



Highlights of [GAO-13-534](#), a report to the Subcommittee on Energy and Water Development, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

NNSA, a semiautonomous agency within DOE, oversees the nation's nuclear security programs. M&O contractors manage NNSA's facilities, including its national security laboratories—Lawrence Livermore, Los Alamos, and Sandia. Each year, M&O contractors spend billions of dollars to manage and operate these laboratories. Costs include both direct costs—which can be identified with a specific objective or program—and indirect costs, such as management, administrative, and facility costs. Federal Cost Accounting Standards give M&O contractors flexibility in how costs are classified as direct or indirect and allocated to programs.

GAO was asked to review M&O contractor indirect cost management. GAO examined (1) whether laboratory M&O contractors' practices differ for allocating indirect costs and, if so, how; (2) the extent to which NNSA ensures that laboratory M&O contractors' allocated indirect costs are accurate; and (3) the extent to which NNSA ensures that laboratory M&O contractors' indirect costs are reasonable. GAO reviewed NNSA and laboratory M&O contractor data and documents and spoke with DOE and NNSA officials and M&O contractors.

What GAO Recommends

GAO recommends DOE clarify the uses of the data gathered through the Institutional Cost Reporting initiative, conduct periodic risk assessments, and incorporate more specific requirements for benchmarking in its laboratory M&O contracts. DOE generally agreed with GAO's recommendations.

View [GAO-13-534](#). For more information, contact David C. Trimble at (202) 512-3841 or trimbled@gao.gov.

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NATIONAL NUCLEAR SECURITY ADMINISTRATION

Laboratories' Indirect Cost Management Has Improved, but Additional Opportunities Exist

What GAO Found

The National Nuclear Security Administration's (NNSA) management and operating (M&O) contractors differ in how they classify and allocate indirect costs at NNSA laboratories. Although different approaches are allowed by Cost Accounting Standards, these differences limit the ability to compare program costs across the laboratories. Recognizing the limitations of its current cost data, the Department of Energy (DOE) and NNSA are implementing the Institutional Cost Reporting initiative intended to create a standardized report of certain costs, including many indirect costs. However, DOE is uncertain how it will use the data gathered by this initiative, and these efforts may provide only limited improvements because the data will continue to only be reported at an aggregate level.

NNSA examines M&O contractors' models for allocating indirect costs for compliance with Cost Accounting Standards' requirements at least annually, which helps ensure accuracy. NNSA has identified instances when these models did not comply with these requirements, but NNSA has worked with M&O contractors to address these issues. NNSA generally relies on the M&O contractors' internal audits, however, to assess whether M&O contractors' day-to-day cost allocation practices conform to disclosed cost allocation models. NNSA reviews some summary data to independently assess day-to-day compliance with Cost Accounting Standards but does not conduct independent audits. DOE's Office of Inspector General (OIG) has audit authority at NNSA laboratories. OIG officials stated that the frequency and scope for conducting audits to assess contractors' compliance with Cost Accounting Standards should be based on the level of risk. However, NNSA and OIG officials and M&O contractors hold varying opinions regarding the level of risk that inaccurate indirect cost allocation practices at the laboratories pose. In the absence of formal, periodic risk assessments, NNSA may not have a well-documented basis for its decisions regarding the type, timing, and extent of future monitoring or oversight.

NNSA reviews M&O contractors' cost data and other information to assess the reasonableness of their costs, including indirect costs. NNSA also uses other means to help ensure the reasonableness of these costs. For example, NNSA's contracts require M&O contractors to regularly benchmark their costs to other contractors and industry. These requirements, however, do not specify the areas that should be examined, how frequently benchmarking should occur, and what process should be used for implementing any needed corrective actions. As a result, M&O contractor efforts to benchmark costs varied across laboratories.