



**OFFICE OF INSPECTOR GENERAL**

U.S. Department of Energy

# AUDIT REPORT

DOE-OIG-22-42

August 2022

**ALLEGATION REGARDING COST  
SAVINGS CLAIMED AT THE KANSAS  
CITY NATIONAL SECURITY CAMPUS**



**Department of Energy**  
Washington, DC 20585

August 24, 2022

MEMORANDUM FOR THE MANAGER, KANSAS CITY FIELD OFFICE

SUBJECT: Audit Report on Allegation Regarding Cost Savings Claimed at the Kansas City National Security Campus

The attached report discusses our review of an allegation regarding cost savings claimed at the Kansas City National Security Campus. This report does not contain recommendations or suggested actions. Therefore, no management response is required.

We conducted this audit from March 2022 through July 2022 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in black ink that reads "Earl Omer".

Earl Omer  
Assistant Inspector General  
for Audits  
Office of Inspector General

cc: Deputy Secretary  
Chief of Staff



**Department of Energy  
Office of Inspector General**

**Allegation Regarding  
Cost Savings Claimed at the  
Kansas City National Security Campus  
(DOE-OIG-22-42)**

**WHY THE OIG  
PERFORMED THIS  
REVIEW**

**We received an allegation regarding cost savings claimed at the Kansas City National Security Campus. The allegation asserted Honeywell Federal Manufacturing & Technologies, LLC (Honeywell) was falsely claiming cost savings because the calculation used to identify savings was fundamentally flawed. Specifically, cost savings resulting from time saved by employees was not captured through a baseline change process, thereby recording savings into future budgets. Instead, it was simply added as a line item of savings.**

**We conducted this audit to determine the validity of an allegation that Honeywell was falsely claiming cost savings and whether it could support cost savings claimed.**

**What Did the OIG Find?**

We did not substantiate the allegation that Honeywell was falsely claiming cost savings. Specifically, we concluded that the method used to identify savings was reasonable, and executing a baseline change for each savings resulting from time saved by employees, as suggested in the allegation, may be unreasonable and cost prohibitive. Additionally, we concluded that Honeywell generally had sufficient documentation to support its cost savings claimed.

**What Is the Impact?**

Cost savings initiatives contribute to the National Nuclear Security Administration's efficiency and cost effectiveness goals. We did not substantiate the allegation that Honeywell was falsely claiming cost savings; therefore, there is no impact.

**What Is the Path Forward?**

We did not identify any issues that need to be addressed. Therefore, we did not make any recommendations or suggested actions.

## **BACKGROUND**

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The Kansas City National Security Campus (KCNSC) is a multi-mission facility serving the U.S. Department of Energy's National Nuclear Security Administration (NNSA). KCNSC's primary mission is to support the warfighter and keep our nation's nuclear deterrent safe, secure, and reliable. KCNSC provides 85 percent of the non-nuclear components that go into the nuclear stockpile. Since fiscal year (FY) 2015, Honeywell Federal Manufacturing & Technologies, LLC (Honeywell) has managed and operated KCNSC under a cost-plus-award-fee contract. Honeywell's contract requires Honeywell to integrate the concepts of continuous improvement into all aspects of plant operations and to recommend and implement innovative business management improvements that enhance efficiencies. From the start of FY 2019 through January 27, 2022, Honeywell had 2,604 validated cost savings valued at approximately \$351 million.

In October 2021, we received an allegation that Honeywell was falsely claiming cost savings. Specifically, the complainant alleged that the calculation used to identify savings was fundamentally flawed. We conducted this audit to determine the validity of an allegation that Honeywell was falsely claiming cost savings and whether it could support cost savings claimed.

## **COST SAVINGS CALCULATIONS AND SUPPORTING DOCUMENTATION**

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We did not substantiate the allegation that Honeywell was falsely claiming cost savings.

The complainant alleged that the calculation used to identify savings was fundamentally flawed. Specifically, cost savings resulting from time saved for employees was not captured through a baseline change process, thereby recording savings into future budgets. Instead, it was simply added as a line item of savings. In response to this concern, we reviewed the contract and cost savings policy documents and did not identify any requirements for capturing time savings through a formal baseline change. In addition, we concluded that executing a baseline change for each savings resulting from time saved by employees may be unreasonable and cost prohibitive because of the volume of cost savings claimed and the effort required to re-baseline.

