



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

Audit Report

Report on the Audit of National Security
Technologies, LLC Costs Claimed
under Department of Energy Contract
No. DE-AC52-06NA25946 for Fiscal
Year 2007

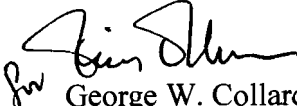


Department of Energy

Washington, DC 20585

May 18, 2009

MEMORANDUM FOR THE MANAGER, NEVADA SITE OFFICE

FROM:  George W. Collard
Assistant Inspector General for Performance Audits
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Audit of National Security Technologies, LLC Costs Claimed Under Contract No. DE-AC52-06NA25946 for Fiscal Year 2007"

BACKGROUND

National Security Technologies, LLC (NSTec), the management and operating contractor of the Nevada Test Site (Test Site), assumed its management responsibilities on July 1, 2006, under Department of Energy (Department) contract DE-AC52-06NA25946. We performed an audit of costs claimed under the contract for Fiscal Year (FY) 2007 (October 1, 2006 to September 30, 2007). For FY 2007, NSTec's Statement of Costs Incurred and Claimed (SCIC) reported total costs claimed of \$358,876,930. The audit was performed from April 2008 to January 2009 at the NSTec offices in North Las Vegas, Nevada and was limited to costs claimed for FY 2007, which will determine the basis for signing the SCIC.

RESULTS OF AUDIT

Of the \$358,876,930 in claimed costs for FY 2007, we questioned costs totaling \$84,566 that included expenditures for relocation, subsistence and vehicle usage, and travel expenses. With regard to the cost balance of \$358,792,364, nothing came to our attention to indicate that the costs were not allowable. Final acceptance of amounts claimed, however, under government contracts does not take place until performance under the contract is completed and accepted by the responsible contracting officials and audit responsibilities have been fulfilled.

We identified \$47,649 in questioned relocation costs that either exceeded the amount allowable or were expressly unallowable under the contract. For example, we found unallowable costs totaling \$41,837 that related to loan origination fees, loan discounts, home inspection fees, and owner's title insurance payments. We also questioned \$5,812 in per diem expenses that exceeded the maximum reimbursement allowed under the applicable Federal Travel Regulation.

In addition, we questioned \$26,192 in subsistence costs paid to NSTec employees who used a government vehicle to travel to and from the Test Site. These costs were expressly unallowable



under NSTec's contract and internal policy. This policy stipulates that although employees who are ordered to and report to remote work locations, including the Test Site, qualify for subsistence allowance, they must use non-government transportation to receive the subsistence allowance. If the transportation is provided by the government, employees are not entitled to the subsistence allowance.

We also questioned \$10,725 in travel expenses based on a lack of supporting documentation, allowability, and reasonableness. Specifically, one traveler claimed \$10,250 in lodging costs without substantiating the actual costs incurred by the host. Finally, we questioned \$475 in miscellaneous travel costs.

MANAGEMENT REACTION

Management concurred with the report's findings and their planned corrective actions are responsive to our recommendations. The complete text of management's comments are attached as Appendix 2

Attachment

cc: Office of the Deputy Secretary
Chief of Staff
Acting Director, Policy and Internal Controls Management, NA-66
Audit Liaison, NNSA/Nevada Site Office
Team Leader, Audit Liaison Team, CF-1.2

REPORT NUMBER: OAS-FC-09-01

AUDIT OF
NATIONAL SECURITY TECHNOLOGIES, LLC
COSTS CLAIMED UNDER
CONTRACT NO. DE-AC52-06NA25946
FOR FISCAL YEAR 2007

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AUDIT OF NATIONAL SECURITY TECHNOLOGIES, LLC
COSTS CLAIMED UNDER CONTRACT NO. DE-AC52-06NA25946
FOR FISCAL YEAR 2007

REPORT NO: OAS-FC-09-01

Date: May 18, 2009

BACKGROUND AND DESCRIPTION OF AUDIT

National Security Technologies, LLC (NSTec) is the management and operating contractor of the Nevada Test Site (Test Site). NSTec assumed the management and operating responsibilities for the Test Site on July 1, 2006, under Department of Energy (Department) contract DE-AC52-06NA25946. The site supports the National Nuclear Security Administration's (NNSA) national security missions, first responder training, as well as environmental management restoration and waste management activities.

