



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

# Audit Report

Audit of Incurred Costs for UT-  
Battelle under Department of Energy  
Contract No. DE-AC05-00OR22725  
during Fiscal Year 2012



**Department of Energy**  
Washington, DC 20585

April 21, 2014

MEMORANDUM FOR THE MANAGER, OAK RIDGE NATIONAL LABORATORY  
SITE OFFICE

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Audit of Incurred Costs for UT-Battelle under Department of Energy Contract No. DE-AC05-00OR22725 during Fiscal Year 2012"

BACKGROUND

The attached report presents the results of the audit of costs incurred by UT-Battelle, LLC (UT-Battelle) to manage and operate the Oak Ridge National Laboratory (ORNL) during Fiscal Year (FY) 2012. The Office of Inspector General contracted with an independent certified public accounting firm, KPMG, LLP (KPMG), to determine whether UT-Battelle's incurred costs to manage and operate ORNL for the term October 1, 2011 through September 30, 2012, were allowable, allocable and reasonable.

Since 2000, UT-Battelle has managed and operated ORNL under contract with the Department of Energy (Department). ORNL is the largest science and energy national laboratory in the Department. ORNL's scientific programs focus on materials, neutron science, energy, high performance computing, systems biology and national security. During FY 2012, UT-Battelle incurred and claimed \$1,532,200,040.

As an integrated management and operating contractor, UT-Battelle'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. UT-Battelle 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.

RESULTS OF AUDIT

KPMG concluded that, except for the findings detailed in the attached report, UT-Battelle prepared its FY 2012 Statement of Costs Incurred and Claimed in accordance with applicable

guidance including the Federal Acquisition Regulation, Department of Energy Acquisition Regulations and Cost Accounting Standards regarding accuracy, allowability, allocability and reasonableness of incurred costs.

KPMG identified several issues related to unallowable costs. Specifically, it determined that UT-Battelle improperly included a meal allowance amount when calculating the wage rate, which resulted in an overstatement of FY 2012 costs of \$14,146. As such, KPMG questioned this amount. In addition, KPMG noted that the following allowance reimbursements were in excess of costs incurred: (1) two payroll allowance reimbursements of \$82; (2) one relocation allowance of \$71; and (3) a layoff allowance of \$17,374, which was calculated using an incorrect company service date. Because these were part of a statistical sample, KPMG projected that total FY 2012 costs incurred were overstated by \$44,820 to include unallowable relocation allowance costs of \$2,226 and layoff allowance costs of \$42,954. As such, KPMG questioned this amount. Further, KPMG found that UT-Battelle had calculated the portion of lobbying activities for professional membership fees based on an historical percentage rather than utilizing the invoice amount, thereby underestimating the unallowable lobbying portion of the membership. Finally, KPMG identified subcontractor costs totaling \$45,248,484 for which audits of the subcontractors' final indirect cost rates have not yet occurred. As such, KPMG considered this amount unresolved.

In addition, KPMG noted certain internal control weaknesses. For example, an overpayment was made to an employee for relocation costs reimbursement. While the employee notified UT-Battelle of the error and refunded payment, KPMG determined that the overpayment was made because the amount was not reconciled to receipts and supporting documentation prior to payment. KPMG also found that a duplicate payment was made to a vendor for an employee's relocation costs. UT-Battelle's internal review process discovered the duplicate payment, but the correcting entry was not made until FY 2013, resulting in an overstatement of FY 2012 costs of \$2,261. Further, KPMG noted that the duties for recording and reviewing Significant Event Award amounts were not properly segregated and approval for the award amounts was not retained. Lastly, KPMG determined that UT-Battelle had incorrectly recorded a payment to a commercial vendor as a Government transfer payment in the general ledger.

## RECOMMENDATIONS

We recommend that the ORNL Site Office Manager direct the Contracting Officer to:

1. Ensure that UT-Battelle determine evaluated wage rates in accordance with applicable requirements;
2. Make a determination regarding the allowability of the \$14,146 in overstated claimed costs and recover those amounts determined to be unallowable;
3. Ensure that UT-Battelle reimburses only allowable and incurred relocation costs and properly adjusts for any rebate, allowance or other credit;
4. Make a determination regarding the allowability of the statistically projected unallowable relocation allowance costs of \$2,226 and recover those amounts determined to be unallowable;

5. Ensure that UT-Battelle calculates all severance payments utilizing the correct company service date;
6. Make a determination regarding the statistically projected unallowable layoff allowance costs of \$42,594, less the actual amount that has been reimbursed of \$18,703, or \$23,891, and recover those amounts determined to be unallowable;
7. Ensure that UT-Battelle calculates membership payments accurately by deducting unallowable lobbying percentages based on current information and classify the amount as unallowable membership costs;
8. Ensure that UT-Battelle reviews other membership payments made to identify additional misstatements of lobbying costs;
9. Ensure that final indirect cost rates of the identified subcontracts are audited as required and recover any costs determined to be unallowable;
10. Ensure that UT-Battelle reconciles the amount entered for payment by Payroll to the amount submitted by Accounts Payable;
11. Ensure that UT-Battelle prevents the processing of duplicate relocation payments and processes relocation payments correctly and cancels payments in a timely manner;
12. Ensure that UT-Battelle approves and supports Significant Event Award payments in accordance with contract requirements; and
13. Ensure that UT-Battelle properly codes payment transactions in the general ledger.

#### MANAGEMENT COMMENTS AND AUDITOR RESPONSE

Management generally agreed with the report and recommendations. Management stated that it had taken action on 10 of the recommendations and planned to take action on 3 others. Management also stated in separate technical comments that cost-type subcontracts should be excluded from the amount considered unresolved because not all final vendor documentation had been received. However, we noted that the subcontract period of performance had ended but UT-Battelle did not provide evidence that a closeout audit was requested, thus the costs associated with the cost-type subcontracts should be considered unresolved until such action occurs. Management's completed and planned actions are responsive to our recommendations.

Management's comments are included in Attachment 2.

#### PERFORMANCE AUDIT

KPMG conducted the performance audit in accordance with *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 and conclusions 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, and the conclusions expressed in the report. An exit conference was held with UT-Battelle and Department personnel on February 19, 2014.

#### Attachments

cc: Deputy Under Secretary for Science and Energy  
Acting Director, Office of Science  
Deputy Secretary  
Chief of Staff

*Performance Audit*

*Fiscal Year 2012 Audit of the Statement of Costs  
Incurred and Claimed Under Department of  
Energy Contract No. DE-AC05-00OR22725*

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

Auditee: UT-Battelle, LLC

As of Date: February 19, 2014

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

## Table of Contents

<u>EXECUTIVE SUMMARY</u> .....	2
<u>BACKGROUND</u> .....	6
<u>Auditee Overview</u> .....	6
<u>OBJECTIVE, SCOPE, AND METHODOLOGY</u> .....	6
<u>Objective</u> .....	6
<u>Scope</u> .....	6
<u>Methodology</u> .....	6
<u>RESULTS</u> .....	1
<u>Findings, Recommendations, and Auditee Responses</u> .....	1
<u>Conclusion</u> .....	32
APPENDIX A - Observations.....	33
APPENDIX B - Summary of Subcontractor Audit Status - Flexibly Priced Subcontracts .....	35
APPENDIX C - Summary of Indirect Costs Included in the FY 2012 Statement of Costs Incurred and Claimed .....	39
APPENDIX D - Summary of Prior Year Open Allowable Cost Findings.....	40



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## EXECUTIVE SUMMARY

February 19, 2014

Mr. F. Scott Ward  
Technical Monitor  
U.S. Department of Energy  
Office of Inspector General (OIG)  
Germantown, MD

Dear Mr. Ward:

This report presents the results of the fiscal year ended September 30, 2012 (FY 2012) Statement of Cost Incurred and Claimed (SCIC) Audit to address the performance audit objective related to UT-Battelle, LLC (hereinafter referred to as Auditee or UT-Battelle). Our work was performed during the period May 20, 2013 to February 19, 2014, and our results, reported herein, are as of February 19, 2014.

KPMG was engaged under Work Order No. OIG-2013-10, dated March 20, 2013, to conduct the audit of UT-Battelle's FY 2012 SCIC. This performance audit report presents the results of our audit.

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

Our audit objective was to review the FY 2012 SCIC to determine whether costs claimed were accurate, allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.

The FY 2012 SCIC presented total costs incurred of \$1,532,200,040. We selected statistical samples to test the major claimed cost elements of Labor, Allowances, Procurement, Non-Procurement, Travel and Subcontracts. We selected judgmental samples to test specific cost areas (Dues, Memberships and

Subscriptions; Public Relations and Advertising; Employee Welfare and Morale; Professional and Consultant Services; Lobbying; and, Costs Related to Legal Proceedings).

The following table summarizes our sample testing results, which include costs questioned due to being unallowable as per the Federal Acquisition Regulation (FAR) and the Department of Energy Acquisition Regulation (DEAR). In addition, the tables also present the statistical projection of our sample results to the population of costs incurred:

**Table 1 – Unallowable Costs**

<b>Expense Type</b>	<b>Unallowable Costs [Noted in Sample]</b>	<b>Statistically Projected Total Unallowable Costs</b>	<b>Total Projected Questioned Costs</b>
Labor	\$2	\$14,146 (including estimated taxes)	\$14,146 (including estimated taxes)
Allowances (including Layoff and Relocation Allowances)	\$17,527	\$44,820 (\$41,793 in allowances and \$3,027 in estimated taxes)	\$44,820 (\$41,793 in allowances and \$3,027 in estimated taxes)
Procurement	\$-	\$-	\$-
Non-Procurement	\$-	\$-	\$-
Travel	\$-	\$-	\$-
Subcontracts	\$-	\$-	\$-
Specific Cost Areas – Lobbying	\$10	\$-	\$-
<b>Total Dollars Questioned</b>	<b>\$17,539</b>	<b>\$58,966</b>	<b>\$58,966</b>

#### **Accuracy, Allowability, Allocability, and Reasonableness of Costs**

Our findings relating to unallowable costs and the related questioned costs are as follows:

- For one transaction of our statistical sample of 50 labor transactions, UT-Battelle improperly included the total "meal allowance" amount in the calculation of the evaluated wage rate (i.e., "regular rate"). The regular rate is also the base used to determine the "overtime rate." Upon further review, we determined that this issue was not isolated, and that UT-Battelle had improperly computed both the regular and over time wage rates in FY 2012 and prior years because of a methodology issue. UT-Battelle calculated the total effect on FY 2012 costs as an overstatement of \$14,146, including related employer taxes.
- Two payroll allowance reimbursements from our sample of 54 allowances were in excess of costs incurred by \$82. One layoff allowance was in excess of costs incurred by \$17,374. Supplemental samples of layoff allowance and relocation allowances were tested. One relocation allowance in

our supplemental sample of 29 relocation allowances was in excess of costs incurred by \$71. Because these samples were part of a statistical sample, we project that total FY 2012 costs incurred are overstated by \$44,820, including related employer taxes, as a result of this condition.

- For one of the transactions in our specific cost areas sample of lobbying costs, the amount of membership allocated to lobbying activities was underestimated by \$10; therefore, UT-Battelle overstated total claimed costs.

### Other Matters

While the following matters did not result in questioned costs, we identified certain internal control weaknesses that UT-Battelle should address, as follows:

- We noted the following internal control weaknesses in our testing of Payroll related transactions:
  - An overpayment was made to an employee for reimbursement of relocation costs. The amount entered for payment was not reconciled to the receipts and supporting documentation prior to payment. The employee notified UT-Battelle of the error and refunded the overpayment.
  - A duplicate payment was made to a vendor for relocation costs. The duplicate payment was not corrected until FY 2013, which resulted in an overstatement of the FY 2012 SCIC.
  - The duties for recording and reviewing the Significant Event Award (SEA) amounts to be paid were not properly segregated. In addition, no formal documentation of the approval of the award amounts by the SEA was retained.
- We also noted an error in the coding/classification of cost transactions in the general ledger. We noted in our sample one commercial transaction that was recorded as a Government transfer payment.

We also identified subcontractor costs included in the FY 2012 SCIC amounts that are considered unresolved because audits of those subcontractor's final indirect cost rates have not yet occurred. Appendix B - *Summary of Subcontractor Audit Status – Flexibly-Priced Subcontracts* presents the details of cost-based subcontracts, for which audited indirect rates are needed in order for UT-Battelle to receive final billings. As shown in Appendix B, \$45,248,484 of cost-based subcontract costs are included in UT-Battelle's 2012 SCIC for which final indirect rates are not yet settled.

In addition, while not considered findings, we noted less significant observations, as presented in Appendix A, which include non-compliance with the travel policies in the Cost Accounting Disclosure Statement, the need for improved documentation of policies regarding relocation reimbursements for miscellaneous costs, and the need for UT-Battelle to demonstrate reasonableness for special allocations for indirect costs.

UT-Battelle recorded costs in the incorrect fiscal year for seven sample items tested. Our sample testing indicated that costs incurred by UT-Battelle in FY 2011 (prior to October 1, 2011) and FY 2013 (subsequent to September 30, 2012) were included in the FY 2012 SCIC. However, the misclassification is small between years, and there is not a significant amount of overhead associated with the costs. The recording of costs in the incorrect fiscal year did not have an effect on overall cost allowability.

\* \* \* \* \*

Based upon the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that, except for the findings noted above and detailed in this report, UT-Battelle, LLC has prepared its FY 2012 SCIC in accordance with applicable Government acquisition regulations of the FAR, the Cost Accounting Standards, and the DEAR, regarding accuracy,

allowability, allocability and reasonableness of incurred costs. The net total projection of questioned direct costs, based on the results of the sample tested is \$58,966. UT-Battelle and the DOE will also need to consider the resolution of the unresolved subcontractor costs identified in Appendix B, upon receipt of final incurred cost audits of those subcontractors for FY 2012.

