



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

Audit Report

Fiscal Year 2012 Work Performed
Under the Work for Others Program
at Los Alamos National Laboratory

OAS-M-14-03

March 2014



Department of Energy
Washington, DC 20585

March 12, 2014

MEMORANDUM FOR THE MANAGER, LOS ALAMOS FIELD OFFICE

A handwritten signature in cursive script, appearing to read "George W. Collard".

FROM: George W. Collard
Assistant Inspector General
for Audits
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Fiscal Year 2012 Work Performed Under the Work for Others Program at Los Alamos National Laboratory"

BACKGROUND

The attached report presents the results of the audit of Los Alamos National Laboratory's (LANL) Fiscal Year (FY) 2012 Work for Others (WFO) Program. The Office of Inspector General contracted with an independent certified public accounting firm, KPMG, LLP (KPMG), to assess the internal control structure at LANL and determine whether it is effective in achieving the current goals and objectives of the WFO Program.

The Department of Energy (Department) and its semi-autonomous National Nuclear Security Administration (NNSA) provide research and technical assistance to other Federal agencies on a reimbursable, full cost recovery basis through the WFO Program. WFO agreements are also used as a mechanism through which industry can utilize expertise and facilities at LANL, a Federally Funded Research and Development Center. Entities may sponsor LANL scientists to conduct research in a specific area if researchers can be identified with appropriate and unique capabilities, as well as interest and availability. For FYs 2010 through 2012, LANL's WFO activities comprised between 10 and 12.5 percent of its annual funding. Specifically, WFO funding was \$268 million in FY 2010, \$241 million in FY 2011 and \$206 million in FY 2012. However, these figures do not include classified WFO projects, which were not included in the scope of this audit.

RESULTS OF AUDIT

KPMG concluded that, except for the finding detailed in the attached report, LANL implemented internal controls and compliance procedures in FY 2012 that met the Department's WFO Program requirements, as stated in Department regulations, guidance and applicable contract provisions. However, KPMG found that labor costs of certain personnel who primarily supported the WFO Program were not allocated to WFO projects. Rather, the labor costs were allocated as part of the indirect rates to both the Department and WFO projects on an organization-wide basis, rather than using an allocation base that bears a more direct relationship to the support costs. KPMG

estimated that during FY 2012, the Department would have an annual savings of approximately \$2 million by implementing a separate indirect rate for these support organizations. KPMG recommended that LANL and the NNSA Los Alamos Field Office consider the cost benefit of removing the WFO related organization support costs from the general and administrative and program support cost pools, and establish a separate indirect cost pool for allocating these costs to WFO projects and other projects supported by the WFO support organization on a base that has a more direct relationship to the employee's functions.

KPMG identified similar findings related to the misallocation of WFO support costs at Sandia National Laboratories (SNL) and Lawrence Berkeley National Laboratory (LBNL). Specifically, KPMG found that costs associated with the WFO support organizations at SNL and LBNL were included in the general and administrative cost pool that is allocated to both WFO projects and other Department projects on an organization-wide basis. In our report on *Fiscal Year 2011 Work Performed Under the Work for Others Program at Sandia National Laboratories* (OAS-L-13-14, September 2013), KPMG estimated that the Department would have an annual savings of approximately \$2.3 million by implementing a separate indirect rate. As noted in our report on *Fiscal Year 2011 Audit of the Work Performed Under the Work for Others Program at Lawrence Berkeley National Laboratory* (OAS-L-13-10, June 2013), KPMG estimated approximately \$400,000 in annual savings to the Department with the implementation of a separate indirect rate for the support organization at LBNL. In both reports we recommended that SNL and LBNL consider removing the WFO support organization costs from the general and administrative indirect cost pool and establish a separate indirect cost pool for allocating those costs on a base that has a more direct relationship.

Further, KPMG noted that LANL's Ethics and Audit Division performed audits of the LANL timekeeping policies in FY 2009 and FY 2011, and both audits identified employees who did not allocate time proportionately benefiting projects (allocated judgmentally or treated as free work). However, KPMG noted that in comparing the Ethics and Audit Division reports the number of employees who did not allocate time proportionately decreased significantly. Because LANL had taken corrective action and implemented additional policies and procedures for timekeeping, KPMG did not repeat the related findings and recommendations in its report.

