BY THE COMPTROLLER GENERAL

Report To The Chairman, Permanent Subcommittee On Investigations, Senate Committee On Governmental Affairs

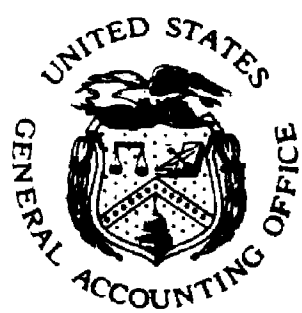
OF THE UNITED STATES

Internal Control Weaknesses At Department Of Energy Research Laboratories

The Department of Energy (DOE) channels a large percentage of its budget into energy research. A major portion of this research is contracted out to industries, nonprofit organizations, and universities that operate government-owned research facilities. DOE also funds research at its energy technology centers, which are operated by DOE employees.

In a review of internal controls at six government-owned, contractor-operated laboratories and four energy technology centers, GAO found that improvements are needed in the areas of procurement, property management, and payroll to more adequately protect Federal assets and the expenditure of Federal funds. GAO also found that these types of facilities have received little audit coverage from the DOE Inspector General.

This report recommends that the Secretary of Energy take specific action to improve internal controls. In some instances, corrective action is already underway or is planned.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-178205

The Honorable William V. Roth, Jr.
Chairman, Permanent Subcommittee on
Investigations
Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This report responds to your requests of May 11 and December 18, 1981, that we review selected functional areas at several Department of Energy research laboratories. We examined internal controls over procurement, property management, and payroll.

Our review disclosed numerous internal control weaknesses, and we have made recommendations designed to strengthen the weak areas. We note that some corrective action is already underway or is planned.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

REPORT BY THE COMPTROLLER GENERAL OF THE UNITED STATES TO THE CHAIRMAN, PERMANENT SUBCOMMITTEE ON INVESTIGATIONS, SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

INTERNAL CONTROL WEAKNESSES AT DEPARTMENT OF ENERGY RESEARCH LABORATORIES

D I G E S T

This report responds to two requests from the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, that GAO review the vulnerability of selected Department of Energy (DOE) research facilities to fraud, waste, and abuse. The review examined internal controls over payroll, procurement, and property management at six Government-owned, contractor-operated (GOCO) research laboratories (Sandia, Hanford, Argonne, Oak Ridge, Fermi, and Brookhaven) and four Government-owned, Government-operated energy technology centers (Bartlesville, Laramie, Morgantown, and Pittsburgh). In fiscal 1982, DOE budgeted over $3 billion for its GOCO facilities and over $230 million for its energy technology centers. On July 27, 1982, GAO testified before the subcommittee on the results of this review.

GAO noted specific problems at a number of the laboratories in each of the areas covered. In many instances, DOE has acknowledged the problems and corrective action is underway or is planned.

INAPPROPRIATE PROCUREMENT PRACTICES AT GOCO FACILITIES

GAO's review of procurement practices at the GOCOs revealed (1) DOE headquarters directed GOCOs to procure the services of specific consultants and consulting firms, thereby circumventing effective procurement controls, and (2) laboratories improperly subcontracted for consultants and other professionals.

DOE has frequently directed operating contractors to procure certain services because of the delays in the DOE procurement process and because the operating contractors could make awards faster, since they are not required to follow all aspects of the Federal and DOE procurement regulations. This practice (1) often circumvents many of the

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controls established to protect public moneys and ensure adherence to Federal procurement policies and procedures and (2) forces the operating contractors to disregard their own procurement policies and procedures. A total of 112 directed procurements valued at over $18 million were identified at three labs. However, GAO believes the universe of directed procurements is much larger. In many cases laboratories are directed to award a contract to a preselected source at a predetermined price. (See pp. 7 and 8.)

During GAO's review, DOE's Assistant Secretary for Management and Administration issued a memorandum prohibiting DOE headquarters from directing procurements for support services, noting that the practice avoided normal procurement safeguards. Subsequently, DOE issued an order prohibiting such contracts when the services directly support DOE headquarters. While this should improve the situation, DOE can still direct procurements as long as the laboratory has been assigned technical responsibility for the work to be performed. GAO noted three directed procurement awards at Argonne valued at over $304,000 that occurred since the prohibitions, and two more that were pending award. (See p. 8.)

GAO also noted several practices involving subcontracting for consultants that in some cases appear to have led to waste or misuse of Federal funds:

--Unwarranted sole-source procurements. (See p. 9.) For example, sole-source contracts were awarded to one firm because it could provide a technical talent pool of "highly qualified" individuals although many of the professionals provided had just graduated from college and had little or no experience.

--The inappropriate use of subcontractors to hire employees. (See p. 11.) To illustrate, six individuals were recruited by one lab and referred to a subcontractor so that they could be hired indirectly. This practice is wasteful since the laboratory pays a 70-percent markup in addition to salaries to cover that subcontractor's overhead and profit.

--Retroactive execution of contracts. (See p. 13.) For example, at one lab a consulting firm incurred over $53,000 in charges by beginning work more than 5 months before a contract was executed.

--Inadequate controls over payments for services. (See p. 13.) In 8 of the 10 cases we reviewed at one lab, officials were not in a position to reasonably attest that services were provided. In one instance, an approving official approved over $19,000 in payments to a consultant without knowing if the claim was correct. This official had never met the consultant and had only talked with him over the telephone a few times. Moreover, the consultant never provided the laboratory with his work products.

WEAK CONTROLS OVER PERSONAL PROPERTY, PAYROLL ACTIVITIES, AND FOREIGN TRAVEL AT GOCO FACILITIES

GAO found that controls over personal property need to be strengthened because inventory procedures were inadequate, many property items were not marked and controlled properly, and many items on hand appeared to be excess and unneeded. (See p. 18.) For example:

--Instead of having an independent party conduct physical inventories, three laboratories require only that responsible custodians verify that they still have the property entrusted to them. (See p. 18.)

--At Argonne and Brookhaven, lab management decided to exclude from special controls items costing over $500 irrespective of their susceptibility to theft, including such items as cameras, movie projectors, and typewriters. (See pp. 19 and 20.)

GAO found several internal control weaknesses involving payroll-related areas, affecting time and attendance, tuition reimbursements, salary increases, and negotiable instruments such as payroll checks. (See pp. 22, 23, and 24.) Also, better DOE oversight is needed over foreign travel by GOCO employees. While foreign travel is necessary to carry out GOCO programs, questionable travel practices occur because travel regulations are not consistently applied and foreign travel activities are not carefully monitored by DOE. For example, GAO found that, contrary to DOE regulations, excessive personal leave is sometimes used in conjunction with foreign trips, and contractor employees are not required to account for payments and travel reimbursements made by foreign hosts. (See p. 25.)

PROPERTY MANAGEMENT WEAKNESSES AT ENERGY TECHNOLOGY CENTERS

DOE's energy technology centers generally have not adequately controlled capital equipment and theft-prone property. (See pp. 29-31.) GAO found that:

--Inventory procedures were ineffective. Inventories were not taken frequently enough and were not conducted properly.

--Property control records were inaccurate. New property was not recorded, missing property was not deleted, and records were not changed when property was moved or transferred.

--Thefts and missing property were not always reported and investigated.

--Controls over Government property held by offsite contractors were inadequate.

WEAKNESSES IN BOTH PROCUREMENT AND PAYMENT FOR GOODS AND SERVICES AT ENERGY TECHNOLOGY CENTERS

GAO found weaknesses in the small purchasing (under $10,000) and payments systems at several energy technology centers. Goods and services were procured without requisitions and appropriate approval. In addition, written procedures adequately setting forth the purchasing process had not been developed. (See p. 31.)

At two of the centers GAO found that vouchers prepared for payment of service contracts were being routinely approved by individuals without firsthand knowledge that the service had been performed. Moreover, at two centers, controls were not adequate to prevent duplicate payments. (See p. 32.)

AUDIT COVERAGE OF RESEARCH FACILITIES

Although the Government-owned, contractor-operated facilities and energy technology centers represent more than 30 percent of DOE's budget, they have received little audit coverage from the Inspector General. Audit coverage was provided by auditors reporting to field operations offices. Because these auditors lack sufficient independence, GAO recommended in 1979 that these auditors be

multiprogram laboratory contractors' performance, and (3) has issued a draft order to more effectively control directed procurements.

DOE stated that the draft report did not sufficiently recognize internal control systems that are in place. GAO does not agree. GAO examined the internal control procedures and practices actually being followed by those operating the systems, and found that improvements are needed. (See app. III.)

assigned to the DOE Inspector General. During GAO's review, 46 of the 125 field audit positions were transferred to the Inspector General. In GAO's opinion, all of the field audit positions should be assigned to the Inspector General. (See pp. 34 and 35.)

RECOMMENDATIONS

GAO believes that a firm commitment by management at all levels is necessary to ensure that internal controls are improved so that the potential for waste and misuse of Federal funds and property is minimized. GAO recommends that the Secretary of Energy:

--Ensure that DOE's practice of directing operating contractors to make procurements, which results in the circumvention of Federal procurement regulations, is eliminated. (See p. 17.)

--Establish clear, minimum procurement requirements to be followed by operating contractors. (See p. 17.)

--Ensure that all DOE divisions and operating contractors adhere to the reporting requirements and travel policies set forth in DOE's foreign travel regulations including requiring that operating contractor employees report fees, travel, and expense reimbursements received from foreign hosts. (See p. 26.)

--Require the development and implementation of a property management system that includes procedures for property control at both the operating contractors and the energy technology centers. (See pp. 26 and 33.)

--Transfer all remaining field audit positions to the Inspector General. (See p. 35.)

Additional recommendations are detailed in the report. (See pp. 17, 26, and 33.)

AGENCY COMMENTS

While it did not comment on specific GAO recommendations, DOE indicated that many corrective actions are already underway and this report will help it initiate others. DOE also stated that it (1) has emphasized the importance of the issues in the report to operations office managers, (2) is developing a new, uniform system of formal evaluations of

Contents

ABBREVIATIONS

BOA	basic ordering agreement
DOE	Department of Energy
ETC	energy technology center
GAO	General Accounting Office
GOCO	Government-owned, contractor-operated
IG	Inspector General
OMB	Office of Management and Budget

CHAPTER 1

INTRODUCTION

This report responds to two requests from the Chairman, Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, that we review the vulnerability of selected Department of Energy (DOE) research facilities to fraud, waste, and abuse. In accordance with the initial request, we examined internal controls over payroll, procurement, and property management at four Government-owned, contractor-operated (GOCO) research laboratories (Sandia, Hanford, Argonne, and Oak Ridge) and four Government-owned and -operated energy technology centers (Bartlesville, Laramie, Morgantown, and Pittsburgh). Based on the results of the initial review, the Chairman of the Subcommittee requested that we do a followup review at three GOCO facilities reporting to the Chicago Operations Office (Argonne, Fermi, and Brookhaven) and three energy technology centers (Bartlesville, Morgantown, and Pittsburgh). The purpose of the followup was primarily to identify instances where control weaknesses have resulted in waste or misuse of Federal funds or property. GAO testified on the results of this review before the Permanent Subcommittee on Investigations on July 27, 1982.

