



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

Audit Report

The Use of Staff Augmentation Subcontracts at National Nuclear Security Administration's Mixed Oxide Fuel Fabrication Facility

DOE/IG-0887

May 2013



Department of Energy
Washington, DC 20585

May 15, 2013

MEMORANDUM FOR THE SECRETARY

FROM:

Greg Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Audit Report on "The Use of Staff Augmentation Subcontracts at the National Nuclear Security Administration's Mixed Oxide Fuel Fabrication Facility"

BACKGROUND

Shaw AREVA MOX Services, LLC (MOX Services) is responsible for the design and construction of the National Nuclear Security Administration's (NNSA) nearly \$5 billion Mixed Oxide Fuel Fabrication Facility (MOX Project) at the Savannah River Site near Aiken, South Carolina. The facility will remove impurities from surplus weapons-grade plutonium and mix it with depleted uranium oxide to form fuel pellets for commercial nuclear power reactors. Design for the facility began in March 1999, construction activities began in August 2007, and operations are planned to commence in 2016.

MOX Services used staff augmentation subcontracts to fill professional, technical and administrative support service positions on an as-needed basis on the MOX Project. According to MOX Services officials, a shortage of qualified personnel in the local area necessitated the use of "temporary" subcontract employees.

The Office of Inspector General received a complaint alleging a variety of problems involving temporary living expenses, overtime hours, as well as the appropriateness of staff augmentation labor rates. To address the allegations, we initiated an audit to determine whether the use of staff augmentation subcontracts on the MOX Project had been managed effectively and economically.

RESULTS OF AUDIT

The audit disclosed that MOX Services had not effectively managed the temporary living expense component of its staff augmentation effort. We substantiated the allegation that MOX Services billed and NNSA reimbursed payments to subcontractors for excessive temporary living expenses. Specifically, we concluded that, since January 2007, MOX Services was reimbursed about \$3.7 million for inappropriate temporary living expenses for staff augmentation employment. In particular, MOX Services claimed and NNSA reimbursed:

- More than \$2.3 million in excessive temporary living expenses. Prior to July 2008, MOX Services' policy had been to limit the cost of temporary living expenses for subcontract employees to the estimated cost of relocation. MOX Services eliminated the cost ceiling in July 2008, when employees' temporary living expenses started exceeding the relocation estimate. Elimination of the ceiling for subcontract employees was not

consistent with MOX Services' policy for its partner firms, teaming partner subcontractors, and other first tier subcontractors assigned to the MOX Project that limited temporary living expenses to 2 years.

- An additional \$1.4 million for subcontractor employees who had not met established requirements for receiving temporary living expenses. In particular, we found subcontractor employees who had not demonstrated dual residences, had residences within 50 miles of the jobsite prior to starting their assignments, and had not obtained prior approval of their eligibility for such reimbursements as required.

As noted previously, these excessive and unnecessary costs occurred, at least in part, because in July 2008, MOX Services eliminated the portion of its policy that limited the cost and duration of staff augmentation subcontract employee temporary living expenses. Further, MOX Services had not fully and consistently implemented other portions of its established policies and procedures for managing temporary living expenses for staff augmentation subcontractors. This was compounded by the fact that NNSA had not effectively monitored MOX Services' management of the staff augmentation subcontracts.

As a result, NNSA unnecessarily paid as much as \$3.7 million to MOX Services for staff augmentation subcontractor temporary living expenses that could have been devoted to other critical mission areas or, returned to the taxpayers. While we recognize the advantages and flexibility provided by the use of staff augmentation subcontractors, obtaining technical and professional services in this manner is inherently costly. As such, proper control must be exercised to ensure that such expenses are limited to only those necessary and allowable under existing policies and procedures.

In May 2012, recognizing the need for a consistent policy for extended assignments, the Department of Energy issued a memorandum that limited contractor domestic personnel extended assignments. On October 18, 2012, the Department issued Acquisition Letter 2013-01 that provided guidance on implementing the Department's policy governing reimbursement of costs associated with contractor domestic extended personnel assignments. At the time of our audit, the Department was still clarifying the interpretation of the scope of the policy's applicability; and, the policy had not been fully implemented. Given the policy modifications that are already in place, we have limited our recommendations in this area to addressing recovery of costs and those necessary to strengthen control over the use of staff augmentation subcontracts.

