



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-25-10

December 2024

**SAVANNAH RIVER NUCLEAR
SOLUTIONS, LLC'S USE OF
CORPORATE REACHBACK AT THE
SAVANNAH RIVER SITE**



Department of Energy
Washington, DC 20585

December 30, 2024

MEMORANDUM FOR THE DEPUTY CHIEF FINANCIAL OFFICER AND
MANAGER, SAVANNAH RIVER OPERATIONS OFFICE

SUBJECT: Audit Report: *Savannah River Nuclear Solutions, LLC's Use of Corporate Reachback at the Savannah River Site*

The attached report discusses our audit of Savannah River Nuclear Solutions, LLC's practice of drawing personnel from its parent companies to fill positions at the Savannah River Site, which is referred to as corporate reachback. This report contains five recommendations that, if fully implemented, should help ensure Savannah River Nuclear Solutions, LLC follows its management and operating contract requirements to use competition when purchasing services from a contractor-affiliated source. Although management concurred with our recommendations, we consider the action taken to address our recommendations unresponsive to the underlying concerns that prompted the recommendations.

We conducted this audit from October 2021 through June 2023 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in black ink, appearing to read "Teri L. Donaldson".

Teri L. Donaldson
Inspector General

cc: Deputy Secretary
Chief of Staff



Department of Energy Office of Inspector General

Savannah River Nuclear Solutions, LLC's Use of Corporate Reachback at the Savannah River Site (DOE-OIG-25-10)

WHY THE OIG PERFORMED THIS AUDIT

Savannah River Nuclear Solutions, LLC (SRNS) operates the Savannah River Site under a management and operating (M&O) contract which contains provisions and requirements governing the purchase of services from contractor-affiliated sources such as parent companies (i.e., corporate reachback). At the request of the Department of Energy's Savannah River Operations Office, we initiated this audit to determine whether: (1) SRNS' use of corporate reachback at the Savannah River Site was in compliance with its M&O contract provisions and requirements governing the use of corporate reachback; and (2) the overall costs incurred for these activities were reasonable, allocable, and allowable.

What Did the OIG Find?

We found that SRNS did not comply with its M&O contract requirements to use competition in purchasing services from contractor-affiliated sources; therefore, we are questioning the costs incurred for numerous corporate reachback activities as unallowable.

We attributed these issues to the Department's lack of oversight in ensuring SRNS followed the M&O contract requirements to: (1) sufficiently document the special expertise for each seconded corporate reachback acquisition when not using competition; and (2) sufficiently document the reasonableness of the costs incurred.

What Is the Impact?

We are questioning a total of \$17,559,400.39 of the costs claimed by SRNS at the Savannah River Site from fiscal year 2017 through fiscal year 2021 for seconded corporate reachback employees as follows: \$8,920,136.12 in excess labor costs; \$7,895,907.88 in labor costs due to insufficient documentation to evaluate reasonableness; and \$743,356.39 in relocation costs.

What Is the Path Forward?

To address the issues identified in this report, we have made five recommendations that, if fully implemented, should help ensure SRNS follows the M&O contract requirements to use competition in purchasing services from contractor-affiliated sources unless it documents the special expertise being acquired to justify the use of sole-source acquisition, and the costs incurred are reasonable and allowable.

BACKGROUND

Savannah River Nuclear Solutions, LLC (SRNS) has managed and operated the Savannah River Site (SRS) under management and operating (M&O) contract number DE-AC09-08SR22470 with the Department of Energy since August 2008. SRNS is a Limited Liability Company consisting of three member companies (i.e., parent companies), namely: (1) Fluor Federal Services, Inc.; (2) Newport News Nuclear, Inc.; and (3) Honeywell International, Inc. In its proposal for the SRS M&O contract, SRNS proposed that, should the availability of critical skills become an issue, it would fill any short-term gaps by drawing from the qualified personnel of its parent companies. Further, SRNS stated that with more than 400,000 employees worldwide, SRNS' parent companies have a large pool of professional talent and skilled labor from which to draw as needed. The process of drawing qualified personnel from SRNS' parent companies is referred to as corporate reachback. It should be noted the language in SRNS' proposal related to the use of corporate reachback was not incorporated into the SRNS M&O contract.

When performing work under the M&O contract at SRS, SRNS used two types of corporate reachback employees, namely non-seconded corporate reachback employees and seconded corporate reachback employees. Non-seconded corporate reachback employees are employees of one of the parent companies on loan to SRNS—either on a short-term assignment or a long-term assignment. Short-term assignments for non-seconded employees typically involve an employee of a parent company loaned or assigned for a definite or indefinite period to perform SRNS work expected to last generally more than 30 days, but less than 12 months. Long-term assignments for non-seconded employees typically involve an employee of a parent company loaned or assigned for a definite period to perform SRNS work expected to last more than 12 months, but not more than 36 months. Non-seconded short- and long-term assignments may include temporary living costs that are billed to SRNS for reimbursement, but do not involve the physical relocation of an employee's family and/or household goods.

The other type of corporate reachback employees used by SRNS at SRS is seconded corporate reachback employees. Seconded corporate reachback employees are employees of one of the parent companies on loan to SRNS for an indefinite period (greater than 12 months), which typically includes travel and relocation expenses determined by each parent company's policies and procedures. The travel and relocation costs for a seconded corporate reachback employee are billed to SRNS and ultimately reimbursed by the Department. After a minimum of 1 year and with a 30-day notice, a parent company can request a seconded employee return from SRNS to the parent company; however, the relocation moving expenses incurred when a seconded corporate reachback employee leaves the permanent assignment from SRNS would be a parent company expense.

The Department's Savannah River Operations Office requested the Office of Inspector General (OIG) review SRNS' use of corporate reachback, and we agreed to limit the scope to SRNS' corporate reachback employees from fiscal year (FY) 2017 through FY 2021 and identify questioned costs during this period. After preliminary review, the OIG and the Department's Savannah River Operations Office agreed to limit the scope to SRNS' use of seconded corporate reachback employees from FY 2017 through FY 2021 since the use of seconded corporate reachback personnel was deemed to be an exception to SRNS' stated proposal for the use of

corporate reachback to meet short-term gaps in needed resources, and such personnel were more conducive for developing a viable, realistic cost comparison. As a result, the objective of the audit was to review all SRNS' seconded corporate employees from FY 2017 through FY 2021 and determine whether: (1) SRNS' use of corporate reachback at SRS was in compliance with its M&O contract provisions and requirements governing the use of corporate reachback; and (2) the overall costs incurred for these activities were reasonable, allocable, and allowable.

SECONDED CORPORATE REACHBACK DID NOT MEET REQUIREMENTS

We determined SRNS did not comply with its M&O contract requirements to use competition in purchasing services from contractor-affiliated sources (i.e., its parent companies), and the costs incurred for numerous corporate reachback activities were not reasonable and were potentially unallowable.

Section I.56 of the SRNS M&O contract requires, among other things:

- e. Audit of Subcontractors—(4) Allowable costs in the purchase or transfer from contractor-affiliated sources shall be determined in accordance with 48 Code of Federal Regulations (CFR) 970.4402-3; and
- i. Contractor-Affiliated Sources—Equipment, materials, supplies, or services from a contractor-affiliated source shall be purchased or transferred in accordance with 48 CFR 970.4402-3.

Further, 48 CFR 970.4402-3, Purchasing from contractor-affiliated sources, which is incorporated into the SRNS M&O contract, states, among other things, an M&O contractor may purchase from sources affiliated with the contractor (any division, subsidiary, or affiliate of the contractor or its parent company) in the same manner as from other sources provided that:

- The M&O contractor's purchasing function is independent of the proposed contractor-affiliated source.
- The same terms and conditions would apply if the purchase were from a third party.
- An award is made in accordance with policies and procedures designed to permit effective competition that are approved by the contracting officer. The requirement for competition shall not preclude acquisition of technical services from contractor-affiliated entities who have a special expertise, and the basis is documented.
- The award is legally enforceable where the entities are separately incorporated.

