

GAO

Testimony

Before the Environment, Energy, and Natural
Resources Subcommittee, Committee on
Government Operations,
House of Representatives

For Release on Delivery
Expected at
11:00 a.m. EDT
Monday
September 19, 1994

MANAGING DOE

Government Property Worth
Millions of Dollars Is Missing

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060987/152542

Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss property management at Department of Energy (DOE) facilities. As you know, we have issued several reports on DOE's property management, including two recently issued reports for your Subcommittee. The first of those two reports, issued in March 1994, was an in-depth examination of property management problems at DOE's Rocky Flats Plant.¹ The second report, issued in April 1994, provided summary details regarding the property management activities of 20 major DOE contractors, including the contractor at Rocky Flats.²

Our property management work has led us to several observations. First, a substantial amount of DOE's property is missing, probably more than the \$74 million identified in our April 1994 report.³ Second, numerous weaknesses exist in DOE contractors' property management systems. Those weaknesses include inadequate property-tracking data bases and a lack of physical protection of DOE's property from theft. Third, DOE has

¹Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77, Mar. 1, 1994).

²Department of Energy: Status of DOE's Property Management Program (GAO/RCED-94-154FS, Apr. 7, 1994).

³DOE has accumulated more than \$12 billion in property, most of which is in the possession of its contractors.

not provided sufficient oversight of the contractors' property management activities. For example, many contractors do not have approved property management systems. We recognize that DOE has taken, and is in the process of taking, steps to improve property management. Given the number of problems DOE faces as well as the complexity of those problems, it will take years of continual management attention for DOE to address all of the problems. At this time, I would like to discuss each of our observations in greater detail.

A SUBSTANTIAL AMOUNT OF
DOE'S PROPERTY IS MISSING

DOE's contractors are required, by departmental regulations, to periodically inventory and report on government-owned property in their possession. In our April 1994 report, we presented information on DOE's most recent inventory reports from 20 of its major contractors. These reports, which were completed over the last few years, showed that government-owned property worth approximately \$74 million was missing. The items of missing property span a wide variety of equipment categories. They include computer equipment, such as monitors and keyboards; shop equipment, such as lathes and drill presses; office equipment, such as desks and typewriters; electronic equipment, such as radios and pagers; and photographic equipment, such as cameras.

Finally, some heavy equipment such as forklifts and a semi-trailer are also missing.

Let me emphasize that while the \$74 million worth of missing property is high, this amount represents only what the contractor reported to DOE as missing. We believe that the \$74 million figure probably understates the actual amount of missing property, particularly in light of our detailed review of property management at the Rocky Flats Plant. In that review, we found that in addition to the nearly \$13 million worth of missing property reported by the contractor, the contractor could not physically locate another \$16 million worth of property. The contractor said that it had documentation indicating what happened to this property. However, we found that much of the documentation was incomplete and that some of that property may have to be classified as missing. We also noted that the contractor, during a 1-year period, inappropriately deleted over 500 items from the property-tracking data base without maintaining any historical record of the items' existence. Some of these deleted items may have been lost or stolen and DOE would never know that that occurred.

CONTRACTORS' PROPERTY MANAGEMENT
SYSTEMS HAVE NUMEROUS WEAKNESSES

Over the years, we have pointed out weaknesses in DOE contractors' property management systems. DOE has also found weaknesses in its own review of contractors' property management operations. Some of these weaknesses have persisted for years. The latest DOE reviews of the 20 contractors included in our April 1994 report identified over 400 weaknesses requiring corrective action.

The weaknesses identified by DOE relate to nearly every element considered critical to an effective property management system. They include the following:

- Lack of operating procedures. For example, at one site, DOE found that the contractor did not have policies and procedures for the plant that address the responsibility of employees to ensure the proper control, use, and protection of government property.

- Inadequate employee training. For example, one DOE contractor review sampled the training records for selected property management personnel and determined that none of the individuals had ever attended formal inventory management training.

- Incomplete reporting of property. For example, at one DOE site, there were significant errors in the property inventory reports to DOE and a significant overstatement of the value and volume of personal property in the possession of the contractor.

- Inadequate storage of property. At some sites, heavy equipment, office furnishings, materials, and machines not designed for outside use were being left outside unprotected from the elements.

- Physical inventories not being conducted on time. At some sites, an inventory of special equipment such as office equipment, photographic equipment, radio equipment, and automotive equipment had not been conducted on schedule, and some inventories were conducted years late.

