

# GAO Highlights

Highlights of [GAO-19-107](#), a report to congressional requestors

## Why GAO Did This Study

DOE, including NNSA, is the largest federal civilian contracting agency, spending about 90 percent of its appropriations on contracts with companies, universities, and others for federal research and development, engineering, and production. DOE headquarters and local offices oversee contractors' activities, including their management of subcontracts.

GAO was asked to review contracting at DOE, including the use of subcontractors. This report examines, for fiscal year 2016, (1) the parties that participated in DOE's largest prime contracts and the extent to which they subcontracted their work; (2) the extent to which DOE ensured that those contractors audited subcontractors' costs, as required; and (3) the extent to which DOE ensured that contractors met other subcontract oversight requirements. GAO reviewed DOE's fiscal year 2016 data and documents, analyzed regulations, and interviewed federal officials and contractor representatives for DOE's 24 largest fiscal year 2016 prime contracts.

## 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](mailto:bawdena@gao.gov).

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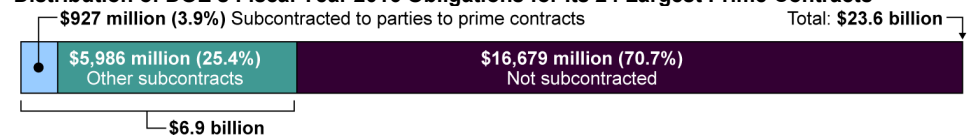
## DEPARTMENT OF ENERGY CONTRACTING

### 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



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.

DOE and NNSA perform several reviews to ensure that contractors meet other subcontract oversight requirements. For example, DOE's local offices review proposed subcontracts to ensure they are awarded consistent with policies related to potential conflicts of interest. However, local officials do not independently review information on subcontractor ownership because doing so is not required, although such information could alert officials to potential conflicts of interest. By requiring contracting officers to independently review subcontractor ownership information, DOE and NNSA would have better assurance that contractors are adequately identifying and mitigating organizational conflicts of interest.