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

This report is intended for the information and use of the U.S. Department of Energy and management of the Auditee. The report is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

KPMG LLP

## BACKGROUND

### *Auditee Overview*

UT-Battelle, LLC (hereinafter referred to as the Auditee or UT-Battelle) manages and operates the Oak Ridge National Laboratory in Oak Ridge, Tennessee, under contract DE-AC05-00OR22725. The Oak Ridge National Laboratory is a Federally Funded Research and Development Center.

## OBJECTIVE, SCOPE, AND METHODOLOGY

### *Objective*

Our audit objective was to review the FY 2012 Statement of Costs Incurred and Claimed (SCIC) to determine whether costs claimed were accurate, allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.

### *Scope*

We conducted our performance audit in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and recommendations based on our audit objective.

Our scope was limited to reviewing the costs reported on the SCIC as incurred by UT-Battelle during the fiscal year ended 2012 (FY 2012). We reviewed the following areas of reported costs for accuracy, allowability, allocability, and reasonableness:

- Labor;
- Allowances;
- Procurement;
- Non-Procurement;
- Travel;
- Subcontracts; and,
- Specific Cost Areas (Dues, Memberships and Subscriptions; Public Relations and Advertising; Employee Welfare and Morale; Professional and Consultant Services; Lobbying; and, Costs Related to Legal Proceedings)

### *Methodology*

We performed the following procedures as part of our audit:

- Reviewed the terms and conditions of the contract;
- Reviewed prior audit history including prior Office of Inspector General (OIG) audit reports, and internal/external audit reports, and other relevant audit history;

- Determined whether there have been any major changes in the internal control structure, policies and procedures, or organizational structure;
- Reviewed applicable rules, regulations and guidance, as necessary;
- Assessed the Auditee's overall risk profile to develop and/or modify existing audit procedures, including:
  - Analytical procedures on the SCIC;
  - Analytical review of operating statement accounts;
  - Consideration of prior audit coverage;
  - Consideration of vulnerable areas, based on the above procedures and discussions with internal audit, IG, and Auditee management;
- Developed detailed audit plan and procedures (tailored existing audit procedures, as applicable)
  - The audit plan included target cost elements and statistical sampling for major disbursement categories;
- Performed on-site audit procedures (fieldwork);
- Performed supervisory reviews;
- Developed written report on subject audit and results of audit;
- Performed quality assurance and sign-off on deliverables; and,
- Coordinated the audit with the DOE OIG, as necessary, including monthly status reports

## RESULTS

Our statistical sample testing results, by cost element, for the period October 1, 2011 through September 30, 2012 are presented below.

The audit program included an overall analytical review of costs incurred, review of internal controls, and risk assessment. These preliminary steps were followed by transaction testing in the following areas: Labor, Allowances, Procurement, Non-Procurement, Travel and Subcontracts. In accordance with the audit program, sample transactions in each of these disbursement areas were tested for accuracy, allowability, allocability, and reasonableness. The statistical sample size for all areas reviewed was based on a confidence level of 90 percent, and a precision rate of plus/minus 5 percent.

### 1. Labor

The Labor universe consisted of 1,211 transactions totaling \$421,016,464.92 in costs. Using statistical sampling, a first stage sample of 18 labor transactions with costs totaling \$15,100,678 was selected. The first stage sample included summary level transactions. The detail for the summary level transactions was obtained and using statistical sampling a second stage sample of 50 labor transactions with costs totaling \$166,339 was selected for review. We verified that the employees paid were bona fide employees working on the contract effort, that executive compensation was paid in accordance with the contract terms, that employee pay rates were in accordance with the approved pay schedules or labor agreements, that payroll cost was computed in accordance with the time records and the pay rates identified in the personnel records and that the salary for the employee was within the range for the respective salary pay scale group.

For one transaction of our statistical sample of 50 labor transactions, UT-Battelle improperly included the total "meal allowance" amount in the calculation of the evaluated wage rate (i.e., "regular rate"). The regular rate is also the base used to determine the "overtime rate." Upon further review, we determined that this issue was not isolated and that UT-Battelle had improperly computed both the regular and over time wage rates in FY 2012 and prior years because of a methodology issue. UT-Battelle calculated the total effect on FY 2012 costs as an overstatement of \$14,146, including related employer taxes. **Finding No. OIG-2013-10-03** discusses this finding further.

## 2. Allowances

The Allowances universe consisted of 8,394 transactions totaling \$14,386,419 in costs. Using statistical sampling, a first stage sample of 39 allowances transactions totaling \$10,618,066 was selected. The first stage sample included summary level transactions. The detail for summary level transactions was obtained and using statistical sampling a second stage sample of 54 allowances totaling \$992,096 was selected for review. We verified that the employees paid were bona fide employees working on the contract effort, allowance costs were computed as reported on the payroll records and rates used in calculating the allowance amounts were accurate.

Exceptions were noted for three transactions.

- One relocation transaction included an overpayment of \$82, \$47.50 relating to a credit for a Homeowner's Association fee that was not considered and \$34.50 for unallowable per diem.
- One severance pay amount was computed using an incorrect company service date, resulting in an overpayment of \$17,374.
- A control weakness was noted relating to an overpayment for reimbursement of relocation costs, which was identified and reimbursed by the employee.

Due to the exceptions noted above in the allowances sample, supplemental statistical samples of 29 relocation and 10 layoff allowances were selected. In the supplemental relocation allowances sample, we noted one exception related to an amount reimbursed in excess of costs by \$71, and a control weakness due to a duplicate payment which was cancelled in FY 2013. In addition, one item was recorded in the incorrect year.

**Finding Nos. OIG-2013-10-02** and **OIG-2013-10-04** discuss the questioned costs due to incorrect or overstated allowance costs invoiced to the Government. **Finding No. OIG-2013-10-01** discusses the control weakness related to the duplicate payment and the overpayment to an employee for reimbursement of relocation costs that was identified and reimbursed by the employee.

## 3. Procurement

The Procurement universe consisted of 151,577 transactions and \$145,425,816 in costs. Using statistical sampling, a sample of 40 Procurement transactions with costs of \$19,712,258 was selected for testing. The sampled transactions were tested for documentation that the item or service was received or rendered, for adequate documentation supporting the costs, for proper general ledger (GL) account distribution, valid approval, mathematical accuracy, and contract allowability. One item was recorded in the incorrect year. No questioned costs were noted.

4. Non-Procurement

The Non-Procurement universe consisted of 43,804 transactions and \$63,737,051 in costs. Using statistical sampling, a sample of 52 Non-Procurement transactions with costs of \$36,471,565 was selected for testing. The sample transactions were tested for documentation that the item or service was received or rendered, proper GL account distribution, adequate supporting documentation, mathematical accuracy, consistency with like transactions, special contract terms, and contract allowability. Five items were recorded in the incorrect year. No unallowable costs were noted.

5. Travel

The travel sample universe consisted of 22,726 transactions totaling \$26,290,924. Using statistical sampling, a sample of 73 travel transactions with costs of \$1,501,264 was selected for testing. The transactions in the sample were reviewed for authorization, approval, correct General Services Administration (GSA)/Meals and Incidental Expenses (M&IE) rates, airfare class, supporting receipts, mathematical accuracy and allowability. No exceptions were found.

6. Subcontracts

The subcontracts sample universe consisted of 38,333 transactions totaling \$534,381,103. Using statistical sampling, a sample of 60 subcontract transactions with costs of \$35,061,425 was selected for testing. Our testing entailed agreeing costs from the general ledger to the supporting invoices and examining the subcontract agreements to ensure the invoices and the scope of services were in accordance with the agreement. We noted no exceptions in our testing of UT-Battelle's FY 2012 subcontract costs.

We identified subcontractor costs that are considered unresolved because audits of those subcontractor's final indirect cost rates have not yet occurred. Appendix B - *Summary of Subcontractor Audit Status - Flexibly-Priced Subcontracts* presents the details of cost-based subcontracts, for which audited indirect rates are needed, in order for UT-Battelle to receive final billings. As shown in Appendix B, \$45,248,484 of cost-based subcontract costs are included in UT-Battelle's 2012 SCIC for which final indirect rates are not yet settled. As such, we consider these costs to be unresolved.

When the sample items noted above that were recorded in the incorrect period from the Allowances, Non-Procurement and Procurement samples are evaluated on an aggregated basis, the misclassification between years is small. Costs of \$764,398 were reported in FY 2012, rather than other fiscal years (\$525,869 in FY 2011 and \$238,529 in FY 2013) and \$303 of FY 2012 costs were recorded in FY 2011. The misclassified FY 2012 costs are approximately 0.05 percent of total reported FY 2012 incurred costs, and therefore do not materially misstate the FY 2012 incurred costs. In addition, the overhead associated with the costs recorded in the incorrect year was not significant. We noted that three items, which include FY 2013 costs, are the types of costs that are paid annually, and would have been considered in compliance with UT-Battelle's Internal Operating Procedure for Prepayments, implemented in May 2012, although one of the transactions in our sample which included FY 2013 costs was dated prior to May 2012. The recording of costs in the incorrect year did not have an effect on overall cost allowability.

The population sample sizes and amounts are summarized in the following table:

Table 2 – Population and Sample Sizes for FY 2012 Testing

Expense Type	Universe Value (\$)	Eliminations (\$)	Population Size	Population Amount (\$)	Sample Size	Sample Amount (\$)
Statistical Samples						
Labor	\$421,020,570	\$4,105	1,211	\$421,016,465	50	\$166,339
Allowances	14,388,285	1,866	8,394	14,386,419	54	992,096
Relocation - Supplemental			207	(included above)	29	230,520
Layoff Allowances - Supplemental			274	(included above)	10	377,360
Procurement	145,425,818	2	151,577	145,425,816	40	19,712,258
Non-Procurement	66,620,378	2,883,327	43,804	63,737,051	52	36,471,565
Travel	26,193,305	(97,619)	22,726	26,290,924	73	1,501,264
Subcontracts	544,585,729	10,204,626	38,333	534,381,103	60	35,061,425
<b>Total</b>	<b>1,218,234,085</b>	<b><u>\$12,996,307</u></b>	<b><u>266,526</u></b>	<b><u>\$1,205,237,778</u></b>	<b><u>368</u></b>	<b><u>\$94,512,827</u></b>
Costs Tested Using Alternative Procedures (See Table 3)	369,026,427					
Reconciling Items*	55,060,473					
<b>Costs per Statement of Costs Incurred and Claimed</b>	<b><u>\$1,532,200,040</u></b>					

\* Our samples were selected from the trial balance detail of cost elements, excluding source cost already included as a first occurrence in other cost element detail. The reconciling items not reported on the SCIC include cost of work performed between DOE entities, miscellaneous cash bill work, and other not included in the Financial Plan and the DOE accounting system, as well as small timing differences in reporting Work for Others (WFO) overruns.

The cost elements that were not tested statistically were tested using alternative procedures. The testing results, by cost element, for the period October 1, 2011 through September 30, 2012, for the cost elements tested using alternative procedures are presented below.

1. Government Transfers

The government transfers universe consisted of costs totaling \$144,023,409. A judgmental sample of 26 government transfers was selected for testing. For each sample item, the supporting documentation was reviewed to determine whether the government transfer payment was an actual transfer of costs incurred by an operational component of DOE or another governmental entity for items or effort provided on behalf of UT-Battelle and whether such payments or related accruals are properly recorded. An exception was noted for one item. A commercial vendor payment was improperly coded as a government transfer payment. **Finding No. OIG-2013-10-06** discusses this matter.

2. Change in Vacation Accrual

The method which UT-Battelle uses to calculate its estimated annual vacation liability was reviewed. In addition, we reviewed the significant periodic accounting entries related to vacation costs to develop an understanding of how the vacation liability is reduced and how the monthly allocation is adjusted for vacation taken versus vacation earned. We noted that UT-Battelle's process for calculating its estimated annual vacation liability appeared reasonable.

3. Fringe

A trend analysis of fringe costs as a percentage of direct labor was performed to determine the reasonableness of the September 30, 2012 balances. Based on the analysis fringe costs appeared reasonably stated. In addition, a judgmental sample of five fringe organizational burden transactions were selected for testing. We verified that the payment was properly approved and supported, costs were allowable per the contract, the costs complied with contract ceilings and limitations, and the employee was a real employee.

4. Award Fee

A review of the calculation of UT-Battelle's FY 2012 management fee was performed to determine if the management fee was properly supported and consistent with the operating contract. The UT-Battelle management fee appeared to be properly supported and consistent with the operating contract and the accrual transactions were accurately calculated and properly recorded.

A review of the FY 2012 award fee accrual was also performed. A judgmental sample of five individual entries was selected for testing. The transactions were reviewed to determine if the award fee accruals were properly supported and consistent with the operating contract. The UT-Battelle award fee accruals appeared to be properly supported, and the related accruals were accurately calculated and properly recorded.

The costs tested using alternative procedures are summarized in the following table:

**Table 3 – FY 2012 Costs Tested Using Alternative Procedures**

Expense Type	Universe Value (\$)
Government Transfers	\$144,023,409
Change in Vacation Accrual	(29,806,308)
Fringe	243,892,536
Award Fee	10,916,790
<b>Total</b>	<b><u>\$369,026,427</u></b>

In addition to the statistical sample testing and alternate procedures performed above over the cost elements, non-statistical samples of five transactions each for the following types of costs were tested for the period October 1, 2011 through September 30, 2012:

- Dues, Memberships and Subscriptions
- Public Relations and Advertising
- Employee Welfare and Morale
- Professional and Consultant Services
- Lobbying
- Costs Related to Legal Proceedings

These costs were reviewed to determine if the costs claimed were incurred, allowable, allocable and reasonable. We noted that for one lobbying cost transaction selected for testing, UT-Battelle based the calculation of the lobbying activities on an historical percentage, rather than the amount on the invoice. **Finding No. OIG-2013-10-07** discusses the unallowable lobbying costs claimed of \$10.30.

