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Office of Inspector General

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August 4, 2025

The Department and Sandia National Laboratories Took Corrective Actions, but Additional Actions Would Further Improve Subcontract Management



AUDIT REPORT

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Department of Energy
Washington, DC 20585

August 4, 2025

MEMORANDUM FOR THE SECRETARY; AND ACTING ADMINISTRATOR, NATIONAL
NUCLEAR SECURITY ADMINISTRATION

SUBJECT: Audit Report: *The Department of Energy and Sandia National Laboratories Took
Corrective Actions, but Additional Actions Would Further Improve Subcontract
Management*

The attached report discusses our follow-up of our previous audit, *Sandia National Laboratories Subcontract Closeout Process*. This report contains two recommendations that, if fully implemented, should help ensure that Sandia National Laboratories' subcontracts are effectively managed. Management fully concurred with our recommendations.

We conducted this audit from October 2024 through May 2025 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in blue ink, reading "Sarah Nelson", is positioned above the typed name.

Sarah Nelson
Assistant Inspector General
for Management
Performing the Duties of the Inspector General
Office of Inspector General

Attachment

cc: Chief of Staff
Acting Director, Office of Acquisition Management
Acting Director, Office of Audits and Internal Affairs

DOE OIG HIGHLIGHTS

The Department and Sandia National Laboratories Took Corrective Actions, but Additional Actions Would Further Improve Subcontract Management

August 4, 2025

Why We Performed This Audit

Prior Office of Inspector General audit work found that Sandia National Laboratories (SNL) excluded fixed-price subcontracts with flexible cost elements from audit, that decisions not to sustain (allow) questioned subcontract costs were not fully supported, and that Federal oversight did not ensure questioned costs were resolved appropriately.

We conducted this follow-up audit to determine whether: (1) the Department of Energy and National Technology and Engineering Solutions of Sandia, LLC (NTESS) took corrective actions related to the recommendations in our prior report; and (2) actions taken to correct the deficiencies resulted in improved transparency for the contracting officer, proper classification of contracts, and improved determination of allowability and resolution of questioned costs by NTESS procurement.

What We Found

We found that the National Nuclear Security Administration, NTESS (SNL's managing and operating contractor), and the Department's Office of Acquisition Management took corrective actions and made improvements to deficiencies identified in the prior Office of Inspector General report, *Sandia National Laboratories Subcontract Closeout Process* (DOE-OIG-22-16). As a result, the Department's contracting officers had more insight into SNL's sustainment decisions for questioned subcontract costs, SNL improved its classification of subcontracts, and SNL improved its process for reviewing costs claimed by its subcontractors. SNL corrective actions included updating policies, providing summations of questioned costs, submitting Unsustaining Memoranda to the contracting officer when unsustained costs are greater than \$25,000, increasing training requirements for subcontract personnel to prevent reoccurrence of audit findings, establishing requirements for a kickoff meeting for subcontracts that meet specific criteria, and creating the Expert Invoice Reviewer process to reduce risk and mitigate audit findings.

The National Nuclear Security Administration, NTESS, and the Office of Acquisition Management took corrective actions and improved upon previously identified deficiencies. However, additional steps would further improve the subcontract management.

What We Recommend

We have made two recommendations that, if fully implemented, should improve subcontract management and reduce the risk of reimbursing unallowable subcontractor costs.

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Background and Objective

The Department of Energy is the largest civilian contracting agency in the Federal Government and spends approximately 90 percent of its annual budget on contracts to operate its scientific laboratories, engineering and production facilities, and environmental restoration sites. The National Nuclear Security Administration (NNSA) Sandia Field Office's contracting officers (COs) are responsible for the oversight of procurement activities, including subcontract management and subcontract closeout at Sandia National Laboratories (SNL). National Technology and Engineering Solutions of Sandia, LLC (NTESS) is the Department's management and operating contractor for SNL. Since 1990, the Government Accountability Office has designated the Department's acquisition and program management as high risk due to inadequate management and oversight of contractors, resulting in vulnerabilities to fraud, waste, and abuse.

