

United States Government

Department of Energy

memorandum

DATE: June 24, 2009

Audit Report Number: OAS-L-09-09

REPLY TO

ATTN TO: IG-32 (A08ET058)

SUBJECT: Report on "Audit of Closure of Subcontracts at the Savannah River Site"

TO: Manager, Savannah River Operations Office

INTRODUCTION AND OBJECTIVE

A significant amount of Federal funds expended at the Savannah River Site are attributable to subcontracts for goods and services. In Fiscal Year (FY) 2008, \$312 million of \$1.3 billion in total obligations were made for subcontracts. The Savannah River Site is managed and operated by Savannah River Nuclear Solutions, LLC (SRNS) through a prime contract with the Department of Energy's (Department) Savannah River Operations Office. Prior to August 2008, the site was managed and operated by Washington Savannah River Co., LLC (WSRC).

SRNS is expected to ensure that subcontracts are closed within a reasonable period of time after all actions are complete. Timely close-out actions of subcontracts are vital to, among other things, ensuring that unexpended funds are de-obligated so that they can be used for other purposes. In the absence of contractor benchmarks, we relied on Federal standards to determine a reasonable timeframe to measure subcontract close-out activities. According to the Federal Acquisition Regulations (FAR), Federal contracts are complete when the required goods or services have been delivered and accepted, and the Government has given notice that the contract is terminated or it has expired. The FAR suggests that cost-type contracts should be closed within 36 months of completion; firm-fixed-price contracts should be closed within 6 months of completion; and other types of contracts, such as fixed-price contracts, should be closed within 20 months of completion. Close-out activities include settling indirect cost rates, obtaining final invoices, auditing contract files, and ensuring that excess funds are de-obligated.

The Office of Inspector General has issued a number of reports that identified problems with closing subcontracts in a timely manner. For example, in our "Report on Management Controls over Subcontract Administration at the National Security Laboratories" (OAS-M-04-06, August 2004), we identified 287 subcontracts at 3 sites that had been awaiting close-out for more than 3 years. In light of the significant expenditures for subcontracts, we initiated this audit to determine if subcontracts were being closed in a timely manner at the Savannah River Site.

CONCLUSION AND OBSERVATIONS

Subcontracts, previously administered by WSRC and now overseen by SRNS, were not always closed in a timely manner. Close-out of 133 completed subcontracts totaling \$413 million had not been achieved within the guidelines established by the FAR. This condition was noted in cost-type subcontracts, including cost-type agreements with educational institutions, as well as fixed-price subcontracts. Specifically, as of October 2008:

- According to information provided by SRNS, close-out of 126 cost-type subcontracts valued at more than \$404 million had not been completed within the 36-month FAR benchmark. Further, more than half of these cost-type subcontracts had been completed for more than nine years. For example, one subcontract valued at \$132 million ended in 1991, but remained open in October 2008. Efforts to close the subcontract began in 2000, and documentation indicates that the final invoice had been paid and that closure was recommended in 2004. As of February 2009, the subcontract was open and \$200,723 of unexpended funds was still obligated to the subcontract;
- In another case, as of October 2008, a cost-type subcontract with an educational institution had not been closed, although 14 task orders valued at \$7.5 million that were made under the subcontract had expired between 2001 and 2005. According to SRNS representatives, the task orders cannot be closed until the Savannah River Operations Office issues a final indirect rate agreement letter; and,
- Completed fixed-price subcontracts also exceeded the Federal benchmarks. We noted 7 completed subcontracts totaling \$8.6 million which remained open beyond the 20-month benchmark for these types of subcontracts.

We concluded that WSRC and SRNS had not made the closure of subcontracts a priority because the Department had not emphasized the need for subcontract closure. Specifically, the Savannah River Operations Office had not included the timely closure of subcontracts as a requirement of the WSRC or the SRNS contracts. Further, the Department had not included the timeliness of subcontract closures as part of its reviews of the contractors' purchasing systems.

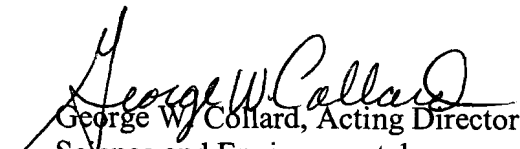
Failure to close subcontracts in a timely manner may unnecessarily encumber funds that could be de-obligated and used for other purposes, and preclude the protection and recovery of government-owned property provided to subcontractors. For instance, as of October 2008, \$6.7 million remained obligated to subcontracts that had been completed but remained open. This issue becomes more significant in light of the work planned under the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Savannah River Site recently received \$1.6 billion in Recovery Act funds and will be relying on subcontractors to perform some of the work. Subcontracts funded by the Recovery Act must be closed in a timely manner so that unexpended funds can be de-obligated and used to achieve the Recovery Act's objectives.

SUGGESTED ACTIONS

To address the issue discussed above, we suggest that you direct the Contracting Officer to:

- Institute requirements or measures requiring timely subcontract closures;
- Issue a final indirect rate agreement letter for the task orders discussed in this report; and,
- Direct SRNS to close the specific subcontracts identified in this report and de-obligate excess funds.

No recommendations are being made in this report; therefore, a formal response is not required. We appreciate the cooperation of the Savannah River Operations Office staff during this effort.


George W. Collard, Acting Director
Science and Environmental
Audits Division
Office of Inspector General

Attachment

cc: Team Leader, Audit Liaison, CF-1.2
Audit Liaison, Savannah River Operations Office

SCOPE AND METHODOLOGY

This review was performed between October 2008 and June 2009 at the Savannah River Site in Aiken, South Carolina. The scope of our audit included subcontracts that were open during Fiscal Years (FYs) 2007 and 2008. To accomplish our objective, we:

- Reviewed contract clauses pertaining to the administration of subcontracts;
- Reviewed policies and procedures for conducting cost reviews;
- Reviewed internal controls over subcontracts relative to cost allowability;
- Obtained a listing of all subcontracts open during FY 2007;
- Obtained a listing of subcontracts pending closure as of October 2008;
- Judgmentally selected open subcontracts for review;
- Judgmentally selected subcontracts pending closure for review; and,
- Held discussions with Departmental and contractor personnel.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. 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. We also assessed performance measures in accordance with the Government Performance and Results Act of 1993 and found that performance measures were developed for subcontract administration in general, but were not developed for subcontract close-outs specifically. We did not assess the reliability of computer processed data since it was not used to satisfy our audit objective. An exit conference was held with the Savannah River Operations Office's Director, Office of Acquisition Management on June 12, 2009.