RECOMMENDATION

We recommend that the Manager, Los Alamos Field Office, ensure that LANL:

- Consider the cost benefit of removing the WFO support organizations' costs from the general and administrative indirect cost pool and establish a separate indirect cost pool for allocating those costs to WFO projects and other projects supported by the WFO support organizations on a base that has a more direct relationship to the organizations' functions.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

NNSA generally concurred with the finding and recommendation. NNSA stated that it will direct Los Alamos internal auditors to perform a follow-on assessment to confirm whether the WFO support organization costs meet the definition of general and administrative costs under paragraph 30(a)(6) of Cost Accounting Standard (CAS) 410 entitled *Allocation of Business Unit General*

and Administrative Expenses to Final Cost Objectives. If it is determined that some or all of the WFO support functions do not meet the definition of general and administrative costs, then an assessment will be made as to the treatment of the costs under CAS 418, *Allocation of Direct and Indirect Costs*. NNSA also stated that the assessment will be accomplished while taking into consideration the cost benefit of the change to include the materiality of the costs in relation to the total general and administrative pool cost and the administrative costs of managing a separate rate. Management's comments are included in Attachment 2.

Management's corrective actions are responsive to our recommendations.

PERFORMANCE AUDIT

KPMG conducted this 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 our 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 dated February 18, 2014, and the conclusions expressed in the report. An exit conference was waived by NNSA management on February 3, 2014.

Attachments

cc: Deputy Secretary
Acting Administrator, National Nuclear Security Administration
Chief of Staff

Performance Audit

*Fiscal Year 2012 Audit of the Work Performed Under
the Work for Others Program*

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

Auditee: Los Alamos National Laboratory

As of Date: February 18, 2014

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

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KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

EXECUTIVE SUMMARY

February 18, 2014

Mr. Mark Mickelsen
Contracting Officer's Representative
U.S. Department of Energy
Office of Inspector General
1617 Cole Boulevard
Golden, CO 08401

Dear Mr. Mickelsen:

This report presents the results of our audit of Los Alamos National Laboratory's (hereinafter referred to as LANL or Auditee) Fiscal Year (FY) 2012 Work for Others (WFO) Program, conducted to address the performance audit objective described below. Our work was performed during the period June 15 to February 18, 2014, and our results, reported herein, are as of February 18, 2014.

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

The objective of our performance audit was to determine if LANL's WFO Program, in effect for FY 2012, met the internal control and compliance requirements established by DOE that are identified within:

- DOE Order 481.1c;
- DOE Guide 481.1-1;
- Contract Clauses;
- DOE Acquisition Regulations, as applicable, including DEAR 970.1707 and DEAR 970.5217-1; and,
- Additional guidance issued by DOE/NNSA regarding the WFO Program.

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



We identified LANL's key controls related to WFO projects, determined if LANL's pricing and indirect cost structure was consistent with the WFO Program objectives of ensuring full cost recovery, and selected a statistical sample of 30 WFO projects that received new funding in FY 2012 for testing key internal control and compliance attributes identified in applicable DOE guidance.

In our sample of 30 WFO projects, we noted no findings related to the key internal control and compliance attributes identified in applicable DOE guidance for the WFO Program. However, as our performance audit report further describes, we identified the following non-project related finding as a result of the work performed:

- Costs relating to LANL's WFO support organizations were included in the general and administrative cost pool and the program support cost pool that was allocated to both WFO projects and other DOE projects on an organization-wide and program-wide basis respectively, rather than using an allocation base that bears a more direct relationship to the support costs. We estimated that the annual savings to DOE would be approximately \$2.0 million if LANL implemented a separate indirect rate for this support department.

Based upon the performance audit procedures performed and the results obtained, we have met our audit objective. We conclude that, except for the finding noted above and detailed in this report, the Los Alamos National Laboratory implemented internal controls and compliance procedures in FY 2012 that met DOE's WFO Program requirements, as stated in DOE regulations, guidance, and applicable contract provisions.

