



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

AUDIT REPORT

Fiscal Year 2014 Work Performed Under the
Work for Others Program at the Pacific
Northwest National Laboratory

OAI-M-16-05

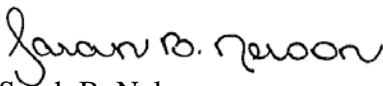
January 2016



Department of Energy
Washington, DC 20585

January 20, 2016

MEMORANDUM FOR THE MANAGER, PACIFIC NORTHWEST SITE OFFICE

FROM: 
Sarah B. Nelson
Assistant Inspector General
for Audits and Administration
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Fiscal Year 2014 Work Performed Under the Work for Others Program at the Pacific Northwest National Laboratory"

BACKGROUND

The Department of Energy (Department) provides research and technical assistance to other Federal agencies on a reimbursable, full cost recovery basis through the Work for Others (WFO) Program. WFO agreements are also available to industry, whereby they can utilize expertise and facilities at Department laboratories, such as the Pacific Northwest National Laboratory (PNNL). For example, a company may sponsor PNNL scientists to conduct research in a specific area if researchers can be identified with appropriate and unique capabilities, as well as interest and availability. For fiscal years (FY) 2012 through 2014, PNNL's WFO activities comprised between 18.9 and 24 percent of its costs annually. Specifically, WFO funding was \$186 million in FY 2012, \$163 million in FY 2013, and \$234 million in FY 2014.

The attached report presents the results of the audit of PNNL FY 2014 WFO Program.¹ The Office of Inspector General contracted with the independent certified public accounting firm KPMG LLP (KPMG) to assess the internal control structure at PNNL and determine whether it is effective in achieving the current goals and objectives of the WFO Program.

RESULTS OF AUDIT

KPMG concluded that in FY 2014 PNNL implemented internal controls and compliance procedures that met the Department's WFO Program requirements, as stated in Department regulations, guidance, and applicable contract provisions. Because no findings were identified, no recommendations were made.

¹ On March 9, 2015, the Work for Others Program was officially renamed Strategic Partnership Projects. During fiscal year 2014, the period covered by the scope of the audit, the program was still officially referred to as the Work for Others Program.

PERFORMANCE AUDIT

KPMG conducted this performance audit in accordance with generally accepted Government auditing standards issued by the Comptroller General of the United States and the Department's Office of Inspector General Audit Manual as appropriate. Government auditing standards require that KPMG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for its findings based on the audit objective.

The Office of Inspector General monitored the progress of the audit and reviewed the report and related documentation. Our review disclosed no instances in which KPMG did not comply, in all material respects, with the audit requirements. KPMG is responsible for the attached report dated September 9, 2015, and the conclusions expressed in the report. An exit conference was waived by Office of Science management on September 10, 2015.

Attachment

cc: Deputy Secretary
Deputy Chief Financial Officer

Performance Audit

*Fiscal Year 2014 Audit of the Work Performed
Under the Work for Others Program*

*For the U.S. Department of Energy
Office of the Inspector General*

Auditee: Pacific Northwest National Laboratory

As of Date: September 9, 2015

KPMG LLP
1801 K. Street, NW
Washington, DC 20006

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EXECUTIVE SUMMARY

September 9, 2015

Mr. Earl Omer
Contracting Officer's Representative
U.S. Department of Energy
Office of Inspector General
1617 Cole Boulevard
Golden, Colorado 08401

Dear Mr. Omer:

This report presents the results of our audit of Pacific Northwest National Laboratory's (hereinafter referred to as PNNL or the Auditee) Fiscal Year (FY) 2014 Work for Others (WFO) Program, conducted to address the performance audit objective described below. Our work was performed during the period March 5, 2015 to September 9, 2015, and our results, reported herein, are as of September 9, 2015.

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the U.S. Department of Energy (DOE) Office of Inspector General Audit Manual as appropriate. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our results based on our audit objective.

The objective of our performance audit was to determine if PNNL's WFO Program, in effect for FY 2014, met the internal control and compliance requirements established by DOE that are identified within:

- DOE Order 481.1c;
- DOE Guide 481.1-1;
- DOE Acquisition Regulations (DEAR), as applicable, including DEAR 970.5217-1; and,
- Additional guidance issued by DOE/NNSA regarding the WFO Program.

These requirements and guidance are intended to ensure that the goals and objectives of DOE's WFO Program are met.

We identified PNNL's key controls related to WFO projects, determined if PNNL's indirect cost structure was consistent with WFO objectives of ensuring 100 percent cost recovery, and selected a statistical sample of 26 WFO projects that received new funding in FY 2014 for testing of key internal control and compliance attributes identified in the applicable DOE guidance. We noted no findings as a result of our audit test work.

