



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

ASSESSMENT REPORT

OAI-V-16-13

September 2016

**AUDIT COVERAGE OF COST
ALLOWABILITY FOR HONEYWELL FEDERAL
MANUFACTURING & TECHNOLOGIES LLC
DURING FISCAL YEARS 2012 THROUGH 2014
UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-NA0000622**



Department of Energy
Washington, DC 20585

September 21, 2016

MEMORANDUM FOR THE MANAGER, KANSAS CITY FIELD OFFICE

A handwritten signature in black ink, appearing to read "David Sedillo".

FROM: David Sedillo
Deputy Assistant Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for Honeywell Federal Manufacturing & Technologies LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-NA0000622”

BACKGROUND

Honeywell Federal Manufacturing & Technologies LLC (Honeywell) has managed and operated the National Security Campus, formerly known as the Kansas City Plant, for the National Nuclear Security Administration (NNSA) Kansas City Field Office under contract with the Department of Energy (Department) since October 2010. The National Security Campus is responsible for manufacturing and procuring nonnuclear components for nuclear weapons, including electronic, mechanical, and engineered material components, and it also supports the national laboratories, universities, and U.S. industry. During fiscal years (FYs) 2012 through 2014, Honeywell incurred and claimed costs totaling approximately \$2 billion.

As an integrated management and operating contractor, Honeywell’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. Honeywell 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, Office of Acquisition Management, and the integrated management and operating contractors and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department’s contractors claim only allowable costs. This strategy places reliance on the contractors’ internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, Honeywell is required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, Honeywell 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. To help ensure that audit coverage of cost allowability was adequate for FYs 2012 through 2014, the objectives of our assessment were to determine whether:

- Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon;
- Honeywell 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 the allowable cost-related audit work performed by Honeywell's Internal Audit for FYs 2012 through 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. During its FYs 2012 through 2014 audits of cost allowability, Internal Audit identified \$289,110 in questioned costs, all of which had been resolved. Further, we found that Internal Audit had conducted 12 audits of subcontractors totaling \$830,929 and identified \$7,070 in questioned costs, all of which had been resolved.

In addition, the Office of Inspector General report *Assessment of Audit Coverage of Cost Allowability for Honeywell Federal Manufacturing & Technologies, LLC for the period October 1, 2008 thru September 30, 2011 under Department of Energy Contract Nos. DE-AC04-01AL66850 and DE-NA0000622* (OAS-V-13-09, April 2013) questioned costs totaling \$31,429,218 related to unaudited subcontract costs, of which \$5,148,928 has been sent to the Defense Contract Audit Agency to be audited but is still pending audit and therefore is still unresolved.

SCOPE AND METHODOLOGY

This assessment was performed from March 2016 to September 2016 at Honeywell's offices located in Kansas City, Missouri. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by Honeywell on its Statement of Costs Incurred and Claimed for FYs 2012 through 2014. The assessment was conducted under Office of Inspector General project number A16LV032. To accomplish our objectives, we:

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

- Conducted interviews with NNSA and Honeywell officials.
- Reviewed policies, procedures, and practices to identify subcontracts requiring audit and arrange for audits.
- Assessed subcontract audit status.
- 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.
- Retested a sample of incurred cost transactions reviewed by Internal Audit in its allowable cost audit. We recalculated the repayment amount determined by Internal Audit for the Missouri Sales and Use Taxes. In addition, we judgmentally selected a sample of 4 of the 30 education transactions that Internal Audit tested in FY 2014. Because the sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter 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 objectives. We determined that the computer-processed data was sufficiently reliable for the purposes of the review by comparing the data to source documents. Management waived an exit conference on August 30, 2016.

This report is intended for the use of Department and NNSA 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.

Because no formal recommendations are being made in this report, a response is not required. We appreciate the cooperation of your staff who provided information and assistance.