



United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-257581

July 11, 1994

Mr. Donald W. Pearman, Jr.
Acting Associate Deputy Secretary
for Field Management
Department of Energy

Dear Mr. Pearman:

We recently examined the Department of Energy's (DOE) property management activities at its Savannah River Site in South Carolina and Oak Ridge Operations Office in Tennessee. Oak Ridge's principal management and operating contractor is Martin Marietta Energy Systems. One aspect of the work completed at Oak Ridge warrants this correspondence to you concerning Martin Marietta's control over government-owned property in the possession of its subcontractors.¹

In summary, we found that Martin Marietta does not have a system for tracking and accounting for government-owned property in the possession of its subcontractors or a system to ensure that subcontractors have procedures to manage and control government-owned property despite regulations and contract and subcontract provisions requiring Martin Marietta to do so. Although such problems have been cited numerous times in DOE's property and procurement reviews-- dating back to at least 1988--the problems still have not been corrected. Furthermore, DOE's Oak Ridge Operations Office has not ensured that Martin Marietta take corrective actions.

As a result of these continuing weaknesses, Oak Ridge does not know which subcontractors have government-owned property in their possession, what property they have, or what its total value is. In mid-May 1994, Oak Ridge officials

¹We focused our review on the management of what DOE calls "personal property," which the agency defines as property of any kind or interest therein, except real property; federal government records; nuclear and source materials; atomic weapons; and by-product materials.

acknowledged that these problems had remained uncorrected for too long because of a lack of priority attention placed on them but said that corrective actions would be taken.

MARTIN MARIETTA IS RESPONSIBLE
FOR PROPERTY MANAGEMENT

Under DOE's contract, Martin Marietta is responsible for managing government-owned property in the possession of its subcontractors at DOE's Oak Ridge facilities. The contract requires that Martin Marietta maintain and administer a property management system in accordance with sound business practice and with DOE's property management regulations and such directives or instructions that DOE's contracting officer may from time to time prescribe. Under these regulations, Martin Marietta must require its subcontractors to maintain a prescribed system for managing this property. Martin Marietta's contracts with its subcontractors do contain mandatory property management requirements. Martin Marietta and its subcontractors must also comply with provisions of the Federal Acquisition Regulation and the DOE Acquisition Regulation pertaining to property management.

According to property management personnel at Oak Ridge, Martin Marietta should impose the same requirements on subcontractors with large amounts of government-owned property that DOE's Oak Ridge Operations Office imposes on Martin Marietta. For example, the Oak Ridge office requires Martin Marietta to

- have written instructions for managing and controlling subcontractor-held property;
- have contractors submit to Martin Marietta for review and approval property management plans that meet minimum DOE requirements (and any additional requirements of Martin Marietta);
- maintain an itemized list of all government-owned property in its subcontractors' possession, to include the dollar value of such property;
- periodically review the subcontractor's property management systems;
- conduct or require to be conducted physical inventories in accordance with DOE's requirements; and

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-- have a separate section in its subcontract files containing all property-related documents.

DOE'S PAST PROPERTY AND PROCUREMENT
REVIEWS IDENTIFIED MANY PROBLEMS

Numerous past reports by DOE on Martin Marietta's property management and procurement systems have identified problems with the property management system as it involves subcontractors. For example, a February 1988 purchasing system review prepared by the Oak Ridge office cited Martin Marietta's lack of detailed written procedures to be used in evaluating the subcontractors' systems for managing government property. This report also stated that invoices for purchased equipment sometimes did not have property lists attached and that some of the lists furnished were not specific enough to be used for tracking property. The report stated that such conditions made it questionable that a buyer (Martin Marietta's procurement personnel) or an auditor could generate a property list as a check against the subcontractor-submitted inventories during the subcontract or at its completion. The report recommended, among other things, that Martin Marietta (1) explore further methods to better track subcontractor-acquired property, (2) implement a program to better evaluate subcontractors' systems for managing government-owned property, and (3) revise its Procurement Division Operating Manual to reflect the program. Martin Marietta responded to this report by stating that it had drafted new procedures for handling property.

Subsequently, a February 1991 DOE-conducted purchasing system review of Martin Marietta noted that the procedures were still in draft. The review also stated that

"Some of the subcontracts which were reviewed contained very good property sections, some had very weak property sections, and some had no separate property section or folder. Even in the subcontracts which had good property sections, important correspondence pertaining to property was missing or scattered throughout other sections of the folders and not reproduced in the property section. These practices make it very hard to determine from the file the status of government-owned property."