We did not substantiate the allegations concerning the pricing and payment of regular and overtime hours for staff augmentation subcontracts from Fiscal Years 2007 through 2011. In addition, due to record keeping issues, we could not specifically examine the allegations concerning the pricing and payment of regular and overtime hours for staff augmentation subcontracts in effect prior to 2007. As such, we have referred the overtime charge allegations to Department officials for resolution.

MANAGEMENT REACTION

NNSA management concurred with the report's recommendations and identified actions it had taken or planned to address those recommendations and to improve management of the

temporary living expense component of staff augmentation subcontracts at the MOX Project. Management's comments are included in their entirety in Appendix 2.

Attachment

cc: Deputy Secretary
Acting Administrator, National Nuclear Security Administration
Acting Chief of Staff

REPORT ON USE OF STAFF AUGMENTATION SUBCONTRACTS AT THE NATIONAL NUCLEAR SECURITY ADMINISTRATION'S MIXED OXIDE FUEL FABRICATION FACILITY

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THE USE OF STAFF AUGMENTATION SUBCONTRACTS AT THE NATIONAL NUCLEAR SECURITY ADMINISTRATION'S MIXED OXIDE FUEL FABRICATION FACILITY

Staff Augmentation Expenses

In June 2011, the Office of Inspector General received a complaint alleging a variety of problems involving the appropriateness of staff augmentation labor rates, as well as overtime and temporary living expenses for the Mixed Oxide Fuel Fabrication Facility (MOX Project). It was alleged that some subcontractors priced services fully burdened with labor, indirect costs and profit, while others priced the components separately, resulting in inconsistent billing and overpayment. The allegation also asserted that none of the agreements had overtime rates, which in turn, resulted in Shaw AREVA MOX Services, LLC (MOX Services) billing, and the Department of Energy (Department) reimbursing, overcharges for substantial amounts of overtime that could be recovered, if audited. The method of calculation and amount of "temporary" living expense payments to staff augmentation subcontractors was also highlighted in the allegation as an area to be reviewed for consistency and allowability.

We substantiated the allegation that MOX Services billed and the National Nuclear Security Administration (NNSA) reimbursed payments to subcontractors for excessive temporary living expenses. Our examination of staff augmentation employment since January 2007 revealed that MOX Services had not effectively managed the temporary living expense component of its staff augmentation effort. Over the course of 5 years, these problems may have resulted in unnecessary payments of approximately \$3.7 million for subcontractor employee temporary living expenses that appeared to be excessive and inconsistent with MOX Services' policies designed to limit either the duration or amount of temporary living expenses.

We did not substantiate the allegations concerning the pricing and payment of regular and overtime hours for staff augmentation subcontracts in effect during Fiscal Years (FYs) 2007 through 2011. In addition, due to record keeping issues, we were unable to specifically examine the allegations concerning the Department's management of pricing and payment of regular and overtime hours for staff augmentation subcontracts in effect prior to 2007. As such, we referred the allegations involving these charges to Department officials for resolution.

Temporary Living Expenses

We substantiated the allegation that MOX Services billed and NNSA reimbursed payments to subcontractors for excessive temporary living expenses. For example, MOX Services reimbursed subcontractors for temporary living expenses well beyond the 12-month limit for the Long Term Temporary Assignment (LTTA) program. MOX Services' policy, established in November 2006, defined LTTA as "temporary" travel that was estimated to be more than 60 days at the outset, but less than 12 months in duration. Initially, MOX Services established a cost ceiling for temporary living expenses that was limited to the cost to relocate the employee to and away from the work site. However, when employees' temporary living expenses started exceeding the relocation estimate, MOX Services eliminated the cost ceiling in July 2008. Further, MOX Services' policy stated that the Department would not be billed for temporary

living expenses in excess of the relocation estimate without the prior approval of the NNSA Contracting Officer. However, MOX Services continued to bill the Department for temporary living expenses after exceeding the cost ceiling without obtaining the required approvals.