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

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

Sincerely,

KPMG LLP

BACKGROUND

Program Overview

The U.S. Department of Energy (DOE), and its semi autonomous National Nuclear Security Administration (NNSA) provide research and technical assistance to other Federal agencies on a reimbursable, full cost recovery basis through the Work for Others (WFO) Program. Pursuant to DOE's Work Order No. 2013-09 (Contract No. DE-AT01-07IG01539), dated March 13, 2013, KPMG was engaged to conduct a performance audit of Los Alamos National Laboratory's (LANL or the Auditee) Work for Others (WFO) Program. This audit was focused on determining whether LANL met the internal control and compliance requirements established by DOE to achieve the goals and objectives of the WFO Program in Fiscal Year (FY) 2012.

Auditee Overview

LANL is operated and managed by Los Alamos National Security, LLC (LANS), a private limited liability company formed by the University of California, Bechtel, Babcock & Wilcox Technical Services, and URS Energy and Construction. LANS operates LANL as a contractor for the DOE/NNSA. As a Federally Funded Research and Development Center (FFDRC), LANL may perform work for industry, responding to certain types of solicitations.

Through the DOE/NNSA sponsored WFO Program, LANL provides technical resources and facilities to a variety of other federal agencies. The technology base developed through LANL's work for the DOE/NNSA provides expertise and capabilities not readily found in industry or in other government agencies. Therefore, the WFO Program is designed to contribute technological solutions to agencies and organizations other than the DOE/NNSA. These WFO projects must be consistent with and complementary to LANL and DOE/NNSA missions. Further, the work must not adversely impact LANL's execution of assigned DOE/NNSA programs or be in direct competition with the domestic private sector.

During FY 2012, the Principal Associate Director for Science, Technology and Engineering (PAGSTE) and the Principal Associate Director for Global Security (PADGS) were the responsible line managers for the LANL laboratory-wide WFO Program, depending on the type of sponsor and scope of work to be performed. Program and division offices within these associate directorates, in conjunction with the Chief Financial Officer (CFO), were responsible for the acceptance, oversight and management of WFO projects.

Subsequent to FY 2012 the Principal Associate Director for Global Security (PADGS) served as the responsible line manager for the laboratory-wide WFO Program. Under PADGS, the Global Security-Programs Office (GS-PO) works jointly with the Technology Transfer (TT) Division and the CFO to implement the Other Federal Agency (OFA) and Non Federal Entities (NFE) WFO processes at the Laboratory. The TT Division Office is responsible for oversight and management of the WFO-NFE program, and GS-PO is responsible for oversight and management of the WFO-OFA programs.

The WFO activities have comprised between 10.0 percent and 12.5 percent of LANL's funding and costs, annually, for the past three fiscal years, as shown in the following table:

	Funding (BA) (000,000's)			Operating Costs (000,000's)		
	FY10	FY11	FY12	FY10	FY11	FY12
WFO (a)	\$ 268	\$ 241	\$ 206	\$ 247	\$ 257	\$ 230
Other Reimbursable (b)	14	21	21	53	58	60
DOE (c)	1,853	1,944	1,832	2,037	2,020	1,809
Lab Total	\$ 2,135	\$ 2,206	\$ 2,059	\$ 2,337	\$ 2,335	\$ 2,099
WFO as a percent of total	12.5%	10.9%	10.0%	10.6%	11.0%	11.0%

(a) Other Federal Agency and Non Federal Entity work where DOE O 481 applies

(b) Reimbursable work outside of the scope of DOE O 481 (CRADAs, Integrated Contractors, UK, etc)

(c) DOE funded work

Source: LANL management

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our performance audit was to determine if LANL's WFO Program, in effect for FY 2012, met the key internal control and compliance requirements established by DOE that are identified within:

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

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

Scope

As requested by the DOE Office of Inspector General, the scope of this performance audit was restricted to WFO projects that received new funding between October 1, 2011 and September 30, 2012.

