OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-21-20 April 2021

FISCAL YEAR 2018 EVALUATION OF INCURRED COST COVERAGE AT THE EAST TENNESSEE TECHNOLOGY PARK

Department of Energy
Washington, DC 20585

April 8, 2021

MEMORANDUM FOR THE MANAGER, OAK RIDGE OFFICE OF ENVIRONMENTAL MANAGEMENT

SUBJECT: Audit Report on "Fiscal Year 2018 Evaluation of Incurred Cost Coverage at the East Tennessee Technology Park"

The attached report discusses our review of incurred cost coverage during fiscal year 2018 for selected areas at the East Tennessee Technology Park. This report contains five recommendations. Management generally concurred with the recommendations.

We conducted this audit from November 2019 through October 2020 in accordance with generally accepted government audit standards. We appreciated the cooperation and assistance received during this evaluation.

Jennifer L. Quinones
Deputy Inspector General
Office of Inspector General

cc: Deputy Secretary
Chief of Staff

DOE-OIG-21-20

Department of Energy
Office of Inspector General

Fiscal Year 2018 Evaluation of Incurred Cost Coverage at the East Tennessee Technology Park
(DOE-OIG-21-20)

WHY DID OIG PERFORM THIS REVIEW?

In 1994, the Office of Inspector General (OIG), Department of Energy officials, and internal audit directors from selected sites with management and operating contractors implemented the Cooperative Audit Strategy, which allows management and operating contractors to audit their own incurred costs. Based on recent work conducted by the OIG and concerns expressed by external stakeholders, such as the Government Accountability Office, the OIG is evaluating the Cooperative Audit Strategy. As part of that effort, the OIG commenced six audits in fiscal year 2020 to review certain contractors' incurred cost coverage of selected areas. We initiated this audit to evaluate incurred cost coverage of selected areas for fiscal year 2018 at the East Tennessee Technology Park.

What Did OIG Find?

We found that URS | CH2M Oak Ridge LLC's allowable cost audit for fiscal year 2018 did not adequately evaluate incurred costs for allowability, allocability, and reasonableness. We noted weaknesses in URS | CH2M Oak Ridge LLC Internal Audit's design of the audit risk assessment and sampling approach. We also identified issues with the special capital general and administrative rate including its disclosure. Further, we determined that the Department's Statement of Costs Incurred and Claimed is an inadequate information submission of the integrated contractor's claim and certification of costs incurred during the year.

What Is the Impact?

Given the large amount of taxpayer funding used for Department contracts and the reliance on contractor internal audit functions to audit such funds, weaknesses in the annual evaluation of incurred costs could result in significant amounts of unallowable costs being charged to the Department and going undetected.

What Is the Path Forward?

The results of this audit will be used in conjunction with the results of multiple other audits, inspections, and investigations in arriving at conclusions regarding the Cooperative Audit Strategy and providing recommendations to the Department in an upcoming report.

BACKGROUND

For 40 years, the 2,200-acre East Tennessee Technology Park (ETTP) in Oak Ridge, Tennessee was home to a complex of facilities that enriched uranium. The site dates back to the World War II Manhattan Project. In 1987, the Department of Energy terminated uranium enrichment operations in Oak Ridge and closed the site. ETTP cleanup began in 1989 with a goal to remove the structures and legacy contamination, and transition the site into a private sector industrial park. Considerable progress has been made in cleaning up the site. URS | CH2M Oak Ridge LLC (UCOR) is the Amentum-led Department prime contractor tasked with the single purpose mission to clean up ETTP. UCOR incurred and claimed costs totaling $363.57 million from October 1, 2017, to September 30, 2018, which is fiscal year (FY) 2018.

UCOR's financial accounts were integrated with those of the Department, and the results of financial transactions were required to be reported monthly according to a reciprocal set of accounts. UCOR was required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed (SCIC), 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.

In 1994, the Office of Inspector General (OIG), Department officials, and internal audit directors from selected sites with management and operating contractors implemented the Cooperative Audit Strategy. The Cooperative Audit Strategy places reliance on the contractors' internal audit function to provide operational and financial audits, including allowable cost audits, as well as assessing the adequacy of management control systems. The Cooperative Audit Strategy requires that audits performed internally must, at a minimum, meet the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing*. The OIG relies upon the contractors' internal audit activities and provides guidance to cognizant Contracting Officers, Heads of Contracting Activity, Department site managers, and cognizant Chief Financial Officers on the sufficiency of the design and operation of internal audit activities, particularly as they support the SCIC. Consistent with the Cooperative Audit Strategy, UCOR was required by its contract to maintain an internal audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. To assist internal audit activities, the OIG provided a sample allowable cost audit program through its OIG Audit Manual with the expectation that internal auditors would exercise professional judgment when creating an audit program appropriate for its operating environment.

The objective of this audit was to evaluate incurred cost coverage of selected areas during FY 2018 at the ETTP. Therefore, we did not specifically evaluate individual incurred costs for allowability, allocability, and reasonableness.[1]

[1] The objective, scope, and methodology are contained in Appendix 1, and prior related work is contained in Appendix 2.

INTERNAL AUDIT'S ALLOWABLE COST AUDIT WAS INADEQUATELY DESIGNED

UCOR Internal Audit's (Internal Audit) allowable cost audit was not designed to adequately evaluate incurred costs for allowability, allocability, and reasonableness. The Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing* require that internal auditors exercise due professional care by considering the relative complexity, materiality, or significance of matters to which assurance procedures are applied, and to be alert to the significant risks that might affect objectives, operations, or resources. Under the Cooperative Audit Strategy, the Department and OIG rely upon the contractor's internal audit activity to review the allowability of costs claimed on the SCIC in accordance with the audit program approved by the OIG. The Department implements the Cooperative Audit Strategy through Department of Energy Acquisition Regulation contract clause 970.5232-3, *Accounts, Records, and Inspection*. We identified the following areas that were not adequately addressed:

- Direct and indirect costs were not fully considered in Internal Audit's risk assessment and transaction testing; and
- Sampling was not always adequate to determine whether incurred costs were allowable, allocable, and reasonable.