As part of our audit procedures, we reviewed the prior audit history including prior OIG audit reports, and internal/external audit reports, and other relevant audit history to identify findings related to the allowability of costs. Appendix D – *Summary of Prior Year Findings* notes the prior year audit findings that were open as of September 4, 2013.

We also performed a limited review of UT-Battelle's indirect cost model. We noted that prior internal reviews identified potential noncompliance concerns related to Cost Accounting Standards (CAS) 410 *Allocation of Business Unit General & Administrative (G&A) Expenses to Final Cost Objectives* and CAS 418 *Allocation of Direct and Indirect Costs*. Appendix C - *Summary of Indirect Costs Included in the FY 2012 SCIC* identifies the amount of indirect costs included in the total costs reported in the FY 2012 SCIC. While not considered a finding, we noted that UT-Battelle could improve its documented rationale for excluding certain costs from the allocation base of its indirect rate calculations and for limiting certain costs in the allocation bases, as discussed in Appendix A – *Observations*.

\* \* \* \* \*

Our audit results are summarized in the following Appendices

- Appendix A – *Observations*
- Appendix B – *Summary of Subcontractor Audit Status - Flexibly-Priced Subcontracts*
- Appendix C – *Summary of Indirect Costs Included in the FY 2012 SCIC*
- Appendix D – *Summary of Prior Year Open Allowable Cost Findings*

***Findings, Recommendations, and Auditee Responses***

Our performance audit resulted in six findings, presented below. We discussed the results of the audit with UT-Battelle in an exit conference held on February 19, 2014.

**Finding No. OIG-2013-10-01 Control Weaknesses – Payroll Related**

*Background:*

Recipients of federal funds are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred, are allocable to the contract, are reasonable, and comply with applicable cost principles.

*Criteria:*

FAR 42.302, *Contract Administration Functions*, states:

- (a) (12) ... The contractor's accounting system should be adequate during the entire period of contract performance. The adequacy of the contractor's accounting system and its associated internal control system, as well as contractor compliance with the Cost Accounting Standards (CAS), affect the quality and validity of the contractor data upon which the Government must rely for its management oversight of the contractor and contract performance.

Prime Contract DE-AC05-00OR22725, Modification No. 341, Section I

I.9 52.203-13, *Contractor Code of Business Ethics and Conduct* (DEC 2008) (c)(2), states:

- (i) The Contractor's internal control system shall—
- (A) Establish standards and procedures to facilitate timely discovery of improper conduct in connection with Government contracts; and,
  - (B) Ensure corrective measures are promptly instituted and carried out.

DEAR 970.0370-1, *Policy*, states:

- (a) Management and operating contractors shall develop and maintain systems of management and quality control to discourage waste, fraud and abuse; and to ensure that components, products, and services that are provided to the Department of Energy (DOE) satisfy the contractor's obligations under the contract.
- (b) As a part of the required overall management structure, the contractor must maintain management control systems which, in compliance with the requirements of the clause at 970.5203-1—

DEAR 970.5203-1, states:

- (a)(1) The Contractor shall be responsible for maintaining, as an integral part of its organization, effective systems of management controls for both administrative and programmatic functions. Management controls comprise the plan of organization, methods, and procedures adopted including consideration of outsourcing of functions by management to reasonably ensure that: the mission and functions assigned to the Contractor are properly executed; efficient and effective operations are promoted; resources are safeguarded against waste, loss, mismanagement, unauthorized use, or misappropriation; all encumbrances and costs that are incurred under the contract and fees that are earned are in compliance with applicable clauses and other current terms, conditions, and intended purposes; all collections accruing to the Contractor in connection with the work under this contract, expenditures, and all other transactions and assets are properly recorded, managed, and reported; and financial, statistical, and other reports necessary to maintain accountability and managerial control are accurate, reliable, and timely.

Condition:

1. As part of our detailed test work, we selected statistical samples of Payroll Allowances, and reviewed the supporting documentation for each transaction to determine if the costs claimed were incurred, allowable, allocable, and reasonable, in accordance with the contract and applicable Government acquisition regulations. We noted that for one item in the sample, an employee was over-reimbursed by \$35,035 for relocation costs. The employee reported the over-reimbursement and refunded the \$35,035.
2. As part of our detailed test work, we selected statistical samples of relocation allowances, and reviewed the supporting documentation for each transaction to determine if the costs claimed were incurred, allowable, allocable, and reasonable, in accordance with the contract and applicable Government acquisition regulations. We noted that for one item in the relocation allowances sample, a duplicate payment was made to a vendor for relocation costs for one employee. UT-Battelle discovered the duplicate payment through internal review processes. In October 2012 (FY 2013) a correcting entry was made; however, due to the fact the correcting entry was not made until FY 2013, FY 2012 costs were overstated by \$2,261.
3. As part of our detailed test work over Payroll Related costs, we selected a non-statistical sample of Fringe Organizational Burden Costs, and reviewed the supporting documentation for each transaction to determine whether the payment was properly approved and supported, the costs were allowable per the contract, the costs comply with contract ceilings and limitations and the employee was a real employee who worked on the contract effort. For one of the items in the sample, which was a Significant Event Award (SEA), we noted that there was no formal documented approval for the amount paid. The amount approved for payment is entered on a spreadsheet by a UT-Battelle employee during the SEA Committee meeting. The same employee who documents the amount to be paid on the spreadsheet during the meeting enters the awards for payment. The individual award amounts which were entered for payment were not reviewed by an SEA Committee member to verify that the amounts paid to the employees were the approved amounts. In addition, insufficient documentation was available to determine whether the amount paid to the employee in our sample was the amount approved by the SEA Committee.

Cause:

1. For the employee that was over-reimbursed by \$35,035 for relocation costs, the individual who recorded the payment incorrectly calculated and entered the amount. The amount entered for payment was not reconciled to the receipts and supporting documentation prior to payment.
2. For the duplicate payment of \$2,261, the vendor invoice was entered twice due to an oversight on the part of the employee submitting the invoice for payment. The payment was entered into the Vendor Reimbursement System which is not programmed to prevent the entry of duplicate invoices. UT-Battelle utilizes a duplicate payment report to identify potential duplicate payments. At the time the payment was made, the duplicate report was run manually in SAP. The employee responsible for reviewing the report overlooked the duplicate.
3. The duties for recording and reviewing the SEA amounts to be paid were not properly segregated. In addition, no formal documentation of the approval of the award amounts by the SEA documentation was retained.

Effect:

1. An employee was overpaid by \$35,035 for reimbursement of relocation costs. The employee notified UT-Battelle of the overpayment and refunded the excess payment by check. Although the error had no overall impact on the FY 2012 costs reported, the overpayment indicates the controls related to the review of relocation payments should be improved.
2. Processing of duplicate payments will cause the SCIC to be misstated. The duplicate payment of relocation costs noted in our sample was corrected in FY 2013. Due to the fact the duplicate payment was not corrected until FY 2013, the FY 2012 SCIC was overstated by \$2,261.
3. The control procedures in place at the time of the payment of the SEA sample item present the opportunity for an individual SEA to be paid for a dollar value which is different from the award amount approved by the SEA Committee. The lack of proper segregation of duties for this process and the lack of formal documented approvals for the award amounts increase the risk of noncompliance with DOE requirements to ensure transactions and assets are properly recorded, managed and reported.

Recommendations:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to ensure that UT-Battelle:

1. Reconciles the amount entered for payment by Payroll to the amount submitted by Accounts Payable;
2. Prevents the processing of duplicate relocation payments and processes relocation payments correctly and cancels them timely; and,
3. Approves and supports SEA payments in accordance with contract requirements.

Management Response:

1. Concur: The Contracting Officer will issue correspondence to the contractor requiring the reconciliation of amounts entered for payment by payroll to the amount submitted by accounts payable.

Action completion date: 11/30/2013

2. Concur: The Contracting Officer will issue correspondence to the contractor requiring them to provide reasonable assurance that necessary steps are taken to prevent processing duplicate relocation payments and to process relocation payments correctly and timely.

Action completion date: 11/30/2013

3. Concur: The Contracting Officer will issue correspondence to the contractor requiring them to provide reasonable assurance that SEA payments are approved and supported in accordance with contract requirements.

Action completion date: 11/30/2013

**Finding No. OIG-2013-10-02 Relocation Allowances – Unallowable Costs and Credits Not Taken**

Background:

Government contractors are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred, are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

Criteria:

Per the Prime Contract, DE-AC05-00OR22725, Modification No. 341, Section J, Appendix A, §6, *Travel and Relocation*, states:

- a. The Contractor may pay transportation, lodging, meals, incidental, relocation, and other expenses for employees or other persons required to travel or move in conjunction with the performance of work under this contract. Allowable costs for travel and relocation include costs according to applicable provisions of the FAR and DEAR, the Federal Travel Regulations, and the Internal Revenue Service auto allowance. The Contractor may deviate in specific instances where it is determined to be economically advantageous to the DOE and to the extent such deviations conform to pertinent regulations and law. The Contractor will maintain records based on its determinations to deviate in specific instances sufficient for audit review.

FAR 31.205-35, *Relocation Costs*, states the following:

- (a) Relocation costs are costs incident to the permanent change of assigned work location (for a period of 12 months or more) of an existing employee or upon recruitment of a new employee. The following types of relocation costs are allowable as noted, subject to the limitations in paragraphs (b) and (f) of this subsection:
  - (1) Costs of travel of the employee and members of the employee's immediate family (see 31.205-46) and transportation of the household and personal effects to the new location.

- (2) Costs of finding a new home, such as advance trips by the employee or the spouse, or both, to locate living quarters, and temporary lodging during the transition period for the employee and members of the employee's immediate family.
- (3) Closing costs incident to the disposition of the actual residence owned by the employee when notified of the transfer (e.g., brokerage fees, legal fees, appraisal fees, points, and finance charges), except that these costs, when added to the costs described in paragraph (a)(4) of this subsection, shall not exceed 14 percent of the sales price of the property sold.

Per the guidance in FAR 31.205-46(a):

- "(1) Costs incurred by contractor personnel on official company business are allowable, subject to the limitations contained in this subsection. Costs for transportation may be based on mileage rates, actual costs incurred, or on a combination thereof, provided the method used results in a reasonable charge. Costs for lodging, meals, and incidental expenses may be based on per diem, actual expenses, or a combination thereof, provided the method used results in a reasonable charge.
- (2) Except as provided in paragraph (a)(3) of this subsection, costs incurred for lodging, meals, and incidental expenses (as defined in the regulations cited in (a)(2)(i) through (iii) of this paragraph) shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily basis the maximum per diem rates in effect at the time of travel as set forth in the—
- (i) Federal Travel Regulations, prescribed by the General Services Administration...
  - (ii) Joint Travel Regulation, Volume 2, DoD Civilian Personnel, Appendix A, prescribed by the Department of Defense, for travel in Alaska, Hawaii, and outlying areas of the United States...; or
  - (iii) Standardized Regulations (Government Civilians, Foreign Areas), Section 925, "Maximum Travel Per Diem Allowances for Foreign Areas," prescribed by the Department of State, for travel in areas not covered in (a)(2)(i) and (ii) of this paragraph."

#### Per Diem Allowances

The Federal Travel Regulations Chapter 302, *Relocation Allowances*, Part 302-4 *Allowances for Subsistence and Transportation*, which addresses allowable costs for permanent change of station (PCS) travel, states the following:

§302-4.200 What per diem rate will I receive for en route relocation travel within CONUS?

Your per diem for en route relocation travel between your old and new official stations will be at the standard CONUS rate (see applicable FTR Per Diem Bulletins available on the Internet at <http://www.gsa.gov/perdiem>). You will be reimbursed in accordance with §301-11.100 through §301-11.102 of this title.

## §301-11.101 What allowance will I be paid for M&amp;IE?

- (a) Except as provided in paragraph (b) of this section, your allowance is as shown in the following table:

When travel is		Your allowance is
More than 12 but less than 24 hours		75 percent of the applicable M&IE rate for each calendar day you are in a travel status.
24 hours or more, on	The day of departure	75 percent of the applicable M&IE rate.
	Full days of travel	100 percent of the applicable M&IE rate.
	The last day of travel	75 percent of the applicable M&IE rate.

## §302-4.201 How are my authorized en route travel days and per diem determined for relocation travel?

Your authorized en route travel days and per diem are determined as follows: The number of authorized travel days is the actual number of days used to complete the trip, but not to exceed an amount based on a minimum driving distance per day determined to be reasonable by your agency. The minimum driving distance shall be not less than an average of 300 miles per calendar day. An exception to the daily minimum driving distance may be made when delay is beyond control of the employee, such as when it results from acts of God or restrictions by Government officials; when the employee is physically handicapped; or for other reasons acceptable to the agency.

Temporary Lodging

The Federal Travel Regulations address the allowable costs for temporary lodging during the transition period for relocating employees. Based on the guidance in §302-6.12 for temporary quarters subsistence expenses (TQSE), an agency may reimburse the employee under the actual expense method unless the agency permits the "lump sum" reimbursements method as an alternative.