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

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

Methodology

We performed the following procedures as part of our audit:

- Obtained an understanding of LANL's WFO Program;
- Performed walk-throughs of LANL's WFO acceptance/performance process for Federal and non-Federal entities;
- Performed a risk assessment of LANL's WFO Program and identified significant risks;
- Identified key controls related to establishing and maintaining WFO projects;
- Determined if LANL's indirect cost structure was consistent with WFO objectives for recovering all costs incurred on WFO projects;
- Reviewed LANL's timekeeping and labor policies relevant to WFO activities;
- Reviewed LANL's actuarially-determined annual pension costs to test whether those costs were accurately included in the indirect rates charged to WFO projects; and,
- Selected a statistical sample of 30 WFO projects and performed attribute testing to assess whether LANL's controls and compliance procedures address the applicable DOE requirements, and were followed.

RESULTS

The results of our audit procedures are presented below:

1. Control Environment/Key Controls

As a result of our procedures, we noted no finding relating to LANL's development of key controls and processes that met the compliance requirements of DOE's WFO Program.

2. Pricing and Indirect Cost Allocation

Based on our test work, we determined that LANL was allocating costs related to WFO functions of personnel of the CFO Core, Program Administration, and Program Analysts to both WFO projects and other DOE projects, rather than tracking and allocating these costs to WFO projects. This matter is discussed in finding **2012-LANL-WFO-01**.

We further noted that the labor costs of LANL personnel that support new project proposals for the WFO Program (e.g., management directed proposal preparation costs) were included as a component of program development in the associate directorate office support indirect cost pool or program office support indirect cost pool for the associate directorate or program office to which these employees were coded. The associate directorate costs were allocated to both WFO and non-WFO projects on an institutional-wide basis and the program office support costs were allocated to both WFO and non-WFO projects within the specific program office. We considered that labor costs incurred to generate proposals for the WFO Program should have been fully

allocated to the WFO projects; however, we estimated that the related proposal costs were likely less than \$649,000, and the cost that would be necessary to implement a timekeeping system to track proposal development costs and to annually monitor the effects on various division/unit overhead rates would exceed the benefits to be derived. As such, we are not proposing a recommendation related to recording and allocating proposal preparation costs to be allocated over only the WFO projects. Additionally, we noted that subsequent to FY 2012, a single program office became responsible for substantially all of the WFO work at LANL, and consequently, the related proposal preparation costs would be expected to be allocated within that program office.

Our procedures included obtaining an understanding of the defined benefit pensions applicable to LANL employees engaged in the performance of WFO, and whether the actuarially determined annual pension costs were included in the indirect rates charged to WFO projects. Based on our test work, we determined that pension costs were included in the fringe rate and applied to all projects, although certain classes of employees did not earn pension benefits. Pension costs were included in the fringe benefit pool that was allocated on a labor base which included both pensionable and non-pensionable labor. For that reason, pension costs related to personnel working on WFO projects may not have been allocated proportional to the pension benefits earned by those employees, because certain classes of employees in the labor base were not eligible for pension benefits. LANL has taken the position that all fringe costs were a collective cost of the corporation for providing benefits to its employees and provided for a consistent charge for labor for employees within the same "pay band". We discussed this matter with LANL and agreed with its position that it may not be practical or efficient to establish separate fringe benefit pools and incentivize project managers to make inappropriate staffing decisions based upon cost as opposed to qualifications/skills. Therefore, we did not propose a finding in this area.

We determined that an actuarial valuation of the defined benefit plan is performed annually. We noted that the Plan was 98 and 97.4 percent funded for the plan years beginning January 1, 2011 and 2012 respectively and that the actuarial determined minimum required contribution (MRC) was made for both plan years. The unfunded portion represents approximately \$57 million and is being amortized according to the Employee Retirement Income Security Act of 1974 (ERISA) guidelines to be collected within the appropriate years as part of the MRC.

In addition, our procedures included obtaining an understanding of LANL's timekeeping and labor policies relevant to WFO activities. We determined that LANL timekeeping policies are consistent with 100 percent cost recovery for WFO. However, we noted LANL has uncompensated overtime, which requires exempt employees to distribute their effort proportionally to benefiting projects. A risk to DOE of uncompensated overtime is the potential allocation of a disproportionate share of labor when an employee is working on both a WFO and non-WFO project during the same time cycle and works overtime during the cycle. The LANL Ethics and Audit Division performed audits over the LANL timekeeping policies in FY 2009 and FY 2011, and both audits identified employees who did not allocate time proportionately (allocated judgmentally or treated as free work for selected projects). However, we noted in comparing the LANL Ethics and Audit Division reports that the number of employees who did not allocate time proportionately decreased significantly, from 70 to 35 percent in FY 2009 to FY 2011 respectively. We noted that the corrective actions related to these reports have been completed, and we also observed that in recent years, LANL implemented additional policies and procedures such as the implementation of Financial Compliance Group quarterly floor checks and required annual training

on compliance with timekeeping procedures. As such, we will not repeat the findings from LANL's Ethics and Audit Division reports in our report.