Costs Were Not Fully Considered in Assessing Risk and Transaction Testing

Internal Audit did not evaluate the substantial risks of indirect costs separate from direct costs in its allowable cost audit. At UCOR, indirect costs of $95.24 million accounted for about 26 percent of the $363.57 million incurred during FY 2018 reported on the SCIC. The OIG Audit Manual, Chapter 14, *Guidelines for Contractor Internal Auditors*, includes procedures to evaluate the risks associated with direct and indirect costs. A direct cost is any cost that specifically supports a single cost objective.[2] On the other hand, an indirect cost is any cost that supports two or more cost objectives, is grouped with similar costs, and then allocated to multiple cost objectives based on relative benefits received or another equitable relationship. Accordingly, indirect costs are inherently riskier when compared to direct costs. The OIG Audit Manual, Chapter 14, also states that internal audit should evaluate changes in direct and indirect charging practices, changes in Cost Accounting Standards Disclosure Statements (Disclosure Statement), and fluctuations in direct and indirect labor charges, as well as verify that costs are properly classified by expense category, are consistently treated, and comply with Cost Accounting Standards. However, we noted that Internal Audit did not consider cost shifting risks; perform a comparative analysis of indirect costs with prior years and budgets; evaluate sensitive labor considerations; or review changes in charging direct/indirect costs during its FY 2018 allowable cost audit.

Further, Internal Audit's allowable cost audit transaction testing did not always differentiate between direct and indirect costs. For example, we found no evidence that Internal Audit

[2] Cost Accounting Standard 402-30, *Definitions*, defines a "cost objective" as a function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc.

attempted to review the nature of costs (i.e., direct or indirect) and how the costs were included in their respective pools and bases. Internal Audit did not always perform substantive testing in its allowable cost audit to ensure that indirect costs were accumulated in indirect cost pools that were homogeneous, or that pooled costs were allocated to cost objectives in a reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives, as required by Cost Accounting Standards. For instance, we found no evidence that Internal Audit differentiated questioned costs between direct or indirect costs, or evaluated whether questioned costs were included in the proper allocation bases.

These issues occurred for several reasons. Internal Audit did not specifically address allocability or place emphasis on direct and indirect costs because Internal Audit considered all incurred costs included in the SCIC as direct costs for the UCOR contract. While the ETTP contract is a single purpose contract for site cleanup, Cost Accounting Standard 418, *Allocation of Direct and Indirect Costs* (CAS 418), requires that costs be allocated to the appropriate cost objective, which would include the individual projects undertaken to complete the cleanup mission. Internal Audit added that UCOR management scrutinized certain general and administrative (G&A) indirect costs in its earned value management system. However, the purpose of an earned value management system is to monitor project scope, cost, and schedule, not to evaluate allowability, allocability, and reasonableness of incurred costs. Additionally, Internal Audit personnel stated that they performed Cost Accounting Standards audits that validated indirect costs were treated the same within proposals and actual project accounting, and concluded that UCOR's procedures complied with Cost Accounting Standards. We confirmed that Internal Audit completed a CAS 418 audit in July 2017, the purpose of which was to determine if UCOR's policies, procedures, and practices complied with Cost Accounting Standards, but the audit did not review incurred costs. We noted that Internal Audit did not identify any CAS 418 noncompliances, and as noted later in this report, there was a CAS 418 noncompliant practice that was in place at the time of its audit. Also, Internal Audit did not reference its previous Cost Accounting Standards work as justification to curtail procedures in that area during the FY 2018 allowable cost audit. Further, when questioned about these issues, Internal Audit stated that it followed the methodologies contained in the OIG Audit Manual. The OIG Audit Manual, however, does not set forth detailed procedures for the annual allowable cost audit. Instead, the OIG Audit Manual makes it clear that internal auditors must exercise professional judgment and ensure procedures are applicable to their operating environment.

Sampling Was Not Adequate to Evaluate Allowability, Allocability, and Reasonableness

Internal Audit did not always perform adequate sampling in its allowable cost audit to determine whether incurred costs were allowable, allocable, and reasonable. OIG Audit Manual, Chapter 14, states that it is expected that a recognized statistical sampling methodology will be used to sufficiently reach a conclusion on the allowability of costs and permit the projection of unallowable costs. If not statistical, it states that the rationale for using judgmental sampling should be clearly documented in the auditor's workpapers. However, we noted concerns with Internal Audit's sampling methods. Internal Audit did not use statistical sampling. Instead, Internal Audit used a mix of judgmental and random sampling, as well as total testing. Furthermore, Internal Audit did not always justify the use of judgmental samples. Out of the 11 sampling workpapers selected for review, 2 did not justify the reasoning for the judgmental sample. Finally, although Internal Audit tested about 71 percent of the overall $146.85 million accounts payable population, it performed minimal testing in certain accounts payable areas that we consider to be high-risk. For example, only 2 percent of purchase card transactions ($109,397 out of $6.34 million) and 1 percent of other accounts payable transactions ($22,486 out of $2.71 million) were tested.

This occurred because Internal Audit did not follow the OIG Audit Manual when selecting and documenting its sampling approach. As mentioned previously, per the OIG Audit Manual, Chapter 14, a recognized statistical sampling methodology should be used to sufficiently reach a conclusion on the allowability of costs and permit the projection of unallowable costs; if statistical sampling is not used, the rationale for using another approach should be clearly documented in the auditor's workpapers. According to Internal Audit personnel, statistical sampling was used in the past, but a change was made to judgmental sampling when data analytic capabilities improved, allowing Internal Audit to target higher-risk transactions. However, Internal Audit did not clearly document why it did not use statistical sampling nor clearly describe its data analytics methodologies in its allowable cost audit workpapers.

STATEMENT OF COSTS INCURRED AND CLAIMED IS INADEQUATE

Department of Energy Acquisition Regulation 970.5232-2, *Payments and Advances,* Alternate III, requires contractors with integrated accounting systems to annually prepare, submit, and certify the SCIC, and requires that the SCIC be audited. In addition, Chapter 23 of the Department's Financial Management Handbook, *Statement of Costs Incurred and Claimed*, states that the SCIC serves as the contractor's claim and certification that the contractor's costs are allowable, allocable, and reasonable under the contract.

Further, Department of Energy Acquisition Regulation 970.3002-1 *CAS Applicability,* requires integrated contractors to follow Cost Accounting Standards. CAS 418-40, *Fundamental Requirements,* requires indirect costs to be accumulated in homogenous indirect cost pools and that pooled costs be allocated to cost objectives in reasonable proportion to the beneficial or causal relationship of the pooled costs to cost objectives. Due to these requirements, in order for the internal auditors to evaluate integrated contractors' claimed indirect costs for compliance with Cost Accounting Standards and adequately test all claimed costs for allowability, allocability, and reasonableness, integrated contractors should prepare, maintain, and audit adequately detailed indirect cost information.