- Lack of physical security. For example, at one site, DOE reported that the significant losses of sensitive items such as computers and photographic equipment, indicate a lack of adequate physical protection or responsible oversight.

- Improper utilization and disposal of equipment. One DOE contractor review showed, for instance, that items such

as copy paper, fluorescent light bulbs, and truck mufflers were being scheduled for surplus sale while the contractor was buying new, similar items from vendors.

In our work at DOE's Rocky Flats Plant, we found another significant weakness--the contractor's property-tracking data base was incomplete because some property was never entered into the data base. In addition, the data base contained inaccurate serial numbers for some property, such as fire trucks, which made locating them for inventory purposes difficult. Further, inappropriate changes have been made to certain data in the data base, including the erasure of evidence that some property ever existed at the plant. Without a well-maintained and properly working data base, good property management control is impossible.

Because of reports of theft at the Rocky Flats Plant, our Office of Special Investigations has begun looking into the matter. Both DOE and contractor officials have confirmed that the theft of government-owned property has occurred and has contributed to the contractor's inability to account for millions of dollars worth of missing equipment. This investigation has also surfaced a possible instance of bid-rigging on the purchase of automotive parts. When completed, the results of our investigation will be forwarded to the appropriate agency for further investigation and possible prosecution.

DOE'S OVERSIGHT OF CONTRACTORS' PROPERTY
MANAGEMENT SYSTEMS HAS NOT BEEN SUFFICIENT

In addition to weaknesses in contractors' property management systems, we believe that DOE has not provided sufficient oversight. In this regard, DOE has not reviewed and approved contractors' property management systems as required by departmental regulations. Further, DOE has not ensured the timely correction of contractors' property management weaknesses identified in DOE reviews. Insufficient oversight, in our view, is a strong indication that DOE has not given property management the necessary attention.

DOE regulations require the Department to review and approve or disapprove a contractor's property management system within the first year of the contract and every 3 years thereafter. DOE's approval represents a determination that the contractor's system will adequately protect, maintain, utilize, and dispose of government property in accordance with federal and DOE property management regulations. Of the 20 contractors included in our April 1994 report, only 7 had DOE-approved property management systems. The situation at the Rocky Flats Plant, we believe, illustrates the inadequate attention that DOE has given to approving contractors' property management systems. In our March 1994 report, we noted that DOE was required to review and approve or disapprove the contractor's property management system by the

end of 1990 but still had not done so by the time we issued our report--more than 3 years later. In September of this year, DOE disapproved the Rocky Flats contractor's property management system.

DOE's oversight in ensuring that property management problems are corrected is also weak. For instance, our March 1994 report noted that DOE had not required the contractor to implement timely corrective action on problems DOE identified during the Department's previous review of property management at the plant. Some problems have remained unresolved for years. DOE has also not required the contractor to take adequate corrective action in response to DOE-identified problems. For example, in a February 1993 report to DOE, the contractor claimed to have ensured that (1) all necessary property had been tagged and that serial numbers were recorded in the property data base and (2) all property management, accounting, and other personnel directly involved in property management-related activities had been properly trained. However, as our March 1994 report discusses, serious deficiencies continued to exist in these areas.

DOE HAS UNDERTAKEN NUMEROUS
INITIATIVES TO IMPROVE CONTRACTORS'
PROPERTY MANAGEMENT

In response to our work, DOE officials commented that the Department is committed to improving its controls over contractors' property management systems. According to these officials, evidence of DOE's commitment can be seen in the June 1992 establishment of the Office of Contractor Management and Administration in headquarters to tighten DOE's stewardship over contractors' property management systems and to undertake numerous initiatives. Those initiatives have included the following: (1) headquarters' independent property management reviews of selected projects, (2) strengthened DOE surveillance of contractors, and (3) a centralized personal property tracking system to catalog the findings from each DOE review and to track corrective actions. DOE officials also commented that the increased emphasis that the Department has placed on property management and the need for its contractors to establish reliable property data bases may have contributed to the significant amount of missing property shown in our April 1994 report.

SUMMARY

In summary, by all indications, a substantial amount of DOE property is missing, probably more than the \$74 million worth

identified in our April 1994 report. The apparent reason why property is missing is that contractors' property management systems contain numerous weaknesses and DOE has provided inadequate oversight. DOE is in the process of making numerous changes. While we believe that these changes may help, it will take the Department many years of continual management attention to adequately address all of the complex property management problems it faces.

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This concludes our testimony. We would be pleased to respond to any questions that you or the members of the Subcommittee may have.

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