The Department of Energy Acquisition Regulations (DEAR) 970.5244-1 and 970.5232-3 require management and operating contractors to determine whether subcontract costs are allowable, allocable and reasonable, in accordance with the cost principles of Title 48 Code of Federal Regulations 31, and that, where applicable, subcontractor's records be audited with respect to the terms of the subcontract. At SNL, subcontracts are audited by the Contract Audit Department, and any identified questioned costs are resolved by Subcontract Closeout. In some instances, Subcontract Closeout will partner with Subcontracting Professionals, Sandia Delegated Representatives (SDRs), and subcontractors to resolve the questioned costs.

In December 2021, the Office of Inspector General issued an audit report, *Sandia National Laboratories Subcontract Closeout Process* (DOE-OIG-22-16). Overall, our review found that NTESS misclassified and inappropriately excluded subcontracts from audit, decisions to not sustain subcontract costs questioned by SNL's Contract Audit Department were not fully supported, and Federal oversight did not ensure that questioned subcontract costs were resolved in accordance with requirements. Without adequate administration of NTESS subcontracts, the Department may have reimbursed NTESS for unallowable costs. To correct these problems, we recommended that the Federal COs:

1. Assess the revised reporting requirements and continue to refine the requirements, as needed, to increase their knowledge of subcontract closeout decisions.
2. Determine the allowability of the \$2,093,155 in subcontract questioned costs since fiscal year 2014.
3. Direct NTESS¹ to:
 - a. Develop a corrective action plan to ensure that subcontracts are properly classified consistent with the Federal Acquisition Regulations definitions, to include recognition of other types of fixed-price contracts.

¹ Note: The prior audit had the COs directing SNL. Additionally, Recommendation 3b was determined to be no longer relevant and was subsequently removed from the prior report.

- c. Implement corrective actions to make improvements in the determination of: (1) cost allowability, allocability and reasonableness; (2) the appropriate contract type for the procurement; and (3) sufficient documentation for not sustaining audited questioned costs.
- d. Complete Internal Audit's planned validation audit on the SDR's roles and responsibilities.

In addition, to reduce the risk of the Department reimbursing unallowable subcontractor costs, we recommended that the Director, Office of Acquisition Management:

- 4. Direct the Office of Policy to clarify DEAR to ensure that the Department's COs are involved timely in the resolution of subcontractor question costs.

We conducted this follow-up audit to determine whether: (1) the Department and NTESS took corrective actions related to the recommendations in the prior report, *Sandia National Laboratories Subcontract Closeout Process* (DOE-OIG-22-16); and (2) actions taken to correct the deficiencies resulted in improved transparency for the COs, proper classification of subcontracts, and improved determination of allowability and resolution of questioned costs by NTESS procurement.

Results of Audit

THE DEPARTMENT TOOK CORRECTIVE ACTIONS FOR PREVIOUSLY REPORTED DEFICIENCIES, BUT ADDITIONAL ACTIONS WOULD IMPROVE SUBCONTRACT MANAGEMENT

We determined that NNSA took corrective actions for Recommendations 1, 2, 3c, and 3d. NNSA did not concur with Recommendation 3a. The Office of Acquisition Management took corrective action for Recommendation 4. Although NNSA, NTESS, and the Office of Acquisition Management took corrective actions and improved upon previously identified deficiencies, there are additional steps that can further improve subcontract management.

Recommendation 1: Take Steps to Improve the CO's Knowledge of Subcontract Closeout Decisions

We found that the CO directed NTESS to improve the CO's knowledge of closeout decisions by requiring reports any time questioned subcontract costs over \$25,000 were not sustained. In response, NTESS updated its subcontract closeout policies to require the submission of an Unsustaining Memorandum to the CO when question costs exceed \$25,000. The policy also requires the submission of all relevant supporting documentation in the subcontract file. NTESS used the memo to support its decisions on the allowability, allocability, and reasonableness of the costs. The CO also required NTESS to provide summations of questioned costs semiannually to support the CO's ongoing oversight.

