



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

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# ASSESSMENT REPORT

Audit Coverage of Cost Allowability  
for Nuclear Waste Partnership, LLC,  
During Fiscal Years 2013 and 2014  
Under Department of Energy Contract  
No. DE-EM0001971

OAI-V-16-12

August 2016

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**Department of Energy**  
Washington, DC 20585

August 16, 2016

MEMORANDUM FOR THE MANAGER, CARLSBAD FIELD OFFICE

FROM:

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

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

SUBJECT:

INFORMATION: Assessment Report on the “Audit Coverage of Cost Allowability for Nuclear Waste Partnership, LLC, During Fiscal Years 2013 and 2014 Under Department of Energy Contract No. DE-EM0001971”

BACKGROUND

Nuclear Waste Partnership, LLC (NWP) has managed and operated the Waste Isolation Pilot Plant (WIPP) under a contract with the Department of Energy since October 1, 2012. WIPP is part of the Department’s Office of Environmental Management and was built to safely dispose of the Nation’s defense-related transuranic radioactive waste. During fiscal years (FYs) 2013 and 2014, NWP incurred and claimed costs totaling \$312,783,680.

As an integrated management and operating contractor, NWP’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. NWP 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, 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 the contractors. Consistent with the strategy, NWP 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, NWP 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 2013 and 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;
- NWP conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to the 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 NWP's Internal Audit for FYs 2013 and 2014 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. Furthermore, while NWP's Internal Audit did not perform individual audits of each subcontractor due to staffing limitations, it performed statistical sampling of all subcontractor purchase order transactions in its testing of allowable costs. NWP's Internal Audit also performed sample testing of purchase order transactions for all subcontractors with incurred costs over \$1 million. We did not identify any material internal control weaknesses with audit coverage of subcontractor costs. During FYs 2013 and 2014, NWP's Internal Audit identified \$392,468 in questioned costs, all of which had been resolved.

In our prior report, *Assessment of Audit Coverage for Washington TRU Solutions, LLC, Under Department of Energy Contract DE-AC29-01AL66444 for Fiscal Year 2012* (OAS-V-14-13, August 2014), we noted that \$11,899 in questioned FY 2010 costs related to an ongoing investigation were still unresolved. We found that these questioned costs had since been resolved.

## SCOPE AND METHODOLOGY

This assessment was performed from April 2016 to August 2016, at the Carlsbad Field Office and NWP offices, located in Carlsbad, New Mexico. The assessment was limited to Internal Audit's activities, audit coverage, and resolution of questioned costs and control weaknesses that impact costs claimed by NWP on its Statement of Costs Incurred and Claimed for FYs 2013 and 2014. The assessment was conducted under the Office of Inspector General Project Number A16AL034. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by NWP Internal Audit that 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 with National Nuclear Security Administration and NWP officials;
- Retested a sample of 40 of the 1,222 incurred cost transactions reviewed by NWP's Internal Audit in its FY 2014 Allowable Cost Audit, 12 of the 23 transactions from its Erroneous Payments Audit, and 9 of the 18 transactions from its Employee Relocation Audit to determine if we would reach the same conclusion on the basis of the samples (because our sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population);
- Reviewed policies, procedures, and practices to identify subcontracts that required interim or post award audit coverage;
- Assessed the status of subcontract audit coverage; and
- 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 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. Finally, we conducted a limited assessment of computer-processed data relevant to our audit objectives and deemed the data to be sufficiently reliable.

Management waived an exit conference on July 22, 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.

Attachment

**PRIOR REPORT**

*Assessment of Audit Coverage for Washington TRU Solutions, LLC, Under Department of Energy Contract DE-AC29-01AL66444 for Fiscal Year 2012 (OAS-V-14-13, August 2014).* This assessment noted that nothing came to our attention to indicate the allowable cost audit work performed by Washington TRU Solutions Internal Audit for Fiscal Year (FY) 2012 could not be relied on. We did not identify any material control weaknesses with cost allowability audits, which generally met International Standards for Professional Practice of Internal Auditing. Internal Audit questioned or deemed unallowable \$17,215 of FY 2012 costs, all of which had been resolved; however, \$11,899 in questioned FY 2010 costs related to an ongoing investigation were still unresolved. The contracting officer was working with the contractor's legal department to resolve the \$11,899.