The Defense Contract Audit Agency (DCAA) has established a benchmark that it requires of an indirect cost submission that would allow for meaningful audit. In addition, Federal Acquisition Regulation 52.216-7, *Allowable Cost and Payment* (FAR 52.216-7), section (d), *Final Indirect Cost Rates,* establishes the data that an adequate indirect cost submission must include. While FAR 52.216-7 was not a UCOR contractual requirement, it is a representation of the type of data considered necessary for indirect cost certification and audit.

Both the Department and the OIG relied on the contractors' internal auditors to perform their audits to test for allowability, allocability, and reasonableness of costs under the contract, as well as compliance with Cost Accounting Standards. As discussed previously, however, Internal

Audit did not always design its audit procedures appropriately. We found no evidence that Internal Audit questioned the format and usefulness of the SCIC in facilitating an effective cost allowability audit.

When we evaluated the Department's SCIC form against the DCAA *Checklist for Determining Adequacy of Contractor Incurred Cost Proposal* and FAR 52.216-7, we found a number of areas that were not explicitly addressed by the SCIC. For example, claimed pools and allocation bases by element of cost, used to accumulate and distribute indirect costs, were not included. The omission of this data would limit the Department's visibility into the composition of the pools and allocation bases, and limit the Department's ability to understand how indirect costs were allocated in order to make an accurate determination on allowability, allocability, and reasonableness.

This occurred for a couple of reasons. First, the Cooperative Audit Strategy relies significantly on integrated contractors to audit themselves. The Department's SCIC form only requires a high-level summary of costs claimed for the year and it does not explicitly require submission of the detail necessary to evaluate indirect costs. Along the same lines, the Department requires its integrated contractors to submit an Institutional Cost Report that shows indirect costs by category at a summary level, but again, does not explicitly require submission of the details for individual costs in each category. Despite the generality of these forms, it is important to note that nothing within the Department's SCIC form, or the Department's Institutional Cost Report, excused the obligation for Internal Audit to perform its audits to test for compliance with the acquisition regulations or the applicable Cost Accounting Standards. In exercising due professional care, Internal Audit should have concluded that the format of the SCIC was not adequate to facilitate an effective audit and should have recommended this issue be corrected.

This situation also occurred because even though the Department was required to review and approve the SCICs submitted by the contractors, the Department's review and approval process was limited in scope and did not constitute an audit. The OIG also had the responsibility to "assess" these SCIC submissions. However, the OIG SCIC assessments were also limited in scope and did not constitute an audit. These assessment activities were not designed to replace the allowable cost audit that should have already been conducted by the internal auditors. As a result, the errors described in our report went undetected by the Department and the OIG.

MISALLOCATION OF COSTS

UCOR's allocation of its special capital G&A rate in FY 2018 did not comply with CAS 418. Per CAS 418, when pre-established indirect cost rates are used, the rates shall reflect the costs anticipated for the cost accounting period; be reviewed at least annually; and be revised, as necessary, to reflect anticipated conditions. CAS 418 further states that variances between estimated and actual costs incurred shall be disposed of by allocating the variances to cost objectives in the same proportion as the costs were initially allocated. Despite these requirements, UCOR did not monitor its special capital G&A rate against actual costs nor dispose of the year-end variance by allocating it in proportion to the initial allocation. Specifically, in FY 2015, UCOR established a special allocation of G&A costs to apply a reduced G&A rate to third party construction projects. This special capital G&A rate was developed using FY 2015 budget data and was made up of costs in the G&A pool that supported UCOR's construction projects, such as project integration, procurement, and program management, but omitted non-construction related accounts, such as human resources and information technology support. The FY 2015 special capital G&A rate was 10.89 percent, while UCOR's standard G&A rate was about 27.69 percent. In FY 2018, UCOR continued to apply the FY 2015 special capital G&A rate percentage of 10.89 percent to its construction projects, while the standard G&A rate in FY 2018 was 22 percent. UCOR did not update the special capital G&A rate to reflect budgeted or actual FY 2018 costs, nor monitor or dispose of the rate variance as required by CAS 418. Per our calculations, the FY 2018 special capital G&A rate was 8.95 percent.

UCOR's noncompliant practice occurred because UCOR misunderstood the use of a special allocation rate. According to a UCOR official, UCOR intended the special capital G&A rate to be a fixed rate, which is a rate that does not change after it is established. According to a UCOR official, applying costs in this way met the intent of a CAS special allocation. The UCOR official also contended that other Department contractors commonly used similar fixed special construction rates, so the Department was accustomed to approving rates of this nature. UCOR officials confirmed there was no documented procedure for monitoring the special capital G&A rate against actuals nor disposing of its year-end variance. In this case, the fixed special capital G&A rate was not formally agreed upon between the contracting parties, and UCOR did not have a written policy for the establishment of this rate. In addition, the rate had not been reviewed in 4 years. Therefore, the practice was not compliant with CAS 418 requirements.

THE DEPARTMENT APPROVED A NONCOMPLIANT PRACTICE

The Department approved UCOR's Disclosure Statement effective in FY 2018 despite it containing a practice noncompliant with CAS 418. Title 48 Code of Federal Regulations Section 9903.202-3, *Disclosure Requirements*, states that contractors are responsible for maintaining accurate disclosure statements and complying with disclosed practices. FAR 30.202-7, *Determinations*, states that the cognizant Federal agency official shall determine whether the disclosure statement adequately describes the contractor's cost accounting practices. UCOR's Disclosure Statement, effective in FY 2018, contained the special capital G&A rate for third party construction costs; however, the Disclosure Statement did not clearly explain that the rate was fixed and would not be compared to budgeted and/or actual costs every year and recalculated, which was a practice that was noncompliant with CAS 418. Further, UCOR did not provide a detailed description of the special capital G&A rate's pool and base in the Disclosure Statement. Yet, the Oak Ridge Office of Environmental Management was supportive of the special capital G&A rate, and the Department deemed the Disclosure Statement compliant with Cost Accounting Standards without questioning this practice, which had been in place since 2015, for over 4 years.

