



OFFICE OF INSPECTOR GENERAL  
U.S. Department of Energy

# ASSESSMENT REPORT

OAI-V-17-01

January 2017

**AUDIT COVERAGE OF  
COST ALLOWABILITY FOR  
JEFFERSON SCIENCE ASSOCIATES LLC  
DURING FISCAL YEARS 2011 - 2014  
UNDER DEPARTMENT OF ENERGY  
CONTRACT NO. DE-AC05-06OR23177**



**Department of Energy**  
Washington, DC 20585

January 3, 2017

MEMORANDUM FOR THE MANAGER, THOMAS JEFFERSON SITE OFFICE

FROM:

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

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

SUBJECT:

INFORMATION: Assessment Report on the “Audit Coverage of Cost Allowability for Jefferson Science Associates LLC During Fiscal Years 2011 – 2014 Under Department of Energy Contract No. DE-AC05-06OR23177”

BACKGROUND

Jefferson Science Associates, LLC (JSA) has managed and operated Thomas Jefferson National Accelerator Facility (Jefferson Lab) since April 2006. JSA is a partnership between Southeastern Universities Research Association and PAE Applied Technologies that contracts with the Department of Energy. Jefferson Lab, part of the Department’s Office of Science, provides a nuclear physics user facility to enable the international user community to conduct scientific research. During fiscal years (FYs) 2011 through 2014, JSA incurred and claimed costs of \$709,106,083.54.

FISCAL YEAR	CLAIMED COSTS
2011	\$214,471,012.67
2012	179,439,121.99
2013	169,355,941.72
2014	145,840,007.16
Total	\$709,106,083.54

As a non-integrated management and operating contractor, JSA’s financial management system is linked with the Department’s accounts through the use of the U.S. Department of Energy Cost Management Report (DOE form 533M), which is provided to the Contracting Officer on a monthly and fiscal year basis in accordance with the requirement of Department of Energy Acquisition Regulation 970.5204-2, “*Laws, Regulations, and DOE Directives.*” JSA 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 as well as 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 (Strategy) to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. The Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs that are claimed by contractors. The Strategy also requires that audits performed by Internal Audit must, at a minimum, meet the standards prescribed by the Institute of Internal Auditors (IIA Standards). Consistent with the Strategy, JSA 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, JSA is required to conduct or arrange for audits of its subcontractors when incurred costs are a factor in determining the amount payable to a subcontractor.

To help ensure that audit coverage of cost allowability was adequate for FYs 2011 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;
- JSA conducted or arranged for audits of its subcontractors when incurred costs were a factor in determining the amount payable to a subcontractor; and
- JSA adequately resolved questioned costs and internal control weaknesses affecting allowable costs that were identified in prior audits and reviews.

## RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by JSA's Internal Audit could not be relied upon. We did not identify any material control weaknesses with the cost allowability audits, which generally met IIA Standards. We noted improvements in Internal Audit's work on engagement planning, work paper documentation, and supervision issues identified in our previous assessment. Additionally, we found that JSA generally arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. Specifically, JSA had 16 active cost-reimbursable subcontracts valued at approximately \$11 million during our review. We found that JSA arranged for an audit of 1 commercial subcontract and obtained results for audits conducted under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the remaining 15 cost-reimbursable subcontracts with universities. Finally, JSA's Internal Audit identified \$26,672.23 in questioned costs as part of its allowable cost audits and other reviews in FYs 2011 through 2014, of which \$5,031 identified during the audit of the commercial subcontract had not been resolved. Therefore, we are questioning this amount.

## RECOMMENDATION

We recommend that the Manager, Thomas Jefferson Site Office, direct the Contracting Officer to:

1. Ensure the \$5,031 in questioned costs identified by Internal Audit are resolved, and recover those amounts determined to be unallowable.

## MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management agreed with the findings, concurred with the recommendation, and proposed a planned corrective action that was responsive to our recommendation.

Management's comments are included in Attachment 1.

## SCOPE AND METHODOLOGY

This assessment was performed from May 2016 to January 2017 at Jefferson Lab, located in Newport News, Virginia. The assessment was limited to Internal Audit's activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affect costs claimed by JSA on its Statement of Costs Incurred and Claimed for FYs 2011 through 2014. The assessment was conducted under Office of Inspector General project number A16GT042.

To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit for FYs 2011 through 2014;
- Conducted auditor and procurement personnel interviews;
- Retested a sample of incurred cost transactions reviewed by Internal Audit in its FY 2014 allowable cost audit;
- Reviewed policies and procedures for identifying subcontracts that require audit and arranging such audits;
- Assessed subcontract audit status; and
- Evaluated resolutions 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.

When assessing the allowable cost audit work conducted by Internal Audit, we reviewed 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. For our retest of incurred cost transactions reviewed by Internal

Audit, we judgmentally selected 10 percent of the payroll, accounts payable, employee relations, payroll employee morale, purchase card, relocation, travel, employee detail, and subcontract transactions.

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; 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 verified the accuracy of the data and determined it was sufficiently reliable for the purposes of the assessment.

Management waived an exit conference on December 14, 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 used for and should not be used by anyone other than these specified parties.

Attachment



**Department of Energy**  
Thomas Jefferson Site Office  
12000 Jefferson Avenue, Suite 14  
Newport News, Virginia 23606

Attachment 1

December 8, 2016

MEMORANDUM FOR JACK ROUCH  
DEPUTY ASSISTANT INSPECTOR GENERAL  
FOR AUDITS  
OFFICE OF INSPECTOR GENERAL, IG-302

FROM: JOSEPH ARANGO, MANAGER  
THOMAS JEFFERSON SITE OFFICE

A handwritten signature in black ink, appearing to read "Joseph Arango", is written over the printed name and title.

SUBJECT: MANAGEMENT RESPONSE TO THE OFFICE OF INSPECTOR GENERAL'S  
DRAFT ASSESSMENT REPORT, "AUDIT COVERAGE OF COST ALLOWABILITY  
FOR JEFFERSON SCIENCE ASSOCIATES LLC DURING FISCAL YEARS  
2011-2014 UNDER DEPARTMENT OF ENERGY CONTRACT NO.  
DE-AC05-06OR23177" (A16GT042)

Thank you for the opportunity to review and comment on the subject draft report. We agree with the Office of Inspector General's (OIG's) findings, and our response to the recommendation follows below.

**Recommendation 1:** We recommend that the Manager, Thomas Jefferson Site Office, direct the Contracting Officer to ensure the \$5,031 in questioned costs identified by Internal Audit are resolved, and recover those amounts determined to be unallowable.

**Management Response:** Concur.

**Action Plan:** The questioned costs of \$5,031 were identified during an interim subcontract audit of the cafeteria services subcontract. This commercial subcontract is scheduled to end in the second quarter of FY 2017. The subcontractor has provided additional documentation to substantiate \$571 of these costs to Jefferson Science Associates and \$4,460 still remains outstanding. Before final payment is made to the subcontractor in FY 2017, the Contracting Officer will ensure remaining questioned costs are resolved and recover amounts determined to be unallowable.

**Estimated Completion Date:** December 31, 2017

Technical comments are provided in the attached. If there are any questions or additional information is required, please contact Wayne Skinner, Contracting Officer, Thomas Jefferson Site Office at (757) 269-7143.