

United States Government

Department of Energy

memorandum



DATE: September 11, 2003

REPLY TO: IG-34 (A03NE045)

Audit Report No.: OAS-L-03-20

SUBJECT: Audit of Procurement Administration at the Oak Ridge National Laboratory

TO: Director, Office of Management, Budget and Evaluation/Chief Financial Officer, ME-1

The purpose of this report is to inform you of the results of our survey of procurement administration at the Oak Ridge National Laboratory (Laboratory). This review was initiated in May 2003 and fieldwork was conducted through August 2003. Our review methodology is described in an attachment to this report.

INTRODUCTION AND OBJECTIVE

In Fiscal Year (FY) 2002, the Department of Energy's (Department) management contractors procured approximately \$6.4 billion worth of goods and services from subcontractors. During that time, the Laboratory procured approximately \$270 million worth of goods and services from subcontractors. Due to the absence of a direct contractual relationship with the subcontractor, the Department must rely on the prime contractor to manage these subcontracts. Prime contractors are fully reimbursed for subcontracted work and compensated through profit or fee to manage their subcontract effort. Therefore, the Department must ensure that the prime contractor exercises adequate controls over subcontracts. Problems at the subcontract level can have a significant impact on the prime contractors' ability to meet its contractual obligations and therefore fulfill the Department's mission.

The Office of Inspector General (OIG) previously identified that certain Department contractors had not established adequate systems to award and administer subcontracts, ensure that costs on contracts were reasonable, or conduct timely closeout of completed subcontracts. Because of the importance of contractor performance in this area, we initiated this audit to determine whether the Laboratory's management contractor procured goods and services in accordance with Departmental policies and prudent business practices.

CONCLUSIONS AND OBSERVATIONS

Based on the results of our limited review, nothing came to our attention to indicate procurements made by UT Battelle (Battelle), the management contractor at the Laboratory, did not generally follow Departmental policies and prudent business practices. However, we noted that controls over Government property could be strengthened. Specifically, at one of the major subcontractors, certain equipment could

not be located and other items were not recorded in property accounting systems. Additionally, the subcontractor possessed items that had not been properly marked as Government property. We also found that the Laboratory's property management system did not properly record the disposition of a number of items by another subcontractor in October 2002. Details regarding the results of our audit sampling were separately communicated to Laboratory officials during the course of our review.

Concurrent with this review, the OIG conducted similar reviews of procurement administration at the Argonne National Laboratory in Illinois and the National Renewable Energy Laboratory in Colorado. The OIG is also conducting a comprehensive review of subcontract administration at the Los Alamos and Sandia National Laboratories in New Mexico and the Lawrence Livermore National Laboratory in California. The results of these reviews will be discussed in separate reports.

No formal recommendations are being made in this report and a response is not required. However, we suggest that the Department require Battelle to ensure that existing controls over Government property are functioning as intended at its major subcontractors.

We appreciate the cooperation of your staff during our review.



Rickey R. Hass, Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services
Office of Inspector General

Attachment

- cc: Director, Office of Science
Manager, Oak Ridge Operations Office
Team Leader, Audit Liaison, ME-1.1
Audit Liaison, Oak Ridge Operations Office

SCOPE AND METHODOLOGY

The audit was performed at Oak Ridge National Laboratory in Tennessee from May through August 2003. The universe of our sample consisted of all subcontracts valued at \$100,000 or more (excluding all streamlined purchase methods) as of September 30, 2002. To accomplish the audit objective we:

- Reviewed the Management and Operating contract between UT-Battelle and the Department of Energy;
- Reviewed data received from UT-Battelle of active, inactive, and closed first tier subcontracts;
- Reviewed listing of government furnished property assigned to subcontractors;
- Reviewed subcontract files for 40 active, 10 inactive, and 10 closed subcontracts;
- Verified existence of 100 randomly selected property items and reviewed completeness of property listing;
- Reviewed invoices for Fiscal Year 2002 for 10 cost type contracts in our sample;
- Interviewed Laboratory officials from Audit and Management Advisory Services, Property Management Division, Health and Safety, ORNL Computer Network Security, Internal Security, Lab Protection Division, and the Contracts Division to gain an understanding of roles, responsibilities, policies, and procedures; and
- Conducted interviews with the Subcontract Administrators (Buyers) and the Technical Project Officers for each subcontract to clarify any questions/concerns.

