



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  
Lawrence Livermore National Security, LLC,  
During Fiscal Year 2013 Under Department of  
Energy Contract No. DE-AC52-07NA27344

OAI-V-16-01

October 2015

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**Department of Energy**  
Washington, DC 20585

October 27, 2015

MEMORANDUM FOR THE MANAGER, LIVERMORE FIELD OFFICE

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

FROM: David Sedillo, Director  
Western Audits Division  
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report: "Audit Coverage of Cost Allowability for Lawrence Livermore National Security, LLC, During Fiscal Year 2013 Under Department of Energy Contract No. DE-AC52-07NA27344"

BACKGROUND

Lawrence Livermore National Laboratory (LLNL) is part of the Department of Energy's (Department) National Nuclear Security Administration (NNSA), which has national security responsibilities that include ensuring the safety, security, and reliability of the Nation's nuclear weapons stockpile. NNSA awarded a contract to Lawrence Livermore National Security, LLC, (LLNS) to manage and operate LLNL through September 2019. During fiscal year (FY) 2013, LLNS incurred and claimed costs totaling \$1,517,258,319.

As an integrated management and operating contractor, LLNS' financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. LLNS 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, applicable cost principles, laws, and regulations.

The Department's Office of Inspector General (OIG), the Department's Office of Acquisition and Project 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 Cooperative Audit Strategy, LLNS 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, LLNS is required to conduct or arrange for audits or reviews 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 FY 2013, 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;
- LLNS conducted or arranged for audits or reviews 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 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 Internal Audit for FY 2013 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. Internal Audit identified \$700,707 in questioned costs as part of its allowable cost audits, all of which have been resolved.

In addition, \$18,438 of questioned costs were identified in subcontract audits, and \$39,557 of questioned costs were identified in other audits performed by Internal Audit, all of which have since been resolved or reimbursed to the Department. Further, we found that LLNS conducted reviews of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. LLNS' subcontract reviews resulted in \$123,164 in questioned costs, all of which have been resolved.

We did, however, identify an issue that needs to be addressed to ensure that only allowable costs are claimed and reimbursed to the contractor. Specifically, our testing of a judgmental sample of 15 out of 111 employees' relocation and change-of-station transactions, which was performed independent of Internal Audit's cost allowability audit work, identified questioned costs of \$205.75.

These questioned relocation and change-of-station costs arose because LLNS' relocation and change-of-station policies allowed employees to claim 100 percent of the per diem meals and incidentals expense allowance on their first and last day of travel. The policies conflicted with language in LLNS' contract that only allows for 75 percent of the per diem to be claimed on employees' first and last day of travel. To LLNS' credit, an LLNS official stated the policies will be updated to allow only 75 percent of the per diem allowance on employees' first and last day of travel.

## RECOMMENDATIONS

We recommend that the Manager, Livermore Field Office, direct the Contracting Officer to:

1. Make a determination regarding the allowability of questioned and unresolved costs identified in this report and recover those costs determined to be unallowable; and
2. Ensure that LLNS update its relocation and change-of-station policies to ensure only allowable costs are claimed.

## MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management agreed with the report and concurred with the recommendations. Management's planned actions are responsive to our recommendations. Management's comments are included in Attachment 1.

## SCOPE AND METHODOLOGY

This assessment was performed from September 2014 to October 2015, at LLNL, located in Livermore, California. The assessment was limited to Internal Audit activities, relevant criteria, prior audits and reviews, subcontract reviews, and resolution of questioned costs and internal control weaknesses that affect costs claimed by LLNS on its Statement of Costs Incurred and Claimed for FY 2013. The assessment was conducted under OIG project number A14LL065. To accomplish our objectives, we:

- Assessed allowable cost audit work and subcontract audit work conducted by Internal Audit, including a review of 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 of auditors.
- Assessed subcontract postaward and postperformance reviews conducted by LLNS.
- Randomly selected six transactions previously reviewed during Internal Audit's cost allowability audits and four transactions previously reviewed during Internal Audit's subcontract audits to evaluate whether they were allowable under the contract and Federal regulations.
- Tested employee relocation and change-of-station transactions for 15 of 111 judgmentally selected employees to determine whether LLNS incurred only allowable costs in compliance with applicable Federal regulations, Department requirements, and contract provisions. Because selection was based on a judgmental, or nonstatistical, sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population, or universe, of employees subject to audit.

- Evaluated resolution of questioned costs and control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the OIG, Internal Audit, and other organizations.

We conducted this 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. 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 audit objectives. Based on a recent review of LLNS' information technology controls performed by KPMG, LLP, on behalf of the OIG, we determined that data was sufficiently reliable for the purposes of the review. Management waived an exit conference.

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

MANAGEMENT COMMENTS



Department of Energy  
Under Secretary for Nuclear Security  
Administrator, National Nuclear Security Administration  
Washington, DC 20585



September 29, 2015

MEMORANDUM FOR GREGORY H. FRIEDMAN  
INSPECTOR GENERAL

*Handwritten signature: Rick Haess*

FROM: FRANK G. KLOTZ *FK 9/29/2015*

SUBJECT: Comments on the Office of Inspector General Draft Report Titled "Assessment of Audit Coverage of Cost Allowability for Lawrence Livermore National Security, LLC (LLNS), During Fiscal Year 2013" (A14LL065)

Thank you for the opportunity to review and comment on the subject draft report. We appreciate the auditors' validation of the LLNS internal audit work and recognition of their proactive efforts to self-identify questioned costs. NNSA concurs with the report's recommendations. The contracting officer has already made a determination regarding the allowability of the \$5,507 in questioned costs identified by LLNS related to cost transfers. We will take action to resolve the remaining questioned costs and bring relocation/change-of-station policies in line with contract requirements.

The attachment to this memorandum details the specific actions taken and planned to address each recommendation, as well as timelines for completion. If you have any questions regarding this response, please contact Mr. Dean Childs, Director, Audit Coordination and Internal Affairs, at (301) 903-1341.

Attachment



Attachment

NATIONAL NUCLEAR SECURITY ADMINISTRATION  
Response to Report Recommendations

*Assessment of Audit Coverage of Cost Allowability for  
Lawrence Livermore National Security, LLC (LLNS) During Fiscal Year 2013  
(A14LL065)*

The IG recommends NNSA:

**Recommendation 1:** Make a determination regarding the allowability of questioned and unresolved costs identified in this report and recover those costs determined to be unallowable.

**Management Response: Concur**

Since the time of the audit, the contracting officer determined the \$5,507 in cost transfers questioned by LLNS internal audit were unallowable and recovered those costs on August 19, 2015. The contracting officer will make a final determination on the allowability of the remaining \$205.75 in questioned costs and recover any costs determined to be unallowable, as appropriate. The estimated completion date for resolution of these costs is November 30, 2015.

**Recommendation 2:** Revise Work Instructions to reflect contract terms and Departmental regulations.

**Management Response: Concur**

LLNS will revise its internal work instructions for relocation and change-of-station activities consistent with contract terms and Departmental regulations. In addition, LLNS internal audit will review the remaining relocation and change-of-station transactions to determine if additional questioned costs are present. Any additional questioned costs will be referred to the contracting officer for resolution. The estimated completion date for these activities is March 31, 2016.