



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-18-46

August 2018

**AUDIT COVERAGE OF
COST ALLOWABILITY FOR
BROOKHAVEN SCIENCE ASSOCIATES LLC
DURING FISCAL YEARS
2014 THROUGH 2016
UNDER DEPARTMENT OF ENERGY
CONTRACTS DE-AC02-98CH10886
AND DE-SC0012704**



Department of Energy
Washington, DC 20585

August 29, 2018

MEMORANDUM FOR THE ACTING MANAGER, BROOKHAVEN SITE OFFICE

FROM:

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

SUBJECT:

INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Brookhaven Science Associates LLC During Fiscal Years 2014 Through 2016 Under Department of Energy Contracts DE-AC02-98CH10886 and DE-SC0012704”

BACKGROUND

Since 1998, Brookhaven Science Associates LLC (BSA) has managed and operated the Brookhaven National Laboratory under contract with the Department of Energy. Brookhaven National Laboratory conducts research in the physical, biomedical, and environmental sciences, as well as in energy technology and national security. During fiscal years (FYs) 2014 through 2016, BSA incurred and claimed costs of \$1,796,193,152.04. The following table illustrates BSA’s annual costs during the period:

Fiscal Year	Incurred and Claimed Costs
2014	\$ 635,975,720.59
2015	\$ 584,148,534.22
2016	\$ 576,068,897.23
Total	\$1,796,193,152.04

As a management and operating contractor, BSA’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. BSA 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 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 Management, 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 Cooperative Audit Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the Cooperative Audit Strategy, BSA is required by its contract to maintain an Internal Audit activity with the responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, BSA is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. During FYs 2014 through 2016, BSA's Procurement and Property Management Division was responsible for ensuring that subcontract audits were conducted. To help ensure that audit coverage of cost allowability was adequate for FYs 2014 through 2016, the objectives of our assessment were to determine whether:

- BSA's Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- BSA 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 prior audits and reviews have 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 BSA's Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits Internal Audit conducted, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. In audits performed since our last assessment, Internal Audit identified internal control weaknesses and questioned costs totaling \$50,108.20. The internal control weaknesses and the questioned costs previously identified by Internal Audit had all been resolved before we completed this assessment.

In our previous report, *Assessment of Audit Coverage of Cost Allowability for Brookhaven Science Associates LLC During Fiscal Years 2012 and 2013 Under Department Contract No. DE-AC02-98CH10886* (OAI-V-16-03, January 2016), we noted that BSA had not arranged for or conducted: (1) interim audits of subcontracts when costs incurred were a factor in determining the amount payable to a subcontractor; and (2) pre-award, interim, or closeout audits of its time-and-materials subcontracts. As a result, BSA updated and implemented Chapter IX of the Procurement Operations Manual, which now identifies a risk-based approach to be used for determining when an audit is required for pre-award, interim, and closeout subcontracts. Under the revised risk-based approach, we found that BSA was generally conducting and arranging for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. We noted that the \$33 million in unresolved costs, pending audit completion, identified in our previous report had been resolved.

SCOPE AND METHODOLOGY

This assessment was performed from January 2018 to August 2018 at the Brookhaven National Laboratory, located in Upton, New York. 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 BSA on its Statements of Costs Incurred and Claimed for FYs 2014, 2015, and 2016. The assessment was conducted under Office of Inspector General project number A18GT002.

To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit. Our assessment included a review of allowable cost audit reports; work papers; auditor qualifications and independence; audit planning, including risk assessments and overall Internal Audit strategy; and compliance with applicable professional auditing standards;
- Conducted interviews of site office and BSA personnel;
- Reviewed policies, procedures, and contract requirements for identifying contracts that require audit and arranging such audits;
- Assessed subcontract audit status;
- Evaluated resolution of questioned costs and internal control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General and Internal Audit;
- Reviewed a total of six Internal Audit allowable cost audits. We reviewed all four audits from FY 2016 and judgmentally selected one audit from both FY 2014 and 2015; and
- Retested a sample of incurred costs transactions tested by Internal Audit in its allowable costs audits. We judgmentally selected a sample of 29 of the 289 transactions that Internal Audit reviewed from FY 2014 through 2016. Because sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population of transactions tested.

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 that the evidence obtained provides a reasonable basis for our findings and 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. Additionally, 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 audit objectives. Based in part on a recent review of

Brookhaven National Laboratory information technology controls performed by KPMG LLP, on behalf of the Office of Inspector General, we determined that the data was sufficiently reliable for the purposes of this review.

Management waived an exit conference on August 9, 2018.

This report is intended for the use of the Department's contracting officers and site officials 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 REPORTS

Assessment Report on the [*Audit Coverage of Cost Allowability for Brookhaven Science Associates LLC During Fiscal Years 2012 and 2013 Under Department of Energy Contract No. DE-AC02-98CH10886*](#) (OAI-V-16-03, January 2016). Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Brookhaven Science Associates' (BSA) internal audit function could not be relied upon. We did not identify any material internal control weaknesses with costs allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. Although BSA acted on recommendations in our 2013 report, BSA had not fully addressed the weakness with subcontract audits to ensure only allowable costs were claimed by and reimbursed to the contractor. Specifically, BSA did not arrange for or conduct: (1) interim audits of subcontracts when costs incurred were a factor in determining the amount payable to the subcontractor; and (2) pre-award, interim, or closeout audits of its time-and-material subcontracts.

FEEDBACK

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