In the absence of a defined MOX Services cost ceiling requirement for subcontractor employees after July 2008, we benchmarked the reasonableness of temporary living expenses paid to staff augmentation subcontractors against the MOX Services' policy governing such costs for its partner firms, the teaming partner subcontractors, and other first tier subcontractors (collectively referred to as corporate employees). Specifically, MOX Services established a policy in October 2008, that limited temporary living expenses to 2 years for its corporate employees assigned to the MOX Project. Per the MOX Services policy, all exceptions to the duration limit for corporate employees required approval from the MOX Project Manager or the NNSA Contracting Officer. The policy governing temporary living expenses for corporate employees specifically excluded staff augmentation subcontractor employees. MOX Services believed that if the temporary living expense payments were stopped after 2 years, staff augmentation subcontractor employees would leave the project resulting in greater overall costs to the project associated with training replacement employees.

Using MOX Services' policy for corporate employees as a benchmark, we identified 43 staff augmentation subcontractors at the time of our audit that exceeded the 2-year duration for temporary living expenses, some by more than 2.5 years. In fact, we determined that collectively these subcontractors could have been paid more than \$2.3¹ million for temporary living expenses after passing the 2-year limit applied to corporate employees.

We also identified an additional \$1.4 million in unnecessary temporary living expenses paid to staff augmentation subcontractor employees. MOX Services' policy required staff augmentation employees to demonstrate that dual living expenses were being incurred as a direct result of the temporary assignment, and that the duty location was more than 50 miles from the employee's permanent residence of record. Per policy, MOX Services authorized all initial LTTAs and employees were required to recertify their eligibility every 180 days thereafter to remain eligible. LTTA subcontractor employees were entitled to receive 100 percent of established Government business travel rates for up to 60 days and then 70 percent thereafter, and one trip home per month by commercial air.

To test compliance with these established procedures, we reviewed a judgmental sample of 103 of 231 staff augmentation subcontractor employees who had received temporary living expenses reimbursements since 2007. We found that 29 of 103 employees, about 28 percent, may have been reimbursed for unnecessary temporary living expenses. We identified 40 instances in which these 29 employees and/or MOX Services failed to follow MOX Services' existing policies and procedures. Specifically:

¹ At the time of our audit, we estimated that employees received reimbursements of nearly \$2.8 million for periods exceeding 2 years. Some of these employees also received temporary living expenses although they did not meet MOX Services requirements governing dual residences, residences within 50 miles of the MOX Project, prior approval, etc. In order to prevent overlap, we eliminated the costs associated with employees with durations exceeding 2 years when their reimbursements were captured in our questioned employees' costs that had not complied with established requirements.

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- We found 22 instances of payments for temporary living expenses to employees that did not demonstrate dual residency. Employees receiving temporary living expenses were required to provide documentation (rental agreement or property tax statement) proving that the employee had a primary residence location over 50 miles from the jobsite and proving residency (lease/rental agreement, cancelled rent checks or lodging receipts) at or near the MOX Project.
 - Three employees were paid temporary living expenses even though they had established residences within 50 miles of the jobsite prior to starting the assignment. To be eligible, the employee must be in a situation in which dual living expenses are being incurred as a direct result of the temporary assignment.
 - Seven employees subject to a cost ceiling in effect prior to July 2008, were reimbursed for temporary living expenses in excess of the estimate to relocate the employee into and away from the jobsite. A cost benefit analysis was required to compare the cost of relocating the employee into and away from the new duty location to the cost of keeping the employee on temporary assignment. Although MOX Services performed a cost benefit analyses for most subcontractors, we found that MOX Services paid employees' temporary living expenses beyond the estimated cost of relocation.
 - In five instances, employees were paid temporary living expenses even though they had not received pre-approval of eligibility. Subcontractor employees proposed to receive temporary living expenses must have been approved in advance to enter into the program by submitting documentation for review and approval by MOX Services.
 - In three instances, employees received payments for more than the estimated cost of one trip home per month by commercial air. Employees were authorized to be reimbursed for multiple trips home via privately-owned vehicles during the month, as long as the cumulative monthly mileage costs did not exceed the estimated cost comparison of one round trip by commercial air, including associated allowable expenses for airport parking, taxis, etc. The policy was subsequently changed in July 2008, to restrict employees to only one trip home per month, regardless of the mode of transportation.

