



OFFICE OF INSPECTOR GENERAL  
U.S. Department of Energy

# ASSESSMENT REPORT

DOE-OIG-19-26

April 2019

**AUDIT COVERAGE OF  
COST ALLOWABILITY FOR  
URS | CH2M OAK RIDGE LLC DURING  
FISCAL YEARS 2014 THROUGH 2016  
UNDER DEPARTMENT OF ENERGY  
CONTRACT NO. DE-SC0004645**



**Department of Energy**  
Washington, DC 20585

April 9, 2019

MEMORANDUM FOR THE MANAGER, OAK RIDGE OFFICE OF ENVIRONMENTAL  
MANAGEMENT

FROM: *Michelle Anderson*  
Michelle Anderson  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for URS | CH2M Oak Ridge LLC During Fiscal Years 2014 Through 2016 Under Department of Energy Contract No. DE-SC0004645”

BACKGROUND

The East Tennessee Technology Park, 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, demolition, and environmental remediation of the East Tennessee Technology Park 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 (FY) 2014 through 2016:

Fiscal Year	Incurred and Claimed Costs
2014	\$274,854,150
2015	\$273,651,900
2016	\$327,503,607
<b>Total</b>	<b>\$876,009,657</b>

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 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 (OIG), 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 to provide audit coverage of the allowability of incurred costs that are claimed by contractors. Consistent with the strategy, UCOR 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, 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 2014 through 2016, the objectives of our assessment were to determine whether:

- UCOR's Internal Audit (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 a subcontractor; and
- UCOR 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 UCOR's Internal Audit for FYs 2014 through 2016 could not be relied upon. However, as discussed below, subsequent to Internal Audit's work, the results of an OIG criminal investigation were made public through a Department of Justice press release impacting a UCOR subcontractor — Transportation, Operations and Professional Services, Inc. (TOPS). We did not identify any material internal control weaknesses with cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors Standards), except for the treatment of unsupported subcontract costs. Additionally, we found that UCOR conducted or arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. During FYs 2014 through 2016, Internal Audit identified \$390,928 of questioned costs through various audits, all of which had been resolved. Internal Audit also identified \$5,667,791 in unsupported costs for a \$30,685,002 subcontract, which were not explicitly questioned or provided to the Contracting Officer for an allowability determination. In addition, subsequent to Internal Audit's work on the TOPS subcontract, the results of an OIG criminal investigation were made public through a Department of Justice press release. The Department of Justice stated that the former operator of TOPS was found guilty of using an elaborate system of false invoices and cash payments to channel funds to the son of UCOR's President. Accordingly, there is an increased risk of fraud and an increased risk that unallowable costs were charged to the TOPS subcontract. However, subsequent to the results of the investigation, Internal Audit has not performed any additional audit work pertaining to the TOPS

subcontract; thus, we consider the entire \$30,685,002 unresolved pending a final audit by Internal Audit. We noted that costs totaling \$117,542 questioned in our previous report *Assessment of 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) had been resolved.

Category	Questioned Costs	Unresolved Costs	Resolved	Remaining Unresolved
Internal Audit Reports FYs 2014 through 2016	\$390,928	\$0	\$390,928	\$0
TOPS Subcontract	\$0	\$30,685,002	\$0	\$30,685,002
June 2016 SCIC Assessment Report (OAI-V-16-09, June 2016)	\$117,542	\$0	\$117,542	\$0
<b>Total Unresolved</b>				<b>\$30,685,002</b>

Although we ultimately determined that we could rely on Internal Audit’s work, we identified the following issues that need to be addressed prior to the Contracting Officer making a final determination of allowability for FYs 2014 through 2016 to ensure that only allowable costs are claimed by and reimbursed to the contractor. Specifically:

- For the TOPS subcontract audit, costs lacking supporting documentation were not explicitly questioned, and subsequent to the results of the investigation on this subcontract, Internal Audit has not performed any additional audit work;
- Internal Audit had not fully tested executive compensation against the Office of Federal Procurement Policy (OFPP) limit as part of its cost allowability audits;
- Internal Audit’s work did not always include sufficient documentation to support its conclusions;
- UCOR’s risk-based approach to subcontract audits did not ensure that all subcontracts received comprehensive audit coverage or were properly considered in its risk assessments; and
- Resolution of questioned costs and internal control weaknesses was not always well documented. Additionally, for one subcontract audit, costs lacking supporting documentation were not explicitly questioned.

