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OFFICE OF INSPECTOR GENERAL

AUDIT OF SELECTED HAZARDOUS WASTE

REMEDIAL ACTIONS PROGRAM COSTS

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AUDIT OF SELECTED HAZARDOUS WASTE
REMEDIAL ACTIONS PROGRAM COSTS

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
EASTERN REGIONAL AUDIT OFFICE

AUDIT OF SELECTED HAZARDOUS WASTE REMEDIAL ACTIONS PROGRAM COSTS

Audit Report Number: ER-B-97-04   August 11, 1997

SUMMARY

In 1986, the Department of Energy (Department) entered into a work-for-others agreement with the Department of the Air Force (Air Force) to provide technical assistance in support of environmental compliance issues. Lockheed Martin Energy Systems' (Energy Systems) Hazardous Waste Remedial Actions Program (HAZWRAP) supported the Department in fulfilling its responsibilities to the Air Force. The objective of this audit was to determine if costs charged to selected HAZWRAP customers were in accordance with Departmental regulations and the terms of the Air Force's interagency agreement.

Energy Systems did not properly manage and account for costs claimed under its interagency agreements for HAZWRAP. Specifically, Energy Systems transferred costs among accounts to avoid overruns and to use the maximum funds authorized by HAZWRAP customers. By avoiding cost overruns, Energy Systems hoped to receive higher award fees from the Department. As a result of its actions, Energy Systems mischarged one HAZWRAP customer by $504,750.

We recommended that the Manager, Oak Ridge Operations Office: (1) direct Energy Systems to ensure that existing management controls are adhered to and that adequate management controls are maintained; (2) determine the allowability of $504,750 in questioned costs, recover the appropriate amount from Energy Systems, and refund mischarged amounts to the appropriate customers; and (3) perform a "for cause" review of the Work-for-Others Program to identify, recover, and refund amounts received by Energy Systems as the result of improper cost transfers.

Management concurred with the finding and recommendations and agreed to take appropriate action. However, management stated that a majority of the questioned costs were costs transferred between one customer's projects, and thus, the customer was not overcharged.

We disagree with management's statement that the customer was not overcharged. We concluded that the

practice of transferring costs from projects with insufficient funds to projects where funds are still available, without the customer's authorization, violates the terms of the interagency agreement and results in overcharging.

/s/
Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Department of Energy (Department) entered into an interagency agreement with the Department of the Air Force (Air Force) in 1986 to perform environmental work at various Air Force bases. Lockheed Martin Energy Systems (Energy Systems) Hazardous Waste Remedial Actions Program (HAZWRAP) supported the Department in fulfilling its responsibilities to the Air Force. The audit objective was to determine whether costs charged to Robins and Wright Patterson Air Force Bases were in accordance with Departmental regulations and the terms of the interagency agreement.

SCOPE AND METHODOLOGY

The audit was conducted in Oak Ridge, Tennessee between July 1996 and January 1997. The audit was requested by, and performed in conjunction with, the Office of Inspector General (OIG), Office of Investigations. The audit included a review of costs charged to Warner Robins Air Logistics Center at Robins Air Force Base and to Wright Patterson Air Force Base between October 1992 and May 1996.

To accomplish the audit objective, we:

- Reviewed Federal and Departmental regulations to identify requirements;
- Reviewed the Air Force's interagency agreement and military interdepartmental purchase requests;
- Randomly selected labor, subcontract, and overhead charges and traced transactions to supporting documentation;
- Analyzed cost transfers for trends and propriety; and
- Discussed areas of concern with appropriate HAZWRAP personnel.

The audit was performed according to generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely on computer-generated data to satisfy the audit objective.

We discussed the audit results with the Oak Ridge Operations Office's (Operations Office) management during an exit conference on July 11, 1997. We have not discussed the audit results with Energy Systems.

BACKGROUND

An objective of the Department's Work-for-Others Program is to provide assistance to other Federal agencies in accomplishing goals that may otherwise be unattainable and avoid the possible duplication of effort at Federal facilities. In 1986, the Department entered into a work-for-others agreement with the Headquarters Air Force Logistics Command Engineering Directorate (Directorate) to provide technical assistance in support of environmental compliance issues. Under this agreement, the Directorate issued funds to the Air Force base requesting the Department's services. The base then issued funding documents (military interdepartmental purchase requests) to the Department authorizing expenditures associated with tasks detailed in the funding documents.