This occurred because UCOR did not have formal procedures regarding disclosure statement preparation and therefore did not adequately disclose the practice when it was initially implemented. Thus, the new practice was not detected during the Department's Disclosure Statement review process. UCOR established the special capital G&A rate as a fixed percentage based on FY 2015 budgetary data. UCOR notified the Department of its intention to implement a special rate and acknowledged that the rate would need to be disclosed in its Disclosure Statement. However, in addition to not providing the detailed rate information mentioned above, UCOR also did not identify the new accounting practice as a significant change in the transmittal memo when it submitted its FY 2015 Disclosure Statement. Further, UCOR did not include the cost impact for the new cost accounting practice anticipated for the current and subsequent cost accounting periods, as required by Cost Accounting Standards. In FY 2015, the Department relied on DCAA to review, and if necessary, audit the changes to UCOR's Disclosure Statement. DCAA reviewed UCOR's FY 2015 Disclosure Statement and concluded that it appeared as if all of the changes were administrative changes; therefore, no compliance audit of the Disclosure Statement was necessary. Department officials told us that they relied on DCAA's conclusion and approved the Disclosure Statement. When we asked Department officials about their awareness of this special capital G&A rate, the officials stated that they were aware of it but had not specifically reviewed it as it was inadequately disclosed in the Disclosure Statement transmittal memo. Department officials also told us that they no longer use DCAA for Disclosure Statement review.

Additionally, the Department relied on the work of internal audit as part of its oversight of the contractor through allowable cost audits. The OIG Audit Manual, Chapter 14, establishes the expectation that internal auditors will determine whether major changes to the disclosure statement have occurred. However, Internal Audit did not review the FY 2015 Disclosure Statement to determine its adequacy and compliance with Cost Accounting Standards. In addition, the Department requested that Internal Audit initiate several Cost Accounting Standards audits to ensure UCOR was compliant. Internal Audit performed a CAS 418 audit in 2017 that evaluated UCOR's fringe and G&A rates, and variances. As part of that audit, Internal Audit evaluated the special capital G&A rate to determine if the rate was applied consistently. However, Internal Audit did not evaluate whether the special capital G&A rate was monitored and variances were dispositioned appropriately. Consequently, Internal Audit's CAS 418 audit did not identify the issues noted above, which led to UCOR's Disclosure Statement continuing to be inadequate and noncompliant with Cost Accounting Standards.

THERE IS AN INCREASED RISK OF UNALLOWABLE CLAIMED COSTS AND IMPROPER COST ALLOCATION

As a result of the issues identified above, there is an increased risk that UCOR charged unallowable costs to the Department, and UCOR's FY 2018 incurred costs were improperly allocated to some of its cost objectives. Weaknesses in the design of the allowable cost audit increased the risk that UCOR claimed unallowable costs because the level of testing and substantive procedures performed were adversely impacted, particularly regarding indirect costs. This is significant because UCOR's indirect costs totaled $95.24 million or 26 percent of the total $363.57 million incurred during FY 2018. Overall, the weaknesses we identified in Internal Audit's allowable cost audit design lessened the value of Internal Audit's determination that incurred costs were allowable, allocable, and reasonable.

As a result of the SCIC's inadequacies, Internal Audit, the OIG, and the Department have not had ready access to indirect cost details to ensure claimed costs were allowable, allocable, and reasonable. Further, an inadequate indirect cost submission limits the Department's visibility into the composition of the indirect cost pools and allocation bases, and, therefore, its ability to manage costs. Overall, this limits the Department's ability to evaluate its indirect costs. Because in many cases indirect costs are significant, this is a serious issue.

Finally, due to UCOR's CAS 418 noncompliant special capital G&A rate, UCOR's FY 2018 incurred costs were improperly allocated to some of its cost objectives. We determined that the actual FY 2018 special capital G&A rate was approximately 8.95 percent rather than the 10.89 percent applied, which resulted in $205,918 (18 percent of the $1.15 million total allocated special capital indirect rate costs) being allocated to construction projects that should have been charged to other projects. We considered this misallocation to be important because if the costs had been properly allocated to other projects, the capital projects would have had more funding to further construction efforts. Also, because of UCOR's inadequate Disclosure Statement preparation procedures, the Department did not identify this noncompliant practice during its review of UCOR's Disclosure Statement, and this practice has continued for over 4 years. UCOR will continue to misallocate costs until the noncompliant practice and disclosure statement are corrected. We did not attempt to quantify the overall impact of this practice due to our limited audit scope.

OTHER MATTER – UNCLEAR PROCESS FOR THE HANDLING OF DISCLOSED AFFILIATE RELATIONSHIPS

UCOR's Representation and Certifications form and its procurement manual did not adequately address how to handle potential related-party conflicts of interest. UCOR requires successful offerors to complete a Representation and Certifications form for all awards exceeding $10,000, which requires them, in part, to disclose affiliate relationships with AECOM, CH2M Hill Constructors, Inc., Jacobs Engineering Group, or URS Corporation. However, neither the form nor UCOR's procurement manual specified how affirmative responses were to be handled. A UCOR management official stated that UCOR understood that such entities may not earn fee under UCOR's prime contract, and that they would have to be handled differently from other potential offerors, with the possibility of disqualifying them from further consideration depending on the circumstances. However, in our opinion, understanding the requirements does not necessarily ensure they are implemented. The UCOR management official acknowledged that the procurement manual should be more specific on this item and that UCOR had already drafted a new section to address this issue.

RECOMMENDATIONS

This audit was performed as part of the OIG's overall initiative to review the Cooperative Audit Strategy. The results of this audit will be used in conjunction with the results of multiple other audits, inspections, and investigations in arriving at conclusions regarding the Cooperative Audit Strategy and providing recommendations to the Department in an upcoming report. In the meantime, to address the issues identified in this report, we recommend that the Manager, Oak Ridge Office of Environmental Management, work with the Department and UCOR to address the following:

1. Ensure the appropriate design and execution of allowable cost audits;
2. Require the proper use and documentation of sampling in allowable cost audits;
3. Revise policies, procedures, and disclosures related to UCOR's special capital G&A rate to be consistent with Cost Accounting Standards;
4. Consider revising the Representations and Certifications form to remind buyers how to handle potential related-party conflict-of-interest affirmative responses and to alert potential offerors of the affiliate ramifications; and
5. Work with the Department to examine the SCIC submission and its ability to adequately evaluate costs.

MANAGEMENT RESPONSE

Management generally concurred with the report's recommendations and identified corrective actions it would take to address the issues included in the report. While disagreeing over the findings, management stated it would work with the Department and UCOR officials to change or update practices and requirements, as appropriate.