During our audit, we obtained data for all SRNS seconded corporate reachback employees within our scope. For instances when SRNS elected to fill permanent SRNS positions with seconded corporate reachback employees via purchasing services from contractor-affiliated sources, the selection of each selected individual was not made in accordance with policies and procedures

designed to permit effective competition. Also, SRNS did not demonstrate through documentation that any of the individuals selected possessed a special expertise for the technical services being acquired.

Specifically, from FY 2017 through FY 2021, we found SRNS used a total of 62 different seconded corporate reachback employees from its parent companies to fill positions at SRS during one or more FYs in the 5-year period, and SRNS claimed a total labor cost of \$49,248,073.27 associated with these seconded corporate reachback employees.

Period	Number of Seconded Corporate Reachback Employees	Seconded Corporate Reachback Employees Labor Costs Claimed
FY 2017	39	\$7,858,595.64
FY 2018	42	\$8,465,794.01
FY 2019	38	\$8,858,442.48
FY 2020	39	\$10,908,927.20
FY 2021	41	\$13,156,313.94
Total		\$49,248,073.27

For each of these seconded corporate reachback employees, we reviewed the SRNS Human Resource files containing the details associated with their selection, and we found no documentation supporting special expertise as a basis for the sole-source selection, as required by the contract. Additionally, the files did not contain any documentation or analysis to support the reasonableness of the costs incurred for the use of a seconded corporate reachback employee compared to other alternatives, namely hiring a new employee or promoting an existing SRNS employee.

Department Did Not Enforce Requirements for Use of Seconded Corporate Reachback

Previously, we performed an audit of SRNS, *Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site* (DOE/IG-0862, April 2012), and we issued findings citing SRNS' noncompliance with the M&O contract requirements when noncompetitively purchasing services from its parent companies using corporate reachback. Specifically, we found SRNS acquired corporate reachback services from contractor-affiliated sources without considering other competitive sources when the special expertise of the corporate reachback employee had not been documented. These findings were issued in a report to the Department's Office of Environmental Management officials and the Savannah River Operations Office that included a recommendation to ensure SRNS follows procurement requirements when noncompetitively acquiring affiliate personnel services, to include determining that the affiliate is the sole source of needed expertise, and the services are obtained at fair and reasonable prices. Department officials at the time nonconcurred with the recommendations and stated that SRNS' corporate reachback actions were not procurements, but rather the actions were Human Resource transactions which were not subject to the "Purchasing from Contractor Affiliated Sources" requirements outlined in the SRNS M&O contract. As such, the Department did not direct

SRNS to review its practices to ensure it complied with the requirements outlined in the M&O contract. Therefore, we requested a management decision¹ from the Department on the recommendations.

Based on anticipated and ongoing litigation, the management decision process was delayed until June 2021. Therefore, in January 2022, after the start of this audit, the Department issued a management decision on the prior audit and concluded the SRNS corporate reachback services reviewed in the prior audit were, in fact, procurement of services from an affiliate-source and should have been procured in accordance with the M&O contract requirements listed in 48 CFR 970.4402-3, Purchasing from contractor affiliated sources. Further, during preliminary discussions prior to the start of the current audit, management officials from the Department's Savannah River Operations Office's Office of Chief Counsel, Finance Division, and Office of Acquisition Management agreed with the OIG that the requirements of 48 CFR 970.4402-3, which is incorporated into the SRNS M&O contract, were applicable to SRNS' decisions to use corporate reachback at SRS. Therefore, the same criteria apply to the current audit. As such, we determined that the Department did not ensure SRNS followed the M&O contract requirements to document the special expertise of each seconded corporate reachback employee when not using competition and the reasonableness of the costs claimed by SRNS.

QUESTIONED COSTS FOR SECONDED CORPORATE REACHBACK EMPLOYEES

We determined SRNS' practices for purchasing services from contractor-affiliated sources at SRS, without using competition, did not ensure services obtained from seconded corporate reachback employees were acquired in accordance with the M&O contract purchasing requirements, and at a reasonable cost. Specifically, we found SRNS' practices did not require the incurred costs for purchasing services from its parent companies, through the use of seconded corporate reachback employees, to be compared to other competitively priced alternatives, including hiring new employees, promoting existing SRNS employees, or hiring subcontractor employees from other sources. Therefore, to test the reasonableness of the costs incurred for seconded corporate reachback employees, we identified a comparable SRNS position and compared the fully burdened hourly labor rate incurred for the seconded corporate reachback employee to the constructed hourly labor rate of a fully burdened (total salary and benefit costs) SRNS employee in the same job per the mid-point of the SRNS equivalent grade level assigned to the seconded corporate reachback position. (For additional details of these comparisons, see Appendix 4.)

In the case of the 62 different seconded corporate reachback employees used by SRNS from FY 2017 through FY 2021—different employees at different times—we identified several instances each FY when the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee. For these instances, we concluded the labor costs claimed by

¹ When the OIG does not accept the response to the draft report as the management decision, management must prepare a separate management decision for the recommendations in the final report, and management decisions should be provided to the OIG within 90 calendar days of issuance of the final report. For further details, see Department of Energy Order 224.3A, *Audit Coordination, Resolution, and Follow-Up*.

SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable regardless of how many labor hours were charged for these seconded corporate reachback employees during each FY.

However, we also identified many instances where the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the constructed fully burdened hourly labor rate for a comparable SRNS employee, and the resulting total labor costs claimed by SRNS for these seconded corporate reachback employees each FY were greater than the constructed labor costs for comparable SRNS employees; as such, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable. Therefore, as shown in the following table, we are questioning the allowability of the \$8,920,136.12 of labor costs claimed by SRNS for these seconded corporate reachback employees from FY 2017 through FY 2021.

Period	Instances Seconded Corporate Reachback Employee Labor Costs Exceeded Constructed Labor Costs for Comparable SRNS Employees	Labor Costs Claimed for Seconded Corporate Reachback Employees	Constructed Labor Costs for Comparable SRNS Employees	Questioned Costs
FY 2017	19	\$4,728,386.40	\$4,119,323.08	\$609,063.32
FY 2018	19	\$5,031,772.65	\$4,018,320.31	\$1,013,452.34
FY 2019	20	\$6,170,363.80	\$4,506,007.65	\$1,664,356.15
FY 2020	27	\$9,105,373.83	\$6,772,886.54	\$2,332,487.29
FY 2021	29	\$10,777,639.99	\$7,476,862.97	\$3,300,777.02
Total		\$35,813,536.67	\$26,893,400.55	\$8,920,136.12

Insufficient Data to Evaluate Reasonableness of Labor Costs Incurred

We identified instances each FY when the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the constructed fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours even though they were seconded for the full year or the seconded employee was not seconded for the full year, and other individuals may have also served in the position. In these instances, we requested further data to support the reasonableness of the total labor costs claimed by SRNS; however, SRNS could not provide sufficient data to compare the actual total labor costs claimed by SRNS for numerous seconded corporate reachback employees to the constructed labor costs for comparable SRNS employees, as required by the contract. As a result, the lack of contractor data precluded an evaluation of the reasonableness of the total labor costs claimed by SRNS for these seconded corporate reachback employees. Therefore, we are questioning the \$7,895,907.88 total labor costs claimed by SRNS, as unsupported, for these seconded corporate reachback employees from FY 2017 through FY 2021, as shown in the following table.