DOE RESEARCH FACILITIES

The Department of Energy is a decentralized organization that channels a large percentage of its budget into energy research. DOE headquarters in Washington, D. C., provides overall program management; plans, budgets, and allocates financial resources for its field organization; maintains relations with other Federal agencies and the Congress; and reviews and coordinates policy for DOE's various programs. Actual project management and program implementation is delegated to the field and project offices and, through them, to the appropriate research facility.

The Department of Energy manages 12 major, multiprogram, national laboratories located throughout the United States. Many were established in the 1940s and 1950s under the Atomic Energy Commission to develop nuclear weapons and do fundamental nuclear energy research requiring large-scale facilities. In 1971 the labs' program responsibilities began to include non-nuclear energy research, development, and demonstration, which were later encouraged and substantially increased under the Energy Research and Development Administration.

Today the laboratories' role is to provide scientific support for DOE policies and programs and to provide a scientific staff with a core capability to support various technology programs. The programs carried out in the laboratories range from the most fundamental research in the physical and life sciences to the most advanced, goal oriented development in nuclear and alternative energy technologies, as well as nuclear weapons development.

In fiscal 1981, these laboratories' operating budgets totaled about $2.8 billion and supported a staff of over 50,000 persons. A comparatively small staff located in DOE headquarters and at seven field organizations or operations offices throughout the country oversee the operation of the laboratories. The operations offices are the main connecting link between headquarters and the contractors and are responsible for day-to-day contract administration, management, appraisal, and oversight. While a national lab usually works for many DOE headquarters program offices, it is overseen by only one operations office.

The national laboratories are all Government owned but are operated by universities, nonprofit organizations, or private industry under contracts with DOE. A GOCO facility is in the unique position of being both a private contractor and essentially a part of the Government. The contractor employs the personnel, manages and operates the facility and authorized research programs, submits proposals for new or ongoing projects, and maintains all accounting records and reporting systems for the laboratory.

The accounting relationship between these contractors and the Government is similar to that of a decentralized division or branch office within a private company. The contractors account for and report on funds, property, and costs of operations under the contract in accordance with DOE's accounting and reporting systems and procedures. The contractors' reports provide basic data needed for drawing comparisons of progress and performance and for planning, budgeting, and financial analysis. These data are combined with data from DOE operations offices to produce comprehensive financial and cost statements covering all direct and contract operations of the Department.

All contracts for operation and maintenance of the laboratories are cost-type arrangements. That is, DOE reimburses all allowable costs incurred under the contracts. Some contractors, such as the Union Carbide Corporation, also receive a fixed fee; others, such as the University of Chicago, receive a management allowance to cover undefined indirect costs; and still others, such as the Western Electric Company, receive no fee or management allowance. In addition, almost all contracts are longstanding agreements renewed at 5-year intervals. For example, DOE's contract with the Union Carbide Corporation to operate the Oak Ridge National Laboratory was first negotiated in 1948. The contract has continued in force since that time; its current performance period extends through September 30, 1983.

The scientific and technical staff of the laboratories are generally treated as members of the Department of Energy for program planning and development purposes. The laboratories are expected to submit proposals for new work they feel is needed based on the results and progress of their own research and that of others. The proposals are somewhat analogous to "unsolicited proposals" except that they are prepared at DOE's direction and expense.

The cognizant operations office reviews all proposals submitted by its laboratories and pays particular attention to their compliance with headquarters program guidance and assumptions, availability of required manpower, and the reasonableness and completeness of the budget estimates.

Each headquarters program division follows its own procedures in arriving at a program and budget decision for new and ongoing project proposals. Once the decisions are made, funding for projects is channeled through the various operations offices and released to the contractors. To avoid the need for the contractors to use their own funds in performing work under the contracts, costs are paid under various letter-of-credit arrangements, allowing contractors to write checks against accounts in commercial banks. Since the facilities are Government owned, title to all materials and supplies is vested in DOE upon delivery. The replacement value of these facilities and their equipment is estimated to be $8.5 billion.

In addition to the GOCO facilities, DOE manages various program-dedicated energy technology centers. These energy technology centers (ETCs) differ from the GOCOs in that (1) they are both owned and operated by the Government and (2) they usually specialize in one program area, such as coal gasification. The ETCs are much smaller than the GOCOs with operating budgets totalling approximately $282 million in fiscal 1981. The ETCs have been assigned various lead roles in researching the development of alternate and substitute fuels.

The ETCs report to the Assistant Secretary for Fossil Energy. They provide DOE with a competent, in-house staff of engineers and scientists conducting research, development, and demonstration projects, as well as implementing selected Government programs.

THE IMPORTANCE OF INTERNAL CONTROLS

The Budget and Accounting Act of 1950 required Federal agencies to maintain effective internal control systems. Several recent developments have strengthened internal controls in the Federal Government, including the Office of Management and Budget's (OMB's) Circular A-123 and the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255). This legislation requires ongoing evaluations of the adequacy of internal accounting and administrative control systems of each executive agency. These evaluations, conducted under OMB guidelines, will determine whether the agencies' internal control systems comply with standards set by the Comptroller General.

A good system of internal controls can discourage and minimize fraud, waste, and abuse. Managers can use several methods to ensure the integrity of operations under their control. An adequate system of internal control includes: (1) a plan of organization that appropriately segregates functional responsibilities,

(2) a system of authorization and recordkeeping procedures adequate to provide reasonable accounting control over assets, liabilities, revenues, and expenses, (3) sound practices to be followed in performance of duties and functions of each organizational department, (4) personnel of a quality commensurate with responsibilities, and (5) a reliable system of internal review operating effectively to detect and correct errors. To succeed in misusing Federal funds or in defrauding an organization that has sound internal controls, an individual usually must have the help of others. Conversely, if sound internal and managerial controls are lacking, or if they have not been effectively implemented, Government programs become more susceptible to fraud, waste, and abuse.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objective in this review was to determine whether selected DOE research laboratories were vulnerable to fraud, waste, and abuse by evaluating the adequacy of internal and management controls in selected functional areas. Specifically, we set out to identify control weaknesses which, if corrected, could result in greater protection of Federal funds and assets.

At each location in the broad areas of procurement, property management, and payroll, we examined written policies and procedures, held discussions with persons responsible for operations, and compared procedures with an internal control guide and other internal control standards such as GAO's Policy and Procedures Manual for Guidance of Federal Agencies. To determine whether internal control procedures were in place and working properly, we tested various transactions.

For example, to help us assess internal controls over personal property at both types of facilities, we judgmentally selected property items and physically traced them to their locations to assess the accuracy of property records. At the GOCO facilities, we concentrated on controls over sensitive or theft-prone property items. Our assessment of GOCO procurement activities focused on subcontracts that were (1) directed by DOE and (2) awarded for professional or consulting services. We selected contracts in both categories to analyze their conformance to sound procurement practices. At Brookhaven, we reviewed all DOE-directed procurements identified for us by laboratory officials. At Argonne and Oak Ridge, we judgmentally selected directed procurements for detailed analysis, considering both the dollar value of the contracts and the geographic location of the work being accomplished.

With regard to procurement at the energy technology centers, we concentrated our efforts on procurements under $10,000. We judgmentally selected sample purchases to assess the adequacy of the approval process and the controls over payments. While our results are not statistically projectable, we further verified the existence of internal control weaknesses through discussions

with personnel who operate the systems and/or by reviewing additional transactions.

Moreover, to aid us in our evaluation of selected internal controls, we reviewed audit reports issued by DOE internal auditors who work for DOE operations offices, and auditors who work for contractors. In some instances we used internal audit report findings, to the extent we could, as indicators of internal control problems. Consequently, in several instances we followed up to see if reported internal control weaknesses had been corrected where they concerned areas included in our review. We also evaluated the work done by the DOE Inspector General in preventing fraud, waste, and abuse at the types of facilities we visited, including the review of audit and investigation reports.

We conducted field work from May 1981 through October 1981 in response to the Subcommittee's first request, and from January 1982 through June 1982 for its second request. This audit was conducted in accordance with the generally accepted government audit standards.

The table on page 6 shows the funding levels for fiscal 1982 at the GOCOs and ETCs we reviewed in relation to the total funding for DOE research facilities.

DOE Funding of Research Facilities in Fiscal 1982

(in thousands of dollars)

	Operating expense budget	Capital expense and construction budget	Total budget	Percent
Multiprogram GOCOs reviewed:				
Argonne	190,933	29,603	220,536	
Brookhaven	120,482	33,377	153,859	
Hanford Engineering Development	119,016	117,704	236,720	
Oak Ridge	237,093	60,409	297,502	
Sandia	502,341	86,193	588,534	
Total	1,169,865	327,286	1,497,151	53.1
All other GOCOs (seven)	1,015,922	306,723	1,322,645	46.9
Total multiprogram GOCOs	2,185,787	634,009	2,819,796	100.0
Program-dedicated GOCOs reviewed:				
Fermi National Accelerator	87,762	50,700	138,462	14.6
All other program-dedicated GOCOs	643,230	164,191	807,421	85.4
Total program-dedicated GOCOs	730,992	214,891	945,883	100.0
Energy technology centers reviewed:				
Bartlesville	19,367	1,115	20,482	
Laramie	31,246	979	32,225	
Morgantown	82,806	1,552	84,358	
Pittsburgh	84,070	2,554	86,624	
Total	217,489	6,200	223,689	96.7
All other ETCs (1)	6,797	756	7,553	3.3
Total ETCs	224,286	6,956	231,242	100.0
Other DOE research facilities	4,201,401	1,487,994	5,689,395	
Grand total all research facilities	7,342,466	2,343,850	9,686,316	

CHAPTER 2

INAPPROPRIATE PROCUREMENT PRACTICES AT CONTRACTOR-OPERATED LABORATORIES

Our review of procurement practices at the GOCOs revealed two major problem areas: (1) the DOE headquarters practice of directing the laboratories to award contracts and (2) laboratory procurement practices for consultants and other professionals. Many of the laboratory procurement problems were exacerbated by DOE headquarters directing GOCOs to procure the services of specific consultants, consulting firms, and other services.

