STATEMENT OF FACTS

RESULTING FROM GAO'S AUDIT OF INTERNAL CONTROLS OVER SELECTED FUNCTIONS OF DEPARTMENT OF ENERGY'S RESEARCH LABORATORIES

PERFORMED AT THE REQUEST OF

THE PERMANENT SUBCOMMITTEE

ON INVESTIGATIONS, COMMITTEE ON

GOVERNMENTAL AFFAIRS, UNITED STATES SENATE

Contents

GOVERNMENT-OWNED, CONTRACTOR-OPERATED RESEARCH FACILITIES

During our review at six of DOE's Government-owned, contractor-operated (GOCO) research facilities, we found numerous internal control problems over specific functions. These major problems have been grouped into the following categories:

--inappropriate procurement practices, and

--weak controls over property, payroll related activities, and foreign travel.

INAPPROPRIATE PROCUREMENT PRACTICES

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

DOE directed procurements

DOE has frequently directed operating contractors to procure certain services in order to avoid Federal procurement safeguards. We were told by both DOE and contractor officials that DOE directed procurements were carried out because of the delays in the DOE procurement process and because 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 monies and ensure adherence to Federal procurement policies and procedures. Also, this practice forces the operating contractors to shun their own procurement policies and procedures.

We identified 92 directed procurements of varying types at Argonne with an estimated value of $13.4 million. At one extreme, DOE only directs the specific service to be provided, while in other instances, DOE identifies the subcontractor and specifies the cost, in addition to the specific service. The latter extreme causes the most problems because Argonne is then required 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 that other companies were capable of bidding on the contract. The official also believed that 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 officer felt that 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, we were able to identify 11 directed procurements valued at over $1.1 million. Neither the labs that awarded these contracts, nor DOE program managers who directed the procurements evaluated them to assure that the best price

was obtained or that sole source justifications were valid. Furthermore, while these procurements directly supported DOE headquarter's 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 stated that in directed procurements, the lab does not verify capabilities, check out potential conflicts, nor confirm the validity of the selections.

In a GAO report 1/ issued in April of this year to the Chairman, Senate Committee on Energy and Natural Resources, GAO 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 headquarter's personnel had directed another laboratory to award non-competitive 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 headquarter's support services noting that the practice avoided normal procurement safeguards. Subsequently, DOE issued an order which prohibited these types of contracts. This should improve the situation, but according to DOE Chicago operations officials, DOE can still

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1/"The Subcontracting Practices of Large Department of Energy Contractors Need to be Improved" (EMD-82-35, April 22, 1982)

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 that were pending award in April 1982. 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 direct procurements.

Improper laboratory subcontracting for consultants

During our review, we found a number of practices involving subcontracting for consultants which appear to have led to waste or misuse of Federal funds. These practices involved:

--unwarranted sole source procurements,

--the improper use of subcontractors to hire employees,

--retroactive execution of contractual agreements,

--lax controls over payments for services, and

--questionable hiring of former employees as consultants.

Most of the problems were found at Argonne and Brookhaven since we reviewed subcontracts in detail at these locations at the Subcommittee's request.

Although Federal Procurement Regulations are not directly applicable to the procurement activities of these on-site operating contractors, they are required to follow procedures

which approximate most aspects of the Federal regulations and are intended to ensure full and free competition in order to obtain necessary goods and services at reasonable prices to the extent possible. Also, these procedures must ensure 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, GAO pointed out in the 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, we also discovered a number of weaknesses involving noncompetitive procurements at three laboratories--Oak Ridge, Argonne, and Brookhaven.

At Oak Ridge, for example, $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, are vulnerable to waste and abuse because the specific work required to be performed is not competitively awarded. BOA's are not, in themselves, complete subcontracts, but are in essence prequalifying agreements which 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 holders. The letter release specifies the work to be performed, estimated costs,

and 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, this fact, combined with the fact that all BOA subcontracts are cost plus fixed fee, makes these transcations highly vulnerable.

Furthermore, the vulnerability inherent in sole-source awards is, in our opinion, exacerbated by an absence of separation of duties in the BOA procurement process. We believe the principle of separation of duties requires that procurement specialists make all contacts and conduct all negotiations with potential vendors. Except to resolve technical questions, requisitioners of the services should have no contact with potential vendors until the contracts are consumated.

We found, however, that in awarding BOA letter releases, the purchasing department is often not even aware of the requirement until after the subcontractor has been selected and a technical and cost proposal obtained. The danger of this approach is evidenced by the fact that several requisitioners told us that they informed the firm selected to perform the work of the amount of funds available in Oak Ridge's budget for this work. As might be expected, the firm's proposed costs about equalled 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 prior to the subcontractor submission of his 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 who provide Argonne with resident consultants were justified because the firms obstensibly provided a unique service, in several cases, the skills and educational background of the professionals make sole-source procurements appear to be unwarranted. For example:

--All 13 contracts with one intermediary firm were noncompetitively awarded. Although the justification for some of the contracts stated that 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 justifiation for 24 contracts and 10 work orders at Argonne, revealed inadequate reasons in 22 (71 percent) 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 non-competitively.