Management's comments are included in Appendix 3.

AUDITOR COMMENTS

Management has generally agreed with the report's recommendations and has identified corrective actions it will take to address the issues included in the report. Management's proposed corrective actions were generally responsive to our recommendations.

With regard to the disagreement over the findings, the OIG stands by its findings and has significant concerns with the manner in which Internal Audit performed its allowable cost audit risk assessment and sampling approach.

Further, where management noted this report appears to contradict past OIG reports, the OIG maintains that this audit did not have the same objective or scope as our previous review level engagements, and different procedures were used to identify potential gaps in Internal Audit's coverage of incurred costs.

Where management disputes the finding regarding indirect costs by asserting that it did sample such costs, the OIG notes on page 2 that Internal Audit did not differentiate indirect costs from direct costs when developing its reviews. In addition, OIG clearly demonstrates why indirect costs are riskier than direct costs.

Where management disputes the finding about the adequacy of sampling, the OIG indicates on pages 3 and 4 that UCOR Internal Audit did not use statistical sampling at all, which is the preferred sampling method, nor did it always provide justification for judgmental samples. In addition, Internal Audit performed minimal sample testing on high-risk areas.

Where management nonconcurs with the finding about the SCIC format being inadequate by claiming that the DEAR clauses in its contract do not require greater details, its claim that additional data is available if needed seems to be a contradiction. In order to effectively audit the incurred costs, more detailed information is necessary than what is required in the current SCIC format, which the Department appears to agree with by stating that additional data is available if needed. The report does not state that the DEAR clauses currently require greater details. Pages 4 and 5 explain that the OIG finds the SCIC format inadequate because it limits the Department's ability to understand how indirect costs were allocated impacting determinations on allowability, allocability, and reasonableness.

Where management disputes the finding that Internal Audit should have concluded that the format of the SCIC was not adequate to facilitate an effective audit, page 5 notes Internal Audit does have a responsibility to exercise due professional care in its activities. Experienced auditors could have identified this issue just as the OIG did and should have recommended that this be corrected.

Where management disputes the findings for the misallocation of costs due to a special capital G&A rate and the Department's approval of UCOR's noncompliant practice, the report notes that UCOR did not include the rate in its Disclosure Statement transmittal memo, which was intended to summarize the significant Disclosure Statement changes in FY 2015. DCAA's conclusion that the changes to the Disclosure Statement were only administrative resulted in DCAA not conducting an audit of the Disclosure Statement; therefore, DCAA did not review the rate nor did it approve of the rate as CAS compliant. DCAA's determination that the changes were only administrative indicates that DCAA may have solely relied upon the transmittal memo when making this determination, as the addition of a special capital G&A rate is not considered an administrative change.

Management's assertion that the variances of the rate are immaterial and presumably not subject to the requirements of CAS 418-50, contradicts its comments on page 20 where it states that "UCOR did identify the rate as a significant change in submitting their 2015 disclosure statement," thereby acknowledging the rate and resulting variances are neither insignificant nor immaterial.

Where management nonconcurs with our statement that there is an increased risk of unallowable claimed costs and improper cost allocation due to the design of the allowable cost audit, the OIG notes on page 7 that its conclusion is based on a flawed allowable cost audit design, inadequate indirect cost submission, and noncompliant year-end indirect rate variance disposition practice. The culmination of these findings lessened Internal Audit's ability to make adequate determinations that incurred costs were allowable, allocable, and reasonable.

Finally, the OIG notes that the details of the Cooperative Audit Strategy provided by management as Attachment 1 of its comments is material quoted from the Acquisition Guide and a 1992 memorandum, as well as information pertaining to the Steering Committee for Quality Audits. The OIG is aware of this information, and we considered all of this, and much more, while conducting our review. As mentioned on page 8, the results of this audit will be used in conjunction with the results of multiple other audits, inspections, and investigations in arriving at conclusions regarding the Cooperative Audit Strategy and providing recommendations to the Department in an upcoming report.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We conducted this audit to evaluate incurred cost coverage of selected areas during fiscal year 2018 at the East Tennessee Technology Park.

SCOPE

We conducted this audit from November 2019 through October 2020 at the Department of Energy's East Tennessee Technology Park and Oak Ridge Office of Environmental Management located in Oak Ridge, Tennessee. The audit scope included costs incurred and claimed by URS | CH2M Oak Ridge, LLC (UCOR) for fiscal year 2018. The audit was conducted under the Office of Inspector General project code A20CH005.

METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, Cost Accounting Standards, Department and UCOR policies and procedures, UCOR contract provisions, and other legal requirements related to the audit objective.
- Interviewed Department officials and UCOR personnel, including UCOR's Internal Audit (Internal Audit), responsible for management and oversight of incurred costs.
- Reconciled UCOR's underlying accounting system data to the amounts contained in the Statement of Costs Incurred and Claimed, and compared the information to the Letter of Credit.
- Identified related-party disclosure procedures and determined whether UCOR was properly disclosing related parties and following applicable procedures.
- Reviewed UCOR's Cost Accounting Standards Disclosure Statements for significant cost accounting changes and assessed the adequacy of the Department's review process.
- Reviewed monthly indirect rate variance reports and evaluated disposition of the variances.
- Reviewed project cost over and underruns, and evaluated whether direct and indirect costs were consistently charged to projects.
- Evaluated unallowable costs for proper inclusion in allocation bases and removal from claimed costs.
- Evaluated whether beneficial and causal pool/base relationships existed within UCOR's indirect rate structure.

- Reviewed selected fixed price construction subcontracts to determine whether the "fixed price" subcontract classification was accurate and justified.

- Reviewed and evaluated Internal Audit's risk assessment process for preparing its annual audit plan, including subcontract audits, and conducting its cost allowability audit.

- Reviewed the five Internal Audit files that supported reports with questioned costs to determine if all questioned costs had been reported.

- Reviewed and evaluated UCOR's Internal Audit performance regarding sampling, workpaper documentation, and supervisory review.

- Used judgmental sampling throughout the project and adequately documented the applicable details in the relevant workpapers. Because the selection was based on a judgmental or non-statistical sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of costs.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the control environment regarding UCOR's demonstration of a commitment to integrity and ethical values; control activities as implemented through policies; and the establishment and implementation of monitoring activities. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We assessed the reliability of UCOR's fiscal year 2018 financial cost data by reconciling underlying database information to the Statement of Costs Incurred and Claimed. We validated a portion of the database transactions by reviewing documentation supporting the data and the system that produced the data, and interviewing UCOR officials knowledgeable about the data. We determined that the data was sufficiently reliable for the purposes of this report.