Recommendation 2: Determine the Allowability of \$2,093,155 Subcontract Questioned Costs

In May 2023, the CO determined that the \$2,093,155 in questioned subcontract costs were allowable. According to the CO, to make the allowability determination, they reviewed supporting documents provided by NTESS and used their “unfettered” access to all the information in the SNL subcontract files. In addition, the CO also considered: (1) the statute of limitations for recouping any of the questioned costs; and (2) NTESS’ improvements made in response to the prior audit, such as the *Expert Invoice Reviewer* (EIR) process (described in detail on Page 5 of this report). In our review of the CO’s response to NTESS’ presentation of three Unsustaining Memoranda, we found that the CO “took no exception with the unsustained amount,” thus determining that the evidence provided was adequate to deem the unsustained costs as allowable, allocable, and reasonable. In addition, the CO required NTESS to explain how it will work to avoid similar findings in the future on all subcontracts.

Recommendation 3a: Direct NTESS to Take Action to Properly Classify Subcontracts

In our prior audit, we found NTESS misclassified and inappropriately excluded fixed-priced subcontracts with flexibly priced elements from the auditable universe of subcontracts. We recommended that the CO direct NTESS to develop a corrective action plan to ensure that these subcontract types are properly classified, consistent with Federal Acquisition Regulations requirements. Although NNSA did not concur with our recommendation, NTESS revised its processes to include fixed-priced subcontracts with flexible priced elements in its auditable universe.

Recommendation 3c: Direct NTESS to Take Actions to Improve Contract Type Selection and Questioned Costs Documentation

We found that NTESS directed its buyers and subcontract administrators to attend internal procurement refresher courses as well as other external courses to enhance their knowledge of several supply chain/procurement topics. In February 2024, the Subcontract Closeout team presented *Subcontracting Professional Guide to Navigate Audit Process* as mandatory training for all buyers. NTESS developed this training to help buyers better understand what to do in the event of a subcontract audit, their roles and responsibilities, and the allowability and reasonableness of costs.

Additionally, the CO issued a letter directing the NTESS Audit and Ethics Director and Integrated Supply Chain Management Director to identify improvements in the adjudication process to prevent reoccurrence of audit findings. As previously mentioned, NTESS implemented changes requiring all subcontract questioned costs not sustained over \$25,000 be documented and supported with an Unsustaining Memorandum. NTESS updated the memo in 2023 to include sections addressing allowability, allocability, and reasonableness.

Recommendation 3d: Direct NTESS to Conduct an Internal Audit of SDR's Roles and Responsibilities

We found that NTESS Internal Audit completed the planned validation audit on the SDR roles and responsibilities in March 2021. The audit found that SDRs did not perform the required duties to ensure subcontractors billed in accordance with subcontract terms. Further, Internal Audit found that SDRs did not complete required training timely, resulting in an increased risk for not understanding their roles and responsibilities. In response to Internal Audit, NTESS has completed corrective actions and improvements to include: (1) creating new roles to redistribute SDR responsibilities (such as the EIR role); (2) updating and creating new training; and (3) establishing thresholds for enhanced subcontract engagement from Subcontracting Professionals and SDRs.

First, NTESS created new roles to redistribute SDR responsibilities. Specifically, NTESS created the EIR process to reduce risk and mitigate audit findings related to subcontractor billings. In June 2022, NTESS Integrated Supply Chain Management requested Internal Audit to conduct a Special Management Review to determine whether non-auditable invoices would benefit from a second invoice review (i.e., inclusion in the EIR process). The Special Management Review concluded that the risks associated with non-auditable invoices warrant review by a second invoice reviewer or the implementation of another feasible/cost-beneficial action. These findings were similar to the systemic issues found since 2016 by internal and external audits. In response to the Special Management Review, Integrated Supply Chain Management did an analysis to find other ways it could address the risks identified in the review and found that a second review was not necessary based on the low risk of non-auditable subcontracts. Separately, in July 2024, Internal Audit assessed the effectiveness of the EIR role and found that the EIR process appeared to be generally effective and functioning as intended for the auditable subcontracts. For auditable subcontracts,² the EIR's role is to review invoices upon receipt, accept or reject them based on whether the invoices have appropriate supporting documentation, and reconcile them with the subcontract terms and conditions. Since the EIR reviews subcontract invoices in real-time, NTESS expects the reduction in questioned costs to begin in mid-year 2025.