Based upon the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that the PNNL implemented internal controls and compliance procedures in FY 2014 that met DOE's WFO Program requirements, as stated in DOE regulations, guidance, and applicable contract provisions.

This performance audit did not constitute an audit of financial statements in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. KPMG was not engaged to, and did not render an opinion on the Auditee's overall internal controls.

This report is intended for the information and use of the DOE Office of the Inspector General and management of the Auditee. The report is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

BACKGROUND

Program Overview

The U.S. Department of Energy (DOE) provides research and technical assistance to other Federal agencies on a reimbursable, full cost recovery basis, through its Work for Other (WFO) Program. Pursuant to DOE's Work Order No. 2015-06 (Contract No. DE-DT0007071), dated January 22, 2015, KPMG was engaged to conduct a performance audit of Pacific Northwest National Laboratory's (hereinafter referred to as PNNL or the Auditee) WFO Program. This audit was focused on determining whether PNNL met the internal control and compliance requirements established by DOE to achieve the current goals and objectives of the WFO Program.

Auditee Overview

PNNL was founded in 1965, and is a member of the national laboratory system supported by the DOE through its Office of Science. It is operated by the Battelle Memorial Institute, and is located in Richland, Washington.

WFO agreements are a mechanism through which industry can utilize expertise and facilities at DOE laboratories, such as PNNL. A company may sponsor PNNL scientists to conduct research in a specific area if researchers can be identified with appropriate and unique capabilities, as well as interest and availability. The unique equipment and specialized expertise at PNNL provides research opportunities that may not be available elsewhere. Under a WFO arrangement, the commercial sponsor pays 100 percent of the cost of the work performed by PNNL.

The WFO activities have comprised between 18.94 percent and 23.96 percent of PNNL's costs, annually, for each of the past three years, as summarized below:

Costs by Year (000's)			
	2012	2013	2014
WFO	\$186,030	\$163,472	\$234,421
Lab total	\$922,000	\$863,313	\$978,463
<i>Percentage</i>	<i>20.18%</i>	<i>18.94%</i>	<i>23.96%</i>

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our performance audit was to determine if PNNL's WFO Program, in effect for Fiscal Year (FY) 2014, met the internal control and compliance requirements established by DOE that are identified within:

- DOE Order 481.1c;
- DOE Guide 481.1-1;
- DOE Acquisition Regulations (DEAR), as applicable, including DEAR 970.5217-1; and
- Additional guidance issued by DOE/NNSA regarding the WFO Program.

These requirements and guidance are intended to ensure that the goals and objectives of DOE's WFO Program are met.

Scope

As requested by DOE, the scope of this performance audit was restricted to WFO projects that received new funding between October 1, 2013 and September 30, 2014.

We conducted this performance audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the DOE Office of Inspector General Audit Manual as appropriate. *Government Auditing Standards* require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our results based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our results based on our audit objective.

The Auditee is responsible for establishing and maintaining policies, procedures, systems, and internal controls to account for WFO activities. Our responsibility is to provide findings and recommendations based on the results of our performance audit.

Methodology

As part of the performance audit of PNNL's WFO program, we:

- Reviewed prior audit history, internal/external audit reports, and other relevant audit reports;
- Reviewed applicable rules, regulations, and guidance;
- Obtained an understanding of PNNL's WFO Program;
- Performed a risk assessment of PNNL's WFO Program and identified significant risks;
- Identified key controls related to establishing and maintaining WFO projects;
- Assessed PNNL's overall risk profile to develop and/or modify existing audit procedures;
- Selected a statistical sample of 26 WFO projects; and,
- Evaluated whether PNNL's current structure is effective in achieving the current goals and objectives of the WFO program. Our sample was selected using a 90 percent confidence level and a precision of 5 percent.

Results

Our performance audit resulted in no findings. We discussed the results of the audit with PNNL management on September 9, 2015. The results of our audit procedures are presented below:

1. Control Environment/Key Controls

We performed a walkthrough of the WFO Program in place at PNNL, and identified key controls and compliance procedures within the process. Based on the identification and testing of key controls and procedures related to the WFO Program, we determined that the key WFO controls appear to be effectively designed.

2. Indirect Cost Allocation

We obtained an understanding of the indirect cost allocation methodology to determine whether PNNL is fully recovering costs on its WFO projects. Based on test work performed, we determined that PNNL's current allocation appears to be fully recovering costs on its WFO projects.

Our procedures also included obtaining an understanding of the defined benefit pension plans applicable to PNNL employees engaged in the performance of WFO projects and whether the actuarially determined annual pension costs were included in the indirect rates charged to WFO projects.

We also determined that PNNL includes pension costs in the payroll burden rate of the class of employees comprised of those eligible for this benefit and that this rate is applied to labor costs in a consistent manner that does not differ between DOE and non-DOE projects.