3. WFO Project Sample for Internal Control and Compliance Testing

We statistically selected 30 WFO projects that received new funding between October 1, 2011 and September 30, 2012, for testing the key internal control and compliance attributes identified in applicable DOE guidance for the WFO Program and noted no exceptions.

Finding, Recommendation, and Auditee Response

Our performance audit resulted in one finding, presented below. We discussed the results of the audit with LANL Management on September 26, 2013.

Finding No. 2012-LANL-WFO-01

Criteria:

Per DOE Order 522.1, *Pricing of Departmental Materials and Services*, section 4.a.(1), non-DOE entities are required to be charged the full cost of materials and services provided by DOE. Full cost includes all direct costs incurred in performing work, all allocable costs, and a Federal Administrative Charge.

Cost Accounting Standards and the Federal Acquisition Regulation (FAR) Part 31 require that indirect costs be accumulated in logical cost groupings and be distributed to the cost objectives that benefit from the indirect costs.

Condition:

Labor costs of certain WFO support functions were allocated to both DOE and WFO projects as part of the indirect rates. Certain personnel in the CFO Core team, Program Managers and Administrators in the Sponsored Research Office that focus on administering the WFO program at LANL, and CFO Program Analysts assigned to WFO in the GS-PO were included in either the general and administrative (G&A) indirect cost pool or the program support cost pool. The G&A and program support indirect cost pools were allocated to both DOE and WFO projects on an organization-wide basis and program-wide basis respectively, rather than using an allocation base that bears a more direct causal beneficial relationship to the support costs. Because these personnel primarily support the WFO Program, we considered that these costs should have been allocated to WFO projects.

Cause:

The G&A pool costs were allocated to all projects based on a Modified Total Cost input base and the costs related to the program support cost pool were allocated to projects within the Global Security program based on programmatic budget received. Including WFO support costs in these two cost pools caused a portion of WFO related costs to be allocated to DOE's non-WFO projects.

Effect:

We estimated that during FY 2012, approximately \$1.6 million of WFO support costs were inappropriately allocated to non-WFO projects through the G&A rate and approximately \$432 thousand of WFO support costs were inappropriately allocated to non-WFO projects through the program support rate.

Recommendation:

We recommend that LANL consider removing the WFO related costs incurred to support certain personnel of the CFO Core team, Program Managers and Administrators in the Sponsored Research Office, and CFO Program Analysts assigned to WFO in the GS-PO from the G&A and program support cost pools. Further, we recommended that LANL consider the cost benefit of establishing a separate indirect cost pool for allocating these costs to WFO projects and other projects supported by the WFO support organization on a base that has a more direct relationship to the employee's functions.

We did note that in FY 2013 the allocation base for the program support cost pool was changed to direct labor dollars charged within each organization within the program area. However, this change still results in an inequitable distribution of WFO specific costs in the program support pool to non-WFO projects.

We recommend the DOE Los Alamos Field Office consider the cost-benefit of implementing this recommendation, in its oversight of LANL.

Management Response:

Management concurred in principle with this recommendation. NNSA will direct Los Alamos internal auditors to perform a follow-on assessment to confirm whether the WFO support organization costs meet the definition of G&A costs under paragraph 30(a)(6) of Cost Accounting Standard (CAS) 410 entitled Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives. We do not agree with the removal of costs from the G&A pool that meet the definition of G&A.

CAS 402-40 states that all costs incurred for the same purpose, in like circumstances, shall be treated the same. Treating the WFO support costs differently than like support costs, as recommended by the auditors, would violate CAS 402.

