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The National Nuclear Security Administration's Management and Operating Contractors Generally Classified Subcontracts in Accordance With the Federal Acquisition Regulation



AUDIT REPORT



Department of Energy
Washington, DC 20585

March 4, 2026

MEMORANDUM FOR THE ACTING MANAGER, NATIONAL NUCLEAR SECURITY
ADMINISTRATION KANSAS CITY FIELD OFFICE AND THE
MANAGER, NATIONAL NUCLEAR SECURITY
ADMINISTRATION LOS ALAMOS FIELD OFFICE

SUBJECT: Audit Report: *The National Nuclear Security Administration's Management and Operating Contractors Generally Classified Subcontracts in Accordance With the Federal Acquisition Regulation*

The attached report discusses our audit of the National Nuclear Security Administration's management and operating contractors' classification of subcontracts. Our work led to the identification of 37 misclassified subcontracts. Because the sites took corrective actions, we are not making any recommendations. Going forward, management and operating contractors should ensure subcontracts follow policies related to subcontract classification.

We conducted this audit from April 2025 through November 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, appearing to read "MDD", is positioned above the typed name of the signatory.

Matthew D. Dove
Assistant Inspector General
for Audits
Office of Inspector General

cc: Deputy Secretary
Chief of Staff

DOE OIG HIGHLIGHTS

The National Nuclear Security Administration's Management and Operating Contractors Generally Classified Subcontracts in Accordance With the Federal Acquisition Regulation

Why We Performed This Audit

The Department of Energy uses management and operating (M&O) contracts to carry out 90 percent of the agency's mission. The National Nuclear Security Administration's (NNSA) M&O contractors for the Kansas City National Security Campus and Los Alamos National Laboratory are Honeywell Federal Manufacturing & Technologies, LLC (Honeywell) and Triad National Security, LLC (Triad), respectively. Both Honeywell and Triad utilize subcontracts to achieve their mission. The combined value of firm-fixed-price (FFP) subcontracts issued by Honeywell and Triad from December 2023 through January 2025 was over \$1.6 billion.

We initiated this audit to determine if NNSA's M&O contractors were classifying subcontracts in accordance with the Federal Acquisition Regulation.

What We Found

We found that NNSA's M&O contractors, Honeywell and Triad, generally classified subcontracts in accordance with the Federal Acquisition Regulation and had procurement policies for FFP subcontracts consistent with the Federal Acquisition Regulation. During our audit, we requested the universe of subcontracts from Honeywell. While compiling the universe of 14,006 subcontracts, Honeywell initially identified and disclosed 35 subcontracts that were classified as FFP but should have been classified as cost-plus-fixed-fee, and an additional misclassified subcontract was later identified. According to Honeywell officials, the subcontracts were misclassified due to human error, and it took corrective actions to prevent subcontract misclassification in the future. We reviewed a judgmental sample of 65 FFP subcontracts and did not identify any additional subcontracts that were improperly classified. At Triad, we reviewed a judgmental sample of 30 FFP subcontracts and found 1 subcontract that was improperly classified. In addition, a Triad internal audit identified an inconsistent subcontract classification within its procurement system.

A fundamental component of the procurement process is the selection of the appropriate subcontract type. Subcontracts that are incorrectly or inconsistently classified could lead to inaccurate reporting and insufficient oversight.

What We Recommend

Because the sites took corrective actions, we are not making any recommendations. Going forward, M&O contractors should ensure subcontracts follow policies related to subcontract classification.

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Background and Objective

Developed during the Manhattan Project era to take advantage of the technical talent of the Nation's universities and private companies in support of national security and other national priorities, the Department of Energy's management and operating (M&O) contracts are central to its business model. The M&Os carry out 90 percent of the Department's mission and are accountable and responsible for managing the Department's sites and facilities.