### **Lack of Support for Costs Not Questioned**

We identified an instance where Internal Audit had not explicitly questioned unsupported subcontract costs. In our June 2016 report, we recommended that UCOR implement a risk-based subcontract audit approach to provide adequate coverage of FY 2011 through 2013 unresolved subcontract costs. In carrying out this recommendation, UCOR performed an audit on TOPS, which incurred \$30,685,002 from August 2011 through May 2014 as shown in the table below:

Fiscal Year	Incurred and Claimed Costs
2011	\$827,095
2012	\$11,726,571
2013	\$8,421,574
2014	\$9,709,762
<b>Total</b>	<b>\$30,685,002</b>

Incidentally, TOPS had been the subject of a criminal investigation related to fraud, which increased the risk of unallowable costs being charged to the subcontract. During the audit, Internal Audit sampled costs totaling \$11,512,743 and identified \$5,667,791 in unsupported costs and, despite the heightened risk of fraud and lack of supporting documentation to support these costs, did not explicitly question them. According to 2 CFR §200.84, questioned costs are costs that are questioned by the auditor because of an audit finding where the costs, at the time of the audit, are not supported by adequate documentation. In response to Internal Audit’s finding, UCOR management developed a corrective action plan and performed analytical procedures in an effort to substantiate these costs. Internal Audit reviewed management’s analytical procedures and related support. According to Internal Audit, the primary source of information was radio-frequency identification data that Internal Audit had validated during prior TOPS audit activities. As a result, Internal Audit accepted management’s analytical efforts for \$5,529,526 and considered that amount resolved, with the remaining \$138,265 still unresolved due to lack of supporting documentation. According to the Internal Audit Director, the TOPS subcontract audit was a special circumstance, as the audit had been attempted twice before. He also stated that during the TOPS subcontract audit, there was a heightened sense of awareness toward any billing activities that would be considered improper. He further stated that, although the terminology was different, management was ultimately required to address the costs.

In January 2018, subsequent to Internal Audit’s work on the TOPS subcontract, the results of an OIG criminal investigation were made public through a Department of Justice press release that stated the former operator of TOPS was found guilty of conspiracy to defraud the Department and the Internal Revenue Service. Specifically, the former operator of TOPS plead guilty to using an elaborate system of false invoices and cash payments to channel funds to the son of UCOR’s President. TOPS had represented to the Department that it did not have an organizational conflict of interest with UCOR. Subsequent to the Department of Justice press release regarding the results of the investigation, Internal Audit has done no additional work on the TOPS subcontract.

While we recognize that auditing the TOPS subcontract may have been challenging, we found that because none of the costs were explicitly questioned, management’s analytical efforts were not reviewed by the Contracting Officer. As a result, no determination on allowability had been made. Given that Internal Audit was unable to obtain supporting documentation for \$5,529,526 during the performance of its audit, and because of the heightened risk of fraud and the potential for unallowable costs in the overall TOPS subcontract due to the outcome of the investigation, we consider the entire subcontract amount of \$30,685,002 unresolved. Further, we believe that Internal Audit should question all future unsupported costs, thereby affording the Contracting Officer the opportunity to make appropriate allowability determinations.