The report recommended, on the basis of the above, that Martin Marietta ensure that subcontracts involving government-owned property contain separate sections or

folders for property. The report went on to list the documents that this section should contain at a minimum, such as a current list of all government-owned property held under the subcontract.

The report also recommended that Martin Marietta explore further methods to better track subcontractor-acquired property and that a program be implemented to better evaluate subcontractors' property management systems. These recommendations, according to the review, "have not been complied with and, currently, the same methods of tracking subcontractor-acquired property are used." This review also recommended that procedures requiring the development of an automated system be finalized and that a subcontract property coordinator be appointed (which Martin Marietta had proposed in its response to the previous review) to better track subcontractor-acquired property and to evaluate subcontractors' property management systems.

The February 1991 review also showed that the Martin Marietta Procurement Division Operating Manual required buyers to (1) review invoices containing subcontractor-acquired property, (2) question all invoices requesting reimbursement for subcontractor-acquired property that did not contain itemized lists of the property purchased, and (3) retain invoices involving subcontractor-acquired property in the subcontract file. The review added that even after the new procedures for tracking subcontractor-acquired property have been implemented, the Martin Marietta buyer must emphasize control over the property during the subcontract period. Of all of the subcontract files that were reviewed, not one contained a list generated by the buyer of the subcontractor-acquired property. Many files contained lists submitted by the subcontractor, but there was no control document to check the subcontractor-submitted lists against. In essence, this practice results in Martin Marietta (and thus the federal government) taking the subcontractor's word for a list of property at various stages throughout the subcontract. The review recommended that Martin Marietta emphasize the buyer's responsibility to generate and maintain a current control list of subcontractor-acquired property with supporting documentation.

In April 1993, the Oak Ridge office completed a follow-up to learn the status of the recommendations. The office found the following:

- The recommendation that subcontract files contain separate sections pertaining to government-owned property had not been fully implemented--some contract files did contain separate sections, and some did not. Therefore, this recommendation was still not considered closed.
- The draft section of the procurement manual had not been finalized; therefore, the recommendation to finalize this manual was also not considered closed.
- Not all files had invoices for property, and none of the invoices had the attached lists of equipment as required by language in the contracts and Martin Marietta's procedures. Thus, the recommendation that buyers maintain current control lists of subcontractor-acquired property along with the supporting documentation was not considered closed.

A fiscal year 1993 review of the personal property management system's operations at Oak Ridge's K-25 site from February 1989 through October 1992 had findings similar to those of the previous reviews. This review noted that Martin Marietta had not implemented a procedure concerning subcontractor-held property as referenced in DOE's property management regulations. This review also recommended that Martin Marietta finalize and implement the draft procedures. Martin Marietta responded to this recommendation in June 1993 by stating that the procedures would be finalized by September 30, 1993.

But according to a November 1993 draft report entitled Contractor Personal Property System Review, the situation remained about the same at Oak Ridge National Laboratory. According to the report, it was not clear if the functions of managing, controlling, and tracking subcontractor-held property were the responsibility of Martin Marietta's Central Purchasing Office or the National Laboratory's Finance and Business Management Division. The draft report also showed the following:

- Martin Marietta's Central Purchasing Office could not provide a list of the National Laboratory's subcontractors having government-furnished or subcontractor-acquired property in their possession.
- Buyers, functioning as property administrators, were not performing functions required in DOE's regulations, which

include periodic reviews to ensure that property be managed in accordance with established procedures.

- The Finance and Business Management Division's review of purchase orders and shipping documents to identify subcontractor-held property was an inadequate method of determining the type, the cost, and the amount of personal property in the possession of subcontractors.

SIMILAR PROPERTY MANAGEMENT
PROBLEMS STILL EXIST

Despite the extent of the problems identified and the recommendations made in the past, we found that property management problems still persisted at Martin Marietta. For example, when we spoke with the Martin Marietta Manager of Procurement Policies and Procedures about the control of subcontractor-held government-owned property, he acknowledged that Martin Marietta did not have a list showing which subcontractors had government-owned property and whether the property had been furnished to the subcontractor or acquired by the subcontractor with government funds. The manager said that the furnished property was controlled by the three sites that Martin Marietta operated for DOE.² However, there seemed to be confusion on this point in the case of the Oak Ridge National Laboratory during the most recent review.