Pricing and Overtime

As previously noted, we did not substantiate allegations regarding staff augmentation subcontract pricing and overtime for subcontractors employed from FYs 2007 to 2011. Specifically, we reviewed the 7 Basic Ordering Agreements awarded in November 2006, the 4 subsequently awarded in 2011, and a judgmental sample of transactions for 103 of 231 staff augmentation subcontractors. We found the labor rates, including overtime, to be competitively awarded and consistently priced in accordance with the terms of the Basic Ordering Agreements.

Although the allegation stated that there were approximately 40 staff augmentation subcontracts employing 100 to 150 personnel prior to 2007, we were unable to specifically examine the allegation of inconsistent staff augmentation pricing for these subcontracts. At the time of our review, supporting documentation for these transactions consisted of hard-copy records that were stored in a manner not conducive to review. MOX Services was in the process of scanning these

documents and automating related accounting records. As such, we referred the allegations involving these charges to Department officials for resolution.

Policies and Procedures

MOX Services paid excessive temporary living expenses to staff augmentation subcontractors because it had not fully and consistently implemented its policies and procedures for managing temporary living expenses. In some cases, additional policies and procedures were needed to establish limits on the cost and duration of staff augmentation subcontracts. Further, we found that NNSA did not effectively monitor MOX Services' management of the staff augmentation subcontracts.

In the majority of instances, unnecessary temporary living expenses were reimbursed because MOX Services failed to implement established policies and procedures and verify the receipt and adequacy of required documentation. For example, MOX Services did not consistently verify that staff augmentation subcontractors were initially eligible for the LTTA program or that continued participation was justified although required by policy. Also, MOX Services does not have a policy or procedure limiting the total amount staff augmentation subcontractors can be reimbursed for temporary living expenses, or the length of time they can receive those expenses.

NNSA monitoring of MOX Services' temporary living expenses policy for staff augmentation subcontractors was not adequate to identify and prevent unreasonable costs. In 2007, NNSA's Contracting Officer at the Savannah River Site was concerned with MOX Services' LTTA policy and launched an informal review of the program. In general, the review found that employees were self-certifying dual residency without supporting documentation, some employees were receiving LTTA who had residences within 50 miles of the jobsite, and there was a general lack of supporting documentation for reimbursed costs. Although the NNSA Contracting Officer initiated monitoring of the program to address these concerns, the monitoring was suspended in August 2008, when the Contracting Officer concluded that sufficient documentation was being obtained for program expenses. At the time of our audit, no additional monitoring of MOX Services' temporary living expenses policy implementation for staff augmentation subcontractors had occurred to ensure that costs were adequately supported.

Additionally, the current NNSA Contracting Officer told us that he was unaware that the MOX Services policy limiting temporary living expenses for corporate employees specifically excluded subcontractor staff augmentation employees. While the Contracting Officer did not know the rationale for the exclusion, he expressed the opinion that the 2-year limit that MOX Services currently applies to its corporate employees should have been applied to staff augmentation subcontractor employees as well.

The Department recognized the need for a consistent policy for extended assignments by issuing a memorandum in May 2012, which limited contractor domestic personnel extended assignments. Subsequently, on October 18, 2012, the Department issued Acquisition Letter 2013-01 that provided guidance to implement the Department's policy governing reimbursement of costs associated with contractor domestic extended personnel assignments. Contracting Officers were instructed to review on-going assignments to determine whether they were in

compliance with the policy and, as necessary, take steps to bring them into compliance. At the time of our audit, the Department was still clarifying the interpretation of the scope of applicability and the policy had not been fully implemented.

Increased Subcontractor Costs

We found that the Department may be paying more than necessary for staff augmentation subcontractor services. Specifically, we questioned \$3.7 million in temporary living expense payments to staff augmentation subcontractor employees since 2007 that could have been devoted to other critical mission areas. Without effective controls and adherence to existing policies, additional unnecessary costs may be incurred.