Management officials waived an exit conference on April 5, 2021.

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* (DOE-OIG-19-26, April 2019). The assessment[3] disclosed that during fiscal years 2014 through 2016, URS | CH2M Oak Ridge LLC Internal Audit (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. Subsequent to Internal Audit's work, the results of an Office of Inspector General (OIG) criminal investigation were made public through a Department of Justice press release impacting a URS | CH2M Oak Ridge LLC subcontractor — Transportation, Operations and Professional Services, Inc. (TOPS). 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 URS | CH2M Oak Ridge LLC'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 had not performed any additional audit work pertaining to the TOPS subcontract; thus, the OIG considered the entire $30,685,002 unresolved pending a final audit by Internal Audit. Although the OIG ultimately determined that it could rely on Internal Audit's work, the OIG identified issues that needed to be addressed prior to the Contracting Officer making a final determination of allowability of costs from fiscal years 2014 through 2016. Therefore, the OIG made nine recommendations to help ensure that only allowable costs were claimed by and reimbursed to the contractor.

[3] We conducted our assessment as a review attestation. A review is substantially less in scope than an examination or audit. Our review was limited and would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review.

Department of Energy

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

March 31, 2021

MEMORANDUM FOR JENNIFER L. QUINONES
DEPUTY INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL, IG-2

FROM: JOHN A. MULLIS II
MANAGER

John A. Mullis Digitally signed by John A. Mullis Date: 2021.03.31 14:17:53 -04'00'

SUBJECT: OFFICE OF INSPECTOR GENERAL AUDIT: FISCAL YEAR 2018 EVALUATION OF INCURRED COST COVERAGE AT THE EAST TENNESSEE TECHNOLOGY PARK

The Oak Ridge Office of Environmental Management (OREM) supports the Office of Inspector General's (OIG) objective to improve the operations of the Department. OREM does not, however, agree with five of the six findings in this audit report.

OREM supports efforts to ensure that reviews of incurred costs are useful. As the OIG noted, the Cooperative Audit Strategy was developed and implemented by the OIG in collaboration with Department of Energy officials and internal audit directors from selected management and operating contractor (M&O) sites. The OIG continues to play a critical role in this process. Emerging concerns about the strategy's ongoing effectiveness should include a complete assessment of the strategy and how it is being implemented by all vested parties.

PAST OIG SCIC ASSESSMENTS

This report contradicts the finding in the last assessment of URS|CH2M Oak Ridge LLC (UCOR). The DOE-OIG-19-26 Assessment Report *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* (April 9, 2019), stated that:

> *Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by UCOR's Internal Audit function for fiscal years 2014 through 2016 could not be relied upon. 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, except for the treatment of unsupported subcontract costs.*

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UCOR's Internal Audit has not changed its approach nor process since the issuance of the above report. Consequently, it appears that with the issuance of this report, the OIG has changed its policy and procedures for assessing the Department's long-standing cooperative audit strategy.

RESPONSE TO AUDIT FINDINGS AND RECOMMENDATIONS

OIG Finding 1: INTERNAL AUDIT'S ALLOWABLE COST AUDIT WAS NOT ADEQUATELY DESIGNED

OREM non-concurs on this finding and its two sub-findings.

OREM specifically disagrees with the report's statement that:

> *UCOR Internal Audit's (Internal Audit) allowable cost audit was not designed to adequately evaluate incurred costs for allowability, allocability, and reasonableness.*

UCOR's Internal Audit exercised the same due professional care in planning and executing the audit that past incurred cost audits did not take exception with. UCOR's auditors inherently understand the complexity, materiality, and significance of transactions because of their knowledge and experience of UCOR's operations. Past reports by UCOR's Internal Audit demonstrate that the auditors are alert to significant risks that might affect UCOR's operations and resources and take them into account in planning and executing their audit.

Sub-Finding A: Direct and Indirect Costs Were Not Fully Considered in Assessing Risk and Transaction Testing

OREM non-concurs on this sub-finding.

UCOR's Internal Audit included indirect costs in their sample. UCOR's Internal Audit tests at the originating transaction-level below the indirect/direct cost level. Testing below the indirect/direct cost level increases the likelihood of detecting unallowable costs while testing at the indirect level, which is a grouping of transactions, does not.

UCOR does not have the multiple indirect cost pools and rates like the other M&O contracts that OIG audited. UCOR's internal audit coverage that tests at the transaction-level raises no allocability issues and does not warrant the suggested analysis.

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The report states that indirect costs are inherently riskier when compared to direct costs. The OIG offered no basis for this opinion, no independent study, no analysis of issues related to direct and indirect costs, or any examples from other audits where indirect costs were found to be more problematic. Previous OIG Assessment Reports have not indicated this concern.

The OIG should consider revising its sample audit program to specify how indirect expenses should be assessed to address any emerging concerns with past practices.

Sub-Finding B: Sampling Was Not Adequate to Evaluate Allowability, Allocability, and Reasonableness

OREM non-concurs on this sub-finding.

While statistical sampling may be the OIG's preferred sampling methodology for incurred cost audits, judgmental sampling is not prohibited. UCOR's Internal Audit followed the *DOE OIG Audit Manual, Chapter 14, Sample Audit Program for Allowable Cost Reviews*, that states:

> ***The audit steps are general guidance and should be expanded or eliminated as necessary to fit the contractor's audit environment and risk assessment****. The program is intended to provide a logical sequence to the audit fieldwork and to reflect a mutual understanding between the auditor and supervisor as to the scope required to meet auditing standards and the audit's objectives for allowable costs reviews. It is expected that those portions of the audit that are covered in other audits will be referenced and incorporated in this review.*
> (Emphasis included in the original)

The guidance for sampling in the OIG Audit Manual does not mandate a sampling methodology, nor does it prescribe specific sample sizes. Per OIG guidance, the sample size is determined using the audit environment, risk assessment, and coverage from other audits. UCOR's Internal Audit considered these factors in their sampling.

