



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

ASSESSMENT REPORT

Audit Coverage of Cost Allowability for
Alliance for Sustainable Energy LLC During
Fiscal Years 2012 and 2013 Under
Department of Energy Contract No.
DE-AC36-08G028308

OAI-V-16-06

March 2016



Department of Energy
Washington, DC 20585

March 11, 2016

MEMORANDUM FOR THE DIRECTOR, GOLDEN FIELD OFFICE

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

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

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Alliance for Sustainable Energy LLC During Fiscal Years 2012 and 2013 Under Department of Energy Contract No. DE-AC36-08GO28308”

BACKGROUND

Since October 1, 2008, the Alliance for Sustainable Energy LLC (Alliance) has managed and operated the National Renewable Energy Laboratory (NREL) under contract with the Department of Energy (Department). NREL supports the Department’s research and development initiatives. During fiscal years (FYs) 2012 and 2013, Alliance expended and claimed \$887,876,835.64.

Because Alliance is an integrated management and operating contractor, its financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Alliance is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department’s Office of Inspector General, Office of Acquisition Management, integrated management and operating contractors, and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department’s contractors claim only allowable costs. This strategy places reliance on the contractors’ internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, Alliance 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, Alliance is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. During FYs 2012 and 2013, Alliance used Internal Audit, a

subcontract audit function, and the Defense Contract Audit Agency (DCAA) to meet the subcontract audit requirement. To help ensure that audit coverage of cost allowability was adequate for FYs 2012 and 2013, the objectives of our assessment were to determine whether:

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

RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that allowable cost-related audit work performed by Alliance's Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors. During FYs 2012 and 2013, Internal Audit, DCAA, and Alliance's subcontract audit function identified a total of \$196,023 in questioned costs, all of which had been resolved. In addition, in response to the findings and recommendations identified in our previous report *Assessment of Audit Coverage of Cost Allowability for National Renewable Energy Laboratory During Fiscal Years 2009 Through 2011 Under Department of Energy Contract No. DE-AC36-08GO28308* (OAS-V-14-03, November 2013), we found that Alliance had resolved costs pending audit, generally addressed subcontract audit strategy concerns, and partially recovered costs previously determined to be unallowable. Further, the Department had resolved the account discrepancies between NREL and the Department's accounting systems.

Other Matters

On November 25, 2015, the President signed the *National Defense Authorization Act for Fiscal Year 2016* prohibiting DCAA from providing audit support for non-Department of Defense agencies until it reduces its backlog of incurred costs audits. As DCAA support may not be available for conducting subcontract audits, the Department's contractors will need to consider other options to meet their contractual obligations. In a recent assessment report, we recommended that the Department's Office of Acquisition Management issue guidance to its contractors detailing how they may satisfy the subcontractor audit requirement given the loss of DCAA audit support.¹

During the review period assessed, we found that in some cases Alliance closed out cost-type subcontracts without performing an audit. Although audits were not always done, Alliance performed or arranged to have performed, alternate procedures such as reviews of invoiced costs, which appeared reasonable in determining the final amount payable to the subcontractors given

¹ *Audit Coverage of Cost Allowability for UChicago Argonne LLC During Fiscal Years 2010 Through 2013 Under Department of Energy Contract No. DE-AC02-06CH11357* (OAI-V-16-05, March 2016)

the relatively small individual values of the subcontracts and the invoiced amounts. In addition, an Alliance official stated that alternate procedures were performed because the subcontracts were considered low risk, and it was not always efficient to perform closeout audits. We understand the official's position; however, we noted that although Alliance had developed a risk-based strategy for conducting interim audits of its subcontracts as a result of our previous assessment, Alliance had not developed a similar strategy for subcontractor closeouts. For example, Alliance did not document the risks associated with these type of subcontracts and whether an audit or alternate procedures should be performed. Given that Alliance may no longer have access to DCAA for audit support in the foreseeable future, Internal Audit could assume a larger role in reviewing subcontract costs prior to closeout. As such, we suggest Alliance develop and implement a risk-based strategy for closeout of cost-type subcontracts.

SCOPE AND METHODOLOGY

This assessment was performed from April 2015 to March 2016 at NREL, located in Golden, Colorado. The assessment was limited to Internal Audit and subcontract audit activities, resolution of questioned costs, and internal control weaknesses that affected costs claimed by Alliance on its Statements of Costs Incurred and Claimed for FYs 2012 and 2013. The assessment was conducted under Office of Inspector General project number A15DN029. To accomplish our objectives, we did the following:

- Assessed allowable cost audit work conducted by Internal Audit. Our assessment included a review of allowable cost audit reports; workpapers; auditor qualifications; independence; audit planning, including risk assessments and overall internal audit strategy; and compliance with applicable professional auditing standards.
- Conducted interviews of auditors.
- Retested a sample of incurred cost transactions tested by Internal Audit in its allowable cost audits. We judgmentally selected a sample of 23 of the 768 transactions that Internal Audit tested in FY 2013 based on factors such as dollar value, type of expense, and questioned costs. Because sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population of transactions tested.
- Reviewed policies, procedures, and practices to identify subcontracts that required interim or postaward audit coverage.
- Assessed subcontract audit status.
- Evaluated 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 in which the objective is an expression of an 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 assessment objectives and determined the data was sufficiently reliable for the purposes of our review by comparing the data to source documents. The Department waived the exit conference on February 11, 2016.

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

Attachments

PRIOR REPORT

Assessment Report on Assessment of Audit Coverage of Cost Allowability for National Renewable Energy Laboratory During Fiscal Years 2009 Through 2011 Under Department of Energy Contract No. DE-AC36-08GO28308 (OAS-V-14-03, November 2013). This assessment found that Alliance for Renewable Energy LLC (Alliance) did not always conduct or arrange for audits of its subcontractors when costs incurred were a factor in determining the amount payable to subcontractors. Thus, incurred costs of approximately \$17.6 million were considered unresolved pending audit. This occurred because Alliance did not have a fully documented, consistent subcontract audit strategy to implement its Internal Audit Implementation Design plan and Department of Energy Acquisition Regulation requirements. Additionally, the subcontract audit function did not always comply with generally accepted Government auditing standards, as required in Alliance's subcontract audit policy. This assessment also found that Alliance had not resolved \$325,471 of questioned costs from a subcontract audit report due to a subcontractor inappropriately adjusting its cost-share percentage, which was supposed to be based on actual costs incurred for direct materials and special equipment.