HAZWRAP, a program of Energy Systems' Technology Partnerships Division, supported the Department in fulfilling its responsibilities to the Air Force. HAZWRAP's mission is to develop, promote, and apply innovative, cost-effective technologies and approaches to solve national environmental challenges. HAZWRAP services are made available to other Federal agencies via interagency agreements under the Department's work-for-others guidelines.

PRIOR REPORTS

Energy Systems' Work-for-Others Program has been the subject of two previous OIG reviews. In Report No. ER-B-91-15, Selected Aspects of Martin Marietta Energy Systems, Inc., Work-for-Others Management, we disclosed that Energy Systems had commenced work before Departmental approval, performed work outside the scope of funding documents, and exceeded authorized funding. The report cited examples in which labor costs were not charged to the associated task and a cost overrun was charged to an overhead account. In Report DOE/IG-0307, Procurement of Services from 8(a) Contracts for the Work-for-Others Program, we reported that the 8(a) contracts were not properly administered, which resulted in out-of-scope work being performed.

In addition, the OIG has issued several inspection reports dealing with the Work-for-Others Program at other Departmental sites. In three reports, the OIG inspectors reported a lack of management controls over work-for-others projects. This lack of controls resulted in Departmental appropriations and other customers' funds being used to finance cost overruns (DOE/IG-0335, Inspection of Selected Intelligence and Special Access Program Work-for-Others Projects and DOE/IG-0369, Inspection of Los Alamos National Laboratory's System for Controlling Cost Overruns on Work-for-Others Projects). Further, contractors incurred costs prior to acceptance of funds, and after exhaustion of funds (DOE/IG-0367, Inspection of an Intelligence Work-for-Others Project at the Idaho Operations Office).

OBSERVATIONS AND CONCLUSIONS

The audit disclosed that Energy Systems did not properly account for costs claimed under its interagency agreements for the HAZWRAP program. Specifically, in an effort to avoid cost overruns and maximize award fees, Energy Systems transferred costs from accounts with insufficient funds to accounts where funds were still available. We questioned $504,750 in cost transfers related to one HAZWRAP customer and recommended that amount be returned to the appropriate customers.

In our opinion, the finding in this report disclosed material internal control weaknesses that management should consider when preparing its yearend assurance memorandum on internal controls. Internal control weaknesses identified in this report are discussed in Part II.

PART II

FINDING AND RECOMMENDATIONS

Accounting Practices

FINDING

Departmental regulations require that interagency agreements be managed and accounted for in accordance with the funding limitations and other provisions of the agreements. Also, the Department's contract requires Energy Systems to maintain adequate accounting and financial management systems to ensure compliance with Departmental regulations and the limitations specified in interagency agreements. However, Energy Systems did not properly account for costs claimed under its interagency agreements for HAZWRAP. Energy Systems improperly transferred costs among accounts to avoid overruns and to use the maximum funds authorized by HAZWRAP customers. By avoiding cost overruns, Energy Systems hoped to receive higher award fees from the Department. As a result of its actions, Energy Systems mischarged one HAZWRAP customer by $504,750.

RECOMMENDATIONS

We recommend that the Manager, Oak Ridge Operations Office:

Direct Energy Systems to ensure that existing management controls are adhered to and that adequate management controls are maintained;

Determine the allowability of the $504,750 in mischarges identified in this report, recover the appropriate amount from Energy Systems, and refund the appropriate amounts to Robins Air Force Base and other affected HAZWRAP customers;

Perform a "for cause" review of the Work-for-Others Program to ensure that employees are properly accounting for costs and not transferring costs to maximize revenues; and

Recover and refund amounts received as the result of improper cost transfers identified in the "for cause" review to the appropriate customers.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and agreed to take appropriate action. However, management stated that a majority of the questioned costs were costs transferred between one customer's projects, and thus, the customer was not overcharged. Comments received from management are summarized and addressed in Part III of this report.