DOE-DIRECTED PROCUREMENTS

DOE has frequently directed operating contractors to procure certain services, sometimes specifying the contractor and the amount of money to be spent. We were told by both DOE and contractor officials that this was done because of delays in the DOE procurement process; the operating contractors could make awards faster since laboratories are not required to follow all aspects of the Federal and DOE procurement regulations. However, this practice often circumvents many of the controls established to protect public moneys and ensure adherence to Federal procurement policies and procedures. Also, it forces the operating contractors to disregard their own procurement policies and procedures. It was very difficult to determine the number and value of directed procurements because neither DOE nor the laboratories had information systems that specifically identified them. Those that were identified were found through discussions with various officials, employee recollections, and file searches. A total of 112 directed procurements valued at over $18 million were identified at three labs. However, we believe the universe of directed procurements is much larger.

We identified 92 directed procurements of varying types at Argonne with an estimated value of $13.4 million. At one extreme, DOE directs only the specific service to be provided. At the other, DOE identifies the subcontractor and specifies the cost and the service. The latter practice causes the most problems because it requires the laboratory to award a contract noncompetitively to a preselected source at a predetermined price. For instance, Argonne awarded a noncompetitive $600,000 contract to a directed source even though the contract negotiator believed other companies were capable of bidding on the contract. The official also believed the contracted amount was unduly high, but because the procurement was directed, the contracting officer was unsuccessful in negotiating a lower cost. In another case, a contracting official felt he was unable to negotiate a fair and reasonable price because the firm apparently knew the amount of funds allotted for the procurement.

At Brookhaven, 11 directed procurements valued at about $1.1 million were identified. Neither the labs that awarded these contracts nor the DOE program managers who directed the procurements evaluated them to ensure that the best price was obtained or that sole-source justifications were valid. Furthermore, while these procurements directly supported DOE headquarters programs, some of them, according to a lab official, had little relevance to Brookhaven's mission.

We also noted a number of directed procurements at Oak Ridge. In a letter dated October 1, 1980, the president of the operating contractor advised the Oak Ridge Operations Office of the practice of DOE directing the lab to subcontract with specific firms and attached a list of nine examples totaling over $4 million. He pointed out that in directed procurements, the lab does not verify capabilities, check out potential conflicts, or confirm the validity of the selections.

In a report 1/ issued in April 1982 to the Chairman, Senate Committee on Energy and Natural Resources we pointed out that DOE had directed laboratories to award subcontracts on a sole-source basis. Also, DOE's Office of Inspector General reported that DOE headquarters personnel had directed another laboratory to award noncompetitive contracts.

In August 1981, while our review was ongoing, the DOE Assistant Secretary for Management and Administration issued a memo prohibiting directed procurements for DOE headquarters support services, noting that the practice avoided normal procurement safeguards. Subsequently, DOE issued an order prohibiting such contracts when the services directly support DOE headquarters. This should improve the situation, but, according to DOE Chicago Operations Office officials, DOE can still direct procurements as long as the laboratory has been assigned technical responsibility for the work to be performed. Thus, we noted three directed procurement awards at Argonne valued at over $304,000 that have occurred since August 1981, and two more pending award. In our opinion, directed procurements could continue to be a cause of laboratory procurement weaknesses. Many of the problems discussed in the next section involved directed procurements.

IMPROPER LABORATORY SUBCONTRACTING FOR CONSULTANTS

During our review, we identified five practices involving subcontracting for consultants that, in some cases, appear to have led to waste or misuse of Federal funds:

--Unwarranted sole-source procurements.

1/"The Subcontracting Practices of Large Department of Energy Contractors Need To Be Improved" (EMD-82-35, Apr. 22, 1982).

--Inappropriate use of subcontractors to hire employees.

--Retroactive execution of contracts.

--Inadequate controls over payments for services.

--Questionable hiring of former employees as consultants.

Although Federal Procurement Regulations do not directly apply to on-site operating contractors, they are required to follow procedures that approximate most aspects of the Federal regulations. These procedures are intended to ensure full and free competition so that necessary goods and services are obtained at reasonable prices to the extent possible, and that procurements are made in the Government's best interest.

Unwarranted sole-source procurements

Sole-source, noncompetitive contracting has been a relatively common practice at many of the contractor-operated laboratories. For example, we pointed out in the April 1982 report referred to in the previous section that 63 percent of the subcontracts over $10,000 at Sandia and 72 percent at Argonne were noncompetitive. A number of weaknesses relating to sole-source procurements were discussed in that report. During our review for this report, we also discovered a number of weaknesses involving noncompetitive procurements at three laboratories: Oak Ridge, Argonne, and Brookhaven.

At Oak Ridge, $15 to $20 million a year is spent for research and development and technical assistance using basic ordering agreement (BOA) subcontracts which, in our opinion, may not be the most economical way to obtain needed services because the specific work required to be performed is not competitively awarded. BOAs are not complete subcontracts; they are prequalifying agreements that include negotiated labor and overhead rates and standard contract clauses. When a specific requirement for work in one of the task areas is identified, a letter release is issued to one of the BOA subcontractors. The letter specifies the work to be performed, the estimated costs, and the fixed fee. The letter release together with the BOA clauses constitutes the subcontract.

Of the 331 letter release subcontracts awarded by Oak Ridge during fiscal 1980 and the first half of fiscal 1981, only 11 involved competition. In our opinion, the lack of competition, combined with the fact that all BOA subcontracts are cost-plus-fixed-fee, does not ensure that needed services are obtained in the most economical way.

Furthermore, strong internal controls dictate that procurement specialists should conduct negotiations with potential vendors. Except to resolve technical questions, requisitioners of the services should usually have no contact with potential vendors until the contracts are executed.

We found, however, that in awarding BOA letter releases, purchasing specialists are often not even aware of the purchase requirement until after the subcontractor has been selected and a technical and cost proposal obtained. One danger of this approach is evidenced by the fact that several requisitioners told us they informed the firm selected to perform the work how much money was available in Oak Ridge's budget for this work. As might be expected, the firm's proposed costs about equaled the amount budgeted. For example, in April 1981 Oak Ridge awarded a subcontract for conceptual designs and cost estimates to be used in a study of alternative ways of supplying energy to an industrial park. The Oak Ridge individual responsible for monitoring the study told us that before the subcontractor submitted its proposal, he had informed the subcontractor that $135,000 was available in Oak Ridge's budget to support this effort. The subcontractor's cost proposal totaled $135,000.

At Argonne, of the 77 corporate professional service contracts we reviewed, 69 (90 percent) valued at $11 million were sole-source procurements. Although many sole-source contracts with firms that provide Argonne with resident consultants were awarded because the firms provided an ostensibly unique service, in several cases the skills and educational background of the professionals made sole-source procurements appear to be unwarranted. For example:

--All 13 contracts with one intermediary firm were noncompetitively awarded. Although the justification for some contracts stated the firm would be used to "provide a technical talent pool consisting of highly qualified individuals in various scientific and engineering disciplines," some professionals had just graduated from college and had little or no experience.

--In another case, a professional had just received his undergraduate degree in geology when he was enlisted by Argonne to be a resident consultant. His only prior work experience was a temporary position at Argonne while a student.

In another instance a noncompetitive award in the amount of $215,000 was made despite the advice of Argonne's attorney who found the sole-source justification "weak and nonconvincing."

Our review of the sole-source justification for 24 contracts and 10 work orders at Argonne revealed inadequate reasons in 22 of the cases. For example, a justification that states "demonstrated expertise" and "the quality of work performed under previous basic operating agreements" does not, in our opinion, demonstrate sufficient need to award contracts noncompetitively.

In April 1982, during our review, the Chicago Operations Office reported that Argonne procurement management continues to approve noncompetitive awards based on inadequate justifications

such as that a vendor has performed adequately on past procurements, maintains reliable delivery schedules, is experienced in his field, or does "professional work."

At Brookhaven, 6 contracts totaling $914,217, out of the 11 contracts we reviewed, were awarded sole-source without adequate justification. Lab procurement officials did not evaluate the DOE program officials' justifications for sole-source award. In our opinion, the justifications were not valid. For example:

--One contract was awarded sole-source because the contractor "possesses an excellent mix of geological and engineering sciences experience tailored specifically to the project needs."

--Another award was based on a 400-word narrative which justified the sole-source award based on the contractor's past experience doing similar work for DOE, and his proximity to Washington, D.C.

In the first case, a DOE program official admitted that this contractor was not the only source that could do the work. He said the contractor was chosen because the work was needed promptly. In the second case, the DOE program official who directed the procurement said Brookhaven awarded the contract for administrative convenience, because the award would take too long if he went through headquarters. However, Brookhaven's technical representative who was responsible for monitoring the contract believed it was too expensive and others could have done the work for less.

Use of subcontractors to hire employees

We also found that Argonne hires professionals through intermediary firms for extended periods as a way to circumvent employment ceilings and qualification requirements and to avoid laboratory overhead. This practice results in unnecessary cost to the Government because Argonne pays these firms overhead and profit rates of 51 to 184 percent in addition to the consultants' salaries.

Argonne has a number of contracts with firms to hire consultants to work full time, side by side with Argonne employees doing the same kind of work. Many of these resident consultants had worked at the laboratory as student associates and were later referred to the consulting firm so that they could be employed as resident consultants.

We were informed that some resident consultants were indirectly hired because of laboratory employment ceilings or qualification requirements. Furthermore, a number of program divisions at Argonne hired resident consultants instead of full-time employees

to avoid their share of laboratory overhead. Below are some examples of the use of subcontractors to hire employees:

--We found that six former and current resident consultants had been initially recruited by Argonne and subsequently referred to one intermediary firm so that Argonne could obtain their services under contract rather than hiring them directly. Although these individuals earned a salary comparable to that of their Argonne employee counterparts, the laboratory pays an additional 70 percent to cover the intermediary firm's overhead and profit markup.

--Because of a hiring freeze, a technical division referred a chemist to an intermediary firm after he had applied for direct employment with the laboratory. Argonne paid the firm a 53-percent markup in addition to the chemist's wages during the period he was employed.

We interviewed 10 current or former resident consultants to determine the nature of their involvement at Argonne. Their employment as resident consultants averaged over 26 months. One resident consultant was employed for over 4 years. Seven of the 10 professionals stated that Argonne officials referred them to the firms for indirect employment at the laboratory, and 6 of them had participated in Argonne's student program while in college.

We identified seven resident consultants who later became Argonne employees. In comparing these individuals' hourly earnings and fringe benefit cost as Argonne employees with their cost as resident consultants, we estimate that, except for one case, Argonne paid between 2.2 and 66.4 percent more by employing them as resident consultants than it would have by hiring them directly as employees, as shown below.