## **Executive Compensation Testing**

Although we did not consider it a material internal control weakness, we found that Internal Audit had not fully tested executive compensation against the OFPP limit as part of its cost allowability audits. UCOR's allowable cost audit program required Internal Audit to review applicable laws, regulations, and agreements that could have an impact on the determination of cost allowability. One applicable law was United States Code Title 41 Section 4304(a)(16), *Specific Costs Not Allowable*. This statute limits compensation for senior executives of Government contractors to a benchmark amount, as determined by the Office of Federal Procurement Policy Administrator (i.e., OFPP limit). Internal Audit's allowable cost audit work for FYs 2014 and 2015 did not indicate testing against the OFPP limit. While Internal Audit documented some testing of the OFPP limit during its FY 2016 allowable cost audit, testing was only performed for costs incurred on the contract and did not consider compensation from all Government sources, as required. Additionally, Internal Audit utilized the wrong benchmark amount in its testing and only tested two of the most highly compensated employees — the statute defines senior executives as the top five most highly compensated employees. According to the Internal Audit Director, testing was performed on the two executives whose compensation had to be specifically approved by the Contracting Officer per UCOR's contract. Additional testing was not performed because Internal Audit considered the OFPP limit to be a reporting requirement and outside the scope of the allowable cost audit. However, without adequate testing, we noted that UCOR's senior executives could potentially exceed the OFPP limit, thus resulting in unallowable costs being charged to the contract. To its credit, after we brought this issue to Internal Audit's attention, it performed an analysis to test executive compensation for FYs 2014 through 2016. Internal Audit concluded, and we verified, that the top five UCOR senior executives' total compensation levels were within the OFPP limit for each year.

## **Audit Supporting Documentation**

Similar to concerns reported in our June 2016 report, we found that Internal Audit's work did not always include sufficient documentation to support its test results, as required by Institute of Internal Auditors Standards. For example, UCOR's Internal Audit Manual requires that samples be pulled as documented in the audit program. However, we noted multiple occasions where auditors deviated from the FY 2016 allowable cost audit sampling plan, with no explanation or documentation of a revised plan. We discussed this issue with the Internal Audit Director. Although he agreed that deviations from the sampling plan should have been explained, in his opinion, the testing was still adequate to support the results. Additionally, we determined that some of the labor and executive compensation documentation was redacted, and original copies of the information were not available. As a result, we were unable to verify the results reported by Internal Audit in these areas. The Internal Audit Director told us that password protection is now required to secure sensitive documents rather than using redaction. However, we noted that, as of June 2018, UCOR's Internal Audit Manual had not been updated to reflect this change.

In addition to the issues noted above, we found that Internal Audit had not always documented the completion or review of its work in a timely manner. Institute of Internal Auditors Standards requires proper supervision of engagements to ensure that objectives are achieved and quality is assured. Additionally, UCOR's Internal Audit Manual requires the Internal Audit Director to

approve all work papers prior to scheduling the exit conference. Nevertheless, during our review of the FY 2016 Allowable Cost Audit, we noted that the Internal Auditor who prepared the working papers had not signed off on 93 percent of the procedure work papers until after the report was issued. Furthermore, supervisory review was not documented on 100 percent of the procedure work papers until after the exit conference was held and the report was issued. According to the Internal Audit Director, he met with staff at least weekly to discuss the audit and reviewed work papers as the report was drafted. In addition, he stated that because UCOR has a small Internal Audit Department, there are times when work papers are not signed off before the report is issued. The Internal Audit Director indicated that he planned to continue this approach to ensure that reports were issued in a timely manner. We did not consider this issue a material weakness because a review of the work paper history showed that work was completed throughout the course of the audit. Furthermore, all work papers were signed off and reviewed no later than 2 days after report issuance. However, we remain concerned that this practice could potentially result in the reporting of incomplete or incorrect information.

Because the supporting documentation issues mentioned above were not considered to be material weaknesses, we determined that, overall, we could rely on Internal Audit's work.

### **Subcontract Audits**

In general, cost-type subcontracts requiring audit received coverage through UCOR's risk-based approach, as required. However, we identified weaknesses with the implementation of UCOR's policy for auditing cost-type subcontracts. Specifically, we noted weaknesses with subcontract close-out audits, policy changes, and risk assessments. These weaknesses need to be addressed to ensure that cost-type subcontracts receive comprehensive audit coverage and are properly considered in risk assessments.