In an April 1982 review, the Chicago Operations Office reported that Argonne procurement management continues to approve noncompetitive awards that are not warranted on the basis that a vendor has performed adequately on past procurements, maintains reliable delivery schedules, is experienced in his field, or does "professional work." Moreover, the review noted that this practice violates DOE and Federal regulations.

At Brookhaven 6 of the 11 contracts we reviewed, valued at $914,217, were awarded sole source. Had lab procurement officials evaluted the DOE program officials justifications for sole-source award they would have found, as we did, that 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 on the contractors 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 he needed the work done promptly. In the second case the DOE program official who directed the contract 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 felt it was too expensive and others could have done the work for less.

The use of subcontractors to hire employees

We also found that Argonne hires professionals through intermediary firms for extended periods of time as a way to circumvent employment ceilings, qualification requirements, and to avoid laboratory overhead. This practice results in unnecessary costs to the Government.

Argonne has a number of contracts with consulting firms to hire consultants to work full-time and 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 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. This practice is wasteful in that Argonne pays overhead and profit rates of 51 to 184 percent in addition to the consultants' salaries to these firms. For example:

--We found that six former and current resident consultants had been initially recruited by Argonne and subsequently referred to one intermediary firm so 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. In all but one case, their employment with the intermediary firm was based upon the continuation of work at the laboratory.

Many resident consultants later became Argonne employees. In a comparison of these individuals' hourly earnings and fringe benefit cost as Argonne employees to their cost as resident consultants, we estimate that Argonne paid between 2.2 and 66.3 percent more by employing them as resident consultants rather than hiring them directly as employees as shown below.

Comparison of Hourly Costs

Resident Consultant	Intermediary Firm	Argonne Employee	Difference Hourly Amount	Difference Percentage
A	$ 13.86	$ 14.25	$(0.39)	(2.7)
B	34.86	20.95	13.59	64.9
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 invididual'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 for two of the firms included in our sample. 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 who in some cases Argonne originally recruited. The laboratory pays overhead and fees as high as 50 percent in addition to professionals' hourly rates. We estimate that Argonne could have saved $45,543 betwen July 1980 and January 1982 by directly contracting with the professionals instead of using temporary help agencies.

Retroactive execution of contractual agreements

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. Argonne's policy also discourages the authorization of work prior to the execution of a formal contract except for particular cases when the need is fully justified.

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.

Lax controls over payment for services

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

--In eight of the ten cases we reviewed at Argonne, employees 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 subcontract in excess of $500,000 had never spoken with a representative of the subcontractor and received only a few complementary 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 has not seen the consultant's work, nor met him. Although she had occasional telephone conversations with him, she has 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 as a conduit only to award the contract. Although the representative has not seen any work or reports from the consultant, she certified that the work was performed and she 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 are 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 for the equivalent of 1.26 years of work.

While Argonne does not keep records on employees who work as either individual consultant 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 later awarded a noncompetitive contract for mechancial design work. According to the retiree's supervisor, the individual is now doing exactly the same work 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 employment of 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 an engineering 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, the 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.

WEAK CONTROLS OVER PROPERTY, PAYROLL AND FOREIGN TRAVEL

In addition to inappropriate procurement practices at GOCO's, we found property management weaknesses at several labs. Generally, these problems included 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 several laboratories. In payroll related areas, we found lax time and attendance practices, inadequate control over reimbursement for outside education, inadequate safeguards over negotiable instruments, and a failure, in one instance, 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.

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, as a result, 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 at some labs for assuring

that all property items are marked and properly controlled.

DOE has developed property management regulations for various types of property including moveable capital equipment and sensitive items. Sensitive items are defined as personal property which is susceptible to theft because they are 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

Several 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.

Inventories should be conducted by someone other than the custodians who are responsible and accountable for property entrusted to them. Failure to do so violates the internal control principle of segregation of duties. At several labs the custodians of capital and sensitive items were responsible for conducting the inventories. As a result, they have the potential to convert the property to their own use and conceal the transaction. Therefore, an independent reviewer should conduct the inventory in order to prevent improper transactions from occurring.

The results of our samples show what can happen when the proper degree of independence is lacking. 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 effects of allowing equipment custodians to inventory items for which they have responsibility. A fiscal year 1981 wall-to-wall physical inventory conducted by an independent newly established group, showed that shortages totaled $1.97 million and 4,536 overages totalling $3.07 million.

Furthermore, at two labs--Oakridge 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 two-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, they both inventory sensitive items every two years. While our review was ongoing, Brookhaven implemented new procedures which included an annual inventory of sensitive items.