The Federal Travel Regulations states in §302-6.100, an agency will pay the actual TQSE incurred by an employee, provided the expenses are reasonable and do not exceed the maximum allowable amount. The "maximum allowable amount" is the "maximum daily amount" multiplied by the number of days the employee actually incurs TQSE not to exceed the number of days authorized, taking into account that the rates change after 30 days in temporary quarters...

Credits

The FAR states the following regarding the treatment of credits, which include credits for relocation allowances:

§31.201-1, *Composition of Total Cost*, states:

- (a) The total cost, including standard costs properly adjusted for applicable variances, of a contract is the sum of the direct and indirect costs allocable to the contract, incurred or to be incurred, plus any allocable cost of money pursuant to 31.205-10, less any

allocable credits. In ascertaining what constitutes a cost, any generally accepted method of determining or estimating costs that is equitable and is consistently applied may be used.

§31.201-5, *Credits*, states:

The applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund. See 31.205-6(j)(3) for rules governing refund or credit to the Government associated with pension adjustments and asset reversions.

DEAR Subchapter I, Agency Supplementary Regulations 970, DOE Management and Operating Contracts §970.5232-2, *Payments and Advances*, states:

(e) Financial Settlement. The Government shall promptly pay to the Contractor the unpaid balance of allowable costs (or other items specifically approved in writing by the Contracting Officer) and fee upon termination of the work, expiration of the term of the contract, or completion of the work and its acceptance by the Government after:

(2) The furnishing by the Contractor of:

- (i) An assignment of the Contractor's rights to any refunds, rebates, allowances, accounts receivable, collections accruing to the Contractor in connection with the work under this contract, or other credits applicable to allowable costs under the contract...

Condition:

UT-Battelle provides assistance to new employees when they are required to relocate as a condition of their new employment. As part of this relocation assistance, the new employee is reimbursed for relocation costs, which include travel costs for the employee and the employee's immediate family members and temporary quarters subsistence expenses.

As part of detailed test work related to Payroll, statistical samples of allowances and a supplemental sample of relocation allowances were selected, and the supporting documentation for each transaction was reviewed to determine if the costs claimed were incurred, allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

For two of the relocation allowance transactions in our statistical samples (one item from the supplemental relocation sample and one item from the payroll allowances sample), unallowable costs were claimed, as follows:

- 1) We noted one expense item in our sample where an employee was reimbursed for temporary quarters subsistence expenses using the actual expense method for an amount in excess of actual costs. As shown in the table below, the employee was reimbursed for temporary lodging on a pro-rated basis for the period 3/13/12 – 4/17/12 for a total of \$1,608.00. The actual charges based on the documentation from the temporary housing provider include pro-rated rent for the period 3/13/12 – 3/30/12 of \$778.00, and rent and fees of \$1,340.00 for the period 4/1/12 – 4/30/12, for a total of \$1537.33. Therefore, the employee was reimbursed \$70.67 more than the actual costs incurred.

	<u>3/13/12 - 3/31/12</u>	<u>4/1/12 - 4/17/12</u>	<u>Total</u>
Reimbursed by ORNL	848.67	759.33	\$1,608.00
Calculated by KPMG	778.00	759.33	<u>1,537.33</u>
		Difference	<u><u>\$70.67</u></u>

- 2) We noted that for one allowance transaction selected for detailed testing, UT-Battelle did not properly include a homeowners association (HOA) statement fee credit in the amount of \$47.50 as an offset in determining total reimbursable home selling costs for an employee. In addition, \$34.50 of per diem was paid to the employee for a one day trip to close on the sale of the employee's former residence. Lodging was not required for the trip. The employee traveled 261.7 miles roundtrip, and the estimated driving time was 4 hours 22 minutes. The trip does not appear to meet the FTR requirements for the per diem reimbursement to be allowable. In total, the employee was overpaid by \$82.00 for relocation expenses.

Cause:

- 1) For the reimbursement of expenses in excess of actual costs for temporary lodging, the reimbursement amount was improperly calculated. The employee was reimbursed for temporary quarters subsistence expenses based on UT-Battelle's calculation of the temporary lodging based on the number of days between March 13 and April 17, 2012, rather than on the actual costs incurred. The receipt from the lodging provider did not include charges for March 31, 2012, which contributed to the difference. The charges were reviewed and approved; however, the error was not discovered.
- 2) For the credit which was improperly excluded from the calculation of the total reimbursable home selling costs, UT-Battelle's review of the submitted home selling cost support did not adequately identify the available credit. However, we noted that other applicable credits were properly included in making the final determination of the home selling costs. For \$34.50 of unallowable per diem, which was reimbursed to the employee, UT-Battelle's review of the Relocation Expense Report submitted by the employee did not identify the unallowable costs.

Effect:

Employees were over-paid for relocation expenses and accordingly, UT-Battelle overstated total claimed costs in the amount of \$152.67 for the overpayments to employees in the amount of \$70.67 and \$82.00. When these errors are projected to the population, we estimate with 90 percent confidence that relocation costs of \$2,226 likely exists within the total of claimed relocation costs for FY 2012.

Recommendations:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to:

1. Ensure that UT-Battelle reimburses only allowable and incurred relocation costs and properly adjusts for any rebate, allowance, or other credit; and,
2. Make a determination regarding the allowability of the statistically projected unallowable relocation allowance costs of \$2,226 and recover those amounts determined to be unallowable.

Management Response:

1. Concur: The Contracting Officer will issue correspondence to the contractor requiring stringent oversight and compliance with practices related to processing relocation costs and requests.

Action completion date: 11/30/2014

2. Concur: The Contracting Officer will determine the allowability of costs.

Action completion date: 1/17/2014

**Finding No. OIG-2013-10-03 Classification of Meal Allowances**

Background:

Government contractors are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred and are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

Criteria:

FAR 31.201-2, *Determining Allowability*, states:

- (a) A cost is allowable only when the cost complies with all of the following requirements:
  - (1) Reasonableness.
  - (2) Allocability.
  - (3) Standards promulgated by the Cost Accounting Standards (CAS) Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
  - (4) Terms of the contract.
  - (5) Any limitations set forth in this subpart.
- (b) Certain cost principles in this subpart incorporate the measurement, assignment, and allocability rules of selected CAS and limit the allowability of costs to the amounts determined using the criteria in those selected standards. Only those CAS or portions of standards specifically made applicable by the cost principles in this subpart are mandatory unless the contract is CAS-covered (see Part 30). Business units that are not otherwise subject to these standards under a CAS clause are subject to the selected standards only for the purpose of determining allowability of costs on Government contracts. Including the selected standards in the cost principles does not subject the business unit to any other CAS rules and regulations. The applicability of the CAS rules and regulations is determined by the CAS clause, if any, in the contract and the requirements of the standards themselves.

- (c) When contractor accounting practices are inconsistent with this Subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.
- (d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

29 CFR Part 778 Subpart B §778.107, *General Standard for Overtime Pay*, states:

The general overtime pay standard in section 7(a) requires that overtime must be compensated at a rate not less than one and one-half times the regular rate at which the employee is actually employed. The regular rate of pay at which the employee is employed may in no event be less than the statutory minimum...If the employee's regular rate of pay is higher than the statutory minimum, his overtime compensation must be computed at a rate not less than one and one-half times such higher rate.

29 CFR Part 778 Subpart B § 778.108, *The "Regular Rate,"* states:

The "regular rate" of pay under the Act cannot be left to a declaration by the parties as to what is to be treated as the regular rate for an employee; it must be drawn from what happens under the employment contract...Section 7(e) of the Act requires inclusion in the "regular rate" of "all remuneration for employment paid to, or on behalf of, the employee" except payments specifically excluded by paragraphs (1) through (7) of that subsection.

29 CFR Part 778 Subpart B § 778.109, *The Regular Rate is an Hourly Rate*, states:

The "regular rate" under the Act is a rate per hour...The regular hourly rate of pay of an employee is determined by dividing his total remuneration for employment (except statutory exclusions) in any workweek by the total number of hours actually worked by him in that workweek for which such compensation was paid.

29 CFR Part 778 Subpart B § 778.110, *Hourly Rate Employee*, states:

- (a) Earnings at hourly rate exclusively. If the employee is employed solely on the basis of a single hourly rate, the hourly rate is the "regular rate." For overtime hours of work the employee must be paid, in addition to the straight time hourly earnings, a sum determined by multiplying one-half the hourly rate by the number of hours worked in excess of 40 in the week.

29 CFR Part 778 Subpart C § 778.200, *Provisions Governing Inclusion, Exclusion, and Crediting of Particular Payments*, states:

- (a) Section 7(e). This subsection of the Act provides as follows:

As used in this section the "regular rate" at which an employee is employed shall be deemed to include all remuneration for employment paid to, or on behalf of, the employee, but shall not be deemed to include:

(2) Payments made for occasional periods when no work is performed due to vacation, holiday, illness, failure of the employer to provide sufficient work, or other similar cause; reasonable payments for traveling expenses, or other expenses, incurred by an employee in the furtherance of his employer's interests and properly reimbursable by the employer; and, other similar payments to an employee which are not made as compensation for his hours of employment [discussed in §§ 778.216 through 778.224].

[See also: The *Fair Labor Standards Act* (FLSA) of 1938, as amended 29 U.S.C. 201, et seq. (e)(2)]

29 CFR Part 778 Subpart C § 778.217, *Reimbursement for Expenses*, states:

- (a) General rule. Where an employee incurs expenses on his employer's behalf or where he is required to expend sums solely by reason of action taken for the convenience of his employer, section 7(e)(2) is applicable to reimbursement for such expenses. Payments made by the employer to cover such expenses are not included in the employee's regular rate (if the amount of the reimbursement reasonably approximates the expenses incurred). Such payment is not compensation for services rendered by the employees during any hours worked in the workweek.
- (b) Illustrations. Payment by way of reimbursement for the following types of expenses will not be regarded as part of the employee's regular rate:
  - (4) "Supper money," a reasonable amount given to an employee, who ordinarily works the day shift and can ordinarily return home for supper, to cover the cost of supper when he is requested by his employer to continue work during the evening hours.
- (c) Payments excluding expenses. It should be noted that only the actual or reasonably approximate amount of the expense is excludable from the regular rate. If the amount paid as "reimbursement" is disproportionately large, the excess amount will be included in the regular rate.

Condition:

Payments to an employee that are not made as compensation for his hours of employment (e.g., "supper money") should not be included in the employee's regular rate (if the amount of the reimbursement reasonably approximates the expenses incurred). Such payment is not compensation for services rendered by the employees during any hours worked in the workweek.

As part of our detailed test work, we selected a statistical sample of labor, and reviewed the supporting documentation for each transaction to determine if the costs claimed were incurred, allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.

We noted that for one labor transaction selected for detailed testing, UT-Battelle improperly included the total "meal allowance" amount in the calculation of the evaluated wage rate (i.e., "regular rate"). The regular rate is also the base used to determine the 50 percent evaluated wage rate (i.e., "overtime rate"); therefore, this resulted in an overstatement of \$0.26 per hour in the evaluated wage rate (i.e., "regular rate") and \$0.13 per hour in the 50 percent evaluated wage rate (i.e., "overtime rate").

Cause:

UT-Battelle relies on U.S. Office of Personnel Management guidance "Fact Sheet: How to Compute FLSA Overtime Pay" to support inclusion of meal allowances in the evaluated wage rate (i.e., "regular rate").

Specifically, it directs "Include **any applicable special rate supplement** or locality payment in the "total remuneration" and "straight time rate of pay" when computing overtime pay under the FLSA. Compute the "hourly regular rate of pay" by dividing the "total remuneration" paid to an employee in the workweek by the number of hours in the workweek for which such compensation is paid."

However, UT-Battelle's characterization of the meal allowance as a "special rate supplement" and inclusion as a component of the evaluated wage rate (i.e., "regular rate") is not consistent with the underlying statutory requirements including FLSA and applicable provisions of 29 CFR Part 778.

Effect:

UT-Battelle overpaid the employee in our sample by \$1.56. As a result, UT-Battelle also overpaid \$0.12 for the employer portion of payroll taxes (\$0.02 for Medicare and \$0.10 for Social Security).

Upon further inquiry of the Auditee, we determined that meal allowances have been included in the calculation of the regular and overtime wage rates in FY 2012 and prior years, which overstated those labor rates. The date that this methodology was adopted is unknown.

At our request, UT-Battelle reviewed labor transactions for FY 2012 and estimated that claimed costs were overstated in total by \$14,146 for FY 2012. We reviewed the estimate prepared by UT-Battelle and determined that it appeared reasonable. In addition, the contracting officer has reviewed the information and did not recommend adjustments be made prior to FY 12.

Recommendations:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to:

1. Ensure that UT-Battelle determine evaluated wage rates (i.e., "regular rate") in accordance with applicable requirements;
2. Make a determination regarding the allowability of the estimated \$14,146 in overstated claimed costs and recover those amounts determined to be unallowable; and,

Management Response:

1. Concur: The Contracting Officer will issue correspondence requiring the contractor to review its evaluated wage rate computation and implement any necessary changes.

Action completion date: Complete review of evaluated wage rate computation by June 30, 2014.

2. Concur: In reviewing this recommendation, the Contracting Officer has determined that the estimated claimed costs of \$14,146 are allowable. The guidance set forth in DOE Acquisition Letter AL-2012-03 entitled "The Allowability of Incurred Costs Due to Contractor Errors" addresses the potential for errors to occur, indicating that it would be unreasonable to operate "a zero error financial system." The guidance goes on to say that if an error occurs and the contractor "was maintaining financial systems that included reasonable controls to mitigate errors, the cost is generally allowable."