We performed an audit of costs claimed under the contract for Fiscal Year (FY) 2007 (October 1, 2006 to September 30, 2007). For FY 2007, NSTec's Statement of Costs Incurred and Claimed (SCIC) reported total costs claimed of \$358,876,930. Of this amount, program operating costs were \$423,342,824. The difference of \$64,465,894 represents depreciation, transfers, and other non-cash items. The objective of our audit was to determine the allowability of costs claimed by NSTec and charged to the Department during FY 2007. Allowable costs are costs incurred that are reasonable, allocable, and not expressly unallowable in accordance with the terms of the contract, applicable cost principles, laws and regulations as well as generally accepted accounting principles and practices appropriate to the particular circumstances.

We performed the audit from April 2008 to January 2009 at the NSTec offices in North Las Vegas, Nevada. The audit scope was limited to costs claimed for FY 2007, which will determine the basis for signing the SCIC. To accomplish the audit objective, we reviewed the totals presented in the SCIC and tested transactions by tracing them to books of original entry as well as to supporting records and documentation. We did not evaluate the technical aspects of NSTec's performance.

We conducted our audit in accordance with generally accepted government auditing standards applicable to this financial-related audit. Criteria used in evaluating the claimed costs included the terms of the contract and applicable cost principles. We obtained a sufficient understanding of NSTec's cost accounting systems and internal controls to plan the audit and to determine the nature, timing, and extent of tests to be performed. Our purpose, however, was not to form an opinion on the cost accounting systems and internal controls. We relied on computer processed data to accomplish our audit objective and conducted limited tests to ensure the reliability of data we considered critical to our audit objective.

Because of inherent limitations in any control structure, unallowable costs may be incurred and not detected. In addition, projection of any review of the structure to future periods is subject to

the risk that procedures may have become inadequate because of changes in conditions or that the degree of compliance with the procedures may have deteriorated.

The results of our audit work were discussed with the Nevada Site Office Contracting Officer for the NSTec contract on January 21, 2009. Management waived the exit conference.

AUDIT RESULTS

Of the \$358,876,930 in claimed costs for FY 2007, we questioned costs totaling \$84,566 that included relocation, subsistence and vehicle usage, and travel expenses. To arrive at the total questioned costs, we added the direct costs and the applicable indirect costs. A schedule of the operating costs claimed and questioned is provided as Exhibit A of this report. We also verified that the costs reported on the FY 2007 SCIC were supported by NSTec's accounting records. With regard to the balance of \$358,792,364, nothing came to our attention to indicate that the costs were not allowable. Final acceptance of amounts claimed, however, under Government contracts does not take place until performance under the contract is completed and accepted by the responsible contracting officials and audit responsibilities have been completed.

In addition to the questioned costs, we noted areas where the internal control structure over allowable costs could be improved.

Relocation Costs

We identified \$47,649 in questioned relocation costs that either exceeded the amount allowable or were unallowable under the contract. We found questioned costs totaling \$41,837 that related to loan origination fees, loan discounts, home inspection fees, and owner's title insurance payments. We also questioned \$5,812 in per diem expenses that exceeded the maximum reimbursement allowed under the applicable Federal Travel Regulation (FTR).

Contract terms require NSTec to comply with FTR, Chapter 302, Relocation Allowances. According to FTR § 302-11.200(f)(2), reimbursed loan origination fees may not exceed one percent of the loan amount unless the recipient provides documentation showing that the higher rate does not include prepaid interest, points, or a mortgage discount; and is customarily charged in the locality where the residence is located. However, NSTec reimbursed employees \$35,120 in loan origination fees that exceeded the amount allowable without obtaining the required documentation. We noted that NSTec's Company Manual CM-3100.001-024, *Human Resources Manual: Relocation and Travel for Interviews*, did not incorporate FTR restrictions that limit the reimbursement of loan origination fees to one percent of the loan amount. Since management is responsible for establishing an internal control structure that will ensure costs claimed are allowable under the contract, it should ensure that its policies and procedures comply with the FTR.

In addition, FTR §302-11, states that an agency will not reimburse expenses for loan discounts, home inspection fees, and owner's title insurance payments. However, we identified \$6,717 in unallowable costs in the aforementioned areas. Specifically, NSTec reimbursed employees for \$5,910 in loan discount fees on home purchases and \$208 for an owner's title insurance payment.

NSTec also reimbursed employees for \$599 in home inspection fees without the supporting documentation showing that the inspections were required by Federal, State, or local law or by the lender as a precondition to the sale or purchase of a home.

Finally, NSTec claimed \$5,812 for per diem expenses for a house hunting trip and subsistence expenses related to temporary quarters. These per diem expenses exceeded the maximum amount allowed under FTR §302-6.100.