We also noted that the absence of policy or procedures limiting the total amount staff augmentation subcontractors can be reimbursed for temporary living expenses, or the length of time they can receive those expenses, may have inadvertently created a disincentive to transition these employees to permanent status. MOX Services had informed subcontract employees that it preferred to convert those that performed in a suitable manner to permanent employment on the project. However, staff augmentation subcontractors receive considerably more in temporary living expense payments as compared to a direct hire employee. Consequently, MOX Services officials told us that it had little success in converting such employees in 2008 and 2010. Converting staff augmentation subcontractors to permanent employees would meet MOX Services goals and likely reduce its overall labor costs.

RECOMMENDATIONS

While we recognize the advantages and flexibility provided by the use of staff augmentation subcontractors, obtaining technical and professional services in this manner is inherently more costly. As such, proper control must be exercised to ensure that the payment of temporary living expenses are limited to only those necessary and allowable under existing policies and procedures. Accordingly, we recommend that the NNSA Contracting Officer at the Savannah River Site:

1. Ensure MOX Services complies with Department policy on the length of time permitted and/or the dollar amount allowable for reimbursement of temporary living expenses for staff augmentation subcontractors;
2. Determine the allowability of the temporary living expenses questioned in this report;
3. Identify and recover any additional unallowable costs paid to staff augmentation subcontractor employees; and
4. Review pricing and payment of regular and overtime hours for staff augmentation subcontracts in effect prior to 2007 when the scanned documents become available to determine if charges for this period were appropriate.

MANAGEMENT RESPONSE AND AUDITOR COMMENTS

NNSA management agreed with the report's recommendations and stated that it had already begun to take actions to address the findings identified in the report. Regarding Recommendation 1, management stated that the NNSA Contracting Officer is evaluating a directed policy change to the MOX Services contract establishing the maximum time allowed for temporary staff augmentation status and the amount of per diem reimbursement. Regarding Recommendations 2 and 3, the NNSA Contracting Officer is currently performing a review of the MOX Services temporary staff augmentee files for the MOX project from 2007 to 2012, to determine the appropriate disposition of questioned costs to include possible disallowance. Regarding Recommendation 4, the NNSA Contracting Officer has requested that the Defense Contract Audit Agency include a review of pricing and payment of regular and overtime hours for the staff augmentation subcontracts under the MOX Services contract in the 2004, and forward incurred cost audits.

We consider Management's comments and planned corrective actions responsive to our recommendations. Management's comments are included in Appendix 2.

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Department of Energy (Department) had effectively and efficiently managed the use of staff augmentation subcontracts at the Mixed Oxide Fuel Fabrication Facility (MOX Project).

SCOPE

We conducted this audit from August 2011 through November 2012, at the MOX Project at the Savannah River Site, located near Aiken, South Carolina. The audit scope included the staff augmentation subcontractor program from January 2007 through January 2012.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed Department and Federal regulations, contract requirements and performance measures relating to the staff augmentation subcontractor program.
- Selected a judgmental sample of 103 of 231 staff augmentation subcontractor employees that had received reimbursements for temporary living expenses between January 2007 and August 2011. The sample consisted of randomly selected and high risk individuals identified during the course of the audit. The purpose of the sample was to review supporting documentation and accounting data for compliance with Shaw AREVA MOX Services, LLC policies and procedures. Because a judgmental sampling approach was chosen, the results cannot be projected to the population.
- Evaluated internal controls related to the approval and payment for temporary living expenses associated with managing the staff augmentation subcontractor program.
- Reviewed prior audits and reviews relating to the MOX Project and payment for temporary living expenses.
- Held discussions with key National Nuclear Security Administration (NNSA) and contractor officials responsible for the staff augmentation subcontractor program.

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 finding and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. We also assessed compliance with the *GPRA Modernization Act of 2010*. We examined performance

Appendix 1 (continued)

metrics related to the MOX Project and found that NNSA had established related performance measures as part of its Annual Performance Plan. Because our review was limited, it would not have necessarily disclosed all internal control deficiencies that may have existed at the time of our audit. Based on our comparison of computer-processed data to supporting documentation, we determined that the data were sufficiently reliable to achieve our objective.

