



**U.S. Department of Energy**  
**Office of Inspector General**  
**Office of Audits and Inspections**

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# ASSESSMENT REPORT

Audit Coverage of Cost Allowability for  
National Security Technologies LLC During  
Fiscal Years 2012 Through 2014 Under  
Department of Energy Contract No.  
DE-AC52-06NA25946

OAI-V-16-07

April 2016

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**Department of Energy**  
Washington, DC 20585

April 12, 2016

MEMORANDUM FOR THE MANAGER, NEVADA FIELD OFFICE

A handwritten signature in black ink, appearing to read "David Sedillo".

FROM:

David Sedillo  
Deputy Assistant Inspector General  
for Audits and Inspections  
Office of Inspector General

SUBJECT:

INFORMATION: Assessment Report on “Audit Coverage of Cost Allowability for National Security Technologies LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC52-06NA25946”

**BACKGROUND**

National Security Technologies LLC (NSTec) has managed and operated the Nevada National Security Site for the National Nuclear Security Administration (NNSA) Nevada Field Office under contract with the Department of Energy (Department) since July 1, 2006. The Nevada National Security Site hosts an array of defense and national security experiments for the national weapons laboratories, as well as supports homeland security, nonproliferation testing and treaty verification training, radiological detection and first responder training. During fiscal years (FYs) 2012 through 2014, NSTec incurred and claimed costs totaling approximately \$1.5 billion.

As an integrated management and operating contractor, NSTec’s financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. NSTec is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable, and in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department’s Office of Inspector General, Office of Acquisition Management, and the integrated management and operating contractors and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department’s contractors claim only allowable costs. This strategy places reliance on the contractors’ internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the strategy, NSTec is required by its contract to maintain an Internal Audit activity with responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, NSTec is required to

conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor. To help ensure that audit coverage of cost allowability was adequate for FYs 2012 through 2014, the objectives of our assessment were to determine whether:

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

## RESULTS OF ASSESSMENT

Based on our assessment, nothing came to our attention to indicate that the allowable cost–related audit work performed by NSTec’s Internal Audit for FYs 2012 through 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. During its FYs 2012 through 2014 audits of cost allowability, Internal Audit identified \$292,650 in questioned costs, all of which had been resolved. Further, we found that NSTec had conducted or ensured that audits of subcontractors were conducted when costs incurred were a factor in determining the amount payable to a subcontractor.

In addition, the Office of Inspector General Inspection report *Concerns with Consulting Contract Administration at Various Department Sites* (DOE/IG-0889, June 2013) identified questioned costs totaling \$20,923 and internal control weaknesses at the Nevada National Security Site related to payments made on invoices that lacked detail necessary to support that the agreed-to services had been provided. We found that all of the questioned costs and the internal control weaknesses had been resolved.

## SCOPE AND METHODOLOGY

This assessment was performed from October 2015 to April 2016 at NSTec’s offices located in North Las Vegas, Nevada. The assessment was limited to Internal Audit’s activities, subcontract audits, and resolution of questioned costs and internal control weaknesses that affected costs claimed by NSTec on its Statement of Costs Incurred and Claimed for FYs 2012 through 2014. The assessment was conducted under Office of Inspector General project number A16LV004. To accomplish our objectives, we:

- Assessed allowable cost audit work conducted by Internal Audit that included a review of allowable cost audit reports, work papers, auditor qualifications, independence, audit planning including risk assessments and overall internal audit strategy, and compliance with applicable professional auditing standards.

- Conducted interviews with National Nuclear Security Administration and NSTec officials.
- Retested a sample of incurred cost transactions reviewed by Internal Audit in its allowable cost audit. We judgmentally selected a sample of 7 of the 39 travel transactions and 4 of the 10 relocation transactions that Internal Audit tested in FY 2014. Because the sample selection was not statistical, the results and overall conclusions are limited to the transactions retested and cannot be projected to the entire population.
- Reviewed policies, procedures, and practices to identify subcontracts requiring audit and arrange for audits.
- Assessed subcontract audit status.
- Evaluated resolution of questioned costs and control weaknesses affecting cost allowability that were identified in prior audits and reviews conducted by the Office of Inspector General, Internal Audit, and other organizations.

We conducted our assessment in accordance with generally accepted Government auditing standards for attestation engagements. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for conclusions based on our objectives. A review is substantially less in scope than an examination or audit where the objective is an expression of an opinion on the subject matter and accordingly, for this review, no such opinion is expressed. Also, because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our review. We relied on computer-processed data to accomplish our objectives. We determined that the computer-processed data was sufficiently reliable for the purposes of the review by comparing the data to source documents. Management waived an exit conference on March 24, 2016.

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

Because no formal recommendations are being made in this report, a response is not required. We appreciate the cooperation of your staff who provided information and assistance.

Attachment