If it is determined that some or all of the WFO support functions do not meet the definition of G&A, then an assessment will be made as to the treatment of the costs under CAS 418, Allocation of Direct and Indirect Costs. This will be accomplished while taking into consideration the cost benefit of the change, to include the materiality of the costs in relation to the total G&A pool cost and the administrative costs of managing a separate rate. The Office of Field Financial Management will review any proposed changes to Los Alamos' disclosed cost accounting practices. The estimated completion date for these actions is July 30, 2014.

Auditors' Response:

Management's comments are responsive to our recommendation.

Conclusion

Based upon the performance audit procedures performed and the results obtained, we have met our audit objective. We concluded that, except for the finding noted above and detailed in this report, the Los Alamos National Laboratory implemented internal controls and compliance procedures in effect for FY 2012 that met DOE's WFO Program requirements, as stated in DOE regulations, guidance, and applicable contract provisions.

APPENDIX

List of Agreements Tested

Sample	Type	Sponsor	Funding Document	Proposal #	BA Amt (\$)
1	Federal	DoD	AGRDWIA20003	R-00041-11-0	\$ 5,173,000
2	Federal	DoD	AGR8012306	R-00059-12-0	3,364,000
3	Federal	NIH	AGRAAI12007	R-2379-07-0	2,442,992
4	Federal	DHS	AGRHSHQDC12X00062	R-00050-U-O	1,962,000
5	Federal	NIH	AGR5U54DK09350002	R-39S4-11-0	1,411,309
6	Federal	DHS	AGRHSHQDC12X00243	R-3146-10-0	1,233,866
7	Federal	Dept of State	AGRSIAA12ISNMNSA11	R-00108-12-2	1,024,272
8	Federal	DoD	AGRF2KFAA2108G001	R-1264-09-0	1,000,000
9	Federal	NASA	AGRNNH05AA54I	R-00154-11-0	970,874
10	Federal	DoD	AGRF2TSJA2184G001	R-2745-08-0	814,000
11	Federal	DHS	AGRHSHQDC12X00243	R-3146-10-0	662,000
12	Federal	NASA	AGRNNH05AA54I	R-00154-11-0	451,456
13	Federal	DoD	AGRN0003012MPOK004	R-3427-09-0	400,000
14	Federal	DoD	AGRDTRA10027IA1181	R-00186-12-0	322,044
15	Federal	DoD	AGRN0001412IP20058	R-3871-10-0	300,000
16	Federal	DoD	AGRB108010I	R-00181-12-0	249,986
17	Federal	NASA	AGRNNH11AR28I	R-00169-11-0	130,625
18	Federal	DoD	AGRF1TEXX2060G001	R-00221-12-0	87,379
19	Non-Federal	Florida State University	AGRFIA08025A014	FIA-08-025-A014	5,000,000
20	Non-Federal	Florida State University	AGRFIA08025A0012	FIA-08-025-A012	1,478,485
21	Non-Federal	University of NM	AGRFIA09051A003	FIA-09-051-A003	710,030
22	Non-Federal	Sanmina	AGRFIA10044	NFE-10-0003	622,221
23	Non-Federal	University of California	AGRUCD12004506	NFE-12-0045.06	550,000
24	Non-Federal	University of California	AGRUCD12004521	UCD-12-0045.21	432,913
25	Non-Federal	University of California	AGRUCD12004514	UCO-12-0045.14	324,006
26	Non-Federal	University of California	AGRUCD12004501	UCD-12-0045.01	244,305
27	Non-Federal	Northrup Grumman	AGRFIA09037	FIA-05-004	210,286
28	Non-Federal	N. Arizona University	AGRNF110037	NFB-11-0037	171,300
29	Non-Federal	University of California	AGRUCD12004520	UCD-11-0045.20	107,577
30	Non-Federal	Univ of Medicine & Dentistry	AGRFIA10020A001	FIA-10-020	36,919
				Total	\$ 31,887,846



Department of Energy
National Nuclear Security Administration
Washington, DC 20585



January 10, 2014

MEMORANDUM FOR RICKEY R. HASS

DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM:

CYNTHIA LERSTEN *Cynthia Lersten*
ASSOCIATE ADMINISTRATOR
FOR MANAGEMENT AND BUDGET

SUBJECT:

Comments on the Office of Inspector General Draft Report Titled
"Fiscal Year 2012 Work Performed Under the Work for Others
Program at Los Alamos National Laboratories" (OAS-M-14-XX)

Thank you for the opportunity to review and comment on the subject draft report. I understand the Inspector General (IG) engaged the independent certified public accounting firm, KPMG, LLP (KPMG), to determine whether Los Alamos National Laboratories' Work for Others (WFO) Program met the internal control and compliance requirements established by the Department of Energy. The draft report provides one recommendation for NNSA action from the IG to help ensure effective accounting for the costs of the WFO program. This recommendation is supported by one detailed finding provided in the accompanying report by KPMG.

NNSA appreciates the auditors' time and efforts in reviewing this subject and believes the audit was helpful in efforts to continuously evaluate and monitor compliance with Cost Accounting Standards. NNSA concurs in principle with the IG and KPMG recommendations. The attachment to this memorandum provides NNSA's specific actions and timelines to address the recommendation, including clarifications and qualifications on NNSA's concurrence as appropriate. We have also provided general comments for your consideration to enhance the clarity and factual accuracy of the report. If you have any questions regarding this response, please contact Dean Childs, Director, Audit Coordination and Internal Affairs, at (301) 903-1341.

Attachment



Printed with soy ink on recycled paper

Attachment

**National Nuclear Security Administration (NNSA)
Response to the Inspector General (IG) Draft Report Titled
“Fiscal Year 2011 Work Performed Under the Work for Others Program at
Los Alamos National Laboratories”**

Response to IG Recommendation

The IG recommended NNSA consider the cost-benefit of removing the Work For Others (WFO) support organizations' costs from the General and Administrative (G&A) indirect cost pool and [consider establishing] a separate indirect cost pool for allocating those costs to WFO projects and other projects supported by the WFO support organizations on a base that has a more direct causal beneficial relationship to the organizations' functions.

Management Response: Concur in principle

NNSA will direct Los Alamos internal auditors to perform a follow-on assessment to confirm whether the WFO support organization costs meet the definition of G&A costs under paragraph 30(a)(6) of Cost Accounting Standard (CAS) 410 entitled *Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives*. We do not agree with the removal of costs from the G&A pool that meet the definition of G&A.

CAS 402-40 states that all costs incurred for the same purpose, in like circumstances, shall be treated the same. Treating the WFO support costs differently than like support costs, as recommended by the auditors, would violate CAS 402.

If it is determined that some or all of the WFO support functions do not meet the definition of G&A, then an assessment will be made as to the treatment of the costs under CAS 418, *Allocation of Direct and Indirect Costs*. This will be accomplished while taking into consideration the cost benefit of the change, to include the materiality of the costs in relation to the total G&A pool cost and the administrative costs of managing a separate rate. The Office of Field Financial Management (OFFM) will review any proposed changes to Los Alamos' disclosed cost accounting practices. The estimated completion date for these actions is July 30, 2014.

Attachment

**National Nuclear Security Administration (NNSA)
Response to the Inspector General (IG) Draft Report Titled
“Fiscal Year 2011 Work Performed Under the Work for Others Program at
Los Alamos National Laboratories”**

NNSA Response to KPMG Detailed Finding/Recommendation

Finding No. 2012-LANL-WFO-01: KPMG recommended that Los Alamos consider [the cost benefit of] removing WFO related costs incurred to support certain personnel of the Chief Financial Officer (CFO) Core team, program managers and administrators in the Sponsored Research Office, and CFO program analysts assigned to WFO in the Global Security Program Office from G&A and program support cost pools. Further, KPMG recommended that LANL [consider the cost benefit of establishing] a separate indirect cost pool for allocating these costs to WFO projects and other projects supported by the WFO support organization on a base that has a more direct causal beneficial relationship to the employees’ functions.

Management Response: Concur in principle

NNSA will direct Los Alamos internal auditors to perform a follow-on assessment to confirm whether the WFO support organization costs meet the definition of G&A costs under paragraph 30(a)(6) of Cost Accounting Standard (CAS) 410 entitled *Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives*. We do not agree with the removal of costs from the G&A pool that meet the definition of G&A.

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