3. WFO Project Sample for Internal Control and Compliance Testing

We statistically selected 26 WFO projects that received new funding between October 1, 2013 and September 30, 2014, for testing the key internal control and compliance attributes identified in applicable DOE guidance and noted no exceptions.

Conclusion

Based upon the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that the Pacific Northwest National Laboratory implemented internal controls and compliance procedures in FY 2014 that met DOE's WFO Program requirements, as stated in DOE regulations, guidance, and applicable contract provisions.

APPENDIX A - List of Federal Projects Tested

Project Number	Project Title	Client Name	Start Date	End Date	Type	Amount
65331	MCN JDA Survival Studies	Army, Corps of Engineers - Portland District	12/1/2013	9/30/2015	FED	\$ 4,823,214
66421	Environmental Support of Agency Reactor Programs	NRC Office of Nuclear Reactor Regulation	5/9/2014	1/31/2019	FED	3,039,707
59963	NCI U24 Proteome Characterization Center	NIH - National Cancer Institute	26-Aug-11	7/31/2015	FED	2,790,034
62948	JPM-Guardian G2/DSS Support	Army Headquarters, Office of Deputy Chief of Staff, G-2	02-Jul-12	9/14/2015	FED	1,805,871
64681	Review of Recommendation 2.1 Flood Re-evaluations	NRC Office of New Reactors	13-May-13	5/31/2016	FED	1,582,056
64290	USALIA Technical Support	Army, Logistics Innovation Agency	01-Jan-13	12/31/2015	FED	1,330,097
65548	DTRA/DOS NADR	Defense Threat Reduction Agency (DTRA)	22-May-14	9/30/2017	FED	1,025,000
66278	Support of DSSA Fire Protection	NRC Office of Nuclear Reactor Regulation	04-Apr-14	6/28/2016	FED	998,835
66435	BSEE - Biodegradation of Oil in Cold, Stratified, Deep Seas	Bureau of Safety & Environmental Enforcement	15-Sep-14	9/14/2016	FED	873,786
66931	Land Based Phalanx Health Monitoring System	Army, Aviation and Missile Command	16-Sep-14	9/30/2015	FED	703,884
67132	GSE Iraq Responsible Science and Chemistry	Department of State	18-Sep-14	9/30/2015	FED	519,363
62474	Generating a Synthetic Biology Toolbox for Nitro-Compounds	DoD, Strategic Environmental Restoration & Development Prog.	07-Jan-14	9/30/2015	FED	457,069
54220	Project ENVVEST - Stormwater and Biota Contaminant Survey	Navy, Puget Sound Naval Shipyard	01-Oct-07	9/30/2015	FED	404,738
67133	67133 - GSE HRP	Department of State	18-Sep-14	9/30/2015	FED	342,121
65204	Excalibur Asset Health Monitor Development	Army, Armament Research Dev & Engineering Ctr	30-Oct-13	2/28/2015	FED	301,640
61590	Support of DSSA Fire Protection Activities	NRC Office of Nuclear Reactor Regulation	01-Aug-11	9/30/2016	FED	199,126
64866	Development of EARRTH Tool for FSME	NRC Office of Federal-State Materials & Env Mgmt Prog (FSME)	20-May-13	11/17/2015	FED	112,194
63142	63142 - International Export Control - Asia	Department of State	01-Oct-11	9/30/2016	FED	46,875
Total						\$21,355,610

APPENDIX B - List of Non-Federal Projects Tested

Project Number	Project Title	Client Name	Start Date	End Date	Type	Amount
63254	Wound dressing for radiation exposure	Argentum Medical, LLC	10/2/2013	10/2/2015	NON-FED	\$1,256,958
60867	ARRA-High-Efficient, on-Line Membrane Air Dehumidifier Enabl	ADMA Products, Inc	10/28/2010	10/28/2014	NON-FED	613,694
65733	Port Gamble Eelgrass Restoration	State of Washington, Department of Natural Resources	3/1/2014	6/30/2015	NON-FED	224,594
60360	Multiscale Experiments and Computational Modeling of Transpa	Purdue University	11/29/2012	9/27/2014	NON-FED	118,084
66579	Evaluation of gas-phase ion mobility separations	Leidos Biomedical Research, Inc.	7/21/2014	7/21/2015	NON-FED	97,087
64673	Molecular Characterization of Key Proteins Directing Otoconi	Washington University at St. Louis	4/1/2013	4/30/2015	NON-FED	81,942
63007	Modular and Dispatchable Battery Storage	Powin Energy	1/15/2013	1/15/2015	NON-FED	58,252
65700	Microfluidic-based Device for Ambient Mass Analysis	MassTech	4/18/2014	5/17/2015	NON-FED	12,191
Total						\$2,462,803