Action completion date: 09/30/2013

### **Finding No. OIG-2013-10-04 Severance Payment**

#### **Background:**

Government contractors are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred and are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

#### **Criteria:**

FAR Subpart 31.2, *Contracts with Commercial Organizations*, Section 31.205-6, *Compensation for Personal Services* (g) *Severance Pay*, states:

- (1) Severance pay is a payment in addition to regular salaries and wages by contractors to workers whose employment is being involuntarily terminated. Payments for early retirement incentive plans are covered in paragraph (j)(6) of this subsection.
- (2) Severance pay is allowable only to the extent that, in each case, it is required by—
  - (i) Law;
  - (ii) Employer-employee agreement;
  - (iii) Established policy that constitutes, in effect, an implied agreement on the contractor's part; or
  - (iv) Circumstances of the particular employment.

DE-AC05-00OR22725 Modification No. 341 Section J, Appendix A, §3.3.1 *Severance Pay Benefit*, states:

a. General

Severance pay is payable to an employee who has three months or more of Company Service Credit and who is laid off on account of lack of work— unless the layoff is caused by a temporary suspension of work or the employee was hired for intermittent or casual work or as a temporary worker for a limited time or for a specific project.

If the Contractor reemploys an employee after having been paid a severance payment, Company Service Credit for any subsequent severance payment consideration shall start from the date of such reemployment. If any individuals are reemployed by the

Contractor prior to the end of the period covered by the severance pay (e.g., received 20 weeks severance pay, but reemployed after 15 weeks), the difference must be refunded.

No severance pay is paid to employees who terminate their employment voluntarily, who are discharged, or who resign by Contractor request, except for:

- (1) Medical reasons (i.e., those terminated due to contractor determination of mental or physical inability to perform available work).
- (2) Voluntary Reduction in Force (VRIF) Programs: Situations wherein a reduction in force is necessary in an employee unit and an employee volunteers with Contractor consent to be laid off in the reduction in force in place of another person. All VRIF programs require prior DOE approval.

b. Amount of Severance Pay

Severance pay will be calculated on the basis of the employee's basic rate in effect at the time of layoff (including extended hours' pay, if any, but excluding all overtime premium or shift differential) and may be paid in accordance with the following schedules:

(2) Salaried Employees

<b>Company Service Credit</b>	<b>Severance Pay</b>
Under 3 months	No pay
3 months and under 1 year	Same proportion of 1/4 month's pay as completed months of service are of 12 months
1 year through 25 years of completed service	1 week of pay for every completed year of service. Payment will be capped at 25 years of service

Condition:

UT-Battelle provides severance payments to employees who are laid off on account of lack of work, are discharged, or resign due to medical reasons or due to VRIF Programs.

Severance pay is calculated on the basis of the employee's basic rate in effect at the time of layoff (including extended hours' pay, if any, but excluding all overtime premium or shift differential).

Salaried Employees are paid severance in accordance with the following schedule:

<b>Company Service Credit</b>	<b>Severance Pay</b>
Under 3 months	No pay
3 months and under 1 year	Same proportion of 1/4 month's pay as completed months of service are of 12 months
1 year through 25 years of completed service	1 week of pay for every completed year of service. Payment will be capped at 25 years of service

As part of our detailed test work, we selected a statistical sample of allowances, and reviewed the supporting documentation for each transaction to determine if the costs claimed were incurred, allowable, allocable, and reasonable in accordance with the contract and applicable Government acquisition regulations.

We noted that for one selected transaction, UT-Battelle based the calculation of a severance payment on the incorrect company service date. Accordingly, UT-Battelle improperly utilized 28 years of service in the calculation, which indicated that 1,000 hours of severance pay was owed, and a total severance payment of \$62,050 was made. However, if the correct 18 years of service had been used, based on the correct company service date, only 720 hours of severance pay was owed, and the actual severance payment should have been only \$44,676.

Cause:

UT-Battelle utilizes a formatted Microsoft Excel spreadsheet to calculate each severance payment. It requires direct entry of specified inputs including company service date and the employee hourly rate, and calculates total severance pay based on these inputs. The spreadsheet preparer mistakenly input the incorrect company service date, resulting in the incorrect severance calculation, and subsequent internal reviews failed to adequately identify and correct the error.

Effect:

The employee was overpaid by \$17,374 in his severance amount. As a result, UT-Battelle also overpaid \$1,329.11 for the employer portion of payroll taxes (\$251.92 for Medicare and \$1,077.19 for Social Security taxes) or a total of approximately 7.65 percent of the overpaid severance. UT-Battelle overstated total claimed costs by \$18,703.11. Upon further inquiry with UT-Battelle, the Auditee confirmed that the employee was over-reimbursed. UT-Battelle subsequently reimbursed DOE for the overpayment from corporate funds. We obtained supporting documentation of the refund noting \$18,703.11 was reimbursed from corporate funds to DOE on June 27, 2013. We expanded our review to additional severance payments made in FY 2012. We tested an additional ten severance payments, and no exceptions were noted.

When the \$17,374 error in the severance amount is projected to the population of layoff allowance costs, we estimate with 90 percent confidence that unallowable layoff allowance costs of \$39,567 likely exist within the total claimed layoff allowances for FY 2012. In addition, we estimate that payroll taxes of approximately \$3,027 relate to the projected unallowable severance, for a total projected unallowable amount of \$42,594.

Recommendations:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to:

1. Ensure that UT-Battelle calculates all severance payments utilizing the correct company service date; and,
2. Make a determination regarding the statistically projected unallowable layoff allowance costs of \$42,594, less the actual amount that has been reimbursed of \$18,703, or \$23,891, and recover those amounts determined to be unallowable.

Management Response:

1. Concur: Controls have been implemented in the process to aid in calculating accurate payments as follows: (a) Alerts when Company Service Date (CSD) and Last Hire Date (LHD) are not the same alerting - a potential error; and (b) Calculated cells have been protected to prevent potential error. Contracting Officer will confirm that the contractor has implemented new controls in the process to aid in calculating accurate severance payments utilizing correct service dates.

Action completed 7/11/2013

2. Concur: A 100 percent review of all the remaining FY 2012 layoff allowances was conducted and all were found to be correct. Therefore, no additional unallowable costs were identified. Contracting officer will confirm that the contractor has performed a review of all remaining severance calculations and found all to be correct. If confirmed, a Contracting Officer determination of cost allowability is unnecessary.

Action completed 9/20/2013.

**Finding No. OIG-2013-10-06 Commercial Transaction Coded as Government Transfer Payment**

Background:

Government contractors are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred, are allowable, allocable, and reasonable, in accordance with the contract and applicable government acquisition regulations.

Criteria:

FAR Subpart 31.2, *Contracts with Commercial Organizations*, §31.201-2, *Determining Allowability*, states:

- (a) A cost is allowable only when the cost complies with all of the following requirements:
  - 1) Reasonableness.
  - 2) Allocability.
  - 3) Standards promulgated by the Cost Accounting Standards (CAS) Board, if applicable, otherwise, generally accepted accounting principles and practices appropriate to the circumstances.
  - 4) Terms of the contract.
  - 5) Any limitations set forth in this subpart.
- (b) Certain cost principles in this subpart incorporate the measurement, assignment, and allocability rules of selected CAS and limit the allowability of costs to the amounts determined using the criteria in those selected standards. Only those CAS or portions of standards specifically made applicable by the cost principles in this subpart are mandatory unless the contract is CAS-covered (see Part 30). Business units that are not otherwise subject to these standards under a CAS clause are subject to the selected standards only for the purpose of determining allowability of costs on Government contracts. Including the selected standards in the cost principles does not subject the business unit to any other CAS rules and regulations. The applicability of the CAS rules and regulations is determined by the CAS clause, if any, in the contract and the requirements of the standards themselves.

- (c) When contractor accounting practices are inconsistent with this Subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.
- (d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.

§31.201-4, *Determining Allocability*, states:

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a Government contract if it—

- (a) Is incurred specifically for the contract;
- (b) Benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
- (c) Is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

UT-Battelle's Cost Accounting Standards Board Disclosure Statement (effective 10/1/11) §1.4.0, states:

The cost accounting system serves contract requirements for cost collection and financial reporting commensurate with DOE's funding and programmatic guidelines. It consists of a multi-level cost object structure (general ledger accounts, cost centers, internal orders, and WBS elements,) which reflects the collection of primary cost elements in the general ledger and the association of this cost to the appropriate final cost objectives that are being supported (DOE Program, Capital, Inventory, or Work-for-Others). Primary cost elements are defined as labor, material, subcontracts, and other direct costs. The subsequent distribution and allocation of primary cost will be tracked by cost objects referred to as secondary cost elements. Hierarchical associations are established within the cost object structure as necessary through groupings and settlement rules.

Condition:

UT-Battelle improperly coded a commercial vendor payment as a government transfer payment. The coding was established in the initial purchase requisition as part of the approval process. At that time, the original intent may have been to utilize an operational component of DOE or another governmental entity to provide the necessary labor services. However, a subsequent decision was made to utilize a commercial vendor but no corresponding reclassification of costs was made.

Cause:

UT-Battelle has not established adequate procedures to ensure that the general ledger account entered on the initial purchase requisition is updated on the purchase order based on subsequent modifications through the purchase requisition process. Specifically, if a commercial vendor is substituted for a government operational component of DOE or another governmental entity, the review process does not ensure that the general ledger accounts are updated.

Effect:

When commercial vendor payments are improperly coded as government transfer payments, the documentation does not support an actual transfer of costs incurred by an operational component of DOE or another governmental entity for items or effort provided on behalf of UT-Battelle. Also, the total allocated cost may be over/understated due to the use of the incorrect general ledger account, and the accounting treatment does not appear to meet the relevant CAS requirements or GAAP classification requirements.

Recommendation:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to ensure that UT-Battelle properly codes payment transactions in the general ledger.

Management Response:

Concur: The Contracting Officer will issue correspondence to the contractor requiring action verifying payment transactions are properly recorded in the general ledger.

Action completion date: 6/30/2014

**Finding No. OIG-2013-10-07 Membership Costs**

Background:

Government contractors are responsible for accounting for costs appropriately and need to be able to demonstrate that costs claimed have been incurred, are allowable, allocable, and reasonable in accordance with the contract and applicable government acquisition regulations.

Criteria:

FAR Subpart 31.2, *Contracts with Commercial Organizations*:

31.205-22, *Lobbying and Political Activity Costs*, states:

- (a) Costs associated with the following activities are unallowable:
  - (1) Attempts to influence the outcomes of any Federal, State, or local election, referendum, initiative, or similar procedure, through in kind or cash contributions, endorsements, publicity, or similar activities;
  - (2) Establishing, administering, contributing to, or paying the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections;
  - (3) Any attempt to influence—
    - (i) The introduction of Federal, state, or local legislation, or

- (ii) The enactment or modification of any pending Federal, state, or local legislation through communication with any member or employee of the Congress or state legislature (including efforts to influence state or local officials to engage in similar lobbying activity), or with any government official or employee in connection with a decision to sign or veto enrolled legislation;
- (4) Any attempt to influence—
- (i) The introduction of Federal, state, or local legislation, or
  - (ii) The enactment or modification of any pending Federal, state, or local legislation by preparing, distributing or using publicity or propaganda, or by urging members of the general public or any segment thereof to contribute to or participate in any mass demonstration, march, rally, fund raising drive, lobbying campaign or letter writing or telephone campaign;
- (5) Legislative liaison activities, including attendance at legislative sessions or committee hearings, gathering information regarding legislation, and analyzing the effect of legislation, when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable activities; or
- (6) Costs incurred in attempting to improperly influence (see 3.401), either directly or indirectly, an employee or officer of the Executive branch of the Federal Government to give consideration to or act regarding a regulatory or contract matter.

Condition:

UT-Battelle pays for memberships of employees in certain professional organizations. These costs are allowable under FAR and the prime contract (DE-AC05-00OR22725). However, any costs allocable to lobbying activities by the professional organization are unallowable. UT-Battelle maintains a membership system that contains a table that automatically calculates the unallowable lobbying portion of the membership. The table has a percentage by vendor that is often based on historical information.

As part of our detailed test work on other specific cost areas, including lobbying costs, a non-statistical sample of transactions with lobbying costs was selected and the supporting documentation for each transaction was reviewed to determine if the costs were recorded in compliance with the contract and applicable government acquisition regulations and the Auditee's stated methodology for segregating lobbying related costs.

We noted that for one of the five transactions selected for testing, UT-Battelle based the calculation of the lobbying activities of the American Physical Therapy Association on an historical percentage. However, the invoice contained the current percentage of the Federal, State and Division portions of the membership costs attributed to lobbying activities, which was greater than the historical percentage that UT-Battelle utilized.

Cause:

UT-Battelle utilizes a table in the membership system to calculate the percentage of membership costs to allocate to lobbying activities. These percentages are based, in part, on historical percentages by vendor. However, these historical percentages may not be accurate for a current invoice, and information in the current invoice that differs from the historical percentages should be used in place of historical

percentages. UT-Battelle did not use the most current information, as shown on the invoice, to determine the percentage of lobbying activities for the American Physical Therapy Association invoice we selected for test work.

Effect:

The amount of membership allocated to lobbying activities was underestimated, thus UT-Battelle overstated total claimed costs. While our review of the remaining sample items showed no similar error, the number of similar instances is unknown.

Recommendations:

We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to ensure that UT-Battelle:

1. Calculates membership payments accurately by deducting unallowable lobbying percentages based on current information and classify the amount as unallowable membership costs; and,
2. Reviews other membership payments made to identify additional misstatements of lobbying costs.

Management Response:

1. Concur: The Contracting Officer will issue a correspondence requiring the contractor to provide reasonable assurance that membership payments deduct the appropriate amount of unallowable lobbying percentages.