Subsistence and Vehicle Usage Costs

We questioned \$26,192 in subsistence costs paid to NSTec employees who used a government vehicle to travel to and from remote work stations, such as the Test Site. These costs were expressly unallowable under NSTec's contract and internal policy which stipulates that although employees who are ordered to and report to remote work locations, including the Test Site, qualify for subsistence allowance, they must use non-government transportation to receive this allowance. If employees use government provided transportation, they are not entitled to the subsistence allowance. However, our review disclosed 709 incidents where 108 different employees claimed and were paid a subsistence allowance even though they used a government-owned vehicle for transportation.

NSTec's lack of enforcement of its own contract and internal policy pertaining to the use of government vehicles for official purposes also contributed to the following questionable actions:

1. Eighteen instances where employees checked out two or more vehicles on the same day with no explanation or justification;
2. Nine instances where a vehicle was checked out of the motor pool and the employee was in leave status;
3. Three cases where no employee name was listed when the vehicle was checked out; and,
4. Two occasions where employees kept the vehicle over the weekend without proper approval.

Travel Costs

We questioned \$10,725 in travel expenses based on a lack of supporting documentation, allowability, and reasonableness. Specifically, one traveler claimed \$10,250 in lodging costs without substantiating the actual costs incurred by his host. We also questioned miscellaneous travel costs totaling \$475.

In accordance with FTR §301-11.12, if a traveler lodges with friend(s) or relative(s), the traveler may be reimbursed for additional costs the host incurs in accommodating the traveler only if the traveler is able to substantiate the costs. The regulation also specifies that the traveler will not be reimbursed a flat "token" amount when lodging with friend(s) or relative(s). We found that one traveler claimed a \$50.00 daily rate for 159 nights while staying at the residence of a co-worker's

parent without substantiating the additional costs incurred by his host. The same individual has been providing lodging accommodations for this traveler since 2000 and the traveler has been claiming the same nightly rate of \$50.00 without substantiating the costs incurred by his host.

NSTec also claimed other travel expenses totaling \$475 that included per diem expenses in excess of amounts allowed per the FTR and travel costs for personal convenience that resulted in additional charges. Contract terms state that travel-related costs shall be reasonable and allowable to the extent they comply with the rules in the FTRs in effect at the time of travel. Additionally, Federal Acquisition Regulation 31.205-46 states that for increased amounts to be allowable, the traveler must have a written justification approved by an officer of the contractor's organization. However, NSTec reimbursed an employee for lodging costs that exceeded the allowable per diem amount without an approved written justification.

RECOMMENDATIONS

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

1. Make a determination regarding the allowability of costs identified in this audit and recover costs determined to be unallowable;
2. Direct NSTec to revise its Human Resources Manual to incorporate additional language from the FTR which states that reimbursed loan origination fee charges may not exceed one percent of the loan amount; and,
3. Direct NSTec management to enforce the policy for claiming subsistence allowances, and its policy on Government Vehicle Control.

MANAGEMENT REACTION

Management concurred with the report's findings and recommendations and indicated that their corrective actions will be completed by December 31, 2009. Specifically, the Nevada Site Office Contracting Officer will:

- Complete an analysis to determine the allowability of the costs questioned in our report;
- Issue a letter directing NSTec to revise its Human Resources Manual to include language on the reimbursement of loan origination fees; and
- Issue a letter directing NSTec to assure they follow the contract provisions which prohibit the use of a government vehicle if subsistence is claimed. Further, a review will be made of any additional unallowable costs claimed in FY 2008 to the present that have resulted from this error.

Management comments, including its corrective action plan, are included in their entirety in Appendix 2.

AUDITOR COMMENTS

Management's comments and planned corrective actions are responsive to our recommendations.

National Security Technologies, LLC
 Claimed Costs and Audit Results
 Contract No. DE-AC52-06NA25946
 Fiscal Year 2007

	Contractor's Claimed Costs	Questioned Costs	Remainder
Salaries and Fringe	\$263,653,790		\$263,653,790
Procurement Card	94,949,832		94,949,832
Travel	7,516,216	\$10,725	7,505,491
Subsistence ¹	4,799,235	26,192	4,773,043
Central Office ²	955,047		955,047
Relocation	341,608	47,649	293,959
Memberships & Subscriptions	18,335		18,335
Advertising & Public Relations	12,185		12,185
Miscellaneous Expenses ³	51,096,576		51,096,576
Subtotals	423,342,824	84,566	423,258,258
Depreciation, revenues, transfers and other non-cash items	(\$64,465,894)		(\$64,465,894)
Total Costs Claimed	<u>\$358,876,930</u>	<u>\$84,566</u>	<u>\$358,792,364</u>

¹ Subsistence allowances are paid to employees assigned to a remote duty station such as the Nevada Test Site.