#### **Close-Out Audits**

UCOR had not typically performed close-out subcontract audits during FYs 2014 through 2016, although some closed subcontracts were incidentally audited in response to our June 2016 report recommendations. UCOR was required, by contract, to maintain an Audit Implementation Design Plan that described the approach for auditing subcontracts, including close-out audits. However, close-out audits were not routinely performed due to inadequate subcontract audit guidance. In particular, neither UCOR's Implementation Design Plan nor its Internal Audit Manual provided guidance as to when close-out audits should be performed. Additionally, the Implementation Design Plan and Internal Audit Manual provided conflicting guidance as to what procedures should be performed during a close-out audit. For example, UCOR's Audit Implementation Design Plan stated that close-out audits would focus on procurement's close-out process and required documentation to support that action. Conversely, the Internal Audit Manual stated that close-out audits should evaluate the costs obligated and the actual costs incurred to verify allowability. We believe clarification of guidance in this area is important because close-out audits are an essential component of subcontract audit coverage that helps to ensure that only allowable subcontract costs are incurred and claimed.

## **Policy Changes**

Internal Audit changed its subcontract audit policy in FY 2016 so that desk audits are performed for all subcontract audits, with field audits being performed only when desk audits indicate higher risk. Previously, Internal Audit made the determination to perform a desk-versus-field audit based on the risk score in its subcontract risk assessment. According to the Internal Audit Director, the policy change was made because he believed that there was no added value to a field audit over a desk audit, as the rates were already negotiated and the costs were reviewed by the subcontract coordinator and the subcontract administrator. However, we noted that desk audits are generally not performed at the subcontractor's facility and do not include process analysis, interviews, and testing to determine whether internal controls are adequate to support costs incurred and charged on the subcontract. Thus, we believe this policy change increased the risk that unallowable costs may be incurred and charged to the contract. Nevertheless, because both desk and field audits include a review of supporting documentation, we did not consider this to be a material weakness.

## **Risk Assessments**

Although risk assessments were conducted for FYs 2014 through 2016, Internal Audit had not based them on incurred costs for the fiscal year under review and instead considered the overall commitment value of each subcontract. Internal Audit used commitment values because it believed that approach was the best way to cover total anticipated risk. However, risk ranking based on commitment value could result in subcontracts with large commitment values receiving a high risk ranking and being selected for audit even if there were little or no incurred costs on the subcontract. Conversely, subcontracts with smaller commitment values could avoid audit, regardless of the incurred costs during the FY under review. When we discussed this issue with the current Internal Audit Director, he agreed that using commitment values led to some misleading risks. As a result, he indicated that incurred costs were used to prepare the FY 2018 and 2019 risk assessments. Additionally, we noted that Internal Audit had not selected any lower risk subcontracts in its FY 2016 risk assessment. In prior years, Internal Audit selected subcontract audits from both high and low risk categories to ensure that all subcontracts had a possibility of being selected. The Internal Audit Director who performed the FY 2016 risk assessment was no longer employed with UCOR; thus, we were unable to determine why this issue occurred. During a discussion with the current Internal Audit Director, he told us that subcontracts from both high and low risk categories were included in the FY 2018 audit plan.

## **Resolution Documentation**

Internal Audit had not ensured that the resolution of questioned costs and internal control weaknesses was well documented. Per UCOR's Internal Audit Manual, Internal Audit was required to retain a tracking file consisting of the final audit report, closure email for each item, and evidence of actions taken to address the audit report recommendations. Additionally, UCOR's Internal Audit Manual required audit work papers, including audit reports and closure documentation of all completed corrective actions, be retained by UCOR until the Office of Inspector General examined the annual allowable cost audits of the corresponding Statements of Costs Incurred and Claimed. Nevertheless, we found multiple instances where documentation



was either missing or insufficient to resolve certain audit report recommendations. For example, in one audit, Internal Audit indicated that the resolution of questioned costs was closed; however, upon our review of the file, Internal Audit was unable to provide evidence showing the actions taken to resolve the questioned costs. The Internal Audit Director and staff who worked on this audit were no longer employed with UCOR; thus, we were unable to determine why this situation occurred. As noted previously, Institute of Internal Auditors Standards require Internal Auditors to maintain sufficient documentation to support audit results. Accordingly, Internal Audit should have maintained documentation to support that questioned costs and internal control weaknesses were adequately resolved. In another instance, Internal Audit made a recommendation to strengthen internal controls over accounting processes by developing written policies and procedures. The recommendation was closed, noting that the subcontractor was unable to provide a specific timeframe for completion of this effort, but the subcontractor indicated various policies and procedures would be separately rolled out as they were developed. Internal Audit considered the subcontractor's planned actions to be sufficient to close out the recommendation, given that the same subject area would be reviewed in the next audit of the subcontractor. However, by closing items before corrective actions were completed, Internal Audit had little or no assurance that outstanding issues would be properly resolved. To prevent these types of documentation issues from occurring in the future, the current Internal Audit Director told us that he now requires resolution of questioned costs and internal control weaknesses to be documented within the associated TeamMate file.