The manager also said that in order to identify the subcontractor-acquired property and its value, procurement personnel would have to perform a time-consuming manual search of subcontractors' files. As noted before, however, because property lists are often not attached to the invoice and even when such lists are attached, they sometimes lack enough details to use for tracking property, identification could not be done in many cases. Moreover, as noted in the reports, because a system has not been put in place and stringently enforced, DOE has little assurance that adequate controls have been put in place to properly safeguard government-owned property in the possession of subcontractors.

²Martin Marietta operates three sites for DOE at Oak Ridge. These three sites are identified as K-25, X-10 (Oak Ridge National Laboratory), and Y-12.

Furthermore, according to the manager, Martin Marietta personnel did not routinely approve subcontractors' property management systems and had seldom done so. Likewise, according to this official, personnel had very rarely reviewed subcontractors' property management systems for compliance with the clause in the subcontract requiring that government-owned property be managed in accordance with sound business practice and the Federal Acquisition Regulation and the DOE Acquisition Regulation.

In mid-May 1994, Oak Ridge officials, including the Chief Financial Officer, acknowledged that these property management problems still persisted because of DOE's lack of priority attention to these matters. The officials said that corrective actions would be taken.

CONCLUSIONS

Martin Marietta does not have a system for tracking and accounting for subcontractor-held government-owned property or a system to ensure that subcontractors have procedures in place to manage and control this property. As a result, Martin Marietta does not know which subcontractors have government-owned property, what property they have, or what its total value is.

Even though DOE has cited problems with Martin Marietta's management of subcontractor-held property in numerous reviews over the past 6 years, the problems still remain. Martin Marietta has had procedures in draft form during this time. Yet the procedures have not been finalized and implemented. Furthermore, during this period, DOE's Oak Ridge Operations Office has not ensured that these long-standing problems are corrected.

RECOMMENDATIONS

We recommend that you require the Manager of the Oak Ridge Operations Office to immediately provide you with an action plan to ensure that Martin Marietta adheres to applicable federal regulations and to the terms of its contract with DOE regarding the management and control of government-owned property. This plan should also address how Martin Marietta will ensure that its subcontractors adhere to the terms of their contracts with Martin Marietta that concern government-owned property in their possession. We also recommend that you follow up on the implementation of the

action plan within 90 days to ensure that appropriate corrective actions have been implemented.

SCOPE AND METHODOLOGY

We reviewed DOE's and Martin Marietta's policies and procedures governing property management activities. We reviewed relevant federal regulations, past GAO and DOE Inspector General audit reports, and other DOE reports to determine whether any previous problems had been identified in DOE's and Martin Marietta's property management activities. We also interviewed DOE and Martin Marietta officials to (1) discuss their property management oversight activities, including tracking and accounting for government-owned property in the possession of Martin Marietta's subcontractors, and (2) obtain their views on the extent to which actions had been proposed and implemented to correct previously identified problems. In addition, we gathered background information on the property management programs of both DOE and Martin Marietta and examined a limited number of files on subcontractors to determine the extent to which previously identified problems still existed. We conducted our review between August 1993 and May 1994 in accordance with generally accepted government auditing standards.

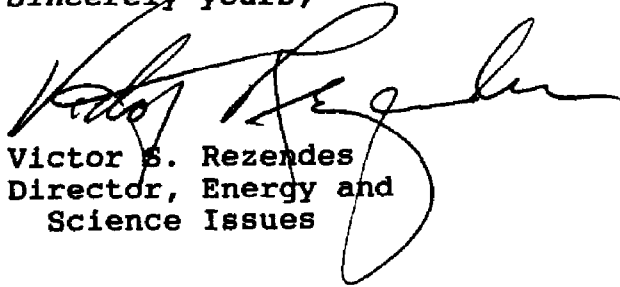
In mid-May 1994, we discussed the information in this correspondence with DOE and Martin Marietta officials at Oak Ridge, including Oak Ridge's Chief Financial Officer. The officials agreed with the accuracy of the facts presented. In addition, the Chief Financial Officer agreed that the problems with government-owned property in the possession of Martin Marietta's subcontractors had remained uncorrected for too long and pledged that corrective actions would be taken.

We are sending copies of this correspondence to the Secretary of Energy; DOE's Director of Audit Liaison; the Director, Office of Management and Budget; and the House and Senate Committees on Appropriations. We will make copies available to others upon request.

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If you or your staff have any questions about this correspondence, please contact me at (202) 512-3841. Major contributors to this review were John Hunt, Gene Barnes, Johnny Clark, and Sherrill Caldwell.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with a large loop at the end.

Victor S. Rezendes
Director, Energy and
Science Issues

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