

# memorandum

DATE: July 12, 2007

Audit Report Number: OAS-L-07-15

REPLY TO  
ATTN OF: IG-32 (A07ID055)

SUBJECT: Audit of the Idaho National Laboratory Facility Footprint Reduction

TO: Manager, Idaho Operations Office

## INTRODUCTION AND OBJECTIVE

On February 1, 2005, Battelle Energy Alliance, LLC (BEA) assumed responsibility for managing and operating the Idaho National Laboratory (INL) for the Department of Energy (Department) under a new 10 year contract. The mission for the INL is to enhance the Nation's energy security by becoming the preeminent, internationally recognized nuclear energy research, development, and demonstration laboratory. To accomplish this mission, BEA proposed aggressive infrastructure initiatives during its contract tenure. One of these initiatives is the elimination of 1.1 million square feet of old and outdated facilities. The footprint reduction initiative is designed to lower maintenance and operations costs, as well as deferred maintenance costs.

For Fiscal Year 2006, the Department developed a performance evaluation management plan that would compensate BEA with a fee worth \$187,000 for achieving a footprint reduction of 100,000 square feet. Criteria set forth for this incentive included termination of leases; square footage placed in "cold, dark, and dry" condition; facilities transferred to another entity or deactivated and demolished; and, space transferred to the jurisdiction of the State Historical Preservation Office. The objective of this review was to determine whether BEA successfully reduced the Idaho National Laboratory Site's facility footprint.

## CONCLUSIONS AND OBSERVATIONS

BEA did not successfully reduce the INL Site's facility footprint. Specifically, while BEA claimed credit for reducing the Department's footprint by 147,093 square feet, 100,315 square feet was transferred to a different Department contractor and provided no real benefit to the Government, and 32,697 square feet was reduced for work that was carried to completion by Department officials. However, the Department gave full credit to BEA for the footprint reduction and awarded them the full fee of \$187,000.

BEA was given credit for reducing the INL Site's facility footprint by 100,315 square feet although the Department continues to pay the lease costs on this facility through a different contractor. When the Department decided to divide the management and

operating contract at the site into two separate contracts in 2005, there was a need to realign which facilities would belong to each new contractor. After determining a facility was no longer needed, BEA transferred the Technical Support Annex and Technical Support Building to the other contractor, CH2M WG Idaho, LLC. Even though this reduced the footprint for BEA from a site-wide perspective, this transfer did not reduce the Department's total footprint presence; responsibility for the facility merely switched hands. Thus, the Department's commitment to fund the lease payment was not relinquished. Even though the transfer did not result in termination of a lease, the Department gave BEA credit for this reduction when calculating their incentive fee payment.

In addition, BEA was granted credit for a 32,697 square foot reduction for work that was carried to completion by Department officials. Specifically, the Department is required to provide leadership in the preservation of cultural resources on lands it administers. The INL Cultural Resource Management Plan lists "signature properties" that the Department is required to consider for reuse and/or preservation-in-place. In 2004, well before BEA was awarded the INL contract, the Department initiated contact with the State Historical Preservation Office regarding the disposition of the CF-633 building. In February 2006, after BEA determined that buildings CF-606, 607, 613, and 632 could not be reused, the Department again contacted the State Office requesting assistance in determining final disposition. Ultimately, these five buildings were placed under the State Historical Preservation Office's jurisdiction. It is also important to note that the effort to decommission the five facilities was performed by contractors prior to BEA, who placed them in a "cold, dark and dry" status. BEA completed the Idaho Historic Sites Inventory documents used by the State Office to make its determination and the Department gave credit to BEA when calculating their incentive fee payment.

As a result, \$160,669 of the \$187,000 that the Department paid to BEA provided no real benefit to the Government or was primarily accomplished by other personnel.

In August 2006, the Office of Inspector General issued Audit Report "*Management Controls over Performance Fees in the Idaho National Laboratory Contract*" (OAS-M-06-07, August 24, 2006) which noted that the Department did not always use effective performance measures and fees to reward contractor performance at the INL. Among other things, we recommended that management take action to ensure that the amount of the fee is proportionate to the work to be performed.

Since the Department agreed to take corrective action based on our earlier report, we are not providing additional recommendations to management as part of this report. However, it appears that additional attention is warranted in this area.

#### SCOPE AND METHODOLOGY

The audit was performed between February 2007 and June 2007 at the Idaho Operations Office. The scope of the audit focused on the footprint reduction incentive found in BEA's Fiscal Year 2006 Performance Evaluation Management Plan.

07/12/07 THU 18:59 FAX 800 241 3687 UIC 003

To accomplish the audit objective, we obtained and reviewed guidance relevant to performance incentives; reviewed BEA's contract; reviewed work performed to meet the footprint reduction incentive; and held discussions with key officials responsible for overseeing the footprint reduction incentive.

The audit was performed in accordance with 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. Accordingly, we assessed the Department's controls over performance incentives. 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. Also, we considered the establishment of performance measures in accordance with the *Government Performance and Results Act of 1993* as they related to the audit objective. Additionally, we did not rely on computer-processed data during the audit; therefore, we did not conduct reliability assessments on the data.

We discussed the audit results with Department officials at the Idaho Operations Office during the week of June 11, 2007. Because no formal recommendations are being made in this report, a formal response is not required. We appreciate the cooperation of your staff during our review.



Fredrick G. Pieper, Director  
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cc: Deputy Secretary  
Under Secretary of Energy  
Chief of Staff  
Assistant Secretary, Office of Nuclear Energy  
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