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**INSPECTOR GENERAL**  
U.S. DEPARTMENT OF THE INTERIOR



# Closeout Memorandum

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Memorandum

To: Brent Stevenson  
Acting Associate Director of Financial Management, Interior Business Center

From: Nicki Miller *Nicki Miller*  
Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Closeout Memorandum – *Interior Business Center Oversight of Indirect Rate Proposals*  
Report No. 2025-CR-019

In March 2025, we notified your office that we had initiated an audit of the Interior Business Center's (IBC's) Indirect Cost and Contract Audit Division (ICCAD). Our objective was to determine whether ICCAD was verifying the cost data supporting the development of indirect cost rates to ensure rates proposed were allowable, allocable, and reasonable. During the audit, we identified deficiencies in internal controls, including inadequate segregation of duties, lack of change management controls, and insufficient oversight; however, we cancelled the audit because recently announced policy changes may affect the negotiation of indirect cost rates.

On August 7, 2025, the President issued Executive Order (EO) No. 14332, *Improving Oversight of Federal Grantmaking*, with the stated intent of reforming the Federal discretionary grant process. The EO aims to increase accountability, reduce administrative overhead, and align funding with agency priorities and national interests. It directs the Director of the Office of Management and Budget (OMB) to revise the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) at 2 C.F.R. Part 200, along with other relevant guidance. More specifically, EO 14332 directs OMB to revise the Uniform Guidance "to appropriately limit the use of discretionary grant funds for costs related to facilities and administration," also known as indirect costs. The EO further directs Federal agencies to give preference in awarding discretionary grants to institutions with lower indirect cost rates, "all else being equal," aiming to maximize the proportion of Federal funds allocated to direct programmatic activities.

Additionally, EO 14192, *Unleashing Prosperity Through Deregulation* (January 31, 2025), and EO 14275, *Restoring Common Sense to Federal Procurement* (April 15, 2025), aim to reduce "regulatory burdens," streamline procurement processes, and ensure that Federal spending delivers maximum value. For example, EO 14192 establishes a "10-for-1" rule requiring agencies to eliminate 10 existing regulations for every new one, while EO 14275 mandates a comprehensive review and simplification of the Federal Acquisition Regulation (FAR). The EOs' emphasis on reducing "regulatory burden" could lead to modified cost principles within the FAR and Uniform Guidance, affecting how indirect costs are categorized, justified, and reimbursed.

Taken together, the changes from these EOs may significantly affect how IBC negotiates indirect cost rates on behalf of Federal agencies. As a result, we decided to cancel our audit. We are, however, providing this memorandum to inform you of initial concerns we identified during our preliminary work regarding IBC's oversight of indirect cost rate proposals. Our preliminary work consisted of gaining an understanding of policies and procedures, interviewing the ICCAD Indirect Cost Services (ICS) staff, and reviewing three proposals.

Based on our preliminary work and the deficiencies we identified, we provided ICS staff suggestions aimed at strengthening internal controls and reducing the risks outlined in this memorandum. On October 23, 2025, ICS

provided an update on its progress on implementing our suggested corrective actions and described temporary solutions it put in place until it implements permanent solutions.

## Background

IBC is a fee-for-service, non-appropriated Federal shared service provider that delivers administrative and business services to the U.S. Department of the Interior (DOI), its bureaus, and more than 135 non-Interior Federal agencies. At the time of our preliminary work, IBC was divided into three main Directorates: Acquisition Services, Financial Management, and Human Resources.

ICCAD, a component of the Financial Management Directorate, operates through two main shared services: Acquisition Audit Services and ICS. Acquisition Audit Services audits contractors whose primary contracts are with DOI and other Federal agencies, excluding the U.S. Department of Defense. ICS negotiates indirect cost rate agreements with non-Federal grant recipients on behalf of DOI and other cognizant Federal agencies. Our preliminary work primarily focused on ICS.

Indirect rates are used by entities that receive Federal funding to allocate a portion of indirect costs to Federal awards. Indirect costs are expenses not directly associated with a specific activity or project but are essential to the overall operation of the entity. Examples of common indirect costs include facilities, utilities, and certain administrative salaries. To calculate the indirect cost rate, these expenses are grouped into a single cost pool. The entity then identifies the direct expenses that benefit from the indirect costs—this becomes the allocation base. To calculate the rate, the total cost pool is divided by the allocation base. The components of both the cost pool and the allocation base, along with the details of the calculation, are outlined in an Indirect Rate Proposal that entities submit to ICS for review.