Period	Instances When SRNS Could Not Provide Sufficient Data to Evaluate Reasonableness of Labor Costs for Seconded Corporate Reachback Employees	SRNS Labor Costs Claimed for Seconded Corporate Reachback Employees
FY 2017	12	\$1,825,019.41
FY 2018	15	\$2,443,516.15
FY 2019	11	\$1,799,228.53
FY 2020	7	\$784,325.75
FY 2021	6	\$1,043,818.04
Total		\$7,895,907.88

SRNS' Use of Seconded Corporate Reachback Employees Resulted in Questioned Relocation Costs

From FY 2017 through FY 2021, SRNS also claimed and was reimbursed by the Department \$743,356.39 to relocate 16 of the 62 SRNS seconded corporate reachback employees for which SRNS did not comply with the M&O contract requirements to use competition in purchasing services from contractor-affiliated sources. Since these relocation costs were generated due to noncompetitive procurement actions that resulted in questioned labor costs, we consider these relocation costs as directly associated questioned costs. Therefore, we are questioning the allowability of the \$743,356.39 in relocation costs claimed by SRNS for these seconded corporate reachback employees from FY 2017 through FY 2021.

RECOMMENDATIONS

We recommend the Manager, Savannah River Operations Office, request the Contracting Officer to:

1. Determine the allowability of the \$8,920,136.12 of unreasonable questioned labor costs identified in this report and recover those labor costs determined to be unallowable.
2. Determine the allowability of the \$7,895,907.88 of unsupported questioned labor costs identified in this report and recover those labor costs determined to be unallowable.
3. Determine the allowability of the \$743,356.39 of questioned relocation costs identified in this report and recover those relocation costs determined to be unallowable.
4. For future seconded corporate reachback actions, require SRNS to follow its M&O contract requirements when considering the use of corporate reachback to fill SRNS positions. This includes the use of competition, unless it is acquiring technical services from contractor-affiliated entities who have a special expertise, and if this is the case, ensuring sufficient documentation is maintained to justify the use of a sole-source acquisition.

5. For future seconded corporate reachback actions, require SRNS to maintain sufficient documentation to support the reasonableness of the costs claimed by SRNS for the seconded corporate reachback employees.

MANAGEMENT RESPONSE

Management concurred with each of our recommendations. For each recommendation, management stated that the action was complete and included evidence of its action. The action completed was the Contracting Officer's Determination in January 2024.

AUDITOR COMMENTS

Although management concurred with our recommendations, we consider the action taken to address our recommendations unresponsive to the underlying concerns that prompted the recommendations. Specifically, the Contracting Officer's Determination that the unreasonable questioned labor costs of \$8,920,136.12 and the unsupported questioned labor cost of \$7,895,907.88 were allowable. This Determination was based on a salary range for one "very specialized and advanced Nuclear Engineer." The flaw with this approach is that it uses a salary range for a single, highly compensated Nuclear Engineer and assumes that every corporate reachback employee would command a similar salary range regardless of their skill set and the requirements of the position. The Contracting Officer then took the salary range for the Nuclear Engineer and projected this cost to the universe of corporate reachback employees, thereby overestimating the cost and establishing an artificially high salary range cost for corporate reachback employees each year, which is not representative of the actual salary ranges for the corporate reachback positions within the universe. In contrast, the audit team compared the actual incurred costs associated with each individual corporate reachback employee to the Department-approved midpoint salary associated with the specific grade SRNS assigned to the position that was filled. Since each corporate reachback action is to fill an individual position, the reasonableness of the selection must be evaluated on an individual basis. The Contracting Officer also determined that the questioned relocation costs of \$742,256.39 were allowable. This Determination did not address the basis upon which the relocation costs were questioned, as the audit team questioned these total relocation costs based on SRNS' failure to document and justify the selection of these corporate reachback employees which led to the relocation costs. Therefore, since these relocation costs were generated due to noncompetitive procurement actions that resulted in questioned labor costs, we consider these relocation costs as directly associated questioned costs.

Further, the Contracting Officer's Determination did not take into consideration the requirements at the time these costs were incurred. Procurement of services from an affiliate-source is required to be in accordance with the M&O contract requirements listed in 48 CFR 970.4402-3, Purchasing from contractor affiliated sources. As stated in our report, 48 CFR 970.4402-3 requires, among other things, documentation of effective competition. This was confirmed by the Department's Management Decision, issued in January 2022, in response to our prior audit, *Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site* (DOE/IG-0862, April 2012). The Management Decision concludes that the SRNS corporate reachback

services reviewed in the prior audit were, in fact, procurement of services from an affiliate-source and should have been procured in accordance with the M&O contract requirements listed in 48 CFR 970.4402-3, Purchasing from contractor affiliated sources.

The Department also stated in its Management Decision that, in its prior response, affiliate-source acquisitions were treated as employee transfers and not subcontractor employees until the May 6, 2021, United States Civilian Board of Contract Appeals' (CBCA) Advisory Opinion that was issued under CBCA 5713. As part of the Advisory Opinion, Civil Action No. 1:16-cv-00825-JMC (D.S.C.), the CBCA relied upon and agreed with SRNS' position that the use of corporate resources was a purchase from sources affiliated with the contractor (i.e., any division, subsidiary, or affiliate of the contractor or its parent company) in the same manner as from unaffiliated sources. Considering the CBCA Advisory Opinion, management concurred with the OIG that SRNS' acquisition of corporate resources should be treated as subcontractor employees and thus subject to the requirements of 48 CFR 970.4402-3, Purchasing from contractor affiliated sources. This Management Decision was signed by the Manager of the Department's Savannah River Operations Office in November 2021; concurred with by the Senior Advisor, Office of Environmental Management in January 2022; and transmitted to the Inspector General by the Department's Deputy Chief Financial Officer in January 2022. However, the Contracting Officer's Determination of the questioned costs is not consistent with the commitments made in the Management Decision.

Head of Contracting Activity's Direction

In addition, the Contracting Officer's Determination inappropriately refers to the Office of Environmental Management, Head of Contracting Activity's (HCA) direction from October 2022, to rely on existing forward pricing rates to expedite access to corporate reachback support with an October 24, 2022, effective date. The SRNS corporate reachback costs questioned by the audit team were from FY 2017 through FY 2021, which was prior to the effective date of the HCA's direction.

After further review, the HCA's direction appears to be in direct contradiction with the Federal Acquisition Regulation (FAR), Department of Energy Acquisition Regulation (DEAR), SRNS M&O contract, the CBCA Advisory Opinion from May 2021, as well as the Management Decision issued by the Department in January 2022 that the use of corporate resources was a purchase from sources affiliated with the contractor. Contrary to the HCA's direction that use of corporate support under FAR 31.205-26(e) is considered self-performance, the CBCA determined in its Advisory Opinion that SRNS is the only party to the SRNS M&O contract in privity with the Department; as such, any parent companies are not considered the "contractor." As a result, the HCA's direction is improperly referring to SRNS' use of affiliates to complete the work as "self-performance" of the SRNS M&O contract.

Regardless of the HCA's direction that SRNS' use of affiliates constitutes self-performance of the contract, this direction attempts to provide an alternative to Clause I.56, DEAR 970.5244-1, Contractor Purchasing System, in the SRNS M&O contract, although Clause I.56 is still part of the SRNS M&O contract. DEAR 970.5244-1(i) explicitly requires that "equipment, materials, supplies, or services from a contractor-affiliated source shall be purchased or transferred in

accordance with 48 CFR 970.4402-3.” DEAR 970.4402-3 requires that an award is made in accordance with policies and procedures designed to permit effective competition. While the HCA’s direction acknowledges that “the term ‘affiliate’ includes parent corporations as well as their associated legal entities,” Clause I.56 in the SRNS M&O contract requires that the purchase/transfer of personnel from SRNS’ affiliates must be considered in accordance with DEAR 970.4402-3, which has specific requirements to encourage competition and mitigate potential conflicts of interest. Additionally, DEAR 970.4402-3 refers to subcontracts for performance of contract work itself (as distinguished from the purchase of supplies and services needed in connection with the performance of work), but it does not exempt corporate support from purchasing requirements. Therefore, SRNS’ use of corporate reachback employees is subject to DEAR 970.4402-3, a finding the CBCA explicitly cites in its Advisory Opinion. Allowing otherwise would be inconsistent and permit SRNS to assert that it is subject to DEAR 970.4402-3 only when it is advantageous to them in litigation, but not holding them accountable for following the requirements of the provision when it presents a hinderance to them.

