



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

ASSESSMENT REPORT

OAI-V-17-02

January 2017

**AUDIT COVERAGE OF
COST ALLOWABILITY FOR
FERMI RESEARCH ALLIANCE LLC
DURING FISCAL YEARS
2012 THROUGH 2014
UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC02-07CH11359**



Department of Energy
Washington, DC 20585

January 13, 2017

MEMORANDUM FOR THE MANAGER, FERMI SITE OFFICE

A handwritten signature in black ink, appearing to read "Jack Rouch".

FROM: Jack Rouch
Deputy Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Fermi Research Alliance LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC02-07CH11359”

BACKGROUND

Fermi Research Alliance LLC (FRA) has managed and operated Fermi National Accelerator Laboratory (Fermi) for the Office of Science’s Fermi Site Office under a contract with the Department of Energy since January 2007. Fermi is a premier particle physics laboratory that works on the world’s most advanced particle accelerators, digging down to the smallest building blocks of matter and seeking out the nature of dark matter and dark energy. During fiscal years (FYs) 2012 through 2014, FRA incurred and claimed costs totaling approximately \$1.2 billion.

As an integrated management and operating contractor, FRA’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. FRA is 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 in accordance with the terms of the contract as well as applicable cost principles, laws, and regulations.

The Department’s Office of Inspector General, Office of Acquisition 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 function (Internal Audit) to provide audit coverage of the allowability of incurred costs that are claimed by the contractors. Consistent with the strategy, FRA 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, FRA is required to conduct or arrange for audits of its subcontractors when incurred costs are a factor in

determining the amount payable to a subcontractor. To help ensure that audit coverage of cost allowability was adequate for FYs 2012 through 2014, 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;
- FRA conducted or arranged for audits of its subcontracts when costs incurred were a factor in determining the amount payable to the subcontractor; and
- FRA adequately resolved questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews.

RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by FRA's Internal Audit for FYs 2012 through 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (IIA Standards). Internal Audit identified \$27,086 in questioned costs, all of which have been resolved. Our Assessment Report on *Audit Coverage of Cost Allowability for Fermi National Accelerator Laboratory during Fiscal Years 2008 through 2011 under Department of Energy Contract No. DE-AC02-07CH11359* (OAS-V-13-06, February 2013), suggested FRA establish a policy for auditing cost-type subcontracts. FRA finalized such a policy in March 2016. However, at the time of our review, FRA had not conducted or arranged for any audits of subcontractor costs for FYs 2012 through 2014. Instead, FRA's Internal Audit used its quick closeout process to determine the cost-type subcontracts did not warrant audits. Finally, nothing came to our attention to indicate that questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews had not been adequately resolved. We did, however, identify an issue regarding local meal costs that needs to be addressed to ensure that only allowable costs are claimed and reimbursed.

Local Meal Costs

We questioned \$1,268 for local employee dinners at receptions held during the FRA Board of Directors meetings between FYs 2012 and 2014. According to the Federal Acquisition Regulation (FAR) 31.205-14, "Entertainment Costs," the cost of social activities like meals would generally be unallowable. In November 2011, the Department issued Acquisition Letter 2012-05, "Meal Costs in Management and Operating Contracts," to help contracting officers determine whether meal costs would be allowable as a reasonable business expense under the FAR. This acquisition letter required that the meal be an integral part of the function to be allowable and, accordingly, meals where business was incidentally discussed would be unallowable entertainment expenses. FRA's policy, "Use of Contract Funds for the Provision of Meals and Refreshments at Fermilab-Hosted Meetings," also stated that meals are to be integral to the business meetings to be allowable and further stated that the provision of alcoholic beverages in conjunction with a meal rendered the meal unallowable. Moreover, the policy

specifically prohibited contract funds from being used for FRA employees' meals unless they were on official travel and therefore eligible to receive per diem under the travel policy. Our retesting of a sample of transactions previously tested by Internal Audit identified local employees' dinner costs at Board of Directors receptions. Internal Audit did not question the local employees' dinner costs based on FRA's claim that the local employees' attendance at the receptions was integral to the board meetings in order to enable board members to conduct all necessary business effectively and efficiently. However, FRA did not demonstrate that the receptions were integral to the board meetings as required. For example, the agendas did not show that business continued during the receptions nor were notes prepared on the specific business discussed. We also noted that FRA purchased alcohol for the receptions. While the alcohol was not billed to the Department, according to FRA policy, meal costs are unallowable if alcohol is provided. Therefore, we questioned the local employees' dinner costs as entertainment expenses per the FAR, Department guidance, and FRA's policy.