ICS reviews the Indirect Rate Proposals to determine if the costs proposed in the pool and the base comply with applicable regulations. ICS must ensure that these rates comply with 2 C.F.R. Part 200 by equitably allocating indirect costs and excluding unallowable costs. Once an approved rate is determined, ICS issues a Negotiated Indirect Cost Rate Agreement (NICRA) with the approved rate. The rate agreements issued by ICS on behalf of its clients are accepted by all Federal agencies that grant funds to the entities for which IBC negotiated indirect costs.

At the time of our preliminary work, ICS was organized into three branches: (1) State, Local, and Insular; (2) Tribal Governments; and (3) Profit and Non-Profit. Each branch is responsible for negotiating indirect cost rates with specific types of entities. As summarized in Figure 1, from fiscal year (FY) 2022 to FY 2024, ICS reviewed 6,342 rate proposals applicable to over \$30 billion in Federal awards.

**Figure 1: ICS Rate Proposals FYs 2022-2024**

<b>Responsible Branch</b>	<b>No. of Rates</b>	<b>Proposed Indirect Costs</b>	<b>Government Indirect Costs</b>
State, Local, and Insular	1,603	\$10,594,805,604	\$1,973,178,337
Tribal Governments	2,531	\$11,022,503,336	\$5,725,883,735
Profit and Non-Profit	2,208	\$9,326,493,246	\$1,979,353,173
<b>Totals</b>	<b>6,342</b>	<b>\$30,943,802,186</b>	<b>\$9,678,415,246</b>

Source: OIG; derived from detail of rates provided by ICS.

In FY 2020, ICS implemented the Indirect Cost System (iCost), a commercial cloud-based system, to track the receipt and issuance of indirect cost proposal submissions and rate agreements. ICS also uses this system to store client contact information, rate history, and base expenditure data that is used for decision making during

future negotiations. According to the ICS manual,<sup>1</sup> this centralized system enhances data accuracy, transparency, and time savings; facilitates historical data analysis; and maintains the confidentiality of sensitive information.

Two system administrators within ICS are responsible for managing system access and implementing changes to the system. One of the administrators is dedicated only to this function and the other system administrator has additional responsibilities, including serving as the senior negotiator. ICCAD's *Indirect Cost System (iCost) User Creation and Access Guide* describes the various roles within iCost, which include system administrator, program support, negotiator, branch chief, and division chief. The guide states that the branch chief's responsibilities include creating risk levels, assigning proposals to negotiators, and either approving NICRAs or returning NICRAs to negotiators if changes are needed. When branch chiefs are unavailable, they delegate their responsibilities, including assessment and approval of NICRAs, to senior negotiators. These senior negotiators are permanently assigned the same system access as the branch chief.

## Lack of Change Management Controls

OMB Circular A-123<sup>2</sup> requires Government entities to implement formal change management processes for systems that support key business functions to ensure integrity, availability, and confidentiality of data. During our preliminary work, we learned that ICS has not implemented formal change management controls for the iCost system. Instead of having a formal process to manage system updates, modifications, or enhancements, including testing and approval procedures, ICS follows an informal process, consisting of discussions of potential changes during meetings and through email communications.

ICS officials explained that the iCost system is not their official system of records and therefore it does not require formal change management internal controls. ICS officials further explained that, due to its size and strained resources, it would be difficult for ICS to implement a formal change management process. While ICS stated that iCost is not a critical system, we disagree with ICS' analysis.

According to ICS policies and procedures,<sup>3</sup> this system is used to enhance data accuracy and transparency, achieve time savings in key operational workflows, facilitate historical data analysis, maintain confidentiality of sensitive information, document the level of effort associated with negotiations, and record approvals in the negotiation process. Furthermore, ICS generates the NICRA, which is the official document that formalizes approved indirect cost rates used for claims against Government funds, from data that is stored in iCost.

Without adequate change management controls, ICS risks unauthorized or erroneous changes, data integrity issues, and audit trail gaps, all of which could adversely affect business operations and decision making. ICS officials recognized opportunities to improve their current process by implementing additional features to the iCost system to document tracking, justifying, and formally approving system changes. Additionally, ICS officials proposed updating policies and procedures to require approval for system changes from the division chief or the chief's designee.