Second, to address Internal Audit's finding on SDR training (as previously mentioned), NTESS updated the SDR Roles and Responsibilities training. According to NTESS, one of the improvements to provide additional education and resources for SDRs was the fiscal year 2023 roll out of the Subcontract Management Performance Office, which is a centralized function to monitor, measure, and report on the performance of subcontract management across SNL. It is also intended to create a system that fosters continuous improvement for SDRs, Sandia Business Liaisons, and other members of the subcontract management process; and to reduce the number of audit findings. As the Subcontract Management Performance Office is new, NTESS has not yet assessed its impact on subcontract management to determine whether its establishment has improved subcontract management and reduced the number of audit findings.

² At SNL, auditable subcontracts are subcontracts that include Federal Acquisition Regulations clause 52.215-2, *Audit and Records-Negotiation*; or DEAR 970.5232-3, *Accounts, records, and inspection*, in the subcontract's terms and conditions. The auditable universe includes Cost Reimbursement, Time and Material, Labor Hour, and some Firm Fixed Price/Fixed Rate subcontract types.

Third, NTESS established thresholds requiring enhanced engagement by Subcontracting Professionals and SDRs. Specifically, NTESS established a kickoff meeting requirement for all subcontracts that meet one or more of the following criteria: (1) subcontracts greater than or equal to \$1 million, (2) subcontracts included in the auditable universe (see footnote 2 for list), (3) the subcontractor or the SDR is new to the subcontracting process at SNL, (4) unusual risk factors exist, and (5) all Just-In-Time subcontracts at any value. The purpose of the kickoff meeting is to provide the subcontractor with clear, complete, and useful information regarding subcontract performance. At the kickoff meeting, the NTESS Subcontracting Professional explains invoicing requirements as well as the expectations and the roles and responsibilities of the SDR and subcontractor. Invoicing requirements include subcontract documentation and billing limitations. The Subcontracting Professional is required to document the kickoff meeting by including the meeting agenda and list of attendees in the subcontract file.

We judgmentally sampled 15 subcontracts files to review for evidence of kickoff meetings and found that 2 of the 15 files sampled did not include evidence that the kickoff meeting occurred. According to NTESS officials, the kickoff meetings were not conducted as required for the two subcontracts we reviewed. While NTESS officials acknowledged that the omission to conduct the meetings did not comply with policy, they justified the actions based on its determination that there was a low risk of the subcontractors not understanding the terms of the agreement and the requirements of the work. However, NTESS' Subcontract Kickoff Meeting policy does not include "low-risk determinations" as an exception to the kickoff meeting requirement.

Recommendation 4: Clarify the DEAR

Our review found that the Office of Policy issued guidance to emphasize that the management and operating contractor (such as NTESS) is responsible for determining the allowability of its claimed cost-reimbursement subcontract costs, and nothing in the contractor's subcontract audit arrangements precludes the CO's final allowable cost determination. The Office of Acquisition Management issued the guidance on June 3, 2022, in Acquisition Letter AL-2022-03, *The Office of Inspector General's Audit Strategy*.

Conclusion

NTESS has taken corrective actions to address previously identified deficiencies; however, areas for improvement remain in subcontract management. As found in our prior report, without adequate subcontract management, the Department may be reimbursing NTESS for unallowable costs. Therefore, without additional improvements to subcontract management, the Department remains at risk of reimbursing for unallowable costs.

Recommendations

To ensure continued improvement in NTESS' subcontract management, we recommend that the Sandia Field Office's CO direct NTESS to:

1. Assess the impact of the Subcontract Management Performance Office on subcontract management and audit findings; and
2. Enforce existing Kickoff Meeting policy requirements or update the policy to allow exceptions for low-risk determinations.