Action completion date: 11/30/2013

2. Concur: The Contracting Officer will require the contractor to review other membership payments to identify additional misstatements of lobbying costs.

Action completion date: 1/17/2014

**Conclusion**

Based upon the performance audit procedures performed and the results obtained, we have met our audit objectives. We conclude that, except for the findings noted above and detailed in this report, UT-Battelle, LLC has prepared its FY 2012 SCIC in accordance with applicable Government acquisition regulations of the FAR, the CAS, and the DEAR, regarding accuracy, allowability, allocability, and reasonableness of incurred costs. The net total projection of questioned direct costs, based on the results of samples tested, is \$58,966 for FY 2012. UT-Battelle and the DOE will also need to consider the resolution of the unresolved subcontractor costs identified in Appendix B, upon receipt of final incurred cost audits of those subcontractors for FY 2012.

**APPENDIX A*****Observations***

While not considered significant findings, during the course of our audit testing, the following observations were noted, that we bring to the U.S. Department of Energy (DOE)'s attention:

- As part of the testing of the supplemental relocation allowances sample, we noted for one item a lump-sum amount was paid for reimbursement of miscellaneous relocation costs, in lieu of actual costs. Therefore, there was no invoice or receipt for the costs. Payment of a lump-sum amount up to \$5,000 for miscellaneous relocation costs in lieu of actual costs is allowable per Federal Acquisition Regulation (FAR) 31.205-35(b)(5). UT-Battelle, LLC uses the Oak Ridge National Laboratory (ORNL) relocation internal operating procedures. The internal procedures do not specify the amount of relocation allowance that can be provided for miscellaneous relocation costs. The comprehensive policies should be improved to document the amount of relocation allowance to be provided for reimbursement of miscellaneous relocation costs.
- In performing related test work we noted that UT-Battelle calculates ongoing (long-term) living allowances per diem amounts as follows:
  1. Summarize total annual lodging and Meals and Incidental Expenses (M&IE) costs assuming a 30 day month. Rates are based on the prevailing General Services Administration (GSA) per diem rates at the time of the assignment.
  2. Reduce total annual lodging and M&IE costs as required for long term assignments. (Note: From October 10, 2003 to August 30, 2012 the reimbursable rate for off-site assignment per diems was at 80%. Beginning September 1, 2012 the new reimbursable rate for the ongoing living allowances was decreased to 55% per DOE directive).
  3. The adjusted total ongoing living allowance is divided into equal monthly installments and paid to the employee on a monthly basis.

Per discussion with site personnel this methodology has been in place since before ORNL and Y-12 split into separate operations in 2001. There is no formal written policy or procedural guidance documenting the method. It has just been established as the standard operating procedure. We noted that this methodology utilizes an average rate, rather than actual costs, resulting in non-compliance with the Cost Accounting System Disclosure Statement, which states the following:

- 2.7.1 Travel expenses are charged to cost objectives based on a combination of actual and per diem rates. Lodging and subsistence are charged at actual up to, but not to exceed GSA per diem rates, except for exceptions defined in the Federal Travel Regulations.

Per the guidance in FAR 31.205-46(a) costs for lodging, meals, and incidental expenses may be based on (i) per diem, (ii) actual expenses, or (iii) a combination of a fixed amount and actual expenses. Therefore, the methodology is allowable per the FAR. The 2.7.1 Travel Policies in the Cost Accounting System Disclosure Statement need a better description to reflect the procedures performed.

- In our review of the indirect rate design compliance, we noted that a contractor's practices with regard to Cost Accounting Standards (CAS) are considered compliant, absent the Government demonstrating a non-compliance with the Standards. Based on the procedures performed we have not found UT-Battelle non-compliant with the requirements of CAS 410, Allocation of Business Unit General and Administrative (G&A) Expenses to Final Cost Objectives, or CAS 418, Allocation of Direct and Indirect Costs.

However, allowability of the cost is subject to reasonableness. We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to ensure that UT-Battelle demonstrate that:

1. Costs excluded from the CAS 410 G&A allocation base do not benefit from the activities accruing in the G&A cost pool; and,
2. A \$1 million cutoff per year and purchase order is the appropriate limitation for costs included in the CAS 418 allocation bases.

While not required by the CAS or the Federal Acquisition Regulation (FAR), UT-Battelle should also seek a written Advance Agreement from DOE for its special allocations.

**APPENDIX B****Summary of Subcontractor Audit Status- Flexibly-Priced Subcontracts**

SUBCONTRACT (DOCUMENT) NO.	SUBCONTRACTOR'S NAME	SUBCONTRACT VALUE	COSTS INCURRED IN FY2012	AWARD TYPE <sup>1</sup>	STATUS OF FY2012 SUBCONTRACTOR INCURRED COST AUDITS <sup>2</sup>
<b>COST BASED SUBCONTRACTS</b>					
400009518	United Technologies Corporation	\$12,334,269.00	(\$94,272.63)	CS	Status 2
4000033474	Barge Waggoner Sumner & Cannon Inc	\$11,550,097.00	\$96,343.04	CPFF	Status 2
4000071456	Southwest Research Institute	\$9,042,108.38	\$41,361.04	CPFF	Status 2
4000078656	Transportation Research Center, Inc	\$6,011,096.17	\$60,150.14	CPFF	Status 2
4000088231	Superpower, Inc.	\$3,059,827.50	\$280,402.87	CS	Status 2
4000088229	American Superconductor Corporation	\$2,489,103.50	\$164,927.00	CS	Status 2
4000057168	Babcock & Wilcox	\$2,260,855.00	(\$34,049.00)	CPFF	Status 2
4000018973	The University Of Tennessee	\$1,453,318.43	\$85,899.80	CNF	Status 2
4000082090	Sentech Inc	\$1,099,500.00	\$80,237.07	CPFF	Status 2
4000053931	Boston University	\$1,049,982.00	\$7,042.16	CNF	Status 2
4000017036	Babcock & Wilcox Technical Svs Gp,	\$999,035.85	(\$24,940.50)	CPFF	Status 3
4000025262	The University Of Tennessee	\$972,478.29	\$30,617.43	CNF	Status 3
4000059726	Curators Of The University Of Missouri	\$920,000.00	\$11.00	CNF	Status 3
4000103065	Electric Power Research Institute Inc	\$880,899.00	\$322,034.50	CNF	Status 3
4000060996	The Florida State University	\$877,000.00	(\$68.71)	CNF	Status 3
4000082653	The University Of Tennessee	\$513,680.83	\$12,915.16	CNF	Status 3
4000055674	Midwest Research Institute	\$492,672.00	\$2,054.27	CPFF	Status 3
4000102045	General Atomics	\$373,813.00	\$137,126.66	CPFF	Status 3
4000098058	Lockheed Martin Corporation	\$372,260.00	\$189,143.30	CPFF	Status 3
4000097293	The Regents Of The University	\$300,000.00	\$54,787.17	CNF	Status 3
4000029406	North Carolina State University	\$280,292.00	\$1,248.10	CNF	Status 3
4000077388	The University Of Tennessee	\$207,628.00	(\$133.66)	CNF	Status 3
4000078501	Stevens Institute Of Technology Inc	\$200,000.00	\$14,815.88	CNF	Status 3
4000080050	The University Of Tennessee	\$193,905.00	\$4,032.42	CNF	Status 3
4000071849	Lockheed Martin Corporation	\$192,328.00	\$20,915.75	CPFF	Status 3
4000061591	Regents Of University Of California, Davis	\$171,976.00	(\$360.05)	CNF	Status 3
4000105741	The University Of Tennessee	\$164,314.00	\$30,293.76	CNF	Status 3
4000096560	The University Of Tennessee	\$164,039.00	\$13,572.95	CNF	Status 3
4000085868	The University Of Tennessee	\$163,287.00	\$16,976.23	CS	Status 3
4000091846	The University Of Tennessee	\$160,000.00	\$50,772.33	CNF	Status 3
4000086349	Clemson University	\$146,204.00	\$8,747.16	CNF	Status 3
4000090620	Georgia Tech Research Corporation	\$138,450.00	\$10,638.66	CNF	Status 3
4000101818	The University Of Tennessee	\$125,194.00	\$55,534.51	CNF	Status 3
4000054640	Auburn University	\$119,242.00	\$842.69	CS	Status 3
4000101632	University Of Pittsburgh	\$115,500.00	\$3,138.28	CNF	Status 3
4000054791	Babcock & Wilcox	\$109,952.00	\$3,777.00	CPFF	Status 3
4000091400	University Of California, Los Angeles	\$90,002.00	\$7,245.27	CNF	Status 3
4000104014	Texas Engineering Experiment Station	\$80,089.00	\$33,395.66	CNF	Status 3
4000059846	Babcock & Wilcox	\$67,981.00	\$38,590.00	CPFF	Status 3
4000106510	North Carolina State University	\$38,600.00	\$22,485.71	CNF	Status 3
4000103906	Vanderbilt University Medical Center	\$35,000.00	\$6,891.58	CNF	Status 3
4000101188	Texas Tech University	\$33,000.00	\$5,544.75	CNF	Status 3
4000114390	Sonoma State University	\$26,433.00	\$26,433.00	CNF	Status 3
4000095988	Regents Of The University Of Michigan	\$21,742.58	(\$0.01)	CNF	Status 3
4000107099	Massachusetts Institute Of Technology	\$18,056.00	\$12,037.14	CNF	Status 3
4000103437	University Of Maryland	\$15,000.00	\$0.00	CNF	Status 3
4000102176	Northwestern University	\$4,086.42	\$4,078.74	CNF	Status 3
<b>Subtotal - Cost Based Subcontracts</b>		<b>\$60,134,296.95</b>	<b>\$1,803,235.62</b>		
<b>TIME &amp; MATERIAL SUBCONTRACTS</b>					
4000032807	DPRA Inc	\$43,981,229.00	\$130,748.72	TMLH	Status 1
4000082266	Apprise Incorporated	\$13,981,934.65	\$3,713,712.00	TMLH	Status 1
4000104897	Nuclear Consultants And Engineers I	\$12,000,000.00	\$2,403,414.37	TMLH	Status 1
4000058878	Russtech Language Services	\$11,993,192.00	\$1,418,593.31	TMLH	Status 1
4000037900	Mpi Business Solutions Inc	\$11,550,000.00	\$613,564.99	TMLH	Status 1
4000090561	Areva Federal Services LLC	\$11,167,608.08	\$2,343,532.59	TMLH	Status 1
4000106383	Culmen International LLC	\$11,133,337.00	\$1,257,269.35	TMLH	Status 1
4000098451	Kema, Inc.	\$9,700,000.00	\$915,164.03	TMLH	Status 1

