



OFFICE OF INSPECTOR GENERAL
U.S. Department of Energy

ASSESSMENT REPORT

DOE-OIG-20-17

December 2019

**AUDIT COVERAGE OF COST
ALLOWABILITY FOR NATIONAL
SECURITY TECHNOLOGIES, LLC
FROM OCTOBER 1, 2014,
THROUGH NOVEMBER 30, 2017,
UNDER DEPARTMENT OF ENERGY
CONTRACT NO. DE-AC52-06NA25946**



Department of Energy
Washington, DC 20585

December 19, 2019

MEMORANDUM FOR THE MANAGER, NEVADA FIELD OFFICE

A handwritten signature in black ink, appearing to read "John E. McCoy II".

FROM: John E. McCoy II
Deputy Assistant Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Assessment Report on the “Audit Coverage of Cost Allowability for National Security Technologies, LLC from October 1, 2014, through November 30, 2017, Under Department of Energy Contract No. DE-AC52-06NA25946”

BACKGROUND

From July 1, 2006, to November 30, 2017, National Security Technologies, LLC (NSTec), managed and operated the Nevada National Security Site under contract with the Department of Energy and National Nuclear Security Administration (NNSA). The Nevada National Security Site hosts an array of defense and national security experiments for the national weapons laboratories, as well as supports homeland security, nonproliferation testing and treaty verification training, radiological detection, and first responder training. The Nevada National Security Site was managed by NSTec under a cost-reimbursement management and operating contract employing performance incentives which ran from July 1, 2006, through November 30, 2017. The contract is currently managed and operated by Mission Support and Test Services, LLC (MSTS). From October 1, 2014, through November 30, 2017, NSTec incurred and claimed costs totaling \$ 1,636,854,757.

As an integrated management and operating contractor, NSTec’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. NSTec was required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department’s Office of Inspector General, Office of Acquisition Management, integrated management and operating contractors, and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that

the Department's contractors claim only allowable costs. This strategy places reliance on the contractors' internal audit function to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, NSTec was required by its contract to maintain an internal audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. The Cooperative Audit Strategy also requires that audits performed internally must, at a minimum, meet the standards prescribed by the Institute of Internal Auditors. In addition, NSTec was required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

The objectives of our assessment from October 1, 2014, through November 30, 2017, were to determine, based on our limited sampling, whether:

- NSTec Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon¹;
- NSTec conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and
- NSTec resolved questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews.

RESULTS OF ASSESSMENT

During our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by NSTec Internal Audit from October 1, 2014, through November 30, 2017, could not be relied upon. We conducted our assessment as a review attestation. A review is substantially less in scope than an examination or audit. Our review was limited and would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. Based on our limited sampling, we did not identify any material internal control weaknesses with cost allowability audits, which generally complied with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. In addition, we found that NSTec had conducted or ensured that audits of subcontractors were conducted when costs incurred were a factor in determining the amount payable to a subcontractor. We observed that NSTec Internal Audit identified \$219,729 in questioned costs in fiscal year (FY) 2015; \$84,592 in FY 2016; and \$18,991 in FY 2017, all of which have been resolved. Because the NSTec contract ended on November 30, 2017, MSTs Internal Audit conducted the FY 2017 allowable cost audit and identified \$44,556 in questioned costs, of which \$31,352 remain unresolved. In addition, NSTec's and MSTs's Internal Audit conducted subcontract audits and identified \$44,623 in questioned costs, of which \$10,930 remain unresolved.

¹ Because NSTec's contract ended on November 30, 2017, MSTs Internal Audit had the responsibility to conduct the 2017 Allowable Cost Audit and subcontract audits that covered the period of October 1, 2016, through November 30, 2017.

While we did not identify any material internal control weaknesses with either cost allowability or subcontract audits, we are questioning \$42,282 of unresolved questioned costs identified by MSTs Internal Audit. Specifically:

- \$31,352 in questioned relocation costs for three employees that voluntarily terminated employment with NSTec within a 12-month period of the hire date, which remain unresolved as of June 2019;
- \$3,196 in questioned consultant expenses for double-billed travel expenses and labor hour costs for travel time that is unallowable. In June 2019, the consultant reimbursed MSTs for the questioned costs totaling \$3,196; and
- \$44,623 in questioned subcontract costs, of which \$10,930 remain unresolved as of June 2019.

Questioned and Unresolved Costs

Relocation Costs

MSTs Internal Audit questioned relocation costs for three employees totaling \$31,352 claimed from October 1, 2016, through November 30, 2017, that remain unresolved. According to Federal Acquisition Regulation Part 31.205-35, *Relocation Costs*, if relocation costs for an employee have been allowed either as an allocable indirect or direct cost, and the employee resigns within 12 months for reasons within the employee's control, the contractor shall refund or credit the relocation costs to the Government. In June 2019, MSTs provided a repayment agreement it received in March 2019 for one of the employees. MSTs continues to seek reimbursement from the prior employees; however, as of June 2019, no reimbursement was received. According to the MSTs Aged Accounts Receivable company directive, if it is determined that the receivable is uncollectable, Accounts Receivable is to contact the Field Chief Financial Officer to request permission to write off the costs after 2 years of delinquency.