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Auditing standards, also, do not mandate statistical or non-statistical sampling nor a specific sample size. UCOR's Internal Audit determined the appropriate sampling methodology and sample size based on its professional judgment on risks, resources, and effectiveness, consistent with auditing standards and guidance. The following auditing standards apply in this situation:

- Institute of Internal Auditors, Practice Advisory 2320-3 – The auditor may use non-statistical (judgment) sampling to confirm a condition.
- Accounting Oversight Board, General Auditing Standards 2315 Audit Sampling – The auditor chooses between statistical or non-statistical sampling that provides sufficient audit evidence after considering their relative cost and effectiveness. Conditions leading to a smaller sample size include a low assessed level of inherent or control risk and risk associated with other relevant substantive procedures.
- American Institute of Certified Public Accountants Auditing Standards Board, Statement on Auditing Standards 39 Audit Sampling – The auditor is not required to select a specific number of items comparable to the statistical sample size. If their experience with a subject matter has been good, the auditor might continue to use sample sizes proven effective.

Recommendations

The OIG makes two recommendations for this finding.

1. Ensure the design and execution of allowable cost audits.
2. Require the proper use and documentation of sampling in allowable cost audits.

OREM non-concurs with the finding but supports the recommendations as they also apply to the OIG. OREM agrees to work with the Office of Science, Consolidated Service Center (CSC), Office of Financial Services (OFS) to assist the OIG in updating the Audit Manual to address the recently raised concerns over sampling and the contractor's internal audit function requirements.

OREM will work with the OFS to clarify for outside readers that the transaction testing done by UCOR's Internal Audit is below the indirect/direct cost level which increases the likelihood of detecting unallowable costs.

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OREM will work with the OFS and UCOR's Internal Audit to evaluate the use of statistical sampling that will be in the Government's best interest, be cost-effective, and that will provide actionable results.

OIG Finding 2: STATEMENT OF COSTS INCURRED AND CLAIMED IS INADEQUATE FOR IDENTIFICATION OF ALL COSTS INCURRED

OREM non-concurs with this finding.

The OIG used Federal Acquisition Regulation (FAR) 52.216-7 as its basis for this finding, even though it was acknowledged that the clause was not a contractual requirement.

UCOR is not subject to the cited clause. Guidance for clauses included in UCOR's contract are outlined in the Department of Energy Acquisition Regulation (DEAR) 970.52 Solicitation Provisions and Contract Clauses for Management and Operating Contracts. Specifically, UCOR is subject to DEAR 970.5232-2 Payments and Advances (prescribed by DEAR 970.3270(a)(1), and subsection (k) of Alternate III) which requires the following:

> *(k) Review and approval of costs incurred. The Contractor shall prepare and submit annually as of September 30, a "Statement of Costs Incurred and Claimed" (Cost Statement) for the total of net expenditures accrued (i.e., net costs incurred) for the period covered by the Cost Statement.*

The DOE Financial Management Handbook Chapter 23 states in 1(a) Requirements and Applicability (emphasis added):

> *(1) The Statement of Costs Incurred and Claimed (SCIC), is prepared and certified by DOE's integrated contractors annually after they have submitted their financial statements and related information to their cognizant field elements (Attachment 23-1). This requirement applies to individual DOE contracts that include the contract clause at 48 CFR 970.5232-2 (alternate iii).* ***The costs reported on this statement should be consistent with the contractors' financial statements****. The SCIC form is provided as an attachment to this chapter; detailed descriptions of the SGL accounts listed on the form are kept by the Office of Financial Controls and Reporting. Deviations from the form and procedures established by this chapter must be approved by the cognizant contracting officer.*

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(2) *The Statement of Costs Incurred and Claimed is not a payment voucher.* ***It is the contractor's accounting for all costs incurred for the year covered by the Statement.*** *By submission of the Statement, the integrated contractor summarizes its costs incurred during the year specified.*

(3) *The Statement of Costs Incurred and Claimed serves as the contractor's claim and certification that the contractor's costs it covers have been incurred and (to the best of the Certifying Official's knowledge and belief) are allowable, allocable, and reasonable (hereinafter referred to as allowable) under the contract.*

Therefore, the OIG's evaluation of DOE's SCIC form against the Defense Contract Audit Agency's Checklist for Determining Adequacy of Contractor Incurred Cost Proposal and FAR 52.216-7 as the basis for this finding that UCOR's SCIC is inadequate for identification of costs incurred is not appropriate.

The OIG annually signs the current SCIC form, which was last revised in November 2012, so UCOR's Internal Audit should not be the one to determine or question that a form approved by the OIG was inadequate for identifying all costs incurred. The SCIC form by design reports a high-level summary of costs claimed for the year. This does not preclude the auditors from obtaining claimed pools, allocation bases, and supporting information. In fact, UCOR provided the underlying detailed supporting information to the auditors.

Recommendation

The OIG makes the following recommendation for this finding.

5. Work with the Department to examine the SCIC submission and its ability to adequately evaluate costs.

OREM non-concurs with the finding but supports the recommendation as it also applies to the OIG. OREM will work with OFS to assist the OIG, as Chair of the Steering Committee for the Cooperative Audit Strategy (SCCAS), to address any concerns with the SCIC. OREM will also support OFS in implementing any changes made to the SCIC.

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OIG Finding 3: MISALLOCATION OF COSTS DUE TO SPECIAL CAPITAL GENERAL AND ADMINISTRATIVE RATE

OIG Finding 4: THE DEPARTMENT APPROVED A NONCOMPLIANT PRACTICE IN UCOR'S DISCLOSURE STATEMENT

OREM non-concurs with both of these findings.

UCOR did identify the special construction rate as a significant change in submitting their 2015 disclosure statement. The Defense Contract Audit Agency reviewed UCOR's Fiscal Year 2015 Disclosure Statement and concluded that it appeared as if all changes were administrative changes; therefore, no compliance audit of the Disclosure Statement was necessary. While OREM did not send an official approval memo for the 2015 disclosure statement, it did for subsequent disclosure statements that continued to include the special rate.

UCOR's primary scope is the demolition of excess facilities and remediation of soil and groundwater. Construction projects are the exception rather than the rule, so UCOR established a special general and administrative rate for construction projects. Cost Accounting Standards (CAS) 418.50(g)(5)(4) states (emphasis added):

> (g) *Use of preestablished rates for indirect costs.*
>
> *(4) Under paragraphs (g) (2) and (3) of this subsection* ***where variances of a cost accounting period are material****, these variances shall be disposed of by allocating them to cost objectives in proportion to the costs previously allocated to these cost objectives by use of the preestablished rates.*

The OIG did not evaluate the materiality of the impact of the rate over its period of use. The Title 48 Code of Federal Regulations (CFR) §9903.305 establishes the criteria for materiality, which includes: dollar amount involved, the amount compared to the contract value, the relationship between the amount and a cost objective and impact on Government Funding. Federal Acquisition Regulation's (FAR) fundamental approach to materiality allows for interpretation and judgment. The impact of the rate over the period it has been used on this contract, on its funding sources, as well as, the contract value, clearly makes it immaterial and therefore, in compliance with CAS standards.