Costs charged to and reimbursed under the contract (e.g., transfer or purchase) must be deemed reasonable per FAR 31.201-3, Determining reasonableness, which states that “[n]o presumption of reasonableness shall be attached to the incurrence of costs by a contractor.” However, the HCA’s direction is contrary to FAR 31.201-3 when it specifically states that “no additional criteria or conditions shall be required for approval” beyond requiring Parent Organization Support Plans to have a “justification of need and estimated labor hours by functional support categories and define support anticipated for mission critical areas without further cost detail or estimates.” Additionally, “the contractor shall provide supporting data for rates and factors used for reachback for the annual plan.” Per FAR 31.201-3, “if an initial review of the facts results in a challenge of a specific cost by the contracting officer or the contracting officer’s representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable.” The HCA’s direction creates an improper presumption of reasonableness, which could result in an inappropriate shifting of the burden of proof to the Department in any dispute.

Management is responsible for implementing controls to ensure the reasonableness of costs incurred by the contractor, not the cognizant Government incurred cost auditor. The HCA creates an improper presumption that the incurred cost audits performed by cognizant Government auditors are part of management’s controls. Specifically, the HCA’s direction states that the contracting officers are expected to “rely on cost incurred audits performed at the corporate level by the cognizant government auditors to provide the necessary cost reasonableness support for corporate costs, so that additional local audits are unnecessary and shall not be required.” This direction would inappropriately transfer to the cognizant Government auditors the Department’s responsibility for ensuring that costs incurred by the contractors are reasonable.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We conducted this audit to determine whether: (1) Savannah River Nuclear Solution, LLC's (SRNS) use of corporate reachback at the Savannah River Site (SRS) was in compliance with its management and operating (M&O) contract provisions and requirements governing the use of corporate reachback; and (2) the overall costs incurred for these activities were reasonable, allocable, and allowable.

SCOPE

The audit was performed from October 2021 through June 2023 at the Department of Energy's Savannah River Operations Office near Aiken, South Carolina. The scope of the audit included SRNS' use of seconded corporate reachback employees from October 1, 2016, through September 30, 2021, or from fiscal year (FY) 2017 through FY 2021. All information was obtained via remote access techniques. The audit was conducted under Office of Inspector General project number A21SR020.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed Department of Energy Acquisition Regulation 970.5244-1, Contractor Purchasing System (DEC 2000) [As modified by Federal Register: January 18, 2001 (Volume 66, Number 12), Page 4616] (Deviation), which is incorporated in the SRNS M&O contract at Section I.56, and 48 Code of Federal Regulations 970.4402-3, Purchasing from contractor-affiliated sources, which is incorporated by reference in the SRNS M&O contract at Section I.56;
- Reviewed the prior report issued by the Department's Office of Inspector General related to the use of corporate reachback;
- Interviewed personnel from the Department's Savannah River Operations Office's Office of Chief Counsel; Office of the Field Chief Financial Officer; and the Office of Acquisition Management, regarding SRNS' use of corporate reachback at SRS;
- Interviewed personnel from SRNS' Office of the Chief Financial Officer and SRNS' Workforce Services and Talent Management regarding SRNS' use of corporate reachback at SRS;
- Identified the universe of SRNS' use of corporate reachback employees (both non-seconded and seconded) from FY 2017 through FY 2021 and tested all SRNS' use of seconded corporate reachback employees from FY 2017 through FY 2021;
- Obtained SRNS' Human Resource data to support SRNS' use of corporate reachback employees from FY 2017 through FY 2021, as well as SRNS' financial data to document the total costs incurred for SRNS' use of corporate reachback employees from FY 2017 through FY 2021;

Appendix 1: Objective, Scope, and Methodology

- Performed analyses to determine whether SRNS' Human Resource files contained the details associated with the selection of each SRNS corporate reachback employee and supporting documentation of special expertise as a basis for the sole-source selection for SRNS' use of corporate reachback employees from FY 2017 through FY 2021;
- Reviewed the SRNS' financial data to identify the total costs claimed by SRNS for the use of seconded corporate reachback employees from FY 2017 through FY 2021;
- Performed analyses to determine whether SRNS' Human Resource files or SRNS' financial data contained documented analyses to support the reasonableness of the labor cost claimed by SRNS for the use of a seconded corporate reachback employee compared to other alternatives such as hiring a new SRNS employee, promoting an existing SRNS employee, or hiring a subcontractor employee;
- Identified the fully burdened constructed labor cost for similar SRNS full-service positions for each seconded corporate reachback employee, where possible, using the SRNS equivalent pay grade level and the midpoint of the approved SRNS exempt compensation schedule for each job grade associated with the seconded corporate reachback position for each year from FY 2017 through FY 2021;
- Performed analyses to evaluate the reasonableness of seconded corporate reachback labor costs by comparing the total labor cost claimed by SRNS for each seconded corporate reachback employee to the fully burdened constructed labor cost for a similar SRNS position, identified the excess labor cost incurred for each seconded corporate reachback employee for each year from FY 2017 through 2021, and questioned the excess labor costs associated with SRNS' use of seconded corporate reachback employees; and
- Performed analyses to identify the total relocation costs claimed by SRNS from FY 2017 through FY 2021 associated with seconded corporate reachback employees for which SRNS did not comply with the M&O contract requirements to use competition in purchasing services from contractor-affiliated sources (i.e., its parent companies) and questioned the total relocation costs claimed by SRNS for these seconded corporate reachback employees.

We conducted this performance audit in accordance with generally accepted 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 conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the design of control activities and the related implementation principles. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit. Finally, we relied on computer-processed data to accomplish our audit objectives. We assessed this data by tracing it to source documents and determined the data to be sufficiently reliable to provide a basis for our conclusions.

Appendix 1: Objective, Scope, and Methodology

Office of Environmental Management officials waived an exit conference on December 17, 2024.

Appendix 2: Prior Report

Audit Report, [*Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site*](#) (DOE/IG-0862, April 2012). The audit found Savannah River Nuclear Solutions, LLC (SRNS) had not obtained required Department of Energy approval for the two noncompetitive contracts it awarded to Fluor Federal Services, Inc. and Newport News Nuclear, Inc. during 2009. Also, SRNS had not demonstrated, in most cases, that the affiliates were the only sources capable of providing the expertise necessary to perform the needed services, a pre-requisite for noncompetitive awards to affiliate companies. Further, it had not performed cost analyses to ensure the reasonableness of the cost of affiliate personnel services, as required. The noncompetitive acquisitions occurred and persisted because the Department did not effectively administer the SRNS contract as it pertains to the procurement of affiliate personnel services. In the absence of effective Department oversight of SRNS' acquisition of affiliate personnel services, the Department lacked assurance that due consideration was given to acquiring these services via competitive means; the services were obtained at fair and reasonable prices; and the best interests of the U.S. taxpayers were protected. As such, and to further address the issues identified in this report, we made several recommendations designed to strengthen the Department's oversight of SRNS' acquisitions from affiliates and to address deficiencies associated with SRNS' acquisition of affiliate personnel services.

Appendix 3: Management Comments



Department of Energy
Savannah River Operations Office
P.O. Box A
Aiken, South Carolina 29802
September 24, 2023

MEMORANDUM FOR TERI L. DONALDSON
INSPECTOR GENERAL
ENVIRONMENTAL MANAGEMENT

FROM: MICHAEL D. BUDNEY
MANAGER
SAVANNAH RIVER OPERATIONS OFFICE

Digitally signed by MICHAEL BUDNEY
Date: 2024.09.24 15:19:56 -0400'

SUBJECT: Draft Audit Report on Savannah River Nuclear Solutions, LLC's Use of
Corporate Reachback at the Savannah River Site

Thank you for the opportunity to review and comment on the subject draft report. The Savannah River Operations Office appreciates the auditors' work and provides the following comments below:

The enclosures with this memorandum details actions taken by the organization.

