducted under Office of Inspector General project number A15OR025. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit through a review of allowable cost audit reports, work papers, auditor qualifications, independence, audit planning including risk assessments, and overall Internal Audit strategy and compliance with applicable professional auditing standards;
- Reviewed policies and procedures regarding identification of subcontracts requiring audit and arranging for such audits;
- Assessed subcontract audit status; and
- Evaluated resolutions of questioned costs and control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, Internal Audit, and other organizations.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of opinion on the subject matter and accordingly, for this review, no such opinion is expressed. 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 relied on computer processed data to accomplish our objectives. We verified the accuracy of the data and determined it was sufficiently reliable for the purposes of the assessment.

An exit conference was held with management on May 23, 2016.

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

Attachments

## MANAGEMENT COMMENTS



### Department of Energy

Oak Ridge Office of Environmental Management  
P.O. Box 2001  
Oak Ridge, Tennessee 37831

April 29, 2016

MEMORANDUM FOR DEBRA K. SOLMONSON, DIRECTOR  
EASTERN AUDITS DIVISION  
OFFICE OF INSPECTOR GENERAL, IG-37

FROM: SUSAN M. CANGE   
MANAGER, EM-90

SUBJECT: DRAFT ASSESSMENT REPORT ON THE AUDIT COVERAGE OF COST  
ALLOWABILITY FOR URS|CH2M OAK RIDGE LLC DURING FISCAL  
YEARS 2011, 2012, AND 2013 UNDER DEPARTMENT OF ENERGY  
CONTRACT NUMBER DE-SC0004645

The Oak Ridge Office of Environmental Management (OREM) appreciates the opportunity to comment on the Office of Inspector General's February 11, 2016, draft assessment report on the Audit Coverage of Cost Allowability for URS|CH2M Oak Ridge LLC (UCOR) during Fiscal Years 2011, 2012, and 2013 under Department of Energy Contract Number DE-SC0004645.

OREM agrees with the recommendations and plans their implementation as follows:

**Recommendation 1:** Ensure that UCOR establishes appropriate policies and procedures regarding subcontract audit requirements.

**Planned Action:** OREM will direct UCOR to establish policies and procedures regarding subcontract audit requirements. This direction will be provided to UCOR by May 13, 2016. These updated procedures and policies will be due from UCOR by July 31, 2016. Formal approval of the updated policies and procedures should be accomplished by October 1, 2016.

**Recommendation 2:** Ensure that UCOR uses a risk-based approach to provide adequate and timely audit coverage of \$250,577,133 in subcontract costs considered unresolved pending audit.

**Planned Action:** The UCOR Internal Audit Implementation Design, Revision 2 was updated to clarify that interim audits of subcontracts will be performed in accordance with a risk-based approach to ensure adequate audit coverage of subcontract costs incurred and paid. OREM will direct UCOR to continue to use the risk-based approach and complete all scheduled subcontract audits from the Fiscal Year 2013 through 2016 annual audit plans with audit coverage of costs incurred and paid from contract inception, or UCOR's start date of performance (August 1, 2011) through Fiscal Year 2015 by

DEBRA K. SOLMONSON

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April 29, 2016

SUBJECT: DRAFT ASSESSMENT REPORT ON THE AUDIT COVERAGE OF COST ALLOWABILITY FOR  
URS | CH2M OAK RIDGE LLC DURING FISCAL YEARS 2011, 2012, AND 2013 UNDER  
DEPARTMENT OF ENERGY CONTRACT NUMBER DE-SC0004645

December 31, 2016. This revised Internal Audit Implementation Design was approved by the Contracting Officer on February 3, 2014. UCOR previously classified subcontracts as fixed-price that should be classified as labor-hour subcontracts. UCOR has revised the way they classify subcontracts and understands the audit requirements for labor-hour type subcontracts. A letter clarifying how subcontracts should be classified will be issued by May 13, 2016.

**Recommendation 3:** Ensure the \$112,613 in questioned costs identified by Internal Audit are resolved and recover those amounts determined to be unallowable.

**Planned Action:** OREM will review UCOR's request to determine that the costs are allowable, allocable, and reasonable and provide a formal response with our determination by June 30, 2016.

**Recommendation 4:** Ensure the \$4,929 in questioned relocation costs are resolved and recover those amounts determined to be unallowable.

**Planned Action:** OREM will direct UCOR by May 13, 2016 to transfer the \$4,929 in questioned costs to a non-reimbursable charge number. OREM will ensure the questioned costs are resolved and provide a formal response by June 30, 2016.

**Recommendation 5:** Ensure that Internal Audit maintains sufficient documentation to support audit conclusions and prepares accurate, clear, and complete audit reports.

**Planned Action:** OREM will direct UCOR to maintain sufficient documentation to support audit conclusions by May 13, 2016.

If you have any questions or if we can be of further assistance, please contact Karen Shears of my staff at (865) 241-6411.

cc:

Heather Cloar, EM-91

Jay Mullis, EM-90

Karen Shears, EM-91