Management Comments

Management concurred with our recommendations and identified responsive corrective actions to address the reported issues. Specifically, for Recommendation 1, management stated that NTESS will determine whether the Subcontract Management Performance Office has improved subcontract management and reduced the number of audit findings by July 1, 2026. Regarding Recommendation 2, management stated that NTESS will update the Subcontract Kickoff Meeting policy to include exceptions for low-risk determinations by December 1, 2025.

Management comments are included in Appendix 3.

Office of Inspector General Response

Management's comments and proposed corrective actions were responsive to our recommendations.

Objective, Scope, and Methodology

Objective

We conducted this audit to determine whether: (1) the Department of Energy and National Technology and Engineering Solutions of Sandia, LLC (NTESS) took corrective actions related to the recommendations in our prior report, *Sandia National Laboratories Subcontract Closeout Process* (DOE-OIG-22-16, December 2021); and (2) actions taken to correct the deficiencies resulted in improved transparency for the contracting officer, proper classification of contracts, and improved determination of allowability and resolution of questioned costs by NTESS procurement.

Scope

The audit was performed from October 2024 through May 2025 at Sandia National Laboratories, Albuquerque, New Mexico; and via remote access techniques. We reviewed the corrective actions taken by the Department and NTESS to improve the deficiencies identified in our prior report. The audit was conducted under Office of Inspector General project number A24LA012.

Methodology

To accomplish our audit objective, we:

- Reviewed applicable policies, procedures, laws, regulations, and contract requirements relevant to our audit objectives.
- Reviewed prior reports, both internal and external, that were relevant to our audit objectives.
- Interviewed key personnel at SNL and the Sandia Field Office.
- Obtained a list of all fiscal year 2024 NTESS subcontracts that require a kickoff meeting.
- Selected a judgmental sample of 15 subcontracts approved in fiscal year 2024 to test for the occurrence of a kickoff meeting. The subcontracts were separated into three populations based on the objective PP-313 Subcontract Kickoff Meeting requirements for kickoff meetings: subcontracts greater than or equal to \$1 million; subcontracts that are cost type; and subcontracts that are Just-in-Time type of any value. We then identified five samples from each population for testing. Because selection was based on a judgmental or nonstatistical sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of approved fiscal year 2024 subcontracts that require a kickoff meeting.
- Reviewed corrective actions taken by the Department and NTESS to improve deficiencies identified in our prior report.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the control activities and monitoring components, and the implement control activities and remediate deficiencies principles. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We assessed the reliability of the data elements needed to answer the audit objectives by: (1) reviewing source documents; (2) obtaining source documents from multiple sources; and (3) observing and discussing the documents with the NTESS Subcontract Closeout and Internal Audit teams. We determined that the data is sufficiently reliable for the purposes of this report.

Management officials waived an exit conference on July 23, 2025.

Related Reports

Office of Inspector General

- Audit Report: [*Opportunities Exist to Improve NNSA's Contract Administration and Oversight of Skookum Educational Programs*](#) (DOE-OIG-24-33, September 2024). The Office of Inspector General (OIG) did not substantiate the allegations of fraud, waste, and abuse by Skookum. Rather, they found that the National Nuclear Security Administration did not increase the contract ceiling value commensurate with the extended period of performance. Concerns raised in the hotline resulted from this inadequate contract ceiling value coupled with poor contract management practices such as the inclusion of ambiguous language in the contract and a loss of historical contract knowledge stemming from incomplete contract files.
- Audit Report: [*Sandia National Laboratories Subcontract Closeout Process*](#) (DOE-OIG-22-16, December 2021). The OIG found that Sandia National Laboratories misclassified and inappropriately excluded subcontracts from audit. In addition, Sandia National Laboratories' decisions not to sustain subcontract costs questioned by its own Contract Audit office were not fully supported by appropriate and relevant evidence, clearly showing the questioned costs were allowable, allocable, and reasonable, as required. Further, the OIG found that Federal oversight did not ensure that subcontract costs questioned by Sandia National Laboratories' Contract Audit were resolved in accordance with requirements. Specifically, Federal staff provided minimal direct transactional oversight and instead relied heavily on the contractor to provide assurance that questioned costs were resolved in accordance with requirements. The OIG made five recommendations to the National Nuclear Security Administration management and one recommendation to the Office of Acquisition Management. The National Nuclear Security Administration concurred and took corrective actions for all but one of the five recommendations.