If you have any questions regarding this response, please contact Janette Gonzalez, Office Director, Office of Acquisition Management, at janette.gonzalez@srs.gov, or (803) 952-6135.

OAM-24-056

- (4) Enclosures:
1. Management Response
 2. CO Determination & Findings
 3. Contract_DE-AC09-08SR22470_Mod_1050
 4. Corporate Reachback Analysis DOE-SR-OAM

Appendix 3: Management Comments

Enclosure

Management Response

OIG Draft Report: Audit Report on Savannah River Nuclear Solutions, LLC's
Use of Corporate Reachback at the Savannah River Site

Recommendation #1: Determine the allowability of the \$8,920,136.12 of unreasonable questioned labor costs identified in this report and recover those labor costs determined to be unallowable.

EM Response: Concur
The action is complete. Evidence is enclosed.

Recommendation #2: Determine the allowability of the \$7,895,907.88 of unsupported questioned labor costs identified in this report and recover those labor costs determined to be unallowable.

EM Response: Concur
The action is complete. Evidence is enclosed.

Recommendation #3: Determine the allowability of the \$743,356.39 of questioned relocation costs identified in this report and recover those relocation costs determined to be unallowable.

EM Response: Concur
The action is complete. Evidence is enclosed.

Recommendation #4: For future seconded corporate reachback actions, require SRNS to follow its M&O contract requirements when considering the use of corporate reachback to fill SRNS positions. This includes the use of competition, unless it is acquiring technical services from contractor-affiliated entities who have a special expertise, and if this is the case, ensuring sufficient documentation is maintained to justify the use of a sole-source acquisition.

EM Response: Concur
The action is complete. Evidence is enclosed.

Recommendation #5: For future seconded corporate reachback actions, require SRNS to maintain sufficient documentation to support the reasonableness of the costs claimed by SRNS for the seconded corporate reachback employees.

EM Response: Concur
The action is complete. Evidence is enclosed.

CONTRACTING OFFICER'S DETERMINATION
DEPARTMENT OF ENERGY SAVANNAH RIVER OPERATIONS OFFICE (DOE-SR)

Corporate Reach Back

CONTRACT #DE-AC09-08SR22470

SAVANNAH RIVER NUCLEAR SOLUTIONS, LLC (SRNS)

BACKGROUND

The SRNS contract was awarded in August 2008. Since that time, the contractor has utilized corporate reach back for certain programs with respect to the DOE-SR mission. The use of personnel resources from **SRNS'** parent companies has been deemed successful.

Based on a draft Department of Energy Inspector General (DOE-IG) **audit report on SRNS' use** of corporate reach back, the Contracting Officer has made a determination on costs as follows.

FINDINGS

The Contracting Officer has made a determination that the questioned labor costs in the amount of \$8,920,136.12 are hereby allowable, based upon the following:

- Environmental Management (EM) expectations that reach back positions be filled with highly skilled individuals who can solve complex performance issues in often very short times, while supplementing the mid-range salaried staff on site.
- A recent analysis revealed a DOE contractor placed a Nuclear Engineer with 20 years of experience, including project management, and a Master of Business Administration (MBA) as a Subject Matter Expert (SME) consultant, at \$278,720/year. It has therefore been confirmed that a very specialized and advanced Nuclear Engineer with project management experience could command a compensation of \$150 - \$200 per hour (\$312,000 - \$416,000) or more depending on the job requirements, and the schedule and availability of candidates.
- Continued monitoring of the annual Parent Organization Plans and spending in accordance with the plan to ensure reasonableness will be performed (on a random basis). The initial submittal identified various categories, along with the associated costs; however, at request, the revised version was submitted with top dollar estimates.

Appendix 3: Management Comments

The Contracting Officer has made a determination that the questioned labor costs in the amount of \$7,895,907.88 are hereby allowable, based upon the following:

- A recent analysis revealed a DOE contractor placed a Nuclear Engineer with 20 years of experience, including project management, and an MBA as a SME consultant, at \$278,720/year. It has therefore been confirmed that a very specialized and advanced Nuclear Engineer with project management experience could command a compensation of \$150 - \$200 per hour (\$312,000 - \$416,000) or more depending on the job requirements, and the schedule and availability of candidates.
- Continued monitoring of the annual Parent Organization Plans and spending in accordance with the plan to ensure reasonableness will be performed (on a random basis). The initial submittal identified various categories, along with the associated costs; however, at request, the revised version was submitted with top dollar estimates.

The Contracting Officer has made a determination that the questioned relocation costs in the amount of \$743,356.39 are hereby allowable, based upon the following:

- With **SRNS' experience with Extended Travel Duty & Long-Term Temporary Assignments**, it would be conceivable that SRNS would apply the same rigor and standards to reach back employees.
- The rates and factors used does not appear to have exceeded the cost of commercially available lodgings, per diem, rental cars, transportation, etc. as compared to the costs or benefits allowed for federal employees under the DOE travel manual or in the GSA Travel Regulations.

DETERMINATION

Upon the basis of this determination and findings and in accordance with Federal Acquisition Regulation 1.7, it is determined to be justified and in the best interest of the Government to allow corporate reach back charges under the terms of the contract.

MARIE GARVIN Digitally signed by MARIE GARVIN
Date: 2024.01.18 14:35:13 -05'00'

Marie Garvin
Contracting Officer

Date

Appendix 3: Management Comments

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT		1. CONTRACT ID CODE	PAGE OF PAGES 1 5	
2. AMENDMENT/MODIFICATION NO. 1050	3. EFFECTIVE DATE See Block 16C	4. REQUISITION/PURCHASE REQ. NO.	5. PROJECT NO. (if applicable)	
6. ISSUED BY Savannah River Operations Office U.S. Department of Energy Savannah River Operations P.O. Box A Aiken SC 29802	CODE 893037	7. ADMINISTERED BY (if other than Item 6) Savannah River Operations U.S. Department of Energy Savannah River Operations P.O. Box A Aiken SC 29802	CODE 00901	
8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code) SAVANNAH RIVER NUCLEAR SOLUTIONS LLC Attn: James W. Johnson, Jr. 203 LAURENS ST SW AIKEN SC 29801		9A. AMENDMENT OF SOLICITATION NO. (x)		
CODE 798861048 FACILITY CODE		9B. DATED (SEE ITEM 11)		
		10A. MODIFICATION OF CONTRACT/ORDER NO. DE-AC09-08SR22470 x		
		10B. DATED (SEE ITEM 13) 01/10/2008		
11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS				
<input type="checkbox"/> The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers <input type="checkbox"/> is extended. <input type="checkbox"/> is not extended. Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods: (a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or electronic communication which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGEMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by letter or electronic communication, provided each letter or electronic communication makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.				
12. ACCOUNTING AND APPROPRIATION DATA (if required) See Schedule				
13. THIS ITEM ONLY APPLIES TO MODIFICATION OF CONTRACTS/ORDERS. IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.				
CHECK ONE	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.			
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation data, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).			
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:			
X	D. OTHER (Specify type of modification and authority) FAR 43.103 (b) (3) Make changes authorized by clauses other than a changes clause			
E. IMPORTANT: Contractor <input checked="" type="checkbox"/> is not <input type="checkbox"/> is required to sign this document and return _____ copies to the issuing office.				
14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.) UEI: XLQ7CKUSQSD5 The purpose of this modification is to: A. Include Environmental Management Corporate Reachback Provisions into the contract. B. The contract estimated value and all other terms and conditions remain unchanged. Payment:				
Except as provided herein, all terms and conditions of the document referenced in Item 9 A or 10A, as heretofore changed, remains unchanged and in full force and effect.				
15A. NAME AND TITLE OF SIGNER (Type or print)		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print)		
		Marie A. Garvin		
15B. CONTRACTOR/OFFEROR	15C. DATE SIGNED	16B. UNITED STATES OF AMERICA	16C. DATE SIGNED	
(Signature of person authorized to sign)		Marie A. Garvin (Signature of Contracting Officer)	04/14/2023	
Previous edition unusable		STANDARD FORM 30 (REV. 11/2016) Prescribed by GSA FAR (48 CFR) 53.243		