## Inadequate Segregation of Duties

The Green Book<sup>4</sup> states that "management should design control activities to mitigate risks to achieving the entity's objectives to acceptable levels." Proper segregation of duties contributes to the design, implementation, and operating effectiveness of control activities. Key duties should be segregated to reduce the risk of error, misuse, or fraud—including authorizing, processing, recording, and reviewing transactions—so that one individual does not control all key aspects of a transaction. We identified inadequate segregation of duties between accounting and authority functions that creates vulnerabilities, such as the ability to override

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<sup>1</sup> *Indirect Cost System (iCost) User Creation and Access Guide*.

<sup>2</sup> OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, July 15, 2016. OMB is currently revising OMB Circular A-123.

<sup>3</sup> *Indirect Cost System (iCost) User Creation and Access Guide*.

<sup>4</sup> U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (the "Green Book"), May 2025.



internal controls. For example, one senior negotiator responsible for rate negotiations also serves as a system administrator with the ability to assign roles and make changes in the system. This individual also acts on behalf of the branch chief and has access to approve negotiations. Similarly, other senior negotiators have the same level of access in the iCost system as the branch chief, commingling the processing, recording, and reviewing responsibilities that should be segregated to prevent the possibility of internal control override.

Although ICS implemented a system control to prevent senior negotiators from approving their own work, we identified instances where this control was overridden without adequate documentation of approval. In addition, ICS lacks a formal delegation of authority process for assigning acting branch chief or division chief roles, both of which carry out critical responsibilities, including approving and signing NICRAs.

ICS officials did not concur that segregation of duties is inadequate, citing the relatively small size of the organization. These officials stated that the system override we identified was a rare documented occurrence attributable to an unplanned staff absence. However, there was no formal change management process or delegation of authority procedure in place to approve this system override. While ICS officials acknowledged that “some overlap exists,” they explained that, as an alternative control, the division chief approves all negotiations and maintains a log documenting a sample review of 10 to 15 percent of negotiation cases to verify completeness. However, because the log was implemented in January 2025, we could not assess the effectiveness of this control because the procedure was not documented during the scope of our audit from FYs 2022 through 2024.

Although complete segregation of duties may not be feasible, ICS should consider implementing alternative internal controls to reduce the risk of fraud, waste, or abuse in the negotiation process. If ICS effectively implements the control log and sampling of negotiations, this internal control could mitigate these risks.

Additionally, ICS should consider eliminating the consolidation of the system administrator and negotiator roles wherever possible. If separation is not feasible, ICS should consider implementing and documenting compensating controls, such as independent reviews of changes by a qualified individual, and ensure those reviews are both traceable and verifiable.

ICS officials agreed to develop a division-level delegation of authority policy to mitigate some of the identified control weaknesses.

## **Inadequate and Inconsistent Risk Assessment Process**

We found that ICS lacks a standardized process to evaluate proposals based on risk. ICS policies and procedures<sup>5</sup> outline how management conducts an initial assessment of each proposal and assigns a rating—low, high, or initial—based on the reviewer’s evaluation of the proposal’s complexity and expected effort. Additionally, these policies state that branch chiefs should consider factors such as entity type, whether the proposal was self-prepared or consultant-prepared, the percentage of Federal funding, rate history and prior adjustments, and any previous audit findings or unresolved issues. Further, these policies and procedures require that branch chiefs document the assigned level of review and rationale for their determination in iCost.

ICS policy outlines certain elements that should be considered in a risk assessment, including the need to document the rationale for the determined level of effort. However, this policy is inconsistently applied. As a result, documentation supporting the rationale for risk determination was often insufficient. For example, only one of the three branch chiefs considered materiality a key factor in assessing the impact of an unreasonable indirect rate. Additionally, one branch chief documented only a numerical value in the iCost system to indicate the level of effort, without documenting the rationale behind the determination.

ICS officials stated that a formal risk assessment process is not necessary for ICS because the division does not conduct audits. However, in response to our findings, ICS officials described its negotiation services as a policy-based process designed to ensure fair, equitable, and consistent reimbursement of administrative costs

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<sup>5</sup> *Indirect Cost Rate Negotiation Policy & Standard Operating Procedures*, January 2025.

across Federal programs. We agree with ICS' stated objective and suggest that achieving the objective requires a consistently applied risk assessment process. Risk assessment is not solely an audit requirement; it is a fundamental management practice that supports informed decision making by enabling organizations to identify vulnerabilities and prioritize efforts.

Without a standardized methodology and a requirement to document the rationale, risk assessment may vary significantly in scope and execution. This inconsistency may lead to inadequate procedures and hamper ICS' ability to ensure the fair, equitable, and consistent reimbursement of administrative costs, which ICS identified as its mission.