SUBCONTRACT (DOCUMENT) NO.	SUBCONTRACTOR'S NAME	SUBCONTRACT VALUE	COSTS INCURRED IN FY2012	AWARD TYPE <sup>1</sup>	STATUS OF FY2012 SUBCONTRACTOR INCURRED COST AUDITS <sup>2</sup>
4000112294	SCI Consulting Services Inc	\$6,208,503.00	\$1,506,576.59	TMLH	Status 1
4000091446	Oak Ridge Design Partnership	\$5,300,000.00	\$675,075.48	TMLH	Status 1
4000081096	Cadre5 LLC	\$5,250,214.27	\$1,335,171.61	TMLH	Status 1
4000091313	Ch2M Hill Inc	\$4,750,000.00	\$372,384.99	TMLH	Status 1
4000085984	Performance Design Technologies	\$4,427,001.00	\$629,172.28	TMLH	Status 1
4000086930	Lancaster Services Incorporated	\$4,250,000.00	\$744,392.86	TMLH	Status 1
4000086958	Kelly Services	\$4,250,000.00	\$746,872.19	TMLH	Status 1
4000105155	Gregg Protection Services Inc	\$4,166,800.00	\$920,547.42	TMLH	Status 1
4000091899	Design Innovations Architects Inc	\$4,000,000.00	\$25,821.98	TMLH	Status 1
4000092003	Engineering Services Group Inc	\$3,975,000.00	\$258,666.12	TMLH	Status 1
4000091819	Smee + Busby Architects Pc	\$3,950,000.00	\$170,075.67	TMLH	Status 1
4000074439	IBM	\$3,873,245.06	\$524,338.93	TMLH	Status 1
4000067532	Cadre5 LLC	\$3,144,716.20	\$368,133.23	TMLH	Status 1
4000088202	Alliant Corporation	\$3,000,000.00	\$281,418.88	TMLH	Status 1
4000108914	Areva Federal Services LLC	\$2,784,301.00	\$697,274.24	TMLH	Status 1
4000095929	Cdi Corporation	\$2,454,505.20	\$584,430.80	TMLH	Status 1
4000091736	Cannon Design Inc.	\$2,300,000.00	\$93,154.02	TMLH	Status 1
4000107166	Kema, Inc.	\$2,200,000.00	\$634,949.82	TMLH	Status 1
4000101683	Process Engineering Associates, LLC	\$2,065,127.40	\$175,813.98	TMLH	Status 1
4000100876	Sobran, Inc.	\$2,034,302.16	\$640,714.33	TMLH	Status 1
4000085793	Restoration Services Inc	\$2,000,000.00	\$421,719.01	TMLH	Status 1
4000110823	Alloy Fabrications Company	\$2,000,000.00	\$264,678.19	TMLH	Status 1
4000089890	Alutiq-Mele LLC	\$1,968,489.00	\$235,633.67	TMLH	Status 1
4000108802	Arcis Government Services LLC	\$1,927,267.20	\$282,371.47	TMLH	Status 1
4000080595	Ritchey Hume	\$1,904,773.00	\$295,055.00	TMLH	Status 1
4000089917	Alutiq-Mele LLC	\$1,861,126.15	\$351,940.24	TMLH	Status 1
4000102972	Waste Management Innovations Inc	\$1,753,909.00	\$249,382.24	TMLH	Status 1
4000091503	Mesa Associates Inc	\$1,685,000.00	\$122,435.99	TMLH	Status 1
4000093803	Summitec Corporation	\$1,679,461.65	\$101,439.37	TMLH	Status 1
4000109678	Remaxco Technologies LLC	\$1,304,176.00	\$416,644.58	TMLH	Status 1
4000094772	Myatt Consulting, Inc.	\$1,250,057.64	\$294,010.16	TMLH	Status 1
4000083414	Nutex, Inc.	\$1,238,139.00	\$186,440.80	TMLH	Status 1
4000081409	Energetics, Inc.	\$1,153,054.00	\$296,725.07	TMLH	Status 1
4000070278	Trident Resource Corporation	\$1,138,985.73	\$235,190.63	TMLH	Status 1
4000090040	Energetics, Inc.	\$1,111,500.00	\$303,688.45	TMLH	Status 1
4000091287	Gc Technical Services Inc	\$1,102,440.00	\$303,283.50	TMLH	Status 1
4000098151	Innovative Design Inc	\$1,055,079.40	\$270,516.93	TMLH	Status 1
4000095073	Instrumental Inc	\$1,030,119.22	\$331,464.14	TMLH	Status 1
4000086960	Denuke Contracting Services, Inc	\$1,000,000.00	\$171,397.01	TMLH	Status 1
4000088437	C. S. Engineering Inc	\$1,000,000.00	\$248,379.77	TMLH	Status 1
4000110758	Heery International, Inc.	\$1,000,000.00	\$111,118.58	TMLH	Status 1
4000114845	Areva Federal Services LLC	\$27,495,977.22	\$130,493.02	TMLH	Status 2
4000040598	Technology Management Company, Inc.	\$24,011,622.39	\$3,425,590.30	TMLH	Status 2
4000057833	Staffme.Net LLC	\$10,191,567.17	\$1,920,606.32	TMLH	Status 2
4000073482	Booz Allen Hamilton Inc	\$3,628,751.45	\$617,092.01	TMLH	Status 2
4000095675	ICF Incorporated, LLC	\$1,509,717.46	\$159,333.45	TMLH	Status 2
4000082692	Cannon Design	\$1,292,362.60	\$1,048.65	TMLH	Status 2
4000055736	Donald Goldberg	\$1,229,787.38	\$32,650.00	TMLH	Status 2
4000077448	Booz Allen Hamilton Inc	\$1,046,880.20	\$252,345.73	TMLH	Status 2
4000084760	Alliant Corporation	\$1,036,000.00	\$330,583.70	TMLH	Status 2
4000079851	Energetics, Inc.	\$865,250.00	\$109,440.51	TMLH	Status 3
4000091553	Shaw Environmental, Incorporated	\$800,000.00	\$73,864.46	TMLH	Status 3
4000107275	High Bridge Associates, Inc.	\$782,110.00	\$537,252.54	TMLH	Status 3
4000097915	National Resource Management LLC	\$779,824.68	\$144,233.18	TMLH	Status 3
4000089277	Cadre5 LLC	\$679,070.00	\$85,946.70	TMLH	Status 3
4000110633	Alion Science And Technology Corpor	\$672,810.00	\$151,800.00	TMLH	Status 3
4000090325	A & N Associates Inc	\$601,900.00	\$277,223.16	TMLH	Status 3
4000102838	National Home Performance Council Inc	\$599,834.95	\$319,059.65	TMLH	Status 3
4000089621	Sentech Inc	\$536,714.32	\$96,400.27	TMLH	Status 3
4000106325	Icf Incorporated, LLC	\$496,425.00	\$143,864.83	TMLH	Status 3
4000087349	Sentech Inc	\$495,410.50	\$113,107.68	TMLH	Status 3
4000091468	Energetics, Inc.	\$495,000.00	\$47,540.43	TMLH	Status 3
4000081467	Public Solutions, Inc.	\$491,042.72	\$101,010.26	TMLH	Status 3
4000103337	Cannon Design Inc.	\$473,723.00	\$358,483.84	TMLH	Status 3
4000101552	ICF Incorporated LLC	\$468,984.00	\$238,208.98	TMLH	Status 3
4000089798	Professional Recruiting & Staffing,	\$442,670.00	\$115,474.50	TMLH	Status 3

SUBCONTRACT (DOCUMENT) NO.	SUBCONTRACTOR'S NAME	SUBCONTRACT VALUE	COSTS INCURRED IN FY2012	AWARD TYPE <sup>1</sup>	STATUS OF FY2012 SUBCONTRACTOR INCURRED COST AUDITS <sup>2</sup>
4000087625	Technical & Field Engineering Inc.	\$434,600.00	\$130,841.49	TMLH	Status 3
4000109874	Innovative Design Inc	\$420,624.00	\$255,423.50	TMLH	Status 3
4000109207	Boston Engineering Corporation	\$404,998.83	\$404,998.83	TMLH	Status 3
4000114253	National Home Performance Council Inc	\$399,997.62	\$135,650.73	TMLH	Status 3
4000096160	Macrosys LLC	\$392,845.59	\$131,404.84	TMLH	Status 3
4000083354	Ingenium Professional Services Inc	\$344,383.00	\$88,608.16	TMLH	Status 3
4000110243	Science Applications International	\$340,123.00	\$69,859.41	TMLH	Status 3
4000102403	BCS Incorporated	\$339,189.00	\$175,340.93	TMLH	Status 3
4000069138	Econotech	\$331,931.40	\$16,773.84	TMLH	Status 3
4000056180	Alliance To Save Energy	\$307,907.39	\$24,748.15	TMLH	Status 3
4000094707	Battelle Memorial Institute	\$298,074.00	\$262,279.64	TMLH	Status 3
4000084820	Navarro Research & Engineering Inc	\$291,000.00	\$33,203.25	TMLH	Status 3
4000113847	Mesa Associates Inc	\$285,175.68	\$31,365.83	TMLH	Status 3
4000074655	XCEL Engineering, Inc.	\$279,682.35	\$65,394.68	TMLH	Status 3
4000057838	Data Support Services	\$272,295.84	\$43,284.52	TMLH	Status 3
4000112230	Pecos, Inc.	\$268,237.00	\$119,843.70	TMLH	Status 3
4000086799	Connexions Group Inc., The	\$266,259.00	\$17,836.63	TMLH	Status 3
4000112759	XCEL Engineering, Inc.	\$230,559.00	\$34,913.24	TMLH	Status 3
4000089873	Information International Associate	\$230,345.21	\$70,952.27	TMLH	Status 3
4000112646	Sentech Inc	\$229,841.84	\$69,289.47	TMLH	Status 3
4000113563	Potts Software LLC	\$226,770.00	\$52,060.00	TMLH	Status 3
4000095181	Barrow Arctic Science Consortium	\$222,214.51	\$184.90	TMLH	Status 3
4000109869	IBM	\$199,000.00	\$100,800.00	TMLH	Status 3
4000105492	Dielectric Communications	\$196,089.88	\$73,697.48	TMLH	Status 3
4000093608	Energetics, Inc.	\$187,500.00	\$54,582.27	TMLH	Status 3
4000076638	Jay Bradsher, Inc.	\$178,866.00	\$37,050.00	TMLH	Status 3
4000112144	Enovation Group LLC	\$176,400.00	\$29,347.92	TMLH	Status 3
4000109349	Diditco Inc	\$165,811.96	\$125,331.75	TMLH	Status 3
4000101038	Martinfederal Consulting LLC	\$151,044.49	\$21,960.09	TMLH	Status 3
4000110595	Disabled American Veterans Company	\$139,297.26	\$139,297.26	TMLH	Status 3
4000102734	Logos Technologies, Inc.	\$128,998.38	\$128,998.38	TMLH	Status 3
4000113879	Disabled American Veterans Company	\$120,893.00	\$24,860.15	TMLH	Status 3
4000112218	Strategic Marketing Innovations Inc	\$120,000.00	\$35,090.97	TMLH	Status 3
4000114232	Erica Lane Enterprises Inc	\$118,679.80	\$31,599.60	TMLH	Status 3
4000081889	MPI Business Solutions Inc	\$112,800.00	\$41,600.00	TMLH	Status 3
4000114500	Relis LLC	\$112,423.20	\$75,797.31	TMLH	Status 3
4000073146	Shaw Environmental & Infrastructure	\$103,723.32	\$16,666.96	TMLH	Status 3
4000112212	Ingenium Professional Services Inc	\$95,424.00	\$33,348.00	TMLH	Status 3
4000114237	Zekiah Technologies Inc	\$90,836.62	\$58,442.85	TMLH	Status 3
4000090206	Stella Group, Ltd.	\$89,943.00	\$3,110.40	TMLH	Status 3
4000096383	Enterprise Security Inc	\$89,308.73	\$24,808.73	TMLH	Status 3
4000098485	National Resource Management LLC	\$87,676.05	\$333.50	TMLH	Status 3
4000111932	Quanta Technology, LLC	\$83,400.00	\$29,445.39	TMLH	Status 3
4000109102	Martinfederal Consulting LLC	\$81,479.58	\$49,209.03	TMLH	Status 3
4000110110	TDS Exhibits, Inc.	\$80,986.00	\$72,696.34	TMLH	Status 3
4000111513	Nobletek	\$80,100.00	\$5,550.00	TMLH	Status 3
4000111240	Ingenium Professional Services Inc	\$80,067.20	\$1,760.64	TMLH	Status 3
4000094025	Imtech Corporation	\$77,260.80	\$19,717.60	TMLH	Status 3
4000104671	Applied Engineering & Technology	\$75,231.00	\$29,166.00	TMLH	Status 3
4000113657	Capital Sales Group LLC	\$73,144.00	\$68,306.33	TMLH	Status 3
4000114907	Alpenglo, Inc.	\$72,000.00	\$43,800.00	TMLH	Status 3
4000087946	Ventyx Inc	\$69,503.13	\$7,600.00	TMLH	Status 3
4000094593	Cool Roof Rating Council Inc	\$66,829.74	\$25,109.09	TMLH	Status 3
4000108569	Sentech Inc	\$64,991.90	\$64,991.90	TMLH	Status 3
4000104030	Altros	\$50,117.55	\$26,878.65	TMLH	Status 3
4000100670	Knight Piesold And Co.	\$49,999.00	\$2,247.25	TMLH	Status 3
4000111156	Temp Systems Inc	\$47,920.00	\$26,846.72	TMLH	Status 3
4000094834	BCS Incorporated	\$47,087.00	\$350.33	TMLH	Status 3
4000104185	National Resource Management LLC	\$40,019.40	\$555.83	TMLH	Status 3
4000112440	Cannonball Hill, Inc.	\$36,000.00	\$22,697.20	TMLH	Status 3
4000098966	Science In Safety	\$32,000.00	\$4,160.00	TMLH	Status 3
4000114002	Martinfederal Consulting LLC	\$31,524.00	\$6,139.38	TMLH	Status 3
4000115069	Xcel Engineering, Inc.	\$30,768.55	\$30,768.55	TMLH	Status 3
4000103164	Sturman Industries, Inc.	\$30,720.00	\$3,801.53	TMLH	Status 3
4000104901	Pervasive Software Inc	\$28,020.00	\$28,020.00	TMLH	Status 3
4000090379	EM Turner English Services	\$26,750.00	\$300.00	TMLH	Status 3

SUBCONTRACT (DOCUMENT) NO.	SUBCONTRACTOR'S NAME	SUBCONTRACT VALUE	COSTS INCURRED IN FY2012	AWARD TYPE <sup>1</sup>	STATUS OF FY2012 SUBCONTRACTOR INCURRED COST AUDITS <sup>2</sup>
4000110610	Ingenium Professional Services Inc	\$25,465.25	\$25,465.25	TMLH	Status 3
4000112720	Pro-2-Serve	\$25,000.00	\$10,219.14	TMLH	Status 3
4000112471	SAP Public Services, Inc.	\$21,769.40	\$20,916.25	TMLH	Status 3
4000115270	Performance Design Technologies	\$20,050.00	\$20,036.52	TMLH	Status 3
4000117071	Wimberly Lawson Wright Daves & Jone	\$14,760.00	\$3,504.00	TMLH	Status 3
4000108969	National Resource Management LLC	\$13,689.00	\$10,494.90	TMLH	Status 3
4000110631	Ingenium Professional Services Inc	\$13,214.40	\$7,928.64	TMLH	Status 3
4000115197	Techcorr USA Management LLC	\$12,972.00	\$12,318.16	TMLH	Status 3
4000069921	Trane U.S. Inc.	\$11,602.00	\$271.76	TMLH	Status 3
4000115243	Andrea Truan Illustration And Desig	\$10,136.25	\$10,136.25	TMLH	Status 3
4000116137	Insite Development Corporation	\$10,000.00	\$1,646.51	TMLH	Status 3
4000114754	CDM Federal Services Inc.	\$9,800.00	\$2,644.16	TMLH	Status 3
4000112608	Disabled American Veterans Company	\$7,620.00	\$1,413.51	TMLH	Status 3
	<b>Subtotal - Time &amp; Material Subcontracts</b>	<b>\$322,211,795.15</b>	<b>\$43,445,248.19</b>		
	<b>Total Subcontracts</b>	<b>\$382,346,092.10</b>	<b>\$45,248,483.81</b>		
<b>Award Type<sup>1</sup>:</b>					
CNF – Cost-No Fee					
CPFF – Cost Plus Fixed Fee					
CPIF – Cost Plus Incentive Fee					
CS – Cost Sharing					
TMHL – Time & Materials/Labor Hour					
<b>Audit Status<sup>2</sup>:</b>					
<b>Status 1:</b> Active subcontract valued at \$1,000,000 or more for which interim audit has been requested but not performed.					
<b>Status 2:</b> Subcontract pending closeout valued at \$1,000,000 or more for which interim and final audit has been requested but not performed.					
<b>Status 3:</b> Subcontract pending closeout valued at less than \$1,000,000 for which final audit has been requested but not performed.					
<b>NOTE:</b> In certain cases incurred costs were offset by accrual amounts resulting in either a net credit or zero balance.					