EM Corporate Reachback Provisions

FROM: H.29 PERFORMANCE GUARANTEE

The Contractor is required by other provisions of this Contract to organize a separate corporate entity to perform the work under the Contract and shall be totally responsible for all Contract activities. The Contractor's parent organization(s) or all member organizations if the Contractor is a joint venture, limited liability company, or other similar entity, shall guarantee performance as evidenced by the Performance Guarantee Agreement incorporated in the Contract in Section J, Appendix G. If the Contractor is a joint venture, limited liability company, or other similar entity where more than one organization is involved, the parent or all member organizations shall assume joint and several liability for the performance of the Contractor. In the event any of the signatories to the Performance Guarantee Agreement enters into proceedings related to bankruptcy, whether voluntary or involuntary, the Contractor agrees to furnish written notification of the bankruptcy to the CO.

TO: H29 DOE-H-2016 Performance Guarantee Agreement (Oct 2014)

The Contractor's parent organization(s) or all member organizations if the Contractor is a joint venture, limited liability company, or other similar entity, shall guarantee performance of the contract as evidenced by the Performance Guarantee Agreement incorporated in the Contract in Section J, Attachment J 4. If the Contractor is a joint venture, limited liability company, or other similar entity where more than one organization is involved, the parent(s) or all member organizations shall assume joint and severable liability for the performance of the contract. In the event any of the signatories to the Performance Guarantee Agreement enters into proceedings related to bankruptcy, whether voluntary or involuntary, the Contractor agrees to furnish written notification of the bankruptcy to the CO.

H.74 DOE-H-2017 Responsible Corporate Official and Corporate Board of Directors (Oct 2014) (Revised)

The Contractor has provided a guarantee of performance from its parent company(s) in the form set forth in Section J, Attachment J-4 entitled, Performance Guarantee Agreement. The individual signing the Performance Guarantee Agreement for the parent company(s) should be the Responsible Corporate Official. The Responsible Corporate Official is the person who has sole corporate (parent company(s)) authority and accountability for Contractor performance.

DOE may contact, as necessary, the single Responsible Corporate Official identified below regarding Contract performance issues. The parent companies shall proactively support the Responsible Corporate Official to ensure adverse contract performance issues are avoided, identified, and/or resolved in a timely manner. The Responsible Corporate Official shall promptly notify the DOE Contracting Officer of the corrective actions (both taken and planned) to address the adverse contract performance.

Appendix 3: Management Comments

Responsible Corporate Official: [Offeror Fill-In]

Name: _____
Position: _____
Company/Organization: _____
Address: _____
Phone: _____
Facsimile: _____
Email: _____

Should the Responsible Corporate Official or their contact information change during the period of the Contract, the Contractor shall promptly notify the CO in writing of the change.

Identified below is each member of the Corporate Board of Directors that will have corporate oversight. DOE may contact, as necessary, any member of the Corporate Board of Directors, who is accountable for corporate oversight of the Contractor organization and key personnel.

Corporate Board of Directors: [Offeror Fill-In]

Name: _____
Position: _____
Company/Organization: _____
Address: _____
Phone: _____
Facsimile: _____
Email: _____

Should any change occur to the Corporate Board of Directors, the majority interest, or their contact information during the period of the Contract, the Contractor shall promptly notify the CO in writing of the change.

The Responsible Corporate Official and Corporate Board of Directors shall be engaged and accountable for performance of the contract scope and the highest standard of business integrity

Attachment 1

Appendix 3: Management Comments

through the Contractor's robust performance assurance system in accordance with DOE Order 226.1B Implementation of Department of Energy Oversight Policy and the Section H clause entitled Contractor Assurance System. The Responsible Corporate Official through the Contractor shall submit to the Contracting Officer a quarterly report using appropriate corporate metrics for DOE review. The quarterly report shall be risk-informed and a credible self-assessment that includes individual project performance, technical solutions, as needed, and appropriate coverage of potentially high consequence activities under the contract, including work of subcontractors. The annual Contractor Performance Assessment Reporting System (CPARS) evaluation shall consider the execution of the requirements of this clause, including the Contractor's performance managing its subcontractors.

H.75 Parent Organization Support

- (a) For onsite work, fee generally provides adequate compensation for parent organization expenses incurred in the general management of this Contract. The general construct of this Contract results in minimal parent organization investment (in terms of its own resources, such as labor, material, overhead, etc.) in the Contract work. DOE provides Government-owned facilities, property, and other needed resources. Accordingly, allocations of parent organization expenses are unallowable for the prime contractor, teaming subcontractors, and/or teaming partners, unless authorized by the CO in accordance with this Clause.
- (b) The Contractor may propose, or DOE may require, parent organization support to:
 - (1) Monitor safety and performance in the execution of Contract requirements;
 - (2) Ensure achievement of Contract environmental cleanup and closure commitments;
 - (3) Sustain excellence of Contract key personnel;
 - (4) Ensure effective internal processes and controls for disciplined Contract execution;
 - (5) Assess Contract performance and apply parent organization problem-solving resources on problem areas; and
 - (6) Provide other parent organization capabilities to facilitate Contract performance.
- (c) The CO may, with unilateral discretion, authorize parent organization support, and the corresponding indirect or direct costs, if a direct-benefit relationship to DOE is demonstrated. All parent organization support shall be authorized in advance by the CO.
- (d) If parent organization support is proposed by the Contractor or required by DOE, the Contractor shall submit for DOE review and approval, an annual Parent Organization Support Plan (POSP). The Contractor shall submit its initial POSP at least 30 days prior to:
 - (1) The end of the Contract Transition Period; or
 - (2) The commencement date of parent organization support proposed by the Contractor or required by the Government.

Attachment 1

Appendix 3: Management Comments

Any subsequent POSP shall be submitted at least 60 days prior to the start of each year of Contract performance.

H.76 Organizational Conflict of Interest – Affiliate(s)

The prime contractor, [Offeror to insert name of Prime Contractor] comprised of [Offeror to insert names of partner companies], is responsible for the completion of all aspects of this Contract. In order to effectively and satisfactorily execute its responsibility to manage and accomplish the contract work, the prime contractor must have complete objectivity in its oversight and management of its subcontractors. Therefore, consistent with the principle contained in Federal Acquisition Regulation Subpart 9.5, and specifically Section 9.505(a), and notwithstanding any other provision of this Contract, the prime contractor is, absent prior written consent from the CO as provided herein, prohibited from entering into a subcontract arrangement with any affiliate or any affiliate of its partners, or utilize any affiliate or affiliate of its partners, to perform work under a subcontract. Such contractual relationship(s) are presumed to create an impaired objectivity type conflict of interest. If the contractor believes the capabilities of an affiliate could be utilized in such a manner as to neutralize or avoid the existence of an organizational conflict of interest, the Contractor must obtain the CO's written consent prior to placing the subcontract.

For the purpose of this clause, affiliation occurs when a business concern is controlled by or has the power to control another or when a third party has the power to control both.

Appendix 3: Management Comments

Corporate Reachback Analysis

Recommendation #1: Determine the allowability of the \$8,920,136.12 of unreasonable questioned labor costs identified in this report and recover those labor costs determined to be unallowable.