Management waived an exit conference.

MANAGEMENT COMMENTS



Department of Energy
National Nuclear Security Administration
Washington DC 20585

OFFICE OF THE ADMINISTRATOR

April 11, 2013

MEMORANDUM FOR RICKY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM:  CYNTHIA A. LERSTEN
ASSOCIATE ADMINISTRATOR
FOR MANAGEMENT AND BUDGET

SUBJECT: Comments on the Inspector General Draft Report Titled "*Department of Energy's Use of Staff Augmentation Subcontracts at the Mixed Oxide Fuel Fabrication Facility*" (A11ET038/2011-02214)

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review and comment on the subject draft report. The report provides four recommendations to help improve management of the temporary living expense component of staff augmentation subcontracts at the Mixed Oxide Fuel Fabrication Facility. NNSA agrees with the recommendations and has already begun to take actions to address the Inspector General's findings.

The attachment to this memorandum provides NNSA's response to each recommendation, including the planned actions and timeframes for resolution. If you have any questions regarding this response, please contact Dean Childs, Director, Audit Coordination and Internal Affairs, at (301) 903-1341.

Attachment



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NNSA RESPONSE TO IG DRAFT REPORT
The Department of Energy's Use of Staff Augmentation
Subcontracts at the Mixed Oxide Fuel Fabrication Facility

The Inspector General (IG) recommended the National Nuclear Security Administration (NNSA):

Recommendation 1: Ensure [AREVA MOX Services, LLC] MOX Services complies with Department policy on the length of time permitted and/or the dollar amount allowable for reimbursement of temporary living expenses for staff augmentation subcontractors.

Management Response: Concur

The Savannah River Field Office (SRFO) Contracting Officer is evaluating a directed policy change to the MOX Services contract establishing the maximum time allowed for temporary staff augmentation status and the amount of per diem reimbursement. Incorporating this policy will be partly dependent upon the outcome of litigation between the Government and MOX Services relating to disallowed temporary living expenses for a number of prior temporary direct hire personnel who received similar benefits. The initial estimated completion date is August 31, 2013; however, as the timing for the completion of litigation is uncertain, NNSA will monitor and adjust the completion date in the audit tracking system (DARTS) as necessary.

Recommendation 2: Determine the allowability of the temporary living expenses questioned in this report.

Management Response: Concur

SRFO is currently performing a review of the MOX Services temporary staff augmentation program. To date, SRFO has completed reviews of approximately 160 of the 260 staff augmentee files for the MOX project from 2007 to 2012. The review team anticipates completing its review of remaining files by April 30, 2013. Upon completion of this review, the SRFO Contracting Officer will determine the appropriate disposition of questioned costs to include possible disallowance and/or referral to the Inspector General for additional investigation. The estimated completion date for all actions is June 30, 2013.

Recommendation 3: Identify and recover any additional unallowable costs paid to staff augmentation subcontractor employees.

Management Response: Concur

Upon completion of the SRFO review of staff augmentation files from 2007 to 2012, the actual costs paid to MOX Services will be identified through the approved invoices, and the Contracting Officer will issue a notice of intent to disallow costs as necessary. The estimated completion date is October 30, 2013.

Recommendation 4: Review pricing and payment of regular and overtime hours for staff augmentation subcontracts in effect prior to 2007, when the scanned documents become available, to determine if charges for this period were appropriate.

Management Response: Concur

SRFO has requested the Defense Contract Audit Agency (DCAA) include in the 2004 and forward incurred costs audits a review of pricing and payment of regular and overtime hours for the staff augmentation subcontracts under the Shaw/AREVA MOX Services, LLS, contract DE-AC02-99CH10888. The initial estimated completion date is June 30, 2014. However, as the timing of DCAA audits is out of NNSA's control and there is a current backlog for audits, NNSA will monitor the status and adjust the completion date in the audit tracking system (DARTS) as necessary.

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