Comparison of Hourly Costs

Resident consultant	Intermediary firm	Argonne employee	Difference	
			Hourly amount	Percentage
A	$ 13.86	$ 14.25	$(0.39)	(2.7)
B	34.86	20.95	13.91	66.4
C	28.65	17.23	11.42	66.3
D	17.01	15.17	1.84	12.1
E	15.10	14.77	0.33	2.2
F	12.31	10.49	1.82	17.3
G	26.19	17.03	9.16	53.8

The increased long term cost of using firms to indirectly employ professionals is substantial. For example, Argonne paid a firm $62,900 for the services of a resident consultant during the 12 months prior to the time he became an Argonne employee. However, the same individual, doing the same job, now earns only $31,740 annually as an Argonne employee. Even after accounting for fringe benefits, Argonne still could have saved over $19,000

annually by directly obtaining the individual's services as a regular employee. We estimate that Argonne incurred over $230,000 in unnecessary costs from June 1977 to March 1982 by indirectly employing 58 resident consultants from two of the firms included in our review. We also noted that one Argonne division had been billed $7.2 million since 1977 by intermediary firms, of which $4 million covered the firms' overhead and profit markups. We were unable to determine the added costs of this arrangement but we believe they could be substantial.

We also found that Argonne contracts with temporary help agencies in the Washington, D.C., area to provide professionals whom, in some cases, Argonne originally recruited. The laboratory pays these agencies overhead and fees as high as 50 percent in addition to professionals' hourly rates. We estimate that Argonne could have saved $45,543 between July 1980 and January 1982 by directly contracting with the professionals instead of using temporary help agencies.

Retroactive execution of contracts

Management controls over the procurement of services from consulting firms are further weakened when contractual agreements are executed retroactively. This practice facilitates abuse because the requisitioner may have authorized work without involving the laboratory's procurement experts, thus avoiding the accompanying procedural safeguards, such as competition of sources, determination of contractor responsibility, and price/cost analyses.

Nevertheless, our review of 37 contracts with corporate providers of professional services disclosed that 57 percent were not executed until approximately 1 month or more after the work had already started. For example, one consulting firm incurred over $53,000 in charges by beginning work over 5 months before the contract was executed.

Inadequate controls over payment for services

During our review of controls over approving payments for consulting services, we found indications of weaknesses at a number of laboratories. For example:

--In 8 of the 10 cases we reviewed at Argonne, approving officials were not in a position to reasonably attest that the services were provided. One approving official had not met the consultant and only briefly talked with him over the telephone two or three times. The contractor never provided the laboratory with his work products, yet the official approved $19,200 in fees without knowing if the claim was correct. We discovered that this consultant was working for another Government agency during some of the same hours he claimed he was working on this contract.

--At Oak Ridge, an employee required to monitor a $510,489 subcontract had never spoken with a representative of the subcontractor and received only a few complimentary copies of progress reports. Yet, he was required to certify that the work was done under the terms of the contract.

--At Brookhaven, the authorized representative for a consultant contract, which was directed by DOE, performed basically clerical functions and had no technical responsibilities. According to the authorized representative, she had not seen the consultant's work, nor met him. Although she had occasional telephone conversations with him, she had no technical involvement in his work. She also questioned whether Brookhaven should be involved at all on the contract. According to her supervisor, DOE used Brookhaven only to award the contract. Although the representative had not seen any work or reports from the consultant, she certified that the work was performed and authorized payments to be made to him.

Questionable hiring of former employees to provide professional services

At two laboratories, we noted potential problems concerning the hiring of former employees as consultants. While this situation does not in itself represent a conflict of interest, it does raise a question as to the degree of influence, if any, used by former employees in obtaining contracts. Oak Ridge, for example, had contracts with 144 individuals to provide consulting services. Of these, 39 (27 percent) were former employees of the laboratory.

In a number of cases, the former employees were given consulting contracts the day after they terminated employment with the laboratory. Frequently, these contracts were extended for long periods of time. For example, in one case, prior to an employee's retirement, the division director signed a request to employ this person as a consultant on projects which the retiring employee had proposed. The consultant subcontract was renewed for 3 successive years. Over the 4-year period, this former employee was paid $57,342.

While Argonne does not keep records on former employees who work as either individual consultants or for corporate contractors, we identified 31 former employees who worked as consultants during fiscal 1981 and were paid $170,000. We found the following examples of questionable practices:

--A laboratory engineer received a $33,900 bonus as an incentive to participate in a special early retirement program. Although Argonne justified the special retirement program as a basis for terminating "older, less productive employees whose services have become less important," this retiree

was 1 year later awarded a noncompetitive contract for mechanical design work. According to the retiree's supervisor, the individual is now doing exactly the same work on a part-time basis for $175 a day as he did as a laboratory employee.

--Argonne acquired the services of a former employee through an engineering firm less than 2 months after she left the laboratory. She worked as an administrative assistant in Washington, D.C., in a position previously held by an Argonne staff member. Under this new arrangement the former employee was paid at almost twice her former salary. Because the laboratory was also paying the firm indirect charges of 147 percent, Argonne's annual cost for using this former employee increased from $11,440 to $48,512. She was later rehired as an employee by the laboratory.

--Argonne awarded a noncompetitive $1.6 million contract to a consulting firm whose president was a former employee. The contract was used to indirectly hire professionals to work at the laboratory. Although Argonne officials referred most of the professionals hired by the firm, the laboratory paid the firm a 70 percent markup in addition to the salary of the firm's employees used on the contract. According to the firm's president, he suggested to Argonne that the laboratory use his firm to indirectly employ professionals.

To prevent "revolving door" abuses, Office of Management and Budget Circular A-120 directs agencies not to give former Government employees preference when hiring consultants. The circular also states that consulting services will normally be obtained only on an intermittent or temporary basis; repeated or extended arrangements are not to be entered into except under extraordinary circumstances.

DOE OVERSIGHT OF LABORATORY PROCUREMENT FUNCTIONS

DOE conducts periodic evaluations of contractors' overall procurement systems. Based on those evaluations, DOE approves or disapproves systems and determines how much independent subcontracting authority contractors should have. Generally, this review is performed at least every 2 years at each of DOE's major contractors, but review intervals may be extended if DOE determines that it can adequately monitor sensitive areas of a contractor's system. In between procurement systems reviews, DOE field offices are supposed to periodically conduct similar but less comprehensive surveillance reviews. These reviews vary in frequency and scope among the various contractors but are designed to ensure that the procurement systems continue to operate as approved.

In addition, DOE's oversight operations include the advance review and approval of larger value subcontracts. At Sandia and

Argonne, for instance, DOE reviews before award all cost-type subcontracts over $500,000 and all fixed-price subcontracts over $1 million.

Our April 1982 report pointed out that DOE procurement oversight of on-site operating contracts was sometimes shallow in scope or was not always performed. For example, at Sandia, DOE had conducted only one scheduled surveillance review since February 1979--the date of the last systems review. It was done in October 1980, but because of the DOE staff's heavy workload the report was never published. A similar situation existed at Argonne where surveillance reviews have diminished in frequency and have not been formally structured or reported. In addition, the threshold for advance review and approval of laboratory subcontracts required that DOE review only a relatively small portion of laboratory procurements. For example, at Sandia only 39 procurement actions in fiscal 1980 (out of 3,117 original contract actions) were subject to this evaluation.

During our review of Argonne's procurement of professional services, we noted that DOE's advance review and approval procedures were not effective in detecting the problems we found. Most of the contracts for professional services were excluded from DOE advance review and approval because they did not meet the established thresholds.

CONCLUSIONS

Weak controls at some of the laboratories over the procurement of professional services resulted in wasteful practices and heightened the likelihood of fraud and abuse. DOE contributed to procurement weaknesses by directing the laboratories to procure certain services, thus bypassing established procedures. Moreover, DOE's oversight of the operating contractors' procurement practices could be improved.

The improper use of firms to provide professionals at Argonne was largely caused by inappropriately relying on the technical divisions to decide on how best to obtain professional services. We believe the technical divisions do not have the expertise or the objectivity to make decisions on how to best procure services.

Some laboratories also permitted sole-source procurements despite inadequate justifications from the technical divisions. Likewise, the procurement personnel tolerated ineffective contracting practices, such as an excessive number of contracts that were signed after the work had started, even though this condition indicated that the procurement function of selecting vendors and negotiating contracts was being circumvented.

RECOMMENDATIONS

We recommend that the Secretary of Energy:

--Ensure that the practice by DOE personnel of directing operating contractors to make procurements, which results in the circumventing of Federal procurement regulations, is eliminated.

--Establish clear, minimum procurement requirements to be used by operating contractors in meeting the intent of Federal procurement regulations, such as specific criteria for (1) sole-source procurements, (2) using subcontracts for professional services, (3) approving payments for work done by subcontractors, and (4) hiring former employees as consultants. Also, these criteria should clearly prohibit situations where subcontractors start work prior to the execution of contracts.

--Require the operations offices to more closely monitor operating contractors' procurements by (1) improving the effectiveness of the systems reviews and (2) lowering the monetary threshold for the advance review and approval of professional services enough to include a significant number of those contracts.

CHAPTER 3

WEAK CONTROLS OVER PROPERTY, PAYROLL, AND FOREIGN TRAVEL AT GOCOs

Our review disclosed that controls at Government-owned, contractor-operated facilities are weak in some areas of property management, payroll, and foreign travel. In our opinion, laboratory management has not adequately emphasized control in these areas and DOE oversight has not been fully effective.

NEED FOR IMPROVED CONTROLS OVER PROPERTY

Generally, we found that all labs had established property management systems. However, some laboratories were not following DOE property management regulations and had weaknesses which, if left uncorrected, could make Government property unnecessarily vulnerable to theft, waste, and misuse. These weaknesses included ineffective inventory practices and inadequate policies and procedures for ensuring that all property items are marked and properly controlled.

DOE has developed property management regulations for various types of property, including movable capital equipment and sensitive items. A sensitive item is defined as personal property that is susceptible to theft because it is attractive for personal use or can be readily sold. Sensitive items include such things as calculators, cameras, projectors, televisions, and typewriters. According to these regulations, sensitive Government property must be specially marked, secured, and physically inventoried at least once a year.

Ineffective inventories

Four of the labs had weak procedures for inventorying capital and sensitive equipment. We found that inventories were not done properly and that inventory cycles did not conform to DOE regulations.

Separation of duties is an important internal control principle. At some labs this principle was not followed; the custodians of property items were responsible for conducting the inventories. Without separation of duties, the potential exists for a person to convert property to personal use and conceal this action. Therefore, an independent reviewer should conduct the inventory in order to prevent improper actions.