The National Nuclear Security Administration's (NNSA) M&O contractors for the Kansas City National Security Campus (KCNSC) and Los Alamos National Laboratory (LANL) are Honeywell Federal Manufacturing & Technologies, LLC (Honeywell) and Triad National Security, LLC (Triad), respectively. At KCNSC, Honeywell's primary focus is manufacturing 80 percent of non-nuclear components that go into the nuclear stockpile. At LANL, Triad executes work across all the Department's missions: national security, science, energy, and environmental management.

Both Honeywell and Triad utilize subcontracts to achieve their mission. From December 2023 through January 2025, Honeywell issued 13,945 firm-fixed-price (FFP) subcontracts valued at over \$706 million. During this same period, Triad issued 727 FFP subcontracts valued at over \$942 million. Prior Office of Inspector General audit work identified issues with subcontract classification at NNSA M&O sites. Specifically, M&Os labeled some subcontracts as FFP when those subcontracts were more closely aligned with other contract types identified in the Federal Acquisition Regulation (FAR) 16, "Types of Contracts." In addition, recent internal audits conducted by Honeywell and Triad found misclassified subcontracts at their respective sites.

According to FAR 16.202-1, a firm-fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's cost experience in performing the contract. Further, FAR 16.103(b) states that when a reasonable basis for firm pricing does not exist, other contract types should be considered. In addition, FAR 16 notes that other contract types that are not FFP result in additional cost risks and burden for managing the contract. Properly classifying subcontracts is important because the classification dictates requirements, which could include the auditing of costs. Specifically, Department of Energy Acquisition Regulation (DEAR) 970.5232-3(c), requires the M&Os to perform, or arrange for, a sufficient amount of audit work of its subcontractor's incurred costs to provide reasonable assurance the costs are allowable if the subcontractor's incurred costs are a factor in determining the amount the M&O contractor pays the subcontractor and submits to the Government for reimbursement.

We initiated this audit to determine if NNSA's M&O contractors were classifying subcontracts in accordance with FAR.

Results of Review

HONEYWELL AND TRIAD GENERALLY CLASSIFIED SUBCONTRACTS PROPERLY

We found that Honeywell's and Triad's procurement policies for FFP subcontracts were consistent with FAR, and they generally classified subcontracts in accordance with FAR. We reviewed a sample of subcontracts from both sites. Our work led to the identification of 36 misclassified subcontracts at Honeywell and 1 misclassified subcontract at Triad.

Honeywell Subcontract Classification

We found that Honeywell generally classified subcontracts in accordance with FAR, and its policy's definition of an FFP was consistent with FAR 16. Specifically, Honeywell policy states that an FFP contract provides for a price that is not subject to any adjustment on the basis of the supplier's cost experience in performing the contract.

During our audit, we requested the universe of subcontracts issued from December 1, 2023, through January 31, 2025. While compiling the universe of 14,006 subcontracts, Honeywell identified 35 subcontracts that were classified as FFP but should have been classified as cost-plus-fixed-fee based upon the master agreement.¹ We requested Honeywell review any similar master agreements for misclassifications, and it identified one additional misclassified subcontract. According to Honeywell officials, the subcontracts were misclassified due to human error, and it took corrective actions to avoid similar issues in the future.² In addition, Honeywell officials stated that these misclassified subcontracts only posed a risk to data retrieval and that the subcontracts received all necessary oversight and closeout procedures. However, Honeywell's internal audit officials stated that if a subcontract were misclassified, it would be incorrectly excluded from the universe of subcontracts subject to audit. We appreciated Honeywell disclosing the original 35 misclassifications to the Office of Inspector General when we requested the universe of subcontracts.

We selected a judgmental sample of 65 FFP subcontracts for review to determine if the subcontracts' terms and conditions showed that the price was fixed and not subject to any price adjustment on the basis of the supplier's cost experience in performing the contract. We did not identify any additional subcontracts that were improperly classified in accordance with FAR 16.