Consultant Expenses

MSTs Internal Audit questioned consultant expenses totaling \$3,196 that were unresolved as of May 2019. During the FY 2017 Allowable Cost Audit, MSTs Internal Audit reviewed invoices relating to consulting agreements to look at the reasonableness of the costs charged, evidence of management review and support of the work performed. MSTs Internal Audit identified one consultant that double-billed travel expenses totaling \$946 and \$2,250 in labor hour charges for travel time that is unallowable under the consultant agreement. In June 2019, the consultant subsequently reimbursed MSTs for the questioned costs totaling \$3,196.

Subcontract Costs

NSTec's and MSTs's Internal Audit questioned subcontract costs totaling \$44,623 in audits that covered the period of October 1, 2014, through November 30, 2017. We found that Internal

Audit questioned \$5,294 in FY 2016; \$13,004 in FY 2017; and \$26,325 in FY 2018. As of June 2019, questioned subcontract costs totaling \$10,930 remain unresolved.

RECOMMENDATION

1. We recommend that the Manager, Nevada Field Office, direct the Contracting Officer to make a determination regarding the allowability of questioned costs identified in this report and recover those costs determined to be unallowable.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

Management concurred with the recommendation to direct the Contracting Officer to make a determination regarding the allowability of unresolved questioned costs, and recover costs determined to be unallowable. Management's actions are estimated to be completed by June 30, 2020. We consider management's planned actions to be responsive to our recommendation. Management's comments are included in Attachment 3.

SCOPE AND METHODOLOGY

We performed this assessment from January 2019 to August 2019 at the Nevada Field Office and the NSTec and MSTs offices located in North Las Vegas, Nevada. The assessment was limited to NSTec's and MSTs's Internal Audit activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that impacted costs claimed by NSTec on its Statement of Costs Incurred and Claimed from October 1, 2014, through November 30, 2017. We conducted the assessment under Office of Inspector General project number A19LV008. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by NSTec's and MSTs's Internal Audit that included a review of audit reports, workpapers, auditor qualifications, independence, audit planning (including risk assessments and overall internal audit strategy), and compliance with applicable professional auditing standards.
- Interviewed NNSA and MSTs officials.
- Retested a sample of incurred cost transactions reviewed by MSTs Internal Audit in its allowable cost audit. We judgmentally selected a sample of 10 of the 40 travel transactions and 6 of the 12 relocation transactions that MSTs Internal Audit tested in FY 2017. Because the sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population.
- Reviewed policies, procedures, and practices to identify subcontracts requiring audit and arrange for audits.
- Reviewed subcontract audits conducted by NSTec's and MSTs's Internal Audit.
- Evaluated the resolution of questioned costs and control weaknesses affecting cost

allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, NSTec's and MSTs's Internal Audit, and other organizations.

We conducted our assessment in accordance with generally accepted government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter, and accordingly, for this review, no such opinion is expressed. Also, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our objectives and determined that the computer-processed data was sufficiently reliable for the purposes of the review.

An exit conference was waived by management on October 2, 2019.

This report is intended for the use of Department and NNSA contracting officers and field offices in the management of their contracts and is not intended to be and should not be used by anyone other than these specified parties.

Attachments

Summary of Questioned and Unresolved Costs
Fiscal Year 2017
National Security Technologies, LLC
Contract No. DE-AC52-06NA25946

Questioned Cost Category	Questioned	Resolved	Remaining Unresolved
Relocation Costs	\$31,352	0	\$31,352
Consultant Costs	\$3,196	\$3,196	0
Subcontract Costs	\$44,623	\$33,693	\$10,930
Total Questioned and Unresolved Costs	\$79,171	\$36,889	\$42,282

PRIOR REPORTS

- Assessment Report on [*Audit Coverage of Cost Allowability for National Security Technologies LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC52-06NA25946*](#) (OAI-V-16-07, April, 2016). Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by NSTec Internal Audit for fiscal years 2012 through 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. During its fiscal years 2012 through 2014 audits of cost allowability, Internal Audit identified \$292,650 in questioned costs, all of which had been resolved. Further, we found that NSTec had conducted or ensured that audits of subcontractors were conducted when costs incurred were a factor in determining the amount payable to a subcontractor.
- Inspection Report on [*Concerns with Consulting Contract Administration at Various Department Sites*](#) (DOE/IG-0889, June 2013). This inspection identified questioned costs totaling \$20,923 and internal control weaknesses at the Nevada National Security Site related to payments made on invoices that lacked detail necessary to support that the agreed-to services had been provided. We found that all of the questioned costs and the internal control weaknesses had been resolved.

MANAGEMENT COMMENTS



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



MEMORANDUM FOR TERI L. DONALDSON
INSPECTOR GENERAL

FROM:

LISA E. GORDON-HAGERTY

A handwritten signature in black ink, appearing to read "Lisa E. Gordon-Hagerty", with a long horizontal flourish extending to the right.

SUBJECT:

Response to the Office of Inspector General Draft Report *Audit Coverage of Cost Allowability for National Security Technologies, LLC, from October 1, 2014, through November 30, 2017, Under Department of Energy Contract No. DE-AC52-06NA25946 (A19LV008)*

Thank you for the opportunity to review and comment on the subject draft report. We appreciate the auditors' validation of the internal audit work performed by the management and operating contractors for the Nevada National Security Site.

The National Nuclear Security Administration (NNSA) concurs with the Office of Inspector General's recommendation. The Contracting Officer will make a final determination regarding the allowability of unresolved questioned costs, and take action to recover any costs deemed unallowable as appropriate. The estimated completion date for these actions is June 30, 2020. If you have any questions regarding this response, please contact Mr. Dean Childs, Director, Audits and Internal Affairs, at (301) 903-1341.



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