The results of our samples show what can happen when inventories are not performed independently of those responsible for the equipment. At Fermi and Argonne, for example, custodians could not locate many sensitive items that were charged to them. At Argonne, 20 out of 230 items in our sample could not be found

even though custodians had "verified" their existence a month earlier. Fermi custodians also could not find 29 of 204 items in our sample. The missing items included cameras, projectors, tape recorders, and typewriters.

The results of a Sandia inventory conducted by independent parties also demonstrated the effect of allowing equipment custodians to inventory items for which they are responsible. A fiscal 1981 wall-to-wall physical inventory conducted by an independent group showed shortages of $1.97 million, and 4,536 overages totaling $3.07 million.

Furthermore, at Oak Ridge and Brookhaven the inventory cycles of capital and sensitive items did not meet DOE inventory requirements. Five-year inventory cycles for capital equipment used by Oak Ridge were significantly longer than the 2-year intervals prescribed in DOE regulations and, in our opinion, too long to effectively serve the basic purposes of physical inventories. Both the contractor and DOE officials told us that a waiver had been granted in 1959 permitting the longer inventory cycles at Oak Ridge.

Also, neither Oak Ridge nor Brookhaven had complied with the requirement to conduct annual inventories of sensitive items. Instead, both inventoried sensitive items every 2 years. While our review was ongoing, Brookhaven implemented new procedures which included an annual inventory of sensitive items.

Inadequate policies and procedures for ensuring that items are marked and properly controlled

At several labs, we found that many items were not adequately controlled because some labs did not (1) control sensitive items despite their susceptibility to theft, (2) properly identify and tag items, (3) adequately account for items, and (4) document property movements or transfers. These problems, in conjunction with inadequate inventory procedures, resulted in excess and unserviceable items in inventory and increased the opportunity for theft of Government property.

DOE regulations require the labs to identify and tag equipment upon receipt and keep accurate and reliable records of the location and of the persons accountable. Additionally, sensitive or theft-prone items should be specially classified and controlled.

Regarding the labs' policies for controlling sensitive or theft-prone items, we found that two labs excluded items costing $500 or more from sensitive property controls despite their theft-prone nature. These items might, in fact, be more susceptible to theft because of their greater value. As a result, a significant amount of the Government's investment in property does not receive the degree of control necessary to prevent misuse and theft. For example, at the Argonne lab almost $2.1 million worth of electric

typewriters, cameras, movie projectors, and transcribers were not controlled as sensitive items, despite the fact that electric typewriters are frequently reported as stolen at Argonne.

The second lab, Brookhaven, had over 2,000 items costing over $500, with a total value of $3.7 million, which were not controlled as sensitive. These items included 315 electronic calculators valued at almost $900,000, 750 electric typewriters valued at $500,000, 88 tape recorders valued at over $450,000, and 47 special purpose cameras valued at $227,000. As a result of our review, Brookhaven agreed to control these items as required by DOE regulations.

Concerning the proper identification and tagging of sensitive items, we found that at four labs all theft-prone items were not properly tagged so that they could be readily identified in the inventory. For example, Fermi did not identify or attach numbered tags to sensitive items costing less than $300, making positive identification during inventories very difficult. Of the 204 items we sampled at Fermi, 138 did not have the required markings. These items included cameras, slide projectors, and tape recorders.

At Brookhaven we found that responsibility for tagging sensitive equipment is assigned to division property representatives or custodians who are responsible for the items, and some items are issued for use without being tagged. During our physical inventory test within one department, we noted that five pieces of equipment were not tagged.

At Argonne, some custodians had in their possession sensitive items which were not marked or listed as sensitive property. In one department, for example, we located four cameras, two overhead projectors, three carousel projectors, and three tape recorders which were not marked as Government property or as sensitive items.

We found that three labs were not properly accounting for sensitive items. Property custodians responsible for items could not adequately control them because individuals moved them to different locations without informing the custodians. At Fermi, for example, we found several sensitive items in locations other than those recorded in the custodian's records.

--One word processor, valued at $9,785, was in the home of an employee authorized to do laboratory work at home.

--An electric typewriter was moved to another floor and should have become the responsibility of a different custodian.

--After a long search, an expensive electric typewriter was found unused in the basement of a building other than the one the records indicated.

The problem of control over transfers of sensitive items also existed at Brookhaven. For example, we found that:

--Changes were not posted to property records when property was moved from one building to another. Ten of the 24 items we inventoried as part of our test had an incorrect property location listed.

--Equipment assigned to one department was loaned to other departments without obtaining paperwork transactions. One property representative stated that two items of equipment valued at $700,000 and $8,000 were loaned to other departments without the required paperwork.

--Compliance with laboratory guidelines concerning use of a property pass to control equipment taken home by individuals was rare. One property representative stated that many department personnel take property (such as calculators and cameras) home and rarely use a property pass.

--The internal controls at one department were not established to ensure that the property representative was notified as individuals transferred or retired. During our inventory we went to three different buildings before learning that the individual assigned the equipment had retired and the item had been reissued.

The results of Brookhaven's latest inventory demonstrated that inadequate control over the location of property is a serious problem. Consequently, extensive efforts are needed to reconcile property records with property on hand. At the close of the 1980/1981 physical inventory in March 1981, Brookhaven was unable to locate about 4,400 items valued at $28 million, representing about 20 percent of its inventory. As of April 1982, after a search lasting more than a year, inventory items worth $4 million were still missing.

During our efforts to verify the accuracy of property records for sensitive items, we noted that two labs had many items that were seldom or never used. Furthermore, these items were not declared excess so that others could use them, thereby perhaps reducing the need for some future purchases. For example:

--One Argonne custodian had seven calculators that he said he intended to declare excess.

--The lab's motion picture unit had a usable movie camera that an official said was going to be declared excess.

--An Argonne scientist had a camera costing $359 that he said was used once or twice a year to take a high-quality picture. Yet, the laboratory maintains a staff of professional photographers to meet the needs of the scientific divisions.

--One custodian had 20 calculators assigned that were held by various employees in his department. Few were in actual use.

Because of the existing internal control weaknesses, the large amounts of property that go unlocated during inventories, and the security weaknesses at some labs, we believe losses through theft and diversion of Government property at GOCOs could be substantial. Weak internal controls not only make property vulnerable to theft and misuse, but also make these activities difficult to detect.

DOE has pointed out that Government property is unnecessarily vulnerable to theft at several laboratories. In a 1980 report, the DOE Chicago Operations Office's safeguard and security division stated that Brookhaven's increasing theft problem could be the result of an inadequate property protection program. According to this report, Brookhaven continued to adhere to an open-site concept of unrestricted access to the installation in spite of mounting evidence of a substantial problem of theft of Government-owned property. In addition, this same office's latest reports on Argonne and Fermi indicated concern over the high theft rates at those laboratories. Its report on Fermi commented on the lab's open-site concept which permits public access to the entire facility, including administrative offices and warehouses, where quantities of valuable Government property are highly vulnerable to theft. In addition, our observations of gate check procedures at the Oak Ridge lab showed that inspections for Government property were not being made at the frequency recorded by the guards.

WEAKNESSES IN PAYROLL-RELATED AREAS

Our assessment of payroll-related activities at GOCOs showed the following internal control weaknesses:

--Time and attendance practices not adequate.

--Controls not adequate over tuition reimbursements.

--DOE approval not obtained for salary increases.

--Safeguards weak over negotiable instruments such as payroll checks.

The weaknesses have resulted in abuses at some labs, such as leave usage not always being reported and charged and Government reimbursements being made for courses that do not appear relevant to employees' duties at laboratories. In addition, control weaknesses of this nature, if not corrected, could lead to significant waste or misuse of Federal funds.

Lab time and attendance practices

Several labs (Argonne, Brookhaven, and Fermi) have inadequate time and attendance procedures for their scientific staffs; DOE has not provided sufficient guidance to labs regarding such procedures. We found that, in contrast to Federal standards, professional staff members and their supervisors are not required to certify time worked before paychecks are processed. Consequently, 52 percent of

Argonne's and 38 percent of Fermi's work force are not required to formally submit time and attendance reports. In addition, some employees are not required to charge leave for absences of up to 4 hours at one lab and 2 hours at another.

Lenient time and attendance procedures can result in abuses such as

--not charging leave when employees are absent and

--not detecting unauthorized absences.

Our review of foreign travel at Argonne showed that in 7 of the 32 cases selected for review, staff members used vacation leave in conjunction with foreign travel without properly charging it.

Inadequate controls over tuition reimbursements

At three labs, we found that the policies and procedures governing the reimbursement of costs to employees for outside education are so unclear that Government funds were used to pay for courses that were not job related. For example:

--At Argonne, between October 1978 and March 1982, five employees were reimbursed for 77 law courses at a cost of $28,410. Four of the five employees are pursuing their law degrees. However, none appears to need a legal background for the current job: three are engineers, one a personnel specialist, and the other a management information specialist. According to Argonne's Chief Counsel, the legal department has never employed an individual who received a law degree through the lab's tuition reimbursement program nor is it likely to, since it would prefer someone with legal experience.

--Also at Argonne, a clerk was fully reimbursed for courses she took to obtain a degree in court reporting. The cost of these courses was $4,037. Shortly after getting her degree, she quit her job at Argonne to take a job as a court reporter.

DOE approval not obtained for salary increases

At one facility, the Hanford Engineering Development Laboratory, we found that, contrary to DOE regulations, the contractor failed to obtain necessary DOE approval for all executive salaries exceeding $40,000 annually. An operations office report in 1981 noted that 38 employees had received salaries in excess of DOE-approved rates. The amount of the overpayments totaled over $76,000. The report also noted the lack of required DOE approvals

in a review of 1979 and 1980 salary levels. The report cited poor internal controls and inadequate procedures as reasons for these overpayments and recommended that the contractor reimburse the Government. DOE subsequently approved the salaries retroactively and informed the contractor that future overpayments would not be reimbursed.

Inadequate safeguards over negotiable instruments

At two laboratories, controls over negotiable instruments need to be strengthened. For example, at Oak Ridge we found that blank checks were physically transferred from one division to another without any concurrent transfer of accountability or adequate verification of the numbers of checks being transferred. At times, blank checks were left unattended and accessible to a large number of people. Also, an employee who had possession of check signature plates also had access to blank check stocks. As a result of these weaknesses, checks could be lost or stolen and the discrepancy might not be detected for a long time. Officials at this laboratory took action to correct the weaknesses prior to the completion of our review.