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In addition, the finding, as written, represents a final determination of CAS noncompliance, which is contrary to FAR 30.605, which states that CAS determinations are the Cognizant Federal Agency Official's responsibility. The OIG should only be providing an opinion on CAS noncompliance, not a determination.

Recommendation

The OIG makes the following recommendation for this finding.

3. Revise policies, procedures, and disclosures related to UCOR's special capital general and administrative rate to be consistent with Cost Accounting Standards.

OREM non-concurs with the finding and its recommendation as stated. OREM does agree to work with OFS and UCOR to determine the materiality, consistent with 48 CFR § 9903.305, of adjusting the special rate each year.

OIG Finding 5: THERE IS AN INCREASED RISK OF UNALLOWABLE CLAIMED COSTS AND IMPROPER COST ALLOCATION

OREM non-concurs with this finding.

The OIG has not provided any objective evidence to support this finding. OREM believes this risk is low due to UCOR's contract structure, financial, and project management tools that Oak Ridge uses to avoid total reliance on UCOR's internal audit coverage to detect unallowable costs.

First, UCOR's contract is a FAR 15-based contract with an incentive structure that significantly reduces the risk of undisclosed unallowable costs. This contract's incentive structure, which utilizes objective performance-based incentives and subjective award fee criteria, incentivizes UCOR to underrun the contract cost and avoid unnecessary costs. As required, Defense Contract Audit Agency or CohnReznick audit UCOR's contract change proposals that include certified cost and pricing data. All cost proposals also go through a rigorous evaluation process from both a technical and cost standpoint.

Second, OREM employs multiple financial and project management tools that reduce the risk of relying on internal audits. OREM had independent reviews conducted to assure that UCOR's business systems and internal controls were sound and trustworthy. UCOR's purchasing system, accounting system, and estimating system were reviewed and deemed adequate.

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OREM also periodically performs the following: Financial Statement Audits; Review and Approval of the Annual Internal Audit Plan and Internal Audit Implementation Design; Comprehensive CAS Compliance Review; SCIC Review; Biennial Pricing Review (as necessary) and Disclosure Statement Reviews. OREM uses financial management tools such as monitoring variances against spend plans and funds management to identify any incurred cost issues at the obligation level. Oak Ridge also uses project management tools such as Earned Value Management Systems and cost and schedule variance analysis to identify any incurred cost issues at the project/activity level. Also, UCOR's senior management holds monthly meetings to review costs incurred and forecasted costs which is the behavior of a contractor that is intending to minimize costs.

Recommendation

The OIG did not make a specific recommendation on this finding.

OIG Finding 6: OTHER MATTER – HANDLING OF DISCLOSED AFFILIATE RELATIONSHIPS

OREM concurs with the finding.

Recommendation

The OIG makes the following recommendation for this finding.

4. Consider revising the Representations and Certifications form to remind buyers how to handle potential related party conflict-of-interest affirmative responses and to alert potential offerors of the affiliate ramifications

OREM will work with UCOR Management to revise the Representations and Certifications form to remind buyers how to handle potential related party conflict-of-interest affirmative responses and alert potential offerors of the affiliate ramifications.

If you have any questions or can be of further assistance, please contact Alan Stokes at (865) 576-8096 or me at (865) 576-0742.

ATTACHMENT 1: BACKGROUND OF THE COOPERATIVE AUDIT STRATEGY

The Department established the Cooperative Audit Strategy to ensure an effective and efficient audit of M&O contractor claimed costs. DOE's Acquisition Guide, chapter 70.42.101, Section 2.2, Background, describes the Cooperative Audit Strategy as:

> *The Office of Inspector General, in consultation with the Office of the Chief Financial Officer, the Office of Acquisition Management, and the Contractor Internal Audit Council, developed and implemented the Cooperative Audit Strategy in October 1992 to maximize the overall audit coverage at management and operating (M&O) contractors and fulfill its responsibility for auditing the costs incurred by the Department's major facilities contractors.*

Section 2.4 defines OIG responsibilities as follows:

> *The Office of Inspector General (OIG): The OIG develops audit policy for the Department's programs and operations. In that capacity, the OIG is the cognizant auditor for the Department's major facilities contractors. The OIG relies upon the contractors' Internal Audit Activities to support the Cooperative Audit Strategy. The OIG provides guidance to cognizant COs, HCAs, Department site or office managers, and Cognizant Chief Financial Officers on the sufficiency of the design and operation of Internal Audit Activities, particularly as they support the SCIC. Representatives of the OIG periodically evaluate the actions of the contractors' Internal Audit Activities and audits using the American Institute of Certified Public Accountants' Statement on Auditing Standard No. 65 or its successor. The OIG will coordinate these evaluations and audits with the cognizant COs, HCAs, and Cognizant Chief Financial Officers in order to avoid duplication of effort and ensure that all issues are addressed.*

Following the Steering Committee for Quality Audits' initial meeting, on August 26, 1992, John Layton, Inspector General, and Gorden Harvey, Committee Chairman and Assistant Inspector General for Audits, issued a Memorandum for the Record. This memorandum stated:

> *It was agreed that the Office of Inspector General (OIG) would compile data on issues needing resolution and that it would bring such issues to the Steering Committee for discussion and disposition.*

The Steering Committee for Quality Audits (now known as SCCAS) stated purpose is to serve as an integrating activity for fostering communications, promoting lessons learned, and ensuring the Cooperative Audit Strategy's continued success. The Deputy Inspector General for Audits is the designated federal Co-chair for SCCAS. The Co-Chairs are responsible for establishing an agenda for each SCCAS meeting that is supposed to be convened at a minimum semi-annually. The OIG held the last SCCAS meeting in April 2019 that discussed possible Departmental steps on the Cooperative Audit Strategy.

The OIG should consider updating OIG policies and guidance, reconvene SSCAS, and engage Departmental elements to affect change in emerging concerns with internal audit function requirements.

FEEDBACK

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

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