



Highlights of [GAO-06-547](#), a report to congressional requesters

Why GAO Did This Study

The Energy Employees Occupational Illness Compensation Program Act of 2000 (EEOICPA) authorized the Department of Energy (Energy) to help its former contractor employees file state workers' compensation claims for illnesses that could be linked to exposure to toxic substances during their employment. Concerned with the relatively small number of finalized cases and the overall effectiveness of the program, Congress asked GAO to review costs incurred by Energy to administer the program. Specifically, Congress asked GAO to determine whether (1) internal controls over program payments were adequately designed to provide reasonable assurance that improper payments to contractors would not be made or would be detected in the normal course of business and (2) program payments were properly supported as a valid use of government funds.

What GAO Recommends

GAO makes 16 recommendations to help Energy and SSC NOLA strengthen controls over payments to contractors and to mitigate the risks of paying improper contract costs in the future. While Energy accepted the recommendations, it took issue with several of GAO's findings, including GAO's view of its responsibility for activities carried out through an interagency agreement. SSC NOLA concurred with the recommendations GAO made to it. GAO reaffirms its findings and recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-547.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Linda Calbom at (202) 512-9508 or calboml@gao.gov.

DEPARTMENT OF ENERGY, OFFICE OF WORKER ADVOCACY

Deficient Controls Led to Millions of Dollars in Improper and Questionable Payments to Contractors

What GAO Found

Energy did not establish an effective control environment over payments to contractors or overall contract costs. Specifically, because Energy lacked an effective review and approval process for contractor invoices, it had no assurance that goods and services billed had actually been received. Although responsibility for review and approval of invoices on the largest contract rested with the Space and Naval Warfare Systems Center, New Orleans (SSC NOLA) through an interagency agreement, Energy did not ensure that SSC NOLA carried out proper oversight. Energy also failed to maintain accountability for equipment purchased by contractors. Further, subcontractor agreements, which represented nearly \$15 million in program charges, were not adequately assessed, nor were overall contract costs sufficiently monitored or properly reported. These fundamental control weaknesses made Energy highly vulnerable to improper payments.

GAO identified \$26.4 million in improper and questionable payments for contractor costs, including billings of employees in labor categories for which they were not qualified or that did not reflect the duties they actually performed, the inappropriate use of fully burdened labor rates for subcontracted labor, add-on charges to other direct costs and base fees that were not in accordance with contract terms, and various other direct costs that were improperly paid. Further, certain payments toward the end of the program for furniture and computer equipment may not have been an efficient use of government funds.

Summary of Improper and Questionable Payments

Type of cost	Improper	Questionable	Total
Labor			
Labor categories ^a	\$2,498,920	\$17,686,892	\$20,185,812
Fully burdened labor rates	3,661,429	569,798	\$4,231,227
Overtime charges	3,019		\$3,019
Subtotal			\$24,420,058
Other direct costs			
Add-on charges and base fees	\$655,734		\$655,734
Per diem and commuting costs ^a	12,418	\$4,704	\$17,122
First-class travel ^a	5,207	9,119	\$14,326
Other miscellaneous payments	91,431		\$91,431
Subtotal			\$778,613
Inefficient use of government funds			
Furniture		\$821,129	\$821,129
Equipment		341,790	\$341,790
Subtotal			\$1,162,919
Total	\$6,928,158	\$19,433,432	\$26,361,590

Source: GAO.

^a The amounts reported for these categories represent the gross amount paid to Energy to its contractors and therefore do not reflect any reductions or offsets that may be due the contractors for the goods and services that were provided. Any potentially recoverable amounts would need to be determined after consideration of these reductions or offsets.

These improper and questionable payments represent nearly 30 percent of the \$92 million in total program funds spent through September 30, 2005, but could be even higher given the poor control environment and the fact that GAO only reviewed selected program payments.