DETAILS OF FINDING

DEPARTMENTAL REQUIREMENTS

Departmental regulations require that funds provided under interagency agreements be used solely for the intended purposes and in accordance with the limitations on the use of funds as specified in the agreements. The Department also requires that obligations and expenditures against individual interagency agreements be recorded promptly and accurately and do not exceed the associated budgetary resource.

Further, the Department's contract requires Energy

Systems to maintain adequate accounting and financial management systems to ensure compliance with Federal and Departmental regulations and the terms of interagency agreements. Section H - Special Contract Requirements requires Energy Systems to maintain and administer a financial management system that (1) is suitable to provide proper accounting in accordance with Departmental requirements; (2) permits the preparation of accurate and reliable financial reports; and (3) assures that proper accountability can be maintained.

ENERGY SYSTEMS' ACCOUNTING PRACTICES

Despite Departmental requirements, Energy Systems did not properly manage and account for costs claimed under its interagency agreements for HAZWRAP. Specifically, Energy Systems transferred costs among HAZWRAP accounts to avoid cost overruns and to spend the maximum funds authorized by its customers.

For example, Energy Systems made 114 transfers involving HAZWRAP accounts for Robins Air Force Base between October 1992 and May 1996. The transfers redirected $504,750 in direct and indirect costs, thereby avoiding cost overruns. As the following examples show, labor charges were the most frequently transferred cost.

- Energy Systems transferred 615.9 hours for 3 employees out of an account which was overrun by $54,623. The amount transferred out of the account totaled $54,623, the exact amount of the overrun. The transfer request stated that the three employees had charged the wrong account. However, the employees charged the same account for 28 pay periods, from December 1993 through July 1994.

- A project, which appeared to be complete, had unexpended funding of about $43,000 at the end of Fiscal Year (FY) 1993. Of that amount, only $4,100 was expended during FY 1994. All remaining funds were expended during FY 1995, primarily by cost transfers. In September 1995 alone, $21,745 was charged to the account by way of transfers from other accounts. Included in the transfers were charges for 283 labor hours for two employees. According to the transfer requests, the employees had charged time from October 1994 through June 1995 in error. By October 1995, the project was 100-percent costed.

- Time and travel charges for two employees were transferred among three different projects. Two of the projects received funding in 1990 which expired in September 1995. Neither project had any costs charged to it until FY 1995. During FY 1995, questionable transfers were made to each project. For instance, two employees transferred 129.5 hours from the first project into the second project, which precluded the first project from being overrun. However, the transfer resulted in the second project being overrun by

$6,335. Consequently, $6,334 was transferred out of the second project and into a third project. As a result of these transfers, an employee's labor hours were charged to one project and the travel costs were charged to a different project.

- In FY 1995, HAZWRAP management directed that secretaries labor hours originally charged to overhead be transferred to direct accounts. Five of the transfers included 4,300 hours worked from October 1994 through May 1995 and totaled over $150,000. Of the 4,300 hours, 522 were charged to Robins Air Force Base; the balance of the hours were charged to other customers. The secretaries were not involved in making the transfer, and did not know to which projects their time was charged. In addition, secretaries were occasionally instructed to charge their time to accounts with unexpended funding.

AWARD FEES

By avoiding cost overruns, Energy Systems hoped to receive favorable performance evaluations from the Department, and thus maximize award fees. In past performance evaluations, the Operations Office noted Energy Systems' failure to adequately control work-for-others projects. In January 1993, Energy Systems' HAZWRAP Director issued a memorandum to the program managers, directing them to take all precautions to avoid cost overruns, stating that the overruns would adversely effect Energy Systems' award fee computation. While the director did not state what precautions the program managers should take, HAZWRAP personnel stated that it was their standard practice to use cost transfers to avoid or eliminate overruns rather than terminate activities or request additional funding from sponsors. In November 1993, the Operations Office observed that the number of reported overruns had decreased.

We could not quantify the amount of additional award fee Energy Systems received as a result of transferring costs to avoid overruns. However, avoidance of new cost overruns was a criterion used in several performance evaluations in which HAZWRAP received a good rating.