EM will confirm the reasonableness of the costs and ensure that SRNS captures the corporate reachback needs in a disciplined manner through the annual Parent Organization Plan.

As stated in the EM response to the 2012 investigation, Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site (DOE/IG-0862, April 2012) at the bottom of page 3 of the draft report, SRNS uses the procurement system to transfer reachback personnel (e.g., parent organization support). EM recognizes that other companies use the personnel system. The EM HCA Office reviewed the SRNS process and determined that the SRNS did not use the personnel system, because it was stood up without the capability to account for corporate reachback.

The report also fails to consider the October 24, 2022, EM HCA direction to rely on existing forward pricing rates to expedite access to such reachback support. The policy is effective as of the date to the HCA letter. It states that “Parent Organization Support Plans shall be approved prior to the start of each fiscal year. To establish consistency in expectations/requirements for cost definition to be provided in the Plans, these Plans shall include only justification of need and estimated labor hours by functional support categories, and define support anticipated for mission critical areas without further cost detail or estimates. The contractor shall provide supporting data for rates and factors used for reachback for the annual plan. No additional criteria or conditions shall be required for approval. Contracting Officer approval of other specific corporate support needs shall not be required unless those needs are outside the bounds of the approved Plan. Plans may be amended as necessary throughout the year with Contracting Officer approval.”

The direction letter further states that such costs are not to be treated as subcontracts: “Relying on the cost principle for acceptance of intercompany transfers pursuant to FAR 31.205-26(e) instead of subcontracting pursuant to FAR 52.244-2 Subcontracts to increase efficiency and timeliness of the reachback support. FAR 52.244-2 purchasing system requirements do not apply to interorganizational transfers for corporate support, as the use of corporate support under FAR 31.205-26(e) is considered self-performance by the Contractor and, therefore, exempt from conflict of interest and non-competitive concerns.”

Regarding the amount of questioned labor costs, there is no evidence presented in the draft report that supports a finding that SRNS deviated from its approved rates and factors. The presumption that a mid-point wage rate for a particular position is the sole factor for determining reasonableness of the wage rate charged for a particular reachback assignment does not consider the key purpose for obtaining expertise through reachback. As stated in the October 2022, HCA direction letter, “the expectation that such corporate

Appendix 3: Management Comments

reachback, including the Contractor's parent organization(s) or the parent organizations of all member organizations if the Contractor is a joint venture, limited liability company, or other similar entity should be leveraged for expertise to augment program management oversight and address challenges to effective program execution." In the majority of cases, such highly skilled positions would be earning wages at the upper end of the wage scale, not at the midpoint.

In practice the midpoint is the competitive compensation for an employee who is fully competent for the job duties and earns a reliable salary. Reachback consultants are highly skilled professionals with an expertise in a specialty discipline. These are usually shorter-term assignments, and the consultant foregoes the steady income and seniority-based benefits for higher pay.

The contracting officer has determined that the questioned labor costs in the amount of \$8,920,126 are hereby allowable. Recently, a DOE contractor placed a Nuclear Engineer with 20 years of experience, including project management and an MBA as a SME Consultant for a DOE-SR AM for Nuclear Material Stabilization at \$278,720/per year. The DOE-SR Human Resources Specialist confirmed that a very specialized and advanced Nuclear Engineer with project management experience could command a compensation of \$150 - \$200 per hour (\$312,000 – \$416,000 annually) or more depending on the job requirements, the schedule and the availability of candidates.

Using the table on page three of the draft findings of the DOE-IG audit report and assuming that the hourly rates had increased 5% per year in the years leading up to today's rates of \$150 - \$200 per hour, all of the rates questioned would be under or within this range:

Year	Hourly Rates		Annual Rates		Headct	Annual Rates * Hdct		Audit Finding Costs Claimed	Findings within range?
	Minimum	Maximum	Minimum	Maximum		Minimum	Maximum		
2017	\$111.93	\$149.24	\$232,819	\$310,426	39	\$9,079,949	\$12,106,599	\$7,858,595.64	Under
2018	\$117.53	\$156.71	\$244,460	\$325,947	42	\$10,267,327	\$13,689,769	\$8,465,794.01	Under
2019	\$123.41	\$164.54	\$256,683	\$342,244	38	\$9,753,961	\$13,005,281	\$8,858,442.48	Under
2020	\$129.58	\$172.77	\$269,517	\$359,356	39	\$10,511,176	\$14,014,901	\$10,908,927.20	Within
2021	\$136.05	\$181.41	\$282,993	\$377,324	41	\$11,602,721	\$15,470,295	\$13,156,313.94	Within
2022	\$142.86	\$190.48	\$297,143	\$396,190	38	\$11,291,429	\$15,055,238		
2023	\$150.00	\$200.00	\$312,000	\$416,000	38	\$11,856,000	\$15,808,000		

Once the contractor provides the annual Parent Organizational Support Plan (POSP), DOE-SR OAM can review the plan and then monitor the spending to the plan budget.

Recommendation #2: Determine the allowability of the \$7,895,907.88 of unsupported questioned labor costs identified in this report and recover those labor costs determined to be unallowable.

REM will confirm the reasonableness of the costs and ensure that SRNS captures the corporate reachback needs in a disciplined manner through the annual Parent Organization Plan.

Appendix 3: Management Comments

As with the logic stated for Recommendation #1, the assumption that seconded corporate reachback positions should be at the mid-point salary range to be reasonable is not accurate. EM expects the reachback positions to be filled by highly skilled individuals who are capable of solving complex performance issues in often very short times and supplement the mid-range salaried staff on-site. In the majority of cases, such highly skilled positions would be earning wages at the upper end of the wage scale, not at the midpoint.

In practice the midpoint is the competitive compensation for an employee who is fully competent for the job duties and earn reliable salaries. Reachback Consultants are highly skilled professionals with a narrow expertise in a specialty discipline. These are usually shorter-term assignments, and the consultant foregoes the steady income and seniority-based benefits for higher pay.

The contracting officer has determined that the questioned labor costs in the amount of \$7,895,907.88 is unsupported because either the reachback employee did not charge full time hours even though they were seconded for the full year or the seconded employee was not seconded for the full year and other individuals may also have service in the position. We believe the reason for the finding is that there was a discrepancy between the fully burdened midpoint and the hourly rate charged by the reachback resource. We believe the response to the first finding (above) is the source of the discrepancy. Had the audit used the market rate for the position (\$150 - \$200/hour) rather than the fully burdened midpoint of the full-time position, the compensation paid would be supported.

Once the contractor provides the annual POSP, DOE-SR OAM can review the plan and then monitor the spending to the plan budget.

Recommendation #3: Determine the allowability of the \$743,356.39 of questioned relocation costs identified in this report and recover those relocation costs determined to be unallowable.

EM will confirm the reasonableness of the costs and ensure that SRNS captures the corporate reachback needs in a disciplined manner through the annual Parent Organization Plan. This would include relocation needs.

The amount of the questioned costs is the full amount of relocation costs for reachback employees over the period investigated. That assumes that none of the reachback employees should have been supporting the EM mission at the SRS site for that period. That is an illogical conclusion, as the report presents no evidence that the reachback employees failed to deliver value toward the EM mission over the period. Also, the report does not find that the rates and factors used exceeded the cost of commercially available lodgings, per diem, rental cars, transportation, etc. as compared to the costs or benefits allowed for federal employees under the DOE travel manual or in the GSA Travel Regulation. SRNS has complied with these regulations for employees on Extended Travel Duty (ETD) and Long-Term Temporary Assignments (LTTAs). Based upon SRNS' representation of ETDs and LTTAs, it would be conceivable that SRNS would

Appendix 3: Management Comments

apply the same rigor and standards to reachback employees. The CO has determined that questioned relocation costs in the amount of \$743,356.39 are hereby allowable.