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

At several of the labs, we found that many items were not adequately controlled because of (1) the policies of some labs not to control sensitive items despite their susceptibility to theft, (2) failure of some labs to properly identify and tag items, (3) failure of some labs to provide adequate accountability over items, and (4) failure to document property movements or transfers. These problems, in conjunction with inadequate inventory procedures, result in excess and unserviceable items in inventory and make theft of Government property more likely.

DOE regulations require the labs to identify and tag equipment upon receipt, appoint property custodians, and keep accurate and reliable records as to the location and accountable persons. 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 sensitive items costing over $500 with a total value of $3.7 million. 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 all theft prone items were not properly tagged at four labs so one can readily identify specific sensitive items in the inventory. For example, Fermi does not identify or attach numbered tags to sensitive items costing less than $300 making positive identification during inventories very difficult. Consequently, 138 of the 204 items we sampled at Fermi 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. According to a property representative, untagged items tend to disappear.

At Argonne, some of the 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.

Regarding the accountability over sensitive items, we found that it was lacking at three labs. Property custodians who had responsibility for items could not adequately control them because individuals moved them to different locations without informing the custodians so they could indicate the transfers in their records. At Fermi, for example, we found several sensitive items that were in different locations than what was recorded in the custodian's records.

--One typewriter, 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 been the responsibility of another custodian.

--After a long search, an expensive electric typewriter was found not being used in the basement of a different building.

This same lack of control over transfers of sensitive items exists at Brookhaven. For example, we found that:

--Changes are not posted to property records when property is moved from one building to another.

To illustrate, 10 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.

--Laboratory guidelines concerning use of a property pass to control equipment taken home by individuals were rarely complied with. One property representative stated that many department personnel take property (calculators, cameras, etc.) home and rarely use a property pass.

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

The results of Brookhaven's latest inventory demonstrate that the lack of 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 their inventory. As of April 1982, after searching more than a year, $4 million of the inventory was 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 others could use them, and 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 useable 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 and one employee asked if we would take one that was never used.

We also were informed of several other seldom used items.

Because of the internal control weaknesses that exist, the large amounts of property that are unlocated during inventories, and the security weaknesses at some labs, we believe that losses through theft and diversion of Government property at GOCO's could be much greater than perceived. 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, DOE's Chicago Operations Office's Safeguard and Security Division felt that Brookhaven's increasing problem with thefts could result from the lack of an adequate 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 internal theft problem of Government-owned property. In addition, this same office's latest reports on Argonne and Fermi indicated concern over the high theft rates at both of these laboratories. Their report on Fermi expressed concern for the lab's open site concept which permits the general public access to the entire facility, including administration 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 activities at GOCO's showed them to be adequate in most respects. However, we did note several internal control weaknesses involving payroll related areas:

--lax time and attendance practices,

--inadequate controls over tuition reimbursements,

--failure to obtain DOE approval for salary increases, and

--inadequate safeguards over negotiable instruments.

The weaknesses have resulted in abuses at some labs such as leave usage not always being reported and charged and the Government paying for courses that do not appear to be relevant to employees' work 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 have very lax and flexible time and attendance procedures for their scientific staffs which could result in abuse because DOE has not provided guidance to labs regarding time and attendance 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. 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. Argonne, Fermi, and Brookhaven

have established very lax and flexible procedures. Consequently, 52 percent of Argonne's and 38 percent of Fermi's workforce are not required to formally submit time and attendance reports.

Lax and flexible time and attendance procedures can result in abuses such as:

--failure to charge leave when employees are absent, and

--failure to detect unauthorized absenses.

Our review of foreign travel at Argonne showed that in 7 of the 32 cases selected for review, staff used vacation leave in conjunction with foreign travel that was not properly charged.

Inadequate controls over tuition reimbursements

At three labs, we found that the lab 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 appear to need a legal background for their current jobs--three are engineers, one a personnel specialist, and the other a management information specialist. Argonne has a legal department and according to its Chief Counsel it has never hired an employee who has received a law degree through its 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.

Failure to obtain DOE approval for salary increases

At 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 been salaries in excess of DOE approved rates. The total amount of the overpayments were $76,000. Other reports in 1979 and 1980 stated that the contractor had also failed to obtain DOE approval in some instances. The reports 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 occurrences would result in disallowance.

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 period of 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, thefts of checks from the bottom of an opened box might not be discovered for several days.

Foreign travel by contractors not effectively controlled

DOE does not effectively oversee the foreign travel of GOCO employees. While foreign travel is necessary to fulfill the GOCO's 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.

