



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-18-26

March 2018

**AUDIT COVERAGE OF
COST ALLOWABILITY FOR
FLUOR FEDERAL PETROLEUM
OPERATIONS, LLC
FROM APRIL 1, 2014, THROUGH
SEPTEMBER 30, 2016
UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-FE0011020**



Department of Energy
Washington, DC 20585

March 15, 2018

**MEMORANDUM FOR THE PROJECT MANAGER, STRATEGIC PETROLEUM RESERVE
PROJECT MANAGEMENT OFFICE**

FROM: Debra K. Solmonson
Deputy Assistant Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: **INFORMATION:** Assessment Report on “Audit Coverage of Cost Allowability for Fluor Federal Petroleum Operations, LLC from April 1, 2014, through September 30, 2016, under Department of Energy Contract No. DE-FE0011020”

BACKGROUND

Since April 1, 2014, Fluor Federal Petroleum Operations, LLC (FFPO) has managed and operated the Strategic Petroleum Reserve under a contract with the Department of Energy. The Strategic Petroleum Reserve is the world’s largest Government-owned emergency crude oil stockpile with, as of January 2018, approximately 664 million barrels of crude oil stored in a series of underground salt caverns along the coastline of the Gulf of Mexico. During the period of April 1, 2014, through September 30, 2016, FFPO incurred and claimed \$427,880,175. The following table illustrates FFPO’s annual costs during the period:

Fiscal Year	Claimed Costs
2014 ¹	\$125,876,810.87
2015	\$144,430,524.52
2016	\$157,572,839.81
Total	\$427,880,175.20

As an integrated management and operating contractor, FFPO’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. FFPO 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

¹ FFPO’s contract began on April 1, 2014. Thus, fiscal year 2014’s claimed costs are for the 6-month period beginning April 1, 2014, and ending on September 30, 2014. We evaluated the first 6 months of fiscal year 2014 in our previous assessment report, OAI-V-16-02. The results of that assessment are summarized in an attachment to this report.

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 (OIG), 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 Cooperative Audit Strategy, FFPO 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, FFPO 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 the period of April 1, 2014, through September 30, 2016, the objectives of our assessment were to determine whether:

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

RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by FFPO Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with the allowable cost reviews Internal Audit conducted, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. In audits performed since our last assessment, Internal Audit questioned \$171,575.25 in costs, which had all been resolved. Additionally, we found that FFPO conducted or arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor, and had resolved all costs questioned in those audits.

SCOPE AND METHODOLOGY

This assessment was performed from September 2017 to March 2018, at the Strategic Petroleum Reserve Project Management Office in New Orleans, Louisiana. The assessment was limited to FFPO's Internal Audit activities, subcontract audits, and resolution of questioned costs and

internal control weaknesses that affect costs claimed by FFPO on its Statement of Costs Incurred and Claimed from April 1, 2014, through September 30, 2016. The assessment was conducted under Office of Inspector General project number A17OR044. 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), and compliance with applicable professional auditing standards;
- Reviewed policies, procedures, and practices for identifying subcontracts that require audit and arranging such audits;
- Assessed subcontract audit status; and
- Evaluated resolution of questioned costs and internal control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, FFPO's 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. Additionally, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our assessment objectives. We determined that the data was sufficiently reliable for the purposes of this review by comparing it to source documents.

Management waived an exit conference on February 7, 2018.

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 [*Audit Coverage of Cost Allowability for DM Petroleum Operations Company During October 1, 2011, Through March 31, 2014, Under Department of Energy Contract No. DEAC96-03P092207*](#) (OAI-V-16-02; November 2015). Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by DM Petroleum Operations Company's internal audit function for costs incurred from October 1, 2011, through September 30, 2013, could not be relied upon. We did not identify any material internal control weaknesses with internal audit function's cost allowability audits performed for fiscal years 2012 and 2013, which generally met Institute of Internal Auditors standards. Further, we found that costs totaling \$58,102 questioned by Internal Audit during this period had been resolved or reimbursed to the Department of Energy, as required. However, we determined that we could not rely on the allowable cost-related audit work performed by an independent certified public accounting firm for costs incurred from October 1, 2013, through March 31, 2014. Specifically, we found that DM Petroleum Operations Company had not ensured that the work performed by the firm met the procedures established by the Cooperative Audit Strategy for conducting allowable cost reviews. Accordingly, we considered costs totaling \$72,623,697 incurred during this period to be unresolved pending audit. Additionally, we identified weaknesses with subcontract auditing that need to be addressed to ensure that only allowable costs are claimed by and reimbursed to the contractor. Specifically, we found that DM Petroleum Operations Company did not conduct or arrange for periodic post-award audits of all of its cost-type subcontracts, including time and materials subcontracts. Consequently, we considered \$19,875,247 in subcontract costs incurred from October 1, 2011, through March 31, 2014, unresolved pending audit. As of February 2017, the Strategic Petroleum Reserve Project Management Office certified that it had completed corrective actions to address each of the issues identified in our report.

FEEDBACK

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