In addition, at Argonne we observed that signed payroll checks were not always adequately controlled and protected prior to being distributed. On two occasions we observed that undistributed paychecks were left unattended in an unlocked safe within an unlocked office. We also observed weaknesses in controls over blank checks at this location. During the day, open boxes of blank checks were left in an open vault room. These checks are especially vulnerable to theft at lunchtime when few people are present. Although the checks are prenumbered and daily records of checks are maintained, theft of checks from the bottom of an opened box might not be discovered for several days.

CONTRACTORS' FOREIGN TRAVEL NOT EFFECTIVELY CONTROLLED

DOE does not effectively oversee the foreign travel of GOCO employees. While foreign travel is necessary to fulfill GOCO programs and commitments, questionable travel practices occur because travel regulations are not consistently applied and foreign travel activities are not carefully monitored by DOE. This increases the opportunity for waste and abuse of DOE contract funds spent for foreign travel. Argonne alone spent almost one-half million dollars on foreign travel in fiscal 1981.

DOE has decentralized control over foreign travel. Offices apply the travel regulations differently even though DOE has one standard set of regulations. Also, DOE does not effectively monitor foreign travel at GOCOs. We found a number of weaknesses, including delayed trip reports; excessive use of vacation leave; and no accounting for payment of travel expenses, salaries, and fees to GOCO employees by foreign governments.

Although DOE requires a trip report within 30 days in order for DOE officials to monitor contractors' work, we found that during fiscal 1981, 54 of 92 Argonne and Fermi lab employees submitted trip reports from 2 to 274 days after the required 30-day period. In addition, 12 Fermi employees, or about 14 percent, had not submitted any trip reports. According to DOE foreign travel regulations, trip reports are DOE's principal mechanism for disseminating information about international energy issues and provide a basis for evaluating and monitoring foreign travel benefits.

We also found that many contractor employees use excessive amounts of personal leave while on foreign trips. To control the appearance of impropriety, DOE regulations state that the number of personal days should not exceed the number of business days. We found numerous examples where this regulation was not adhered to. One Argonne employee took 20 days of personal leave for traveling in Europe in conjunction with 8 days' attendance at a conference in Germany. Another employee received approval for 23 days of vacation after attending a 3-day symposium in Germany. Two Sandia employees each took 19 days leave in Europe while conducting business which lasted from 4 to 6 days.

Loose controls over employees who receive travel payments or reimbursements from foreign hosts can create opportunities for dual compensation. During fiscal 1981, foreign hosts fully paid or reimbursed the travel costs of 56 Argonne contractor employees who took about 19 percent of the foreign trips that year. In addition, some of these employees, while on the DOE payroll, received salaries and fees directly from their hosts which they did not report. In some cases, these fees were intended to cover meals and incidental expenses. While DOE requires its own employees to account for such amounts, it has no policy to prevent dual compensation of contractor employees in these situations.

CONCLUSIONS

Internal controls should act as a deterrent to fraud, waste, and abuse. Consequently, management has a responsibility to ensure that controls are in place and working as planned. However, we found property management weaknesses at several labs, including inadequate inventory practices and ineffective procedures for marking and controlling personal property items. Further, we found indications of excess or unneeded items on hand at two laboratories. In payroll-related areas, we found lenient time and attendance practices, inadequate control over reimbursement for outside education, inadequate safeguards over negotiable instruments, and a failure, at one laboratory, to obtain DOE's approval as required for salaries paid over a specified amount. We also found some weaknesses in the control of foreign travel resulting from inconsistent implementation of DOE foreign travel regulations and inadequate DOE oversight.

RECOMMENDATIONS

We recommend that the Secretary of Energy require the operating contractors to:

--Establish and implement appropriate property management controls that will ensure that contractors

- adhere to DOE inventory intervals, specifically 2-year cycles for capital equipment and a 1-year cycle for sensitive or theft-prone items;
- provide for segregation of duties between the custodial and inventory functions, that is, individuals having custody of property should not be responsible for taking inventory of that property;
- maintain accountability over property by classifying theft-prone items over $500 as sensitive items, identifying and tagging theft-prone items, and documenting property transfers; and
- adequately protect theft-prone property by improving security procedures.

--Improve controls in the payroll-related area to

- require time and attendance reports that are certified for accuracy by both employees and immediate supervisors;
- require leave to be charged for absences that exceed a reasonable period of time, similar to requirements for Federal employees;
- establish appropriate criteria to ensure that tuition is reimbursed only for course work directly related to an employee's job; and
- ensure that negotiable instruments are properly safeguarded by improving controls over blank checks, check signature plates, and payroll checks.

We further recommend that the Secretary of Energy:

--Ensure that all DOE divisions and operating contractors adhere to the reporting requirements and travel policies set forth in DOE's foreign travel regulations including requiring that operating contractor employees report fees, travel and expense reimbursements received from foreign hosts.

--Require the operations offices to oversee the implementation of the above recommendations by operating contractors

CHAPTER 4

INADEQUATE CONTROLS OVER PROPERTY AND PROCUREMENT AT DOE ENERGY TECHNOLOGY CENTERS

We reviewed four of the five DOE energy technology centers and found numerous weaknesses in various aspects of their operations. The major internal control weaknesses were in the areas of personal property management, procurement of goods and services costing less than $10,000, and payments for goods and services received. In our opinion, these problems will not be corrected until management adequately emphasizes them at all levels in DOE. We have noted that corrective action is now being taken in a number of areas and believe that management must make a firm commitment to implement effective controls in order to adequately protect Federal funds and assets.

CONTROL WEAKNESSES OVER PERSONAL PROPERTY

DOE's energy technology centers have generally not provided adquate control of Government property. We found that

--inventory procedures are ineffective,

--property control records are inaccurate,

--thefts and missing property are not always reported and investigated, and

--controls over Government property held by contractors are inadequate.

These weaknesses make Government property susceptible to theft and waste.

GAO's Policy and Procedures Manual for Guidance of Federal Agencies (2 GAO 12.5) states that agencies should manage property procured with Federal funds properly, efficiently, and effectively. Internal controls over property are an integral part of good management and help ensure that property is safeguarded and used only for its intended purposes. It requires that equipment be (1) promptly entered into inventory records upon receipt and promptly removed from those records upon disposal, (2) given individual identification numbers for easy and quick identification, and (3) periodically inventoried. Those responsible for physical inventories need to investigate missing items to ascertain the reasons for their loss and take actions necessary to prevent similar losses in the future. Property records should be adjusted to conform to the results of the physical inventories, which should be conducted by persons other than those responsible for the property or its procurement.

Inventory procedures are ineffective

We found a number of weaknesses in inventory procedures at the ETCs. Inventories are not conducted frequently enough, often they are not conducted in the proper manner, and they sometimes lack an adequate separation of duties needed to ensure that the results are valid. In addition, significant inventory discrepancies are often not investigated and property records are not properly adjusted based on inventory results.

Three of the four centers we visited were not conducting inventories at the frequency required by DOE regulations. At the fourth center, Pittsburgh, we were told that inventories had been made but officials could not document the results.

Also, we found instances where the inventories taken were not all-inclusive or not accomplished in a manner that would yield valid results. For example:

--Pittsburgh's last inventory of sensitive items was conducted in January 1981 and included only 16 percent of all the sensitive items.

--Bartlesville's inventories were conducted one building at a time in an employee's spare time. The 1980 inventory took 4 months to complete and no provision was made to prevent or track property movement during that time.

At two centers we found that inventory procedures lacked an adequate degree of independence to ensure that the results were valid because inventories were accomplished by asking individuals who were responsible for safeguarding the items whether or not the items were still on hand. For example, during Bartlesville's 1980 precious metal inventory, the property clerk made visual verifications of the metals but did not weigh them or inspect metals being used. The responsible custodian's word as to quantity and usage was accepted. The 1981 inventory consisted only of requiring precious metal custodians to report on changes in the quantities since the previous year; no independent verification was made. In addition, Pittsburgh's precious metal inventory consisted of asking users to submit semiannual reports on the quantities in their possession as well as future needs.

DOE procedures require that all property records be adjusted based on the inventory results and that all significant discrepancies be investigated. At two of the centers, Pittsburgh and Laramie, no documentation of inventories was available for our review. However, at the two centers where documentation was available, efforts to reconcile the results or adjust property records and investigate significant discrepancies either were not made or were not timely. For example:

--At Morgantown, the overages and shortages discovered during the September 1979 inventory were at such variance with what had been expected that no attempt was ever made to reconcile the differences or to adjust the property records.

--At Bartlesville, 58 pieces of capital equipment valued at over $171,000 were discovered to be missing during the 1978 inventory, but the property records were not reconciled and adjusted until April 1981.

Property control records are inaccurate

At all four centers we found that property control records were so inaccurate that their value for use during inventories was highly questionable. Generally, the centers did not ensure that all new property was promptly added to the listing, that all missing property was deleted, and that records were annotated when property was moved or transferred.

The property management procedures at all centers were deficient in that property was not added to inventory records when it was received. For example, at Bartlesville, inventories conducted since 1980 located a total of 298 items of equipment that were not reflected in property records. Our sample of purchases of property showed that 22 of 54 pieces of equipment had not been recorded. In addition, at Laramie, we found numerous theft-prone items (such as a gas-powered grass trimmer, an electric drill, and a jigsaw) that also were not reflected in the property records. At Pittsburgh we found many items in almost every building that had not been recorded, including several video terminals costing almost $4,000 and typewriters valued at over $12,000. In total, we found about 387 capital and sensitive items worth approximately $743,000 which had not been recorded on the property lists. Some of these had been purchased as far back as 1975. Moreover, the only two centers that had documented inventories available for our review did not adjust property records to reflect missing property, causing property records to be in error.

At three centers, information depicting the location of property was often erroneous because records were not updated to reflect movements or transfers. For example, at Pittsburgh 11 of 30 items we sampled were in locations other than those listed in the property records. Similarly, 16 out of 60 items we reviewed at Morgantown had been moved to different locations without the changes being reflected in the property records.

Theft and missing items not always reported

We noted many instances where thefts and missing items were not reported. For example, at Pittsburgh a property management staff member told us that at least 25 instances of theft had not been reported. He explained that during an inventory, after he could not locate many items, he was told they had been stolen. We

noted that reports of thefts had not always been prepared. Moreover, our sample of theft-prone or sensitive items showed that 13 of 50 items were missing but had not been reported. Also, our sample of 30 capital equipment items showed that three items valued at over $20,000 were missing and not reported. At Morgantown, we noted that six goose down sleeping bags and a drill motor were lost, missing, or stolen but had not been reported.