**APPENDIX C***Summary of Indirect Costs Included in the FY 2012 Statement of Costs Incurred and Claimed*

<b>Indirect Cost Pool</b>	<b>FY 2012 Costs</b>
General and Administrative	\$ 189,727,266
Institutional	27,098,524
Lab Directed Research and Dev Pool	32,902,904
<b>Total</b>	<b>\$ 249,728,694</b>

**APPENDIX D*****Summary of Prior Year Open Allowable Cost Findings***

<i>FY 2010</i>		
Audit Report	Recommendation	Status
IA2011-3	<i>Recommendation 1</i> - Business Services Directorate should determine the allowability of questioned costs we were able to quantify for FY 2010 totaling \$174,541.15 and reimburse DOE for the amount determined to be unallowable.	Corrective actions have been taken. UT-Battelle is awaiting DOE action on the questioned costs.
IA2011-3	<i>Recommendation 2</i> – Business Services and F&O Directorate should take action to avert future AVID purchases of items that are not appropriate based on the circumstances of their use, for example activity drinks consumed by workers who are not subject to heat stress. Also review FY 2011 purchases to identify such items and reimburse government funds for amounts determined to be unallowable.	Corrective Actions have been taken. The recommendation is open pending an effectiveness review by Internal Audit.
IA2011-3	<i>Recommendation 6</i> – Business Services and Nuclear Science & Engineering Directorates should promote other methods of payment for miscellaneous travel expenses for visiting foreign nationals, i.e., methods other than the employee’s ORNL-issued travel cards or personal credit cards.	Corrective Actions have been taken. The recommendation is open pending an effectiveness review by Internal Audit, who is waiting to perform the review until additional costs of this type have been paid.
IA2011-3	<i>Recommendation 10</i> – Business Services Directorate should support efforts to determine and implement a more cost-effective and automated process to account for and reconcile conference expenses.	Corrective actions have been taken. The recommendation is open pending an effectiveness review by Internal Audit.
OAS-V-13-11	<i>Recommendation 1</i> - We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to, using a risk-based approach, ensure that UT-Battelle audits subcontracts as required by its contract, and the IA Implementation Design.	Corrective actions have been taken. This recommendation is open pending review and approval of the Contract Closeout Procedures Document submitted to DOE for review and approval on August 28, 2013.
OAS-V-13-11	<i>Recommendation 2</i> - We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to require UT-Battelle to develop and implement a formal, documented risk assessment process for determining when subcontracts should be subject to close-out audits.	Corrective actions have been taken. This recommendation is open pending review and approval of the Contract Closeout Procedures Document submitted to DOE for review and approval on August 28, 2013.

OAS-V-13-11	<i>Recommendation 3</i> - We recommend that the Manager, Oak Ridge National Laboratory Site Office, direct the Contracting Officer to make a determination regarding the allowability of the unresolved questioned costs identified in this review and recover those amounts determined to be unallowable.	An action plan has been identified. A determination regarding the allowability of unresolved questioned costs has not been made.
<i>FY 2011</i>		
IA2012-7	<p>1. Subcontract Closeout Audit Process:</p> <ul style="list-style-type: none"> <li>• Implement a formal process to provide consistency in performing and documenting risk assessments, reconciliations, and work paper reviews and update desk procedures accordingly. Also, consider utilizing automated work paper software to facilitate formalizing this process and reduce document storage costs.</li> </ul>	Corrective actions have been taken. This recommendation is open pending review and approval of the Contract Closeout Procedures Document submitted to DOE for review and approval on August 28, 2013.
IA2012-7	<p>2. Prepayments</p> <ul style="list-style-type: none"> <li>• Ensure the process established by the recently implemented Internal Operating Procedure (IOP) for authorizing and recording of prepayments results in the proper reporting of prepayments.</li> </ul>	Corrective actions have been taken. This recommendation is open pending an effectiveness review by Internal Audit. UT-Battelle submitted a review of the Prepayment policy which concluded that the provisions of the Prepayment policy are being properly effected and provide an appropriate control mitigating the risk that prepayments are not properly identified and recorded to Internal Audit in response to the recommendation.

	<p>3. Accruals:</p> <ul style="list-style-type: none"> <li>• SAP System Calculation- Ensure the formula programmed in SAP for automatic accruals uses a method determined to provide a reasonable estimate of the allocation of costs to the periods in which they are incurred.</li> <li>• Multiple PO Line Items – Evaluate controls related to posting and cancelling automatic accruals for a group of multiple PO line items and implement corrective actions where appropriate to provide assurance that individual line items are accounted for properly.</li> <li>• Other Inaccurate Accruals – Determine whether other steps should be taken to improve the accrual process to minimize inaccurate accruals.</li> </ul>	<p>Corrective actions have been taken. The recommendation is open pending an effectiveness review by Internal Audit.</p>
IA2012-3	<p>4. Supplement or replace reviews of random samples of travel expense reports by utilizing data mining techniques to target expenses most likely to result in questioned costs.</p>	<p>This recommendation is open pending an effectiveness review by Internal Audit. UT-Battelle began applying data mining techniques in 1<sup>st</sup> quarter fiscal year 2013.</p>



Department of Energy

ORNL Site Office  
P.O. Box 2008  
Oak Ridge, Tennessee 37831-6269

April 2, 2014

MEMORANDUM FOR RICKEY R. HASS  
DEPUTY INSPECTOR GENERAL FOR AUDITS AND INSPECTIONS  
IG-30  
FROM: *M. J. Branton*  
for JOHNNY O. MOORE, MANAGER  
ORNL SITE OFFICE  
SUBJECT: RESPONSE TO THE OFFICE OF INSPECTOR GENERAL'S DRAFT  
ASSESSMENT REPORT, "AUDIT OF INCURRED COSTS FOR UT-BATTELLE  
UNDER DEPARTMENT OF ENERGY CONTRACT NO. DE-AC05-00OR22725  
DURING FISCAL YEAR 2012" (A13YT032)

Thank you for the opportunity to review and comment on the subject draft report. We agree with the Office of Inspector General's findings and recommendations, and our responses to the recommendations follow below. The attachment to this memorandum identifies technical comments to improve the clarity and factual accuracy of the report.

**Recommendation 1:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that UT-Battelle determine evaluated wage rates in accordance with applicable requirements.

**Management Response:** Concur. The Contracting Officer will issue correspondence requiring the contractor to review its evaluated wage rate computation and implement any necessary changes.

**Completion Date:** January 17, 2014

**Recommendation 2:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to make a determination regarding the allowability of the \$14,146 in overstated claimed costs and recover those amounts determined to be unallowable.

**Management Response:** Concur. In reviewing this recommendation, the Contracting Officer has determined that the estimated claimed costs of \$14,146 are allowable. The guidance set forth in DOE Acquisition Letter AL-2012-03 entitled, "The Allowability of incurred Costs Due to Contractor Errors," addresses the potential for errors to occur, indicating that it would be unreasonable to operate "a zero error financial system." The guidance goes on to say that if an error occurs and the contractor "was maintaining financial systems that included reasonable controls to mitigate errors, the costs are generally allowable."

**Completion Date:** September 30, 2013

RICKEY R. HASS

-2-

April 2, 2014

SUBJECT: RESPONSE TO THE OFFICE OF INSPECTOR GENERAL'S DRAFT ASSESSMENT REPORT, "AUDIT OF INCURRED COSTS FOR UT-BATTELLE UNDER DEPARTMENT OF ENERGY CONTACT NO. DE-AC05-00OR22725 DURING FISCAL YEAR 2012" (A13YT032)

**Recommendation 3:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that UT-Battelle reimburses only allowable and incurred relocation costs and properly adjusts for any rebate, allowance or other credit.

**Management Response:** Concur. The Contracting Officer will issue correspondence to the contractor requiring stringent oversight and compliance with practices related to processing relocation costs and requests.

**Estimated Completion Date:** November 30, 2014

**Recommendation 4:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to make a determination regarding the allowability of the statistically projected unallowable relocation allowance costs of \$2,226 and recover those amounts determined to be unallowable.

**Management Response:** Concur. The Contracting Officer will determine the allowability of costs.

**Completion Date:** January 17, 2014

**Recommendation 5:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that UT-Battelle calculates all severance payments utilizing the correct company service date.

**Management Response:** Concur. Controls have been implemented in the process to aid in calculating accurate payments as follows: (a) alerts when Company Service Date (CSD) and Last Hire Date (LHD) are not the same alerting factor-a potential error; and (b) calculated cells have been protected to prevent potential error. Contracting Officer will confirm that the contractor has implemented new controls in the process to aid in calculating accurate severance payments utilizing correct service dates.

**Completion Date:** July 11, 2013

**Recommendation 6:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to make a determination regarding the statistically projected unallowable layoff allowance costs of \$42,594, less the actual amount that has been reimbursed of \$18,703, or \$23,891, and recover those amounts determined to be unallowable.

**Management Response:** Concur. A 100 percent review of all the remaining Fiscal Year (FY) 2012 layoff allowances was conducted and all were found to be correct. Therefore, no additional unallowable costs were identified. The Contracting Officer will confirm that the contractor has performed a review of all remaining severance calculations and found all to be correct. If confirmed, a Contracting Officer determination of cost allowability is unnecessary.

**Completion Date:** September 20, 2013

RICKEY R. HASS

-3-

April 2, 2014

SUBJECT: RESPONSE TO THE OFFICE OF INSPECTOR GENERAL'S DRAFT ASSESSMENT REPORT, "AUDIT OF INCURRED COSTS FOR UT-BATTELLE UNDER DEPARTMENT OF ENERGY CONTACT NO. DE-AC05-00OR22725 DURING FISCAL YEAR 2012" (A13YT032)

**Recommendation 7:** We recommend that the ORNL Site Manager direct the Contracting Officer to ensure that UT-Battelle calculates membership payments accurately by deducting unallowable lobbying percentages based on current information and classify the amount as unallowable membership costs.

**Management Response:** Concur. The Contracting Officer will issue correspondence requiring the contractor to provide reasonable assurance that membership payments deduct the appropriate amount of unallowable lobbying percentages.

**Completion Date:** November 30, 2013

**Recommendation 8:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that UT-Battelle reviews other membership payments made to identify additional misstatements of lobbying costs.

**Management Response:** Concur. The Contracting Officer will require the contractor to review other membership payments to identify additional misstatements of lobbying costs.

**Completion Date:** January 17, 2014

**Recommendation 9:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that final indirect cost rates of the identified subcontracts are audited as required and recover any costs determined to be unallowable.

**Management Response:** A risk assessment of FY 12 contracts will be completed in accordance with current UT-Battelle procedures and the Internal Audit Implementation Design. Additional review and analysis will be conducted on selected contracts and submitted to the Contracting Officer by July 31, 2014. The Contracting Officer will conduct a thorough assessment which evaluates UT-Battelle's Internal Audit Implementation Design and risk-based subcontract audit model to ensure subcontracts are being audited as required and will render an appropriate determination on the allowability of costs incurred by UT-Battelle.

**Estimated Completion Date:** September 30, 2014

**Recommendation 10:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to reconcile the amount entered for payment by Payroll to the amount submitted by Accounts Payable.

**Management Response:** Concur. The Contracting Officer will issue correspondence to the contractor requiring the reconciliation of amounts entered for payment by Payroll to the amount submitted by accounts payable.

**Completion Date:** November 30, 2013

RICKEY R. HASS

-4-

April 2, 2014

SUBJECT: RESPONSE TO THE OFFICE OF INSPECTOR GENERAL'S DRAFT ASSESSMENT REPORT, "AUDIT OF INCURRED COSTS FOR UT-BATTELLE UNDER DEPARTMENT OF ENERGY CONTACT NO. DE-AC05-00OR22725 DURING FISCAL YEAR 2012" (A13YT032)

**Recommendation 11:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to prevent the processing of duplicate relocation payments and process relocation payments correctly and cancel payments in a timely manner.

**Management Response:** The Contracting Officer will issue correspondence to the contractor requiring them to provide reasonable assurance that necessary steps are taken to prevent processing duplicate relocation payments and to process relocation Payments correctly and timely.

**Completion Date:** November 30, 2013

**Recommendation 12:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to approve and support Significant Event Award payments in accordance with contract requirements.

**Management Response:** The Contracting Officer will issue correspondence to the contractor requiring them to provide reasonable assurance that SEA payments are approved and supported in accordance with contract requirements.

**Completion Date:** November 30, 2013

**Recommendation 13:** We recommend that the ORNL Site Office Manager direct the Contracting Officer to ensure that UT-Battelle properly codes payment transaction in the general ledger.

**Management Response:** Concur. The Contracting Officer will issue correspondence to the contractor requiring action verifying payment transactions are properly recorded in the general ledger.

**Estimated Completion Date:** June 30, 2014

If there are any questions or additional information is required, please contact Mark Million, ORNL Site Office Contracting Officer, (865) 576-4523.

Attachment

cc/w attachment:

Merley L. Lewis, CF-50

Janet B. Venneri, SC-41.3

Nathaniel Barker, SC-OR

Claire A. Sinclair, SC-OSO

## CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report that would have been helpful?
5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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