



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Contract Transition Activities at the Nevada Test Site

OAS-M-08-02

November 2007

memorandum

DATE: November 26, 2007

Audit Report No: OAS-M-08-02

REPLY TO

ATTN OF: IG-32 (A06LV045)

SUBJECT: Audit of "Contract Transition Activities at the Nevada Test Site"

TO: Deputy Administrator for Defense Programs, National Nuclear Security
Administration

INTRODUCTION AND OBJECTIVE

The Nevada Test Site (Test Site) is a unique combination of Federally-owned land and facilities located in a remote area approximately 65 miles northwest of Las Vegas, Nevada. The Test Site represents the United States' unique capability to support nuclear testing and complex dynamic experiments that involve nuclear and hazardous materials. Bechtel Nevada was the management and operating contractor of the Test Site from 1996 through June 30, 2006.

In February 2005, the National Nuclear Security Administration (NNSA) competitively bid the contract to manage the Test Site and in March 2006 awarded the contract to the National Security Technologies, LLC (NSTec). NSTec is a limited liability company formed as a partnership between Northrop Grumman, AECOM, CH2M Hill, and Nuclear Fuel Services. The five-year contract is valued at approximately \$500 million annually, with the potential for five additional years based on adequate performance.

NNSA allowed three months for the transition between contractors to be completed. The objective of the audit was to determine whether contract transition activities were effective in protecting the government's interest and whether costs incurred were allowable, allocable, and reasonable.

CONCLUSIONS AND OBSERVATIONS

The Nevada Site Office's (Site Office) management of contract transition costs and activities at the Test Site was not fully effective in safeguarding Federal records and ensuring contract terms and Federal regulations were followed. Specifically, we found that some employee concern records were not retained as required by Federal regulation during the transition and \$86,112 in questionable relocation costs were incurred.

The Site Office did not ensure Federal records were maintained. Specifically, Bechtel Nevada (Bechtel), the previous Test Site contractor, destroyed supporting documentation from employee concern investigations. According to Department of Energy Orders and Federal Administrative Record Schedules, employee concern files, including supporting documentation, are Federal records and should be retained as such for four to seventy-five years. Bechtel's contract specified that employee concern files were company-owned files. However the contract also stipulated that, upon completion or termination of the contract, copies of contractor-owned records would be provided to the Department, upon the request of the government. The Site Office, however, did not specifically request copies of the employee concern files because the staff believed the Bechtel Nevada contract required retention of employee concerns records. The Site Office informed us that the current contract with NSTec does not require the current contractor to retain such records. According to Site Office staff, the NSTec contract will be modified to require the retention of employee concern files as Federal records.

Our review also identified some relocation expenses for new NSTec employees that were approved erroneously. Specifically, NSTec reimbursed employees for relocation expenses above that allowed by the Federal travel regulations and their contract. For example, Federal regulations allow each eligible individual to be paid miscellaneous expenses of \$1,000 without receipts or supporting documentation. NSTec, however, reimbursed individuals for \$5,000 of expenses without supporting documentation. As a result, NSTec paid \$24,000 in unsupported miscellaneous expenses. Overall, we questioned \$86,112 in relocation costs. We provided details of the questioned relocation costs to the contracting officer for an allowability of cost determination.

RECOMMENDATIONS

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

1. Modify the NSTec contract to require the retention of employee concern files consistent with Department Orders and Federal Administrative Record Schedules; and,
2. Determine the allowability of questioned relocation costs.

MANAGEMENT COMMENTS & AUDITOR RESPONSE

Management agreed with our report and corresponding recommendations. Management has initiated corrective actions on the recommendations.

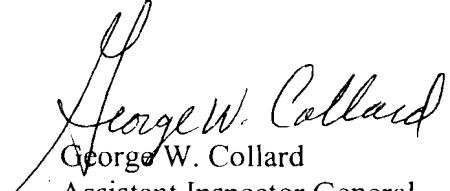
Management's comments and actions were responsive to our recommendations and are attached to this report.

SCOPE AND METHODOLOGY

We reviewed the transition costs and activities related to the change in prime contractors at the Test Site to determine if activities were effectively managed and costs were in compliance with contract terms and Federal acquisition regulations. The audit was conducted from June 2006 through September 2006 and from April 2007 through September 2007 at the Site Office.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included test of controls and compliance with laws and regulations related to contract transition activities. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Also, we examined the establishment of performance measures in accordance with the Government Performance and Results Act of 1993, as it related to the audit objective. We determined that no measures exist directly related to contractor transition activities. Finally, we obtained and reviewed computer generated data in order to satisfy our audit objective. We performed procedures to validate the reliability of the information as necessary to satisfy our audit objective. The criteria used to evaluate the costs and activities include the terms of the contracts, Federal Travel Regulations, Chapters 301 and 302, and Federal Acquisition Regulation 31.

Management waived an exit conference.


George W. Collard
Assistant Inspector General
for NNSA and Energy Audits
Office of Inspector General

Attachments

cc: Chief of Staff
Director, Policy and Internal Controls Management, NA-66
Manager, Nevada Site Office
Team Leader, Audit Liaison Team, CF-1.2

RELATED REPORT

- *Contract Transition Activities at Los Alamos National Laboratory* (OAS-L-07-16, August 7, 2007). This audit found that pre-existing conditions identified during the transition and additional costs resulting from the change in contractors present financial and operational challenges. Los Alamos National Security, LLC (LANS) reported 58 conditions in major risk areas such as fire protection, nuclear criticality safety, environmental cleanup, cyber security, and weapons quality that require corrective action. Plans to correct some of the conditions will require a substantial amount of time and effort. LANS will also incur increased expenses related to the terms of the LANS contract. The Department and LANS agreed that increased costs could be absorbed through efficiencies and cost cutting measures, including voluntary attrition, redeployment of staff, and reductions in non-labor items (travel, materials, equipment, indirect costs, and subcontract services).

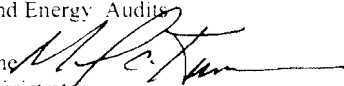


Department of Energy
National Nuclear Security Administration
Washington, DC 20585



October 31, 2007

MEMORANDUM FOR George W. Collard
Assistant Inspector General
for NNSA and Energy Audits

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

SUBJECT: Comments to Draft Report on NTS Contract
Transition: A06LV045; 2006-21548

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review the Inspector General's draft report, "Management Controls over Contract Transition Activities at the Nevada Test Site." We understand that this audit was to determine whether contract transition activities were effective in protecting the government's interest and whether costs incurred were allowable, allocable, and reasonable.

NNSA appreciates the IG's efforts. We agree with the report and corresponding recommendations. In both cases, the Contracting Officer has initiated the corrective actions.

Should you have any questions about this response, please contact Richard Speidel, Director, Policy and Internal Controls Management. The copies of this signed memorandum are sent electronically in .pdf format. There will be no other hard copy.

cc: Gerald Talbot, Manager, Nevada Site Office
David Boyd, Senior Procurement Executive
Karen Boardman, Director, Service Center



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

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