Inadequate control of Government property in the possession of contractors

In addition to the on-site property, the ETCs are also responsible for property that has been purchased by contractors and subcontractors with Government funds. Such property must be accounted for and disposed of by the ETCs at contract closeout. Yet, at the two ETCs where we examined this issue, we found that neither of them had verified the accuracy of the reports of Government-owned property held by their contractors by comparing the reported information with other available documents, such as payment vouchers. Furthermore, neither center had taken prompt action to dispose of that property once a contract was completed, and one center did not enforce the submission of the semiannual reports showing property purchased.

Corrective action taken or planned

During our review we noted that several centers were taking steps to improve property management. For example, Morgantown was implementing a new property management system. The system included written procedures, a wall-to-wall inventory during which each item was labeled with a decal, a reconciliation of inventory results with property records, and training courses on property management. In addition, Pittsburgh has developed additional directives and increased the size of its property management staff, and plans to implement new property management procedures.

WEAKNESSES IN PROCUREMENT OF GOODS AND SERVICES COSTING LESS THAN $10,000

ETCs need adequate internal controls over procurement transactions to ensure that only needed goods and services are purchased at the best possible prices and that they are well controlled after receipt. During our review of the ETCs we found weaknesses in the small purchasing (under $10,000) and payments systems. Goods and services were procured without requisitions, approval procedures were inadequate, and no written procedures existed for small purchases.

Regarding procurement without requisitions, we found several instances at two centers where individual employees were making purchases outside the procurement system. Requisitions were being submitted after the goods and services had been received and sometimes after the vendor's invoice had been presented for payment. For example, at Bartlesville, employees in the operating

divisions rented typewriters directly from a vendor. Upon receipt of the monthly bill, a requisition was completed for payment. The center later purchased this equipment after the vendor notified the center that the monthly charges exceeded the purchase price of the equipment. At Pittsburgh we found that 11 of 124 sample transactions for goods and services were received before the requisitions were approved. Again, employees were purchasing directly from the vendors. One requisitioner told us it was her normal procedure to deal directly with the vendor.

Concerning the inadequate approval procedures, we found at two centers that authority to approve small purchases was vested in too many employees. At one center, supervisory approval of requisitions was not routinely verified. To illustrate, at Laramie, 116 of 169 employees have authority to approve requisitions up to predetermined dollar amounts. At Bartlesville, many employees can purchase goods under blanket purchase agreements from previously qualified local vendors. We found that 57 employees under one agreement and 30 employees under another were authorized to make direct purchases from vendors.

We also found that controls do not adequately ensure that only needed merchandise is purchased. For example, employees who pick up merchandise from local vendors are supposed to submit receipts to a designated individual who certifies that items were needed and received and completes a receiving report, which is transmitted to purchasing for matchup against vendor bills. However, our review of purchases made from three local vendors showed that receipts and receiving reports were not on file for some purchases. We were told that some had been discarded while others had never been received.

We also noted many instances where receipts for purchases were signed by employees who were not authorized to purchase merchandise. In some cases, authorized employees later countersigned the receipts. In addition, the purchasing clerk at Bartlesville told us she does not check for supervisory approvals when processing requisitions. We found that almost one-third of our sample of 74 small purchases had not been approved.

Finally, none of the ETCs had written procedures to adequately describe the small purchasing system. We believe this may be a contributing factor to the poor controls over the ETC's small purchasing systems.

WEAKNESSES IN PAYMENTS FOR GOODS AND SERVICES RECEIVED

At two of the ETCs we found that vouchers prepared for payment of service contracts were being routinely approved for payment by individuals without firsthand knowledge that the service had been performed. For example:

--Our review of 11 service contracts at Morgantown showed that the technical project officer on two of the contracts could not determine if the contractor was fulfilling the terms of the contract because inspection and performance logs were not being kept. The contracts were for janitorial service ($326,000) and waste disposal ($68,000).

--At Pittsburgh, the technical project officer on three of eight service contracts did not know what the contracts required, when the contractors worked, or even what was done when they were on the site.

At two of the centers, we found that controls were not adequate to prevent duplicate payments. For example, at Laramie we found that a duplicate payment had been made when the original copy of a bill of lading was used to support the first payment while a memorandum copy generated a second payment. At Bartlesville, we found that several duplicate payments had been made because initial payments were issued prior to obtaining receiving reports.

CONCLUSIONS

We believe that DOE property at the energy technology centers is unnecessarily susceptible to fraud, waste, and abuse because of poor internal controls. The centers have generally not adequately controlled government property at the sites because they have not (1) followed effective inventory procedures, (2) maintained accurate property control records, and (3) adequately reported and investigated thefts and missing property.

In addition, the centers are not enforcing property reporting requirements by offsite contractors, not verifying the accuracy of these reports, and not taking prompt action to dispose of property acquired by contractors with DOE funds. Therefore, they have little information for determining whether contractors are adequately controlling Government property.

Internal controls over small purchases and payments are not sufficient in that none of the centers we reviewed had complete and adequate written procedures to govern small purchases. Also, two Centers had inadequate purchasing approval authority, and two had ineffective controls to ensure that requisitions were completed and processed before purchases were made.

Also, three centers had weak controls over some payments, resulting in duplicate payments and inadequate assurance that services were actually received before payments were made on service contracts.

A number of the problems we noted have been pointed out from time to time by the Inspector General and various DOE review teams. However, as documented by the results of our review, adequate

corrective action has not been taken in all cases. In our opinion, these problems will not be corrected until management adequately emphasizes them at all levels.

RECOMMENDATIONS

We recommend that the Secretary of Energy:

--Require the development, implementation, and enforcement of an adequate property management system for use by the ETCs which would include procedures for

- Conducting inventories of personal property with strict adherence to established inventory intervals; mandatory reconciliation of inventory results; and detailed instructions as to how inventories should be conducted to ensure an appropriate degree of independence, adequate coverage, and effective methods.

- Updating property control records to ensure their accuracy by promptly adding new property to listings, deleting missing property, and changing property records when items are moved or transferred.

- Promptly reporting thefts and missing items.

--Require the implementation of procedures by the ETCs to effectively control property held by offsite contractors, including establishing methods to verify the accuracy of contractor reports on DOE property, enforce contractor reporting requirements, and account for property when contracts are completed.

--Require the establishment and implementation of written procedures at the ETCs to adequately control small purchases. These procedures should limit the number of individuals who have authority to approve requisitions and ensure that (1) purchases are made only within the small purchasing system and (2) payments for goods and services are made only after it has been verified that they have been delivered according to the terms agreed upon.

CHAPTER 5

AUDIT COVERAGE OF RESEARCH FACILITIES

Although the Government-owned, contractor-operated facilities and energy technology centers represent over 30 percent of DOE's budget, they have received little audit coverage from the Inspector General (IG). Because of limited staff, the Inspector General has chosen to provide only minimal audit coverage of these facilities since coverage is to be provided by auditors assigned to DOE's field operations offices. However, because these auditors report to the managers of the field offices and not to DOE top management, their audit independence is not assured, audit results are not routinely brought to the attention of DOE top management, and in some cases little or no corrective action is taken on audit findings and recommendations.

The Inspector General has not performed a comprehensive audit of any GOCO or ETC. The limited number of audits that have been performed concentrated on selected programs or activities at a specific research facility or a single function at several laboratories. According to IG officials, lack of staff limits audit coverage at GOCOs and ETCs. We noted that only three IG auditors were assigned to cover a 10-State area which included Argonne, Fermi, and Brookhaven laboratories as well as numerous other DOE facilities. In January 1982, 46 audit positions were transferred from DOE field operations offices to the Office of the Inspector General. Prior to that time, the IG had only 12 auditors in the field and approximately 40 in the Washington, D.C., metropolitan area in comparison to the 125 auditors assigned to the field operations offices.

With such limited staff available and the large number of operations office auditors, the IG allocated his scarce resources primarily to other areas. IG officials explained that they funneled their resources into newer programs--such as grants--since the operations office auditors provide coverage of GOCOs.

Our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions" requires that in order to ensure organizational independence, the audit staff should be able to report its findings directly to top management. The auditors most responsible for overseeing GOCOs and ETCs are attached to the field operations offices. These auditors conduct reviews to evaluate contractor performance, but their primary function is to support the operations offices' efforts to administer and manage contractor operations. Since the auditors report to the head of the operations office and not to the Secretary, their audit independence is not assured.

Public Law 95-91 created the Department of Energy and its Inspector General in 1977. The law requires that the IG

> "provide policy direction for auditing and investigative activities relating to the promotion of economy and"

"efficiency in the administration of, or the prevention and detection of fraud or abuse in, programs and operations of the Department * * *."

The Inspector General has a high degree of independence since he is appointed by the President, reports directly to the Secretary or Deputy Secretary, and annually reports to the Congress. However, a weakness in this law, as compared to the act which created the 14 other executive branch agency inspectors general, is that it does not require a centralized audit function but calls upon the IG to "supervise, coordinate and provide policy direction" for the Department's audit program.

In 1979, we recommended that the Department's IG should control the 125 field auditors who report to the managers of field operations offices. 1/ In support of this proposal, the report stated that having auditors report to field offices "does not insure maximum independence in selecting activities for review of operations offices' effectiveness." Further, the report stated that field auditors cannot be independent since the activities they audit are the responsibility of the operations office managers to whom they report.

CONCLUSIONS

The Government-owned, contractor-operated facilities and energy technology centers we visited have received little audit coverage from the Inspector General. Virtually all auditing is done by auditors who report to a field operations office manager or a contractor. These auditors lack the degree of independence required by our "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions." Consequently, findings are are not brought to the attention of DOE top management; there is no comprehensive audit plan and no assurance that corrective action is taken on audit findings and recommendations.

We have long supported incorporating the operations offices' field auditors into the IG staff and centralizing DOE's audit function in the Office of Inspector General. With its present decentralized audit structure, DOE cannot provide adequate independent audit coverage of its research facilities. The transfer of 46 out of 125 field audit positions to the Inspector General during our review will improve the situation. However, in our opinion, all field auditors should report to the Inspector General to ensure adequate, independent audit coverage of these facilities.

RECOMMENDATION

We recommend that the Secretary of Energy transfer all remaining field auditor positions to the Inspector General.

1/"Evaluation of the Department of Energy's Office of Inspector General," EMD-80-29.

CHAPTER 6

GAO EVALUATION OF AGENCY COMMENTS

The Department commented on issues presented in this report in a letter dated October 4, 1982. (See app. III.) While not commenting on the specific recommendations, the Department noted that corrective action is underway in many instances and that this report will help the Department initiate additional corrective actions and complete actions already begun. DOE further stated that the Acting Under Secretary has emphasized the importance of operations office management giving attention to the issues in the report. The Department also indicated it is developing a new, uniform appraisal system to provide more formal evaluations of multiprogram laboratory contractors' performance. With regard to directed procurements, DOE noted that in the future such noncompetitive subcontracts shall be subject to a requirement for a Justification for Noncompetitive Procurement by the terms of a draft order which (1) sets forth procedures for ensuring that noncompetitive awards are adequately justified and (2) states that directed procurements can be accomplished only when operating contractors have technical responsibility and the procurement furthers assigned programmatic responsibilities.