Triad Subcontract Classification

We found one instance in which Triad did not classify a subcontract in accordance with FAR. Triad's policy definition of an FFP is consistent with FAR 16, and states that an FFP subcontract is preferred because it is not subject to any price adjustment and, therefore, places the entire risk

¹ The master agreement with the 35 misclassified subcontracts was an indefinite-delivery, indefinite-quantity subcontract that had a pricing arrangement for future orders against the master to be cost-plus-fixed-fee. We requested Honeywell review similar master agreements that had pricing arrangements for future orders that were not FFP.

² Honeywell corrected the misclassified subcontracts and provided additional training to its buyers.

of the cost performance on the subcontractor. An FFP subcontract is suitable for use in acquisitions in which the Statement of Work and acceptance criteria can be clearly defined to permit agreement on a fixed price.

Triad issued 910 subcontracts from December 1, 2023, through January 31, 2025. We selected a judgmental sample of 30 FFP subcontracts to determine if the subcontracts' terms and conditions showed that the price was fixed and not subject to any price adjustment. We found one subcontract that was misclassified as FFP because the subcontract's terms and conditions showed that it was an indefinite-delivery, indefinite-quantity contract.³ Specifically, the subcontract was a master agreement that specified a ceiling price and minimum orders for future purchases against the master agreement. Triad's *Procurement Policy and Procedure Manual* states a master agreement is not a contract but rather an agreement between two parties to do business in the future and can be awarded as an indefinite-delivery type agreement based on the need. Triad procurement officials stated that this master agreement had an FFP pricing arrangement for future orders against the master agreement. This master agreement should follow the requirements in Triad's procurement policy, contract types described in FAR 16, and the subcontract's terms and conditions that identified this master agreement as indefinite-delivery, indefinite-quantity.

In addition, a Triad internal audit identified an inconsistent subcontract classification within its procurement system. Specifically, a hybrid subcontract with both FFP and labor hour elements was classified as only an FFP subcontract in the procurement system. Triad Ethics and Audit Division suggested that the classification of this subcontract be corrected in the procurement system. Our sample review did not include subcontracts classified as hybrid in the universe.

CONCLUSION

A fundamental component of the procurement process is the selection of the appropriate subcontract type. Selecting the contract type is generally a matter for negotiation and requires the exercise of sound judgment. Further, subcontracts that are incorrectly or inconsistently classified could lead to inaccurate reporting, insufficient oversight, and inappropriate exclusion from the population of subcontracts subject to audit. We confirmed that Honeywell had taken corrective action to address the misclassified subcontracts identified during the audit. In addition, Triad procurement management's response to the May 2025 internal audit misclassification of subcontracts finding stated that changes had already been implemented. Therefore, going forward, M&O contractors should ensure subcontracts follow policies related to subcontract classification.

Management Comments and OIG Response

With no recommendations or suggested actions, NNSA was not required to respond to this report. NNSA management notified the OIG that they would not be providing formal comments. The OIG appreciated NNSA's cooperation and assistance provided throughout this audit.

³ The classification in this context of an indefinite-delivery, indefinite-quantity subcontract is unrelated to the subcontract audit requirement determination under the Department of Energy Acquisition Regulation 970.5232-3(c), "Audit of subcontractors' incurred costs."

Objective, Scope, and Methodology

Objective

We conducted this audit to determine if the National Nuclear Security Administration's management and operating contractors were classifying subcontracts in accordance with the Federal Acquisition Regulation.

Scope

This audit was performed from April 2025 through November 2025. We reviewed subcontracts issued from December 1, 2023, through January 31, 2025, at Kansas City National Security Campus (KCNSC) in Kansas City, Missouri; and Los Alamos National Laboratory (LANL) in Los Alamos, New Mexico. The audit was conducted under Office of Inspector General project number A25LA006.