## RECOMMENDATIONS

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

1. Performs an audit of all TOPS subcontract costs incurred totaling \$30,685,002;
2. Questions costs that do not have adequate supporting documentation and requests that the Contracting Officer make an allowability determination;
3. Includes specific testing of executive compensation against applicable limits in future cost allowability audits;
4. Updates the Internal Audit Manual to require maintenance of sufficient documentation to support audit results;
5. Develops a clearly defined policy for subcontract close-out audits;
6. Evaluates its current process of performing desk audits and excluding lower risk subcontracts to ensure adequate audit coverage;
7. Implements a subcontract audit risk assessment approach that considers costs incurred rather than commitment values; and

8. Maintains adequate documentation for the resolution of questioned costs and internal control weaknesses.

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

9. Make an allowability determination on the unresolved costs totaling \$30,685,002 and recover those amounts determined to be unallowable.

#### MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management agreed with the report and our recommendations, and stated that corrective actions would be taken to address the issues identified in the report. Management estimated that the corrective actions for all of the recommendations except for Recommendations 5 and 9 will be completed by July 30, 2019. Recommendation 5 is planned to be completed by September 30, 2019. Recommendation 9 is not estimated to be completed until July 31, 2020, due to the significant amount of time expected to perform a complete audit of the TOPS subcontract and subsequent review of the audit results by the Contracting Officer. We consider management's planned actions to be responsive to our recommendations. Management's comments are included in Attachment 2.

#### SCOPE AND METHODOLOGY

This assessment was performed from June 2017 to February 2019 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 impact costs claimed by UCOR on its Statements of Costs Incurred and Claimed for October 1, 2013, through September 30, 2016. The assessment was conducted under Office of Inspector General project number A17OR040.

To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit that included a review of allowable cost audit reports, work papers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), compliance with applicable professional auditing standards, and interviews of auditors;
- Reviewed policies, procedures, and practices for identifying subcontracts that require audit and arranging such audits;
- Assessed subcontract audit status and incorporated the results of the Department of Justice's press release pertaining to the TOPS subcontract; and
- Evaluated the resolution 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 audit objectives. We verified the accuracy of the data and determined that it was sufficiently reliable for the purposes of the assessment.

An exit conference was held on April 3, 2019 with Department and UCOR officials.

This report is intended for the use of Department 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.

Attachments

**PRIOR REPORT**

- Assessment Report on [\*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). Based on our assessment, no material concern came to our attention to indicate that the allowable cost-related audit work performed by URS | CH2M Oak Ridge LLC's Internal Audit (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. Internal Audit questioned \$404,252 of the costs incurred and claimed during fiscal years 2011 through 2013, of which \$112,613 had not been resolved. Therefore, we questioned 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, URS | CH2M Oak Ridge LLC 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 fiscal years 2011 through 2013 were considered unresolved pending audit. Additionally, Internal Audit's work papers did not always include sufficient documentation to support its conclusions. We also identified instances where the audit conclusions reported by Internal Audit were not accurate. Consequently, we questioned \$4,929 in unresolved costs. We made a series of recommendations to the Manager of the Oak Ridge Office of Environmental Management to ensure that unsupported and questioned costs were resolved and weaknesses were addressed.

## MANAGEMENT COMMENTS



### Department of Energy

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

March 21, 2019

MEMORANDUM FOR MICHELLE ANDERSON

DEPUTY INSPECTOR GENERAL FOR AUDITS AND INSPECTIONS  
OFFICE OF INSPECTOR GENERAL, IG-30

FROM:

JOHN A. MULLIS II  
MANAGER

Handwritten signature of John A. Mullis II in black ink.