Given there is a bona fide mission need for the corporate reachback support and no deviations from standard long term temporary assignments has been identified, there appears to be no reason to reject the relocation costs, especially since they have withstood examination under incurred cost audits for the periods reviewed.

Recommendation #4: For future seconded corporate reachback actions, require SRNS to follow its M&O contract requirements when considering the use of corporate reachback to fill SRNS positions. This includes the use of competition, unless it is acquiring technical services from contractor-affiliated entities who have a special expertise, and if this is the case, ensuring sufficient documentation is maintained to justify the use of a sole-source acquisition.

EM will follow the October 24, 2022, HCA Direction to rely on approved rates and factors when approving costs for reachback employees of all types. It is EM policy that such reachback support is expected as a normal way of addressing serious mission issues by leveraging the full bench of expertise available within the LLC and its partners. The desire to access such resources is the basis for evaluating key personnel and the depth of corporate and partner experience as part of EM source sections- historically and those on-going.

Recommendation #5: For future seconded corporate reachback actions, require SRNS to maintain sufficient documentation to support the reasonableness of the costs claimed by SRNS for the seconded corporate reachback employees.

EM will follow the October 24, 2022, HCA Direction to rely on approved rates and factors when approving costs for reachback employees of all types.

Appendix 4: Details of Cost Comparisons

Fiscal Year 2017

For the total labor costs claimed by Savannah River Nuclear Solutions, LLC (SRNS) associated with 39 seconded corporate reachback employees during fiscal year (FY) 2017, there were only 8 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee, using a midpoint of the approved FY 2017 SRNS exempt compensation schedule for each job grade. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable, regardless of how many labor hours were charged for these seconded corporate reachback employees during FY 2017. However, there were 19 instances in which the total labor cost claimed by SRNS for the seconded corporate reachback employee was greater than the constructed labor cost for a comparable SRNS employee during FY 2017. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable, and we included the \$609,063.32 excess labor costs as questioned costs for FY 2017.

Also, there were 12 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours during FY 2017, even though they were seconded for the full year, or the seconded corporate reachback employee was not seconded for the full year and other individuals may have also served in the same position during FY 2017. For these instances, we requested data from SRNS to identify individuals hired for these positions and the total labor cost claimed by SRNS for individuals that served in each position. SRNS could not provide the data required by the contract and, thus, could not support the reasonableness of the costs. Therefore, we included the \$1,825,019.41 total labor costs claimed by SRNS for these seconded corporate reachback employees as questioned costs for FY 2017.

Fiscal Year 2018

For the total labor costs claimed by SRNS associated with 42 seconded corporate reachback employees during FY 2018, there were only 8 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee, using a midpoint of the approved FY 2018 SRNS exempt compensation schedule for each job grade. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable, regardless of how many labor hours were charged for these seconded corporate reachback employees during FY 2018. However, there were 19 instances in which the total labor cost claimed by SRNS for the seconded corporate reachback employee was greater than the constructed labor cost for a comparable SRNS employee during FY 2018. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable, and we included the \$1,013,452.34 excess labor costs as questioned costs for FY 2018.

Appendix 4: Details of Cost Comparisons

Also, there were 15 instances where SRNS could not provide sufficient data to support the reasonableness of the labor costs incurred for these seconded corporate reachback employees. Specifically, there were 14 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours during FY 2018, even though they were seconded for the full year, or the seconded corporate reachback employee was not seconded for the full year and other individuals may have also served in the same position during FY 2018. For these instances, we requested data from SRNS to identify individuals hired for these positions and the total labor costs claimed by SRNS for individuals that served in each position. Also, there was one instance in which SRNS claimed labor cost for a seconded reachback employee, but there were no associated labor hours charged by SRNS for this employee. SRNS could not provide the data required by the contract and, thus, could not support the reasonableness of the costs. Therefore, we included the \$2,443,516.15 total labor costs claimed by SRNS for these seconded corporate reachback employees as questioned costs for FY 2018.

Fiscal Year 2019

For the total labor costs claimed by SRNS associated with 38 seconded corporate reachback employees during FY 2019, there were only 7 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee, using a midpoint of the approved FY 2019 SRNS exempt compensation schedule for each job grade. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable, regardless of how many labor hours were charged for these seconded corporate reachback employees during FY 2019. However, there were 20 instances in which the total labor cost claimed by SRNS for the seconded corporate reachback employee was greater than the constructed labor cost for a comparable SRNS employee during FY 2019. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable, and we included the \$1,664,356.15 excess labor costs as questioned costs for FY 2019.

Also, there were 11 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours during FY 2019, even though they were seconded for the full year, or the seconded corporate reachback employee was not seconded for the full year and other individuals may have also served in the same position during FY 2019. For these instances, we requested data from SRNS to identify individuals hired for these positions and the total labor costs claimed by SRNS for individuals that served in each position. SRNS could not provide the data required by the contract and, thus, could not support the reasonableness of the costs. Therefore, we included the \$1,799,228.53 total labor costs claimed by SRNS for these seconded corporate reachback employees as questioned costs for FY 2019.

Appendix 4: Details of Cost Comparisons

Fiscal Year 2020

For the total labor costs claimed by SRNS associated with 39 seconded corporate reachback employees during FY 2020, there were only 5 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee, using a midpoint of the approved FY 2020 SRNS exempt compensation schedule for each job grade. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable, regardless of how many labor hours were charged for these seconded corporate reachback employees during FY 2020. However, there were 27 instances in which the total labor cost claimed by SRNS for the seconded corporate reachback employee was greater than the constructed labor cost for a comparable SRNS employee during FY 2020. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable, and we included the \$2,332,487.29 excess labor costs as questioned costs for FY 2020.

Also, there were seven instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours during FY 2020, even though they were seconded for the full year, or the seconded corporate reachback employee was not seconded for the full year and other individuals may have also served in the same position during FY 2020. For these instances, we requested data from SRNS to identify individuals hired for these positions and the total labor costs claimed by SRNS for individuals that served in each position. SRNS could not provide the data required by the contract and, thus, could not support the reasonableness of the costs. Therefore, we included the \$784,325.75 total labor costs claimed by SRNS for these seconded corporate reachback employees as questioned costs for FY 2020.

Fiscal Year 2021

For the total labor costs claimed by SRNS associated with 41 seconded corporate reachback employees during FY 2021, there were only 6 instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was less than the constructed fully burdened hourly labor rate for a comparable SRNS employee, using a midpoint of the approved FY 2021 SRNS exempt compensation schedule for each job grade. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees compared to the constructed labor costs for comparable SRNS employees would be reasonable, regardless of how many labor hours were charged for these seconded corporate reachback employees during FY 2021. However, there were 29 instances in which the total labor cost claimed by SRNS for the seconded corporate reachback employee was greater than the constructed labor cost for a comparable SRNS employee during FY 2021. For these instances, we concluded the labor costs claimed by SRNS for these seconded corporate reachback employees were unreasonable, and we included the \$3,300,777.02 excess labor costs as questioned costs for FY 2021.

Appendix 4: Details of Cost Comparisons

Also, there were six instances in which the fully burdened hourly labor rate charged by SRNS for the seconded corporate reachback employee was greater than the fully burdened hourly labor rate for a comparable SRNS employee; however, either the seconded corporate reachback employee did not charge full time hours during FY 2021, even though they were seconded for the full year, or the seconded corporate reachback employee was not seconded for the full year and other individuals may have also served in the same position during FY 2021. For these instances, we requested data from SRNS to identify individuals hired for these positions and the total labor costs claimed by SRNS for individuals that served in each position. SRNS could not provide the data required by the contract and, thus, could not support the reasonableness of the costs. Therefore, we included the \$1,043,818.04 total labor costs claimed by SRNS for these seconded corporate reachback employees as questioned costs for FY 2021.

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