DOE stated that the draft report did not sufficiently recognize its internal control systems which constitute the framework for transactional and process functions of the types of facilities we reviewed. We disagree. We examined the internal control procedures and practices actually being followed by those operating the systems and found that Federal funds and property were unnecessarily subject to fraud, waste, and abuse. In our recommendations, we point out that specific action is needed to strengthen existing systems by (1) establishing sound procedures, (2) actively enforcing their day-to-day implementation, and (3) intensifying oversight to ensure compliance.

Although DOE agreed that our findings regarding procurements by operating contractors did not show good business practices, the Department believed that the draft report did not effectively recognize the difference between procurement standards applicable to operating contractors and those applicable to Federal agencies. On the contrary, DOE regulations state that while Federal procurement regulations are not directly applicable to operating contractors, contractors are required to follow procedures which approximate most aspects of Federal regulations. DOE regulations also state that full and free competition must be accomplished so that reasonable prices can be obtained for goods and services and that procurements must be made in the Government's best interest. It is clear that these standards apply to both Federal agencies and operating contractors.

With regard to directed procurements, DOE indicated that the relatively few instances we noted since the agency took action to

stop the practice demonstrate a 95-percent improvement in this area. However, we point out that we did not try to, and could not, identify all directed procurements because of the problems discussed in chapter 2. Also, these actions took place at just one lab, which was the only location at which we tried to identify directed procurements since the prohibitions went into effect.

DOE also contended that our draft report did not adequately consider the transfer of 46 of 125 field audit positions to the Inspector General in January 1982. We have changed our report to more clearly represent this action. However, we feel strongly that all of the 125 positions should be transferred to the Office of the Inspector General to allow for better independent audit coverage of the Department's research facilities.

APPENDIX I

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
WASHINGTON, D.C. 20510

May 11, 1981

Mr. Milton J. Socolar
Acting Comptroller General
General Accounting Office
441 G. Street, N. W.
Washington, D. C. 20548

Dear Mr. Socolar:

As Chairman of the Senate Permanent Subcommittee on Investigations, I am very concerned about fraud, waste, and abuse in federal government programs and would like to commend the General Accounting Office for its efforts to evaluate and combat these problems. I am particularly concerned about reports of widespread waste at Department of Energy research laboratories and have been informed that the GAO Fraud Prevention Group is in the early stages of assessing the vulnerability of Department of Energy government-owned/contractor-operated research facilities to fraud, waste, and abuse. I understand that work is currently underway at one of these facilities — the Sandia laboratory in Albuquerque, New Mexico. I would like the GAO to broaden this study to include a more representative number of both government-operated and contractor-operated research facilities. At the same time I am hopeful that Subcommittee staff resources can also be focused upon this area.

I would ask that the Subcommittee staff be kept informed of GAO's progress and findings and that GAO's work be completed by October 15, 1981. If there are any questions concerning this request, please contact Howard L. Shapiro, Subcommittee Staff Counsel at 224-3721.

Sincerely,

William V. Roth, Jr.
Chairman

WVR,JR:hsm

United States Senate

COMMITTEE ON
GOVERNMENTAL AFFAIRS
SENATE PERMANENT SUBCOMMITTEE
ON INVESTIGATIONS
WASHINGTON, D.C. 20510

December 18, 1981

Mr. Charles Bowsher
Comptroller General
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

On May 11, 1981, I requested that the GAO review the vulnerability of a number of Department of Energy research facilities to fraud, waste, and abuse, with this review covering both contractor operated and government operated facilities. I have been informed that this review has been completed and that your staff briefed the staff of the Permanent Subcommittee on Investigations on December 11. I have also been advised that your staff has done a thoroughly professional job and has uncovered numerous internal control weaknesses, primarily in the areas of payroll, procurement, and property management, which could lead to fraud, waste and abuse.

I am requesting that GAO conduct follow-up work at the Argonne (Illinois), Fermi (Illinois), and Brookhaven (New York) contractor operated laboratories in an attempt to further develop findings in the aforementioned areas. In particular I would request follow-up to:

--Determine whether certain costs charged to prime contracts, such as foreign travel and the use of consultants, are reasonable;
--Examine the potential or actual abuse of overtime as well as possible payroll abuse due to lack of controls over time and attendance for professional staff;
--Determine whether a lack of sufficient accountability over certain items of property susceptible to being stolen for personal use exists;
--Determine whether persons have been approving payments for services without adequate information that work was performed.

I would also like GAO to do follow-up work at the Pittsburgh, Morgantown, and Bartlesville Energy Technology Centers in the areas of property and inventory accountability, and procurement control abuses.

APPENDIX II

I would like the Subcommittee staff to be kept informed of GAO's progress and GAO's work to be completed by March 31, 1982, with a report to be directed to the Subcommittee. If there are any questions please contact Howard L. Shapiro, Subcommittee Staff Counsel, at 224-3721.

Sincerely,

William V. Roth, Jr.
Chairman

WVR,JR:hsc

APPENDIX III

Department of Energy
Washington, D.C. 20585

October 4, 1982

Mr. Dexter Peach
Energy and Minerals Division
U. S. General Accounting Office
441 G Street, NW.
Washington, DC 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates this opportunity to review and comment on the General Accounting Office's (GAO) draft report, entitled "Internal Control Weaknesses at DOE Research Laboratories." The original and revised Statements of Facts upon which this draft report is predicated also served as the basis for hearings before the Senate Permanent Subcommittee on Investigations on July 27 of this year. We believe that the report has been improved in the interim. We further note that this draft recognizes activity in progress by DOE during the course of the review. The report will assist this Department in initiating additional corrective actions where necessary and completing actions already initiated.

To promote agency benefit from the report and in keeping with the Department's commitment made by Acting Under Secretary Jan W. Mares during the July 27 hearings, he has also emphasized the importance of management's attention to the issues raised by this report and the hearing to the the Department's operations office managers at their scheduled August meeting.

We are concerned, nevertheless, that the draft report does not provide sufficient recognition and focus on the existence of the Department's internal control systems which constitute the framework for the transactional and process functions of the energy technology centers and the management and operating contractors. We consider it to be highly significant that the Comptroller General stated during the hearings this past summer that the Department's internal control systems are basically sound. (See GAO note on page 43.)
Furthermore, DOE has systems currently in place to assess the practices of management and operating contractors as well as DOE offices and personnel. These systems are intended to bring necessary DOE managerial attention to see that identified weaknesses are corrected.

The Department's underlying control system with the management and operating contractors is set out in the specific terms of the contract with DOE which include advance understandings of a contractor's personnel and payroll reimbursement practices.

We conduct periodic reviews at various levels of management, and the operations are monitored frequently. The management and operating contractors have internal audit staffs to monitor compliance. Specific Department of Energy operations offices are assigned responsibility to negotiate and administer individual management and operating contracts. This responsibility includes periodic evaluations of various business practices of the contractors. The Department's energy technology centers are delegated limited procurement authority from designated DOE operations offices and are reviewed periodically by the operations offices. Both the contractors and the energy technology centers are subject to audit by the Inspector General.

Audit findings are evaluated by the Department's Audit Review Council, and implementation is tracked by the DOE Audit Report Tracking System. Vulnerability assessments are made and internal controls are being assessed throughout the Department in the ongoing implementation of Office of Management and Budget (OMB) Circular A-123. The Department's Audit Review Tracking System maintains a close watch over the progress by responsible departmental organizations in implementing the recommendations made by the Inspector General and GAO. The Audit Review Council is a high level management group performing periodic reviews and assuring timely resolution of audit findings.

We are also developing a uniform appraisal system to provide more formal evaluation of the effectiveness of the multiprogram laboratory contractors' performance. The procurement systems of these contractors are periodically evaluated by Contractor Procurement System Review teams made up of Government personnel. Property systems are audited by the responsible DOE operations office. The procurement system of the energy technology centers is reviewed on a biennial basis by the Department's Procurement Management Assistance Review team. Property management reviews are performed by Headquarters staff.

Although the draft report attempts to recognize the difference between the procurement standards applicable to DOE's management and operating contractors and those applicable to DOE as a Federal agency, the distinction is not effectively drawn. As a result, the report criticizes certain of these contractors' practices as not complying with Federal regulations and policies, when, in fact, they are not required to do so, though examples like those cited would not be considered good business practice.

As Acting Under Secretary Jan W. Mares testified during the July 27 hearings, one of the significant goals of the management and operating contracting concept is to enable a "contractor, though maintaining his independent identity, to apply industrial practices and management techniques to serve the needs of major governmental research missions." This allows the Department to take appropriate

advantage of the combination of the skill, experience, and managerial expertise of American industry as well as the research and scientific skills of American universities. The Government personnel responsible for administering the contracts must: 1) assure that the necessary control provisions are included in the contract and 2) administer the contract so as to ensure that the contractor lives up to his responsibilities.

With regard to directed procurements and the effectiveness of the August 1981 letter from the Assistant Secretary, Management and Administration, and the DOE Order, we believe the figures in the report show an improvement of over 95 percent in this area. Although we believe the practice of directed procurement to be effectively controlled, any DOE direction requiring a noncompetitive subcontract shall be subject to a requirement for a Justification for Noncompetitive Procurement by the terms of draft DOE Order 4200.1A.

With regard to the transfer of operations office auditors to the Department's Office of Inspector General, the report does not take into consideration events that had already occurred. As the Inspector General testified before Senator Roth this past summer, "In January of this year, 46 audit positions were transferred from the DOE field offices to the Office of Inspector General, bringing our total staffing to 159 full-time equivalent positions and an operating budget of $8.1 million."

In conclusion, it is appropriate to reiterate the position of this Department as voiced by the Acting Under Secretary during the July 27 hearings that in cases in which "certain specific instances or certain transactions have not been in accord with existing sound management practices and rules, the response need not be the imposition of more rules and regulations on top of existing requirements. Rather, strengthening adherence to the existing standards together with active oversight can be much more effective. This is the course we seek to follow."

Sincerely,

William S. Heffelfinger
Assistant Secretary
Management and Administration

GAO Note from page 41: DOE misinterpreted the Comptroller General's statement. During his testimony, the Comptroller General detailed numerous weaknesses in internal controls and pointed out that basic internal control procedures were not being followed.

(178205)

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