## **Inadequate Documentation of Branch Chief Review**

ICS policy defines the standards for the branch chief's review of the official documentation supporting the negotiation process. The policy states that, at a minimum, the branch chief must review the negotiation summary, reconciliation between financial statements and the proposal, rate calculations, trend analysis, and adjustments and supporting justifications and verify the accuracy of data in iCost and the final NICRA.

We found that the branch chiefs are not consistently executing their review responsibilities. Our review of three proposals revealed various instances of inadequate oversight or missing justification for the branch chief approval. Although ICS concurred with the overall finding, it disagreed with our assessment of one of the three proposals reviewed.

In two proposals, negotiators flagged potentially unallowable costs or outliers during trend analysis. However, they did not adequately follow up with the entity to confirm the allowability of the costs or adjust the proposed amounts. The branch chiefs nonetheless approved the negotiations without documenting their rationale in the official documentation supporting the negotiation process.

ICS officials concurred with our assessment of the two proposals. To address the issue, they proposed retraining negotiators and branch chiefs on the importance of questioning and documenting unsupported cost increases and following up on potentially unallowable costs. They also plan to revise the checklists used to document branch chief reviews to reflect these changes.

In the third proposal we reviewed, a negotiator made a significant adjustment that increased the indirect cost rate by excluding contract costs proposed by the entity from the direct cost base. Our review found no evidence that the branch chief reviewed or authorized this adjustment.

ICS officials did not concur with our assessment of the third proposal. They stated that the adjustment benefited the Federal Government, as most of the excluded costs were federally sourced, resulting in lower indirect costs charged to Federal awards. ICS officials also stated that the branch chief considered this justification for the adjustment to be "routine" and "reasonable"; therefore, no explicit approval was necessary.

As part of our preliminary work, we could not verify ICS officials' statement that the third proposal's adjustment resulted in a collective benefit to the Federal Government. However, we note that ICS does not oversee the direct costs claimed. Therefore, staff would not know whether the entity claimed these direct costs and applied the higher approved rate, which could lead to over-recovery or double-dipping. ICS should consider documenting in writing significant changes to indirect rates to prevent unilateral decisions that could undermine cost principles and potentially harm the Federal Government.

## **Conclusion**

ICS plays a critical role in supporting Federal awards across the Government. Although we did not conduct a full audit, our preliminary work revealed vulnerabilities in ICS' internal controls. These weaknesses increase the risk of unauthorized or erroneous changes, compromise data integrity, and create gaps in audit trails, factors that could negatively impact business operations and decision making and increase the risk of fraud,

waste, and abuse. Inadequate internal controls also prevent ICS from ensuring the fair, equitable, and consistent reimbursement of administrative costs across Federal programs.

We chose to cancel the audit due to anticipated revisions to the FAR and Uniform Guidance. These revisions are being driven by recent EOs, including EO 14332, EO 14192, and EO 14275, which collectively aim to reform Federal grantmaking, reduce regulatory burdens, and improve oversight of indirect cost rates.

These anticipated revisions are likely to significantly impact how ICS negotiates and manages indirect cost rates on behalf of Federal agencies.

We made suggestions for correcting the identified weaknesses because, regardless of any future changes to regulations governing the negotiation of indirect cost rates, strong internal controls, including proper segregation of duties and effective change management practices, help ensure accountability and reduce the risk of error, fraud, or misuse.

On October 23, 2025, ICS provided an update on its planned corrective actions to address the deficiencies we identified and provided us a draft of its delegation of authority policy. It also reported ongoing work to enhance iCost features that will allow users to add, track, justify, and formally approve system change requests. In addition, ICS told us it is revising its policy and procedures to require formal approval for future system changes. Specifically, ICS stated that, while it works on a permanent solution, it has implemented a temporary measure requiring the system administrator to obtain pre-approval, via an email to the division chief, for any system changes.

ICS also provided us with evidence of training provided to negotiators and branch chiefs, which emphasized the importance of questioning and documenting unsupported proposed cost increases. Finally, ICS is still updating the branch chief review checklist to ensure it incorporates materiality when assessing risk and requires documentation of approvals for significant adjustments.

We provided a draft copy of this closeout memorandum to IBC on December 2, 2025. IBC officials reviewed the draft and submitted their comments on December 8, 2025. On December 11, 2025, we met with IBC officials to discuss their feedback. After considering their comments, we revised the memorandum as appropriate.

If you have any questions about this memorandum, please contact me at [aie\\_reports@doioig.gov](mailto:aie_reports@doioig.gov).



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