DEPARTMENT OF ENERGY CONTRACTING

Actions Needed to Strengthen Subcontract Oversight

What GAO Found

In fiscal year 2016, 28 entities participated in the Department of Energy’s (DOE) and its National Nuclear Security Administration’s (NNSA) 24 largest prime contracts, which totaled $23.6 billion of DOE’s fiscal year 2016 obligations. The contractors awarded about $6.9 billion (nearly 30 percent) of those obligations to thousands of subcontractors. Further, multiple companies, universities, and other entities can join together to bid on a contract (i.e., become a “party to” a contract). GAO’s review of data about these contracts and subcontracts identified complex ownership relationships among the contractors and subcontractors. For example, GAO found that almost all of the 28 parties to the prime contracts in its review were also subcontractors to some prime contracts, holding a total of nearly 3,000 subcontracts with fiscal year 2016 obligations totaling about $927 million (see figure). GAO found that it can be difficult to track changes in the ownership of parties to the contracts and to understand the relationships between parties.

Distribution of DOE’s Fiscal Year 2016 Obligations for Its 24 Largest Prime Contracts

| $6.9 billion | $5,986 million (25.4%) Subcontracted to parties to prime contracts | $16,679 million (70.7%) Not subcontracted | Total: $23.6 billion |

Source: GAO analysis of Department of Energy (DOE) and contractor information. | GAO-19-107

DOE and NNSA did not always ensure that contractors audited subcontractors’ incurred costs as required in their contracts. GAO’s review of 43 incurred-cost assessment and audit reports identified more than $3.4 billion in subcontract costs incurred over a 10-year period that had not been audited as required, and some subcontracts remained unaudited or unassessed for more than 6 years. Completing audits in a timely manner is important because of a 6-year statute of limitations to recover unallowable costs that could be identified through such audits. DOE headquarters has not issued procedures or guidance that requires local offices to monitor contractors to ensure that required subcontract audits are completed in a timely manner, consistent with federal standards for internal control. Without such procedures or guidance, unallowable costs may go unidentified beyond the 6-year limitation period of the Contract Disputes Act, preventing DOE from recovering those costs.

What GAO Recommends

GAO is making six recommendations, including that DOE develop procedures that require local offices to monitor contractors to ensure timely completion of required subcontract audits, and require local DOE officials to independently review subcontractor ownership information to identify potential conflicts of interest. DOE partially concurred with five of GAO’s six recommendations but did not agree to independently review subcontractor ownership information. GAO maintains that the recommended actions are valid.

View GAO-19-107. For more information, contact Allison Bawden at (202) 512-3841 or bawdena@gao.gov.