In addition, we concluded that Honeywell generally had sufficient documentation to support its cost savings claimed. According to Honeywell policy, cost savings and cost avoidance projects must have sound logic, validated materials quantities and labor hours, correct labor rates, and validated implementation costs. We selected and reviewed 40 cost savings claimed from FY 2019 through FY 2022, and we found that each generally had sound logic, quantities, hours, rates, and implementation costs supporting the cost savings claimed.

Although we noted minor inaccuracies in the supporting documentation, we concluded that the inaccuracies were not material because the accuracy of cost savings claimed did not directly impact material matters. For example, cost savings claimed did not influence NNSA's annual fee determination for Honeywell. Specifically, NNSA officials asserted that cost savings claimed had minimal impact on their evaluation of Honeywell's performance and fee determination, and they review Honeywell's performance in the aggregate, evaluating numerous factors with no direct link between cost savings and fees earned. Therefore, we reviewed

NNSA's annual Performance Evaluation Reports of Honeywell from FY 2017 through FY 2021, and nothing came to our attention that would contradict the NNSA officials' assertions.

## **MANAGEMENT RESPONSE**

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With no recommendations, NNSA was not required to respond to this report. NNSA elected not to respond formally to this report.

## **Appendix 1: Objective, Scope, and Methodology**

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### **OBJECTIVE**

We conducted this audit to determine the validity of an allegation that Honeywell Federal Manufacturing & Technologies, LLC was falsely claiming cost savings and whether it could support cost savings claimed.

### **SCOPE**

We performed this audit from March 2022 through July 2022. All information was obtained via remote access techniques. Our audit scope was limited to cost savings activities at the Kansas City National Security Campus from fiscal year 2019 through January 27, 2022. The audit was conducted under Office of Inspector General project number A22ID003.

### **METHODOLOGY**

To accomplish our audit objective, we:

- Reviewed Federal, Department of Energy, and contractor requirements regarding cost savings.
- Reviewed supporting documentation for selected cost savings claimed.
- Reviewed related reports regarding cost savings.
- Conducted interviews with staff from the National Nuclear Security Administration's Kansas City Field Office and Honeywell Federal Manufacturing & Technologies, LLC.
- Judgmentally selected and examined 40 out of 2,604 validated cost savings from fiscal year 2019 through January 27, 2022. Specifically, we selected and examined 10 validated cost savings from each fiscal year. We reviewed the validated cost savings to determine whether they had documentation to support the cost savings claimed. Because the 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 validated cost savings.

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 compliance with laws and regulations necessary to satisfy the audit objective; however, because of the limited scope of our allegation-based objective, we did not assess internal controls.

We assessed the reliability of cost savings data by: (1) reviewing supporting documentation used to generate the cost savings data, and (2) interviewing contractor officials knowledgeable about the data. We determined the data was sufficiently reliable for the purposes of this report.

## **Appendix 1: Objective, Scope, and Methodology**

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Management officials waived an exit conference on August 12, 2022.

## **Appendix 2: Related Report**

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### **Government Accountability Office (GAO)**

Audit Report on [\*National Nuclear Security Administration: Analyzing Cost Savings Program Could Result in Wider Use and Additional Contractor Efficiencies\*](#) (GAO-20-451, June 2020).

The GAO reviewed an effort to reduce costs under one contract (consolidated contract for the Y-12 National Security Complex and the Pantex Plant). However, the GAO determined that the National Nuclear Security Administration was not planning to implement this approach at other sites because of uncertainties regarding: (1) the opportunities for similar savings at other sites, and (2) the Federal costs involved in implementing and overseeing the Cost Savings Program. The GAO made four recommendations, including that the National Nuclear Security Administration document its analysis of the Cost Savings Program to determine whether it is exportable to other contracts.



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Office of Inspector General (IG-12)  
Department of Energy  
Washington, DC 20585

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