IMPACT OF ENERGY SYSTEMS' ACCOUNTING PRACTICES

Energy Systems mischarged its customers by transferring costs from accounts with insufficient funds to accounts where funds were still available. These transfers resulted in an unauthorized use of funds provided under interagency agreements. We identified $504,750 in questionable transfers involving the HAZWRAP program at Robins Air Force Base. Because Wright Patterson Air Force Base projects were being phased out during the period under review, there were few transfers made. Therefore, we did not perform a review of Wright Patterson Air Force Base cost transfers.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Oak Ridge Operations Office concurred with the finding and recommendations and agreed to take corrective actions. Management's specific comments are summarized and addressed below.

Recommendation 1. Direct Energy Systems to ensure that existing management controls are adhered to and that adequate management controls are maintained.

Management Comments. Management concurred. The target date for notifying Energy Systems was set at August 15, 1997.

Auditor Comments. Management's comments are responsive to the recommendation.

Recommendation 2. Determine the allowability of the $504,750 in mischarges identified in this report, recover the appropriate amount from Energy Systems, and refund the appropriate amounts to Robins Air Force Base and other affected HAZWRAP customers.

Management Comments. Management concurred, stating that the allowability of the questioned costs will be determined upon completion of the "for cause" review, targeted for completion by November 30, 1997. Management stated that the majority of the transfers identified in the audit were between Robins Air Force Base (Robins) projects, and were, therefore, not overcharges to Robins. Management also stated that it was improper for the OIG to question all 114 transfers made under the project because the OIG did not review the appropriateness of the justification for all 114 transactions. Further, management stated that the Economy Act requires that all costs incurred under interagency agreements must be paid to the performing agency by the sponsoring agency.

Auditor Comments. While management concurred with the recommendation, the response suggests that management considers most of the questioned costs to be allowable because most of the transfers were between projects for a single customer. Management seems to consider all transfers between projects for a single customer to be appropriate regardless of the justification. However, the practice of transferring costs from projects with insufficient funds to projects where funds are still available, without the customer's authorization, violates the terms of the interagency agreement and results in overcharging. If Energy Systems had requested authorization from Robins to transfer funds from projects with sufficient funds to projects with insufficient funds, Robins may have authorized some of the transfers that were made. However, Energy Systems did not give Robins the opportunity to approve or disapprove the transfers, and made the transfers without authorization. Thus, Energy Systems violated the terms of the interagency agreement and overcharged Robins for the projects involved.

We reviewed the justifications for the 114 transfers discussed in our report. This review, in which we noted vague and questionable justifications, led us to analyze the financial effect the cost transfers had on Robins' projects. Analysis of a sample of 28 transfers showed that 21 moved costs from overrun projects, 2 moved costs from projects that were 99-percent expended at the time of the transfer, and 3 moved costs into projects with expiring funds. Hand-written notes on some transfer documents stated "transfer excess," "transfers to close," or "moved enough to [zero] out." We considered the results of the sample to be convincing evidence that a pattern existed wherein Energy Systems transferred costs from projects with insufficient funds to projects where funds were still available.

Finally, we disagree with management's statement that the Economy Act requires that all costs under interagency agreements must be paid to the performing agency by the sponsoring agency. The Economy Act does not require sponsoring agencies to pay for costs inappropriately charged to their projects or for costs charged in excess of established funding limits.

Recommendation 3. Perform a "for cause" review of the Work-for-Others Program to ensure that employees are properly accounting for costs and not transferring costs to maximize revenues.

Management Comments. Management concurred. The "for cause" review is under way and targeted to be completed by November 30, 1997. A report will be issued and provided to the OIG.

Auditor Comments. Management's comments are responsive to the recommendation. However, if management undertakes the "for cause" review with the opinion that cost transfers between projects of the same customer are not improper, and that the all costs associated with Economy Act interagency agreements must be paid by the sponsoring agency, the review may not result in appropriate corrective actions.

Recommendation 4. Recover and refund amounts received as the result of improper cost transfers identified in the "for cause" review to the appropriate customers.

Management Comments. Management concurred and stated that any improper costs identified in the "for cause" review will be recovered, refunded, or reallocated as appropriate.

This action will be taken after the final determination by the Contracting Officer, which is targeted for January 15, 1998.

Auditor Comments. Management's comments are responsive as stated; however, we have the same concerns as asserted in Recommendation 3.

IG Report No. ER-B-97-04

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