The DOE has decentralized control over foreign travel. As a consequence, some offices apply the travel regulations differently even though DOE has one standard regulation. Also, DOE does not effectively monitor foreign travel at GOCO's. We found a number of weaknesses at the two labs where we examined this area including failure to file timely 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, or about 54 percent, submitted trip reports from 2 to 274 days after the required 30 day time period. In addition, 12 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. For example, 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's trip was approved 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.

Also lax 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 travel costs to 56 Argonne 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 failed to 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, DOE has no policy provisions to prevent dual compensation of contractor employees in these situations.

DOE ENERGY TECHNOLOGY CENTERS

We reviewed four of the five DOE Energy Technology Centers (ETC's) and found numerous weaknesses in various apsects 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.

PROPERTY MANAGEMENT WEAKNESSES

DOE's Energy Technology Centers have generally failed to adequately control 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.

Inventory procedures are ineffective

We found significant weaknesses in inventory procedures at the ETC's. 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 assure 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 done but officials could not provide documentation as to the results.

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

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

--Bartlesville's inventories are 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 assure that the results were valid because inventories were accomplished by asking individuals who had responsibility 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 with no independent verification. In addition, Pittsburgh's precious metal inventory consisted of asking each user to submit semi-annual 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 fail to assure that all new property is added to the listing in a timely manner, all missing property is deleted, and that changes are made to records when property is moved or transferred.

Failure to add new property to listings

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. Moreover, our sample of purchases of property showed that 22 of 54 pieces of equipment had not been added to property records. In addition, at Laramie, we found numerous theft-prone items (such as a Toro gas powered grass trimmer, an electric drill, and a jigsaw) that also had not been 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 $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.

Failure to delete missing property

As mentioned in the previous sections, the only two centers that had documentation of inventories available for our review did not adjust property records to reflect missing property, causing property records to be in error.

Failure to change records when property is moved or transferred

At three centers information depicting the location of property was often erroneous because records were not up-dated to reflect movements or transfers. For example, at Pittsburgh 11 out of 80 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.

Thefts and missing items not always reported

We noted many instances where thefts and missing items were not reported. For example, at Pittsburgh we were informed by a property management staff member 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 ETC's are also responsible for property which has been purchased by contractors and subcontractors with Government funds. It must be accounted for and disposed of by the ETC's at contract closeout. Yet, at the two ETC's where we examined this issue, we found that neither of them independently verified that the reports of Government-owned property held by their contractors are accurate. Furthermore, both centers failed to take prompt action to dispose of that property once a contract had been completed, and one center was lax in enforcing the submission of the biannual reports showing property purchased.

Corrective action taken or planned

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

ETC's should have 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 ETC's, we found weaknesses in the small purchasing (under $10,000) and payments systems. These weaknesses consisted of the procurement of goods and services without requisitions, inadequate approval procedures, and the lack of written procedures 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 billing, each machine user submitted a requisition 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. Moreover, at Pittsburgh we found that 11 out 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 the approval authority for small purchases was vested in too many employees and at another center a verification for supervising approval of requisitions was not routinely made. For example, at Laramie, 116 out of 169 employees have authority to approve requisitions up to predetermined dollar amounts. At Bartlesville, many employees can purchase goods under Blanket Purchase Agreements (BPA's) from pre-qualified local vendors. We found that 57 employees under one BPA and 30 employees under another were authorized to make direct purchases from vendors. We also found that controls do not adequately assure that only needed merchandise is purchased. Moreover, the purchasing clerk at Bartlesville told us she does not check for supervisory approvals when processing requisitions. Our sample of transactions showed that about one-third of our sample of 74 small purchases had not been approved.

Finally, none of the ETC's had written procedures to adequately set forth the small purchasing system. We believe that 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 ETC's we found that vouchers prepared for payment of service contracts were being routinely approved for payment by individuals without first-hand 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-site.

AUDIT COVERAGE OF RESEARCH FACILITIES

Although the Government-owned, contractor-operated facilities and energy technology centers represent a significant portion (over 30 percent) of DOE's budget, they have received little audit coverage from the Inspector General. Because of limited staff, the Inspector General has chosen to provide only minimal audit coverage of these facilities since extensive coverage is provided by auditors assigned to DOE's field operations offices. However, because these auditors report to the managers of these 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 one of the GOCO's or ETC's. The limited number of audits that have been performed concentrated on only selected programs or activities at a specific research facility or a single function at several laboratories.

According to top IG officials, the reason for such limited audit effort of GOCO's and ETC's is the lack of staff. Until January 1982, there were only 12 IG auditors in the field and approximately 40 in the Washington, D.C. metropolitan area in comparison to 125 auditors assigned to the field operations offices.

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

The auditors most responsible for the oversight of GOCO's and ETC's 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 Department's secretary, their audit independence is not assured.

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

The IG was finally successful in obtaining a significant increase in the audit staff in January 1982, when the Secretary of Energy authorized the transfer of 46 operations office auditors to the IG.

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