² Central office expenses include corporate office expenses such as Parent Organization Oversight Plan costs.

³ Miscellaneous expenses represent janitorial and communication services, leases and other non-cash items.

Related Audit Reports

- *Audit of Fermi National Accelerator Laboratory Costs Claimed under Contract No. DE-AC02-76CH03000* (OAS-FC-06-01, April 2006). The review disclosed that Fermilab claimed and was reimbursed for unallowable costs in the amount of \$196,835 in procurement card purchases, travel costs, and allocated Corporate Office expenses. Specifically, the unallowable procurement card purchases included \$81,294 for home internet services which the Office of Inspector General considered unreasonable based on the Federal Acquisition Regulations. Fermilab could not demonstrate the need for employees to regularly access Fermilab computer systems and email from home. The report also noted that \$48,550 in airfare costs on foreign air carriers were claimed and reimbursed without obtaining the required waivers. Finally, Fermilab was paid \$59,409 for the Universities Research Association, Inc. Corporate Office expenses that were either not supported or were expressly unallowable.
- *Selected Purchase Card Transactions at the Nevada Site Office* (INS-O-06-01, November 2005). The inspection determined that internal controls over Bechtel Nevada's (Bechtel) purchase card program could be improved. Specifically, purchase card transactions were not always reviewed and approved by designated approving officials. As a consequence, some cardholders self-approved their purchases. In addition, purchase cardholders and approving officials were not completing the biennial refresher training within required timeframes. Further, Bechtel did not perform a monthly reconciliation of the Bank of America statement with Bechtel's internal purchase card financial records. This lack of action resulted in an overpayment. Finally, the report noted there were discrepancies between the purchase card policy implemented by Wackenhut Services, Inc., who participated in Bechtel's purchase card program, and Bechtel's purchase card policy.

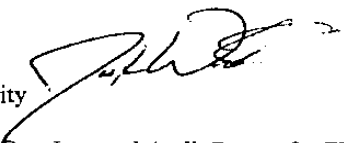


Department of Energy
National Nuclear Security Administration
Washington, DC 20585



May 5, 2009

MEMORANDUM FOR George W. Collard
Assistant Inspector General
for Performance Audits

FROM: Joseph Waddell
Head of Contracting Activity 

SUBJECT: Comment to Draft NSTec Cost Incurred Audit Report for FY
2007; A08LV023/IDRMS No. 2008-011142

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review the Inspector General's (IG) draft report, *Audit of National Security Technologies, LLC Costs Claimed Under contract No. DE-AC52-06NA25946 for Fiscal Year 2007*. We understand that this audit was initiated to determine whether the costs claimed were allowable under the terms of the Department's contract for management and operation of the Nevada Test Site.

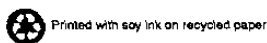
NNSA agrees with the report and will take the following actions in response to the recommendations.

Recommendation 1: Make a determination regarding the allowability of costs identified in this audit and recover costs determined to be unallowable.

The NSO Contracting Officer will complete a thorough analysis of each of the items of questioned costs using the same methodology we employed to analyze the questioned costs identified under the Relocation Cost Audit. The costs have been provided to NSTec and they have been asked to provide substantiation for each questioned cost they believe was identified in error. After that process has been completed, the Contracting Officer will make a final unallowable cost determination. Action is expected to be completed by December 31, 2009.

Recommendation 2: Direct NSTec to revise its Human Resources Manual to incorporate additional language from the FTR that reimbursed loan origination fee charges may not exceed one percent of the loan amount.

The NSO Contracting Officer will issue a letter directing NSTec to revise their Human Resources Manual to include additional language concerning reimbursed



loan origination fee. NSTec will be required to provide a copy of the revised procedure to demonstrate completion of this tasking. Action is expected to be completed by December 31, 2009.

Recommendation 3: Direct NSTec management to enforce the policy for claiming subsistence allowances, and its policy on Government Vehicle Control.

NSO Contracting Officer will coordinate with Assistant Manager for Site Operations to properly and thoroughly address this matter. A letter will be issued directing NSTec to assure they follow the provisions set forth in Appendix A of the contract which prohibit the use of a government vehicle if they are claiming subsistence. The NSO Contracting Office will review the costs that were claimed for Fiscal Year 2008 to the present, and identify any additional unallowable costs that have resulted from this error in charging. Action is expected to be completed by December 31, 2009.

Should you have any questions about this response, please let me know.

Attachments

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