Government Accountability Office

- Report to Congressional Requestors: [*Department of Energy Contracting: Actions Needed to Strengthen Subcontract Oversight*](#) (GAO-19-107, March 2019). The Government Accountability Office found that 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. The Contract Disputes Act of 1978 imposes a 6-year statute of limitations for the Government to seek recovery of unallowable costs that could be identified through subcontract audits, so it is important for audits to be completed in a timely manner. Department 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 the Department from

recovering those costs. The Government Accountability Office made six recommendations, including that the Department develop procedures that require local offices to monitor contractors to ensure timely completion of required subcontract audits. The Department partially concurred with five of the Government Accountability Office's six recommendations but disagreed to independently review subcontractor ownership information.

Management Comments



Department of Energy
Under Secretary for Nuclear Security
Administrator, National Nuclear Security Administration
Washington, DC 20585



July 21, 2025

MEMORANDUM FOR SENIOR OFFICIAL PERFORMING THE DUTIES OF
INSPECTOR GENERAL

FROM: TERESA M. ROBBINS 
ACTING UNDER SECRETARY FOR NUCLEAR SECURITY
AND ADMINISTRATOR, NNSA

SUBJECT: Response to the Draft Office of Inspector General (OIG) Report,
*The Department and Sandia National Laboratories Took
Corrective Actions, But Additional Actions Would Further
Improve Subcontract Management (A24LA012)*

Thank you for the opportunity to review and comment on the subject draft report. NNSA is pleased that OIG's follow-up review of Sandia National Laboratories' subcontract management validated the corrective actions taken and confirmed the improved processes provided additional insight and transparency surrounding decisions on questioned costs.

While no findings were identified by OIG, NNSA is committed to continuous improvement. The attached management decision outlines actions planned to address the recommendations. NNSA has also provided technical comments under separate cover for the auditors' consideration to enhance the accuracy and clarity of the report. If you have any questions regarding this response, please contact Mr. George Aaron Webb, Acting Director, Audits and Internal Affairs, at (301) 903-3436.

Attachment

NATIONAL NUCLEAR SECURITY ADMINISTRATION

Management Decision

*The Department and Sandia National Laboratories Took Corrective Actions,
But Additional Actions Would Further Improve Subcontract Management (A24LA012)*

The Office of Inspector General (OIG) recommends the Sandia Field Office Contracting Officer direct the National Technology and Engineering Solutions of Sandia, LLC (NTESS) to:

Recommendation 1: Assess the impact of the Subcontract Management Performance Office on subcontract management and audit findings; and

Management Response: Concur. As noted in the draft report, NTESS institutionalized the Subcontract Management Performance Office (SMPO) in fiscal year 2023 to monitor, measure, and report on the performance of subcontract management. NTESS will determine whether the SMPO has improved subcontract management and reduced the number of audit findings by July 1, 2026.

Recommendation 2: Enforce existing Kickoff Meeting policy requirements or update the policy to allow exceptions for low-risk determinations.

Management Response: Concur. NTESS generally conducts Kickoff Meetings with subcontractors when enhanced engagement is necessary to ensure that subcontractors understand invoicing requirements and other terms and conditions of the subcontract. The two exceptions noted by OIG occurred because the subcontractors had previous awards and already possessed a comprehensive understanding of the terms and conditions of the agreements. NTESS will update the Subcontract Kickoff Meeting policy to include exceptions for low-risk determinations by December 1, 2025.

FEEDBACK

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