RECOMMENDATION

We recommend that the Manager, Fermi Site Office, direct the Contracting Officer to:

1. Determine the allowability of questioned costs identified in this report and recover costs that are unallowable.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management concurred with our findings and recommendation. Specifically, management stated that these questioned costs were unallowable as the individuals were not in official travel status. The Fermi Site Office Contracting Officer will direct FRA to reimburse the costs. Management's planned corrective actions were responsive to our recommendation.

Management's comments are included in Attachment 2.

SCOPE AND METHODOLOGY

This assessment was performed from June 2016 to January 2017, at the Fermi Site Office and FRA offices at Fermi, located in Batavia, Illinois. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affect costs claimed by FRA on its Statement of Costs Incurred and Claimed for FYs 2012 through 2014. The assessment was conducted under Office of Inspector General project number A16CH045.

To accomplish our objectives we:

- Assessed allowable cost audit work conducted by Internal Audit, which included review of audit reports, work papers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), and compliance with applicable professional auditing standards;

- Conducted interviews of Fermi Site Office and FRA personnel at Fermi;
- Reviewed policies and procedures, and practices for identifying subcontracts that require audit and arranging for such audits;
- 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 and Internal Audit; and
- Judgmentally selected a sample of 34 of the 225 transactions that Internal Audit tested in its FY 2014 Cost Allowability Audit for retesting determine whether the fieldwork was conducted in accordance with applicable auditing standards.

During our retesting of transactions, one of the 34 transactions was for a dinner reception during the FRA Board of Directors meeting, for which we questioned the local meal costs. We reviewed the other five dinner receptions held during FRA Board of Directors meetings between FYs 2012 and 2014 to complete our analysis of local meal costs. Because the sample selection was not statistical, the results and overall conclusions are limited to the transactions tested and cannot be projected to the entire population.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based upon our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter; 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 and determined that the data was sufficiently reliable for the purposes of our review by comparing the data to source documents.

Management waived an exit conference on January 4, 2017.

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

Attachments

PRIOR REPORT

Assessment report on *Audit Coverage of Cost Allowability for Fermi National Accelerator Laboratory during Fiscal Years 2008 through 2011 under Department of Energy Contract No. DE-AC02-07CH11359* (OAS-V-13-06, February 2013). Based on our assessment, nothing came to our attention to indicate the allowable cost related audit work performed by Fermi Research Alliance LLC (FRA) Internal Audit failed to meet International Standards for the Professional Practice of Internal Auditing and could not be relied upon. Although it had not established a policy requiring audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor, FRA did not have any such subcontracts in place during the scope of our review. Finally, nothing came to our attention to indicate that questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews had not been adequately resolved. We suggested the Manager, Fermi Site Office, require that FRA monitor its subcontracts for cost reimbursement requirements and develop a policy for audits in the event such subcontracts are issued.

MANAGEMENT COMMENTS



Department of Energy
Fermi Site Office
P.O. Box 2000
Batavia, IL 60510

JAN 03 2017

MEMORANDUM FOR JACK ROUCH
DEPUTY ASSISTANCE INSPECTOR GENERAL FOR
AUDITS
OFFICE OF INSPECTOR GENERAL.

FROM: MICHAEL WEIS *[Signature]*
MANAGER
FERMI SITE OFFICE

SUBJECT: Response to the Office of Inspector General's Draft Assessment Report,
"Audit Coverage of Cost Allowability for Fermi Research Alliance LLC During Fiscal
Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC02-
07CH11359" (A16CH045)

Thank you for the opportunity to review and comment on the subject draft report. We agree with the Office of Inspector General's findings, and our response to the recommendation follows below.

Recommendation 1: Determine the allowability of questioned costs identified in this report and recover costs that are unallowable.

Management Response:

Concur – Questioned costs in the amount of \$1,268 for local employees' dinners during Board of Directors meetings were unallowable as these individuals were not in official travel status. The Fermi Site Office Contracting Officer will direct Fermi Research Alliance LLC to reimburse these costs under Contract No. DE-AC02-07CH11359.

Estimated Completion Date: This action will be completed by January 31, 2017.

If there are any questions or additional information required, please contact Whitney Begner, Fermi Site Office Contracting Officer, at 630-840-5740 or by email at Whitney.Begner@science.doe.gov.