Methodology

To accomplish our audit objective, we:

- Reviewed applicable policies, procedures, laws, regulations, and contract requirements relevant to our audit objective.
- Reviewed prior reports, both internal and external, that were relevant to our audit objective.
- Interviewed key Federal and contractor personnel at KCNSC and LANL.
- Judgmentally selected a sample of 95 subcontracts (65 at KCNSC, 30 at LANL) issued from December 1, 2023, through January 31, 2025, for detailed testing. We reviewed the subcontracts and supporting documents to determine if the subcontracts were properly classified. Because a judgmental sample selection was used, results are limited to the subcontracts tested and cannot be projected.
- Reviewed corrective actions taken by KCNSC to improve deficiencies identified in internal reports.

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, monitoring, and control environment components, and the design control activities, perform monitoring activities, exercise oversight responsibility, and implement

control activities 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 with the KSNSC and LANL Subcontract and Internal Audit teams. We determined that the data was sufficiently reliable to provide a basis for our conclusions.

Management officials waived an exit conference on February 10, 2026.

Prior Reports

Office of Inspector General

- Audit Report: [*The Department and Sandia National Laboratories Took Corrective Actions, but Additional Actions Would Further Improve Subcontract Management*](#) (DOE-OIG-25-27, August 2025). The Office of Inspector General (OIG) found that the National Nuclear Security Administration (NNSA), National Technology and Engineering Solutions of Sandia, the managing and operating contractor at Sandia National Laboratories' (SNL), and the Department of Energy's Office of Acquisition Management took corrective actions and made improvements to deficiencies identified in a prior 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. NNSA, National Technology and Engineering Solutions of Sandia, and the Office of Acquisition Management took corrective actions and improved upon previously identified deficiencies. However, additional steps would further improve the subcontract management.
- Audit Report: [*Performance Audit of Mission Support and Test Services LLC Statement of Costs Incurred and Claimed Submissions for Fiscal Year Ended September 30, 2018 and Incurred Cost Submissions for Fiscal Years Ended September 30, 2019 and September 30, 2020*](#) (DOE-OIG-25-17, March 2025). CohnReznick, a subcontractor to the OIG, identified five deficiencies in Mission Support and Test Services' internal controls. Specifically, CohnReznick found that Mission Support and Test Services had inadequate timekeeping procedures, incorrectly classified subcontract types, lacked an adequate accounting system assessment for cost-type contracts, and did not have a practice in place to determine audit status or audit performance on its flexibly priced contracts. CohnReznick did not identify any questioned costs resulting from the deficiencies, but it did qualify costs of over \$42 million due to unaudited flexibly priced subcontracts.
- Audit Report: [*Sandia National Laboratories Subcontract Closeout Process*](#) (DOE-OIG-22-16, December 2021). The OIG found that SNL misclassified and inappropriately excluded subcontracts from audit. In addition, SNL's 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 SNL's 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 NNSA management and one recommendation to the Office of Acquisition Management. NNSA concurred and took corrective actions for all but one of the five recommendations.

- Audit Report: [*Subcontract Administration at the Kansas City National Security Campus*](#) (DOE-OIG-22-15, December 2021). The OIG determined that Honeywell Federal Manufacturing & Technologies, LLC, the managing and operating contractor at the Kansas City National Security Campus, allowed a third-party audit firm to perform reviews of subcontract costs, instead of audits, as required. The OIG also found that of the 92 fixed-price subcontract records reviewed, 16 (about 17 percent) were misclassified and inappropriately excluded from audit. The report also identified unresolved costs of \$88,391,364 from subcontracts that were not audited and could include unallowable activities, such as a mutual nondisclosure agreement and potential lobbying activities. Finally, the audit identified questioned costs of \$142,638 for third-party review services, mobile phone charges, and subcontract labor costs that did not meet the allowability and contract requirements. The issues occurred, in part, because Honeywell Federal Manufacturing & Technologies, LLC did not always administer subcontracts in accordance with applicable regulations and policies.

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