SUBJECT:

DRAFT ASSESSMENT REPORT ON *AUDIT COVERAGE OF COST ALLOWABILITY FOR URS | CH2M OAK RIDGE LLC DURING FISCAL YEARS 2014 THROUGH 2016 UNDER DEPARTMENT OF ENERGY CONTRACT NO. DE-SC0004645*, DATED FEBRUARY 21, 2019

The Oak Ridge Office of Environmental Management (OREM) appreciates the opportunity to comment on the Office of Inspector General draft assessment report dated February 21, 2019, on *Audit Coverage of Cost Allowability for URS | CH2M Oak Ridge LLC (UCOR) during Fiscal Years 2014 through 2016 under Department of Energy Contract No. DE-SC0004645*.

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

**Recommendation 1:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR performs an audit of all Transportation, Operations and Professional Services Inc. (TOPS) subcontract costs incurred totaling \$30,685,002.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to perform an audit on all the incurred costs that have not been previously audited. Estimated completion date is July 30, 2019.

**Recommendation 2:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR questions costs that do not have adequate supporting documentation and requests that the Contracting Officer make an allowability determination.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to submit all questioned costs from the audit of the TOPS subcontract to the Contracting Officer for an allowability determination. Estimated completion date is July 30, 2019.

MICHELLE ANDERSON

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March 21, 2019

DRAFT ASSESSMENT REPORT ON *AUDIT COVERAGE OF COST ALLOWABILITY FOR URS | CH2M OAK RIDGE LLC DURING FISCAL YEARS 2014 THROUGH 2016 UNDER DEPARTMENT OF ENERGY CONTRACT NO. DE-SC0004645, DATED FEBRUARY 21, 2019*

**Recommendation 3:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR includes specific testing of executive compensation against applicable limits in future cost allowability audits.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to add the testing to the audit program for future Allowable Cost Audits. Estimated completion date is July 30, 2019.

**Recommendation 4:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR updates the Internal Audit Manual to require maintenance of sufficient documentation to support audit results.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to update its Audit Manual to adequately address the maintenance of documentation to support audit results. Estimated completion date is July 30, 2019.

**Recommendation 5:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR develops a clearly defined policy for subcontract close-out audits.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to develop a policy for subcontract close-out audits. Estimated completion date is September 30, 2019.

**Recommendation 6:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR evaluates its current process of performing desk audits and excluding lower risk subcontracts to ensure adequate audit coverage.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to evaluate its current process for performing desk audits to ensure adequate audit coverage of all subcontracts. Estimated completion date is July 30, 2019.

**Recommendation 7:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR implements a subcontract audit risk assessment approach that considers costs incurred rather than commitment values.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to implement a revised subcontract audit risk assessment approach that considers costs incurred rather than commitment values. Estimated completion date is July 30, 2019.

MICHELLE ANDERSON

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March 21, 2019

DRAFT ASSESSMENT REPORT ON *AUDIT COVERAGE OF COST ALLOWABILITY FOR URS | CH2M OAK RIDGE LLC DURING FISCAL YEARS 2014 THROUGH 2016 UNDER DEPARTMENT OF ENERGY CONTRACT NO. DE-SC0004645*, dated February 21, 2019

**Recommendation 8:** We recommend that the OREM Manager direct the Contracting Officer to ensure that UCOR maintains adequate documentation for the resolution of questioned costs and internal control weaknesses.

**Planned Action:** Concur. The Contracting Officer will direct UCOR to implement a process to maintain adequate documentation for resolution of questioned costs and internal control weaknesses. Estimated completion date is July 30, 2019.

**Recommendation 9:** We also recommend that the OREM Manager direct the Contracting Officer to make an allowability determination on the unresolved costs totaling \$30,685,002 and recover those amounts determined to be unallowable.

**Planned Action:** Concur. The Contracting Officer will make an allowability determination on the TOPS subcontract unresolved costs. Estimated completion date is July 31, 2020.

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

cc:

Tina Pooler, FM-731  
Heather Cloar, EM-91  
Karen Shears, EM-91  
Thomas Reed, EM-922  
Laura Wilkerson, EM-90

## **FEEDBACK**

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Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

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