The audit was conducted 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. 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

relied on computer-processed data to accomplish our audit objective. We performed limited test work of data reliability during our audit sufficient to satisfy our objective. As part of this review, we also evaluated the Department's implementation of the Government Performance and Results Act of 1993 and found that the Department had not established performance measures for subcontract administration at Oak Ridge National Laboratory.

memorandum

DATE: **SEP 24 2003**

REPLY TO
ATTN OF: IG-34 (A03NE045)

SUBJECT: Final Report Package for " Audit of Procurement Administration at the Oak Ridge National Laboratory" Audit Report Number: OAS-L-03-20

TO: Frederick D. Doggett, Assistant Inspector General for Audit Services

Attached is the required final report package on the subject audit. The pertinent details are:

1. Actual Staff days: 151

Actual Elapsed days: 118

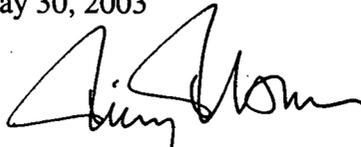
2. Names of OIG and/or contractor audit staff:

Assistant Director: George W. Collard
Team Leader: Bradley Milliron
Auditor-in-Charge: Sandra Smoak
Audit Staff: F. Scott Ward

3. Coordination with Investigations and Inspections:

Investigations: Walt Warren
June 2, 2003

Inspections: Henry Minner
May 30, 2003



Rickey R. Hass, Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services
Office of Inspector General

Attachments:

1. Final Report (3)
2. Monetary Impact Report
3. Audit Project Summary Report
4. Audit Database Information Sheet

MONETARY IMPACT OF REPORT NO.: OAS-L-03-201. Title of Audit: Audit of Procurement Administration at the Oak Ridge National Laboratory2. Region/Office: Science, Energy, Technology, and Financial Audits3. Project No.: A03NE045

4. Type of Audit:

Financial: _____ Performance: X
 Financial Statement _____ Economy and Efficiency _____
 Financial Related _____ Program Results X
 Other (specify type): _____

5.

FINDING		BETTER USED		QUESTIONED COSTS			MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	Recurring	(E) Questioned Portion	(F) Unsupported Portion	(G) Total	(H) C=Concur N=Noncon U=Undec	(I) Y=Yes N=No
			(D) Amount Per Year					
	N/A					N/A		
TOTALS--ALL FINDINGS		\$0	\$0	\$0	\$0	\$0		

6. Remarks: There is no current monetary impact or potential future savings.

7. Contractor: N/A

10. Approvals:

8. Contract No.: N/ADivision Director/Date:  9/24/039. Task Order No.: N/ATechnical Advisor & Date: 

Office of the Inspector General (OIG)
 Audit Project Summary Report (APS)

Report run on: September 16, 2003 7:11 AM

Audit#: A03NE045 Ofc: CGA Title: PROCUREMENT ADMINISTRATION - OAK RIDGE

**** Milestones ****

	Profile	Planned End of Survey	Revised	Actual	
Entrance Conference:	01-OCT-02	16-MAY-03	16-MAY-03	16-MAY-03	
Survey Completed:		15-AUG-03	15-AUG-03	15-AUG-03	
Field Work Complete:					
Draft Report Issued:		15-SEP-03		11-SEP-03	
Exit Conference:					
Completed with Report:	30-SEP-03	15-AUG-03	15-AUG-03	11-SEP-03	(R)
-----Elapsed Days	364	91		118	
-----Staff Days:	0	0		151	

Date Suspended: Date Terminated:
 Date Reactivated: Date Cancelled:
 DaysSuspended(Cur/Tot): 0 () Report Number: OAS-L-03-20

Rpt Title: PROCUREMENT ADMINISTRATION AT THE OAK RIDGE NATIONAL LABORATORY

**** Audit Codes and Personnel ****

Aud Type: Not Found	AD: 256	MILLIRON
Category: OTH OTHER	AIC: 753	SMOAK
DOE-Org: Not Found	HDQ-Mon: 421	SCHULMAN
Maj Iss: 009 PROCUREMENT AND GRAN	ARM: 459	COLLARD
Site: MRA MULTI-REGION AUDIT		

**** Task Information ****

Task No:
 Task Order Dt: CO Tech. Rep:
 Orig Auth Hrs: Orig Auth Costs:
 Current Auth: Current Auth Cost:
 Tot Actl IPR Hr: Tot Actl Cost:

**** Time Charges ****

<u>Emp/Cont Name</u>	<u>Numdays</u>	<u>Last Date</u>
BOOS, B	.3	06-SEP-03
COLE, E	1.9	26-JUL-03
ELLISON, J	3.9	26-JUL-03
MILLIRON, B	34.9	06-SEP-03
WARD, F	53.3	06-SEP-03
SMOAK, S	57.1	06-SEP-03
Total:	151.4	

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A03NE045
2. Title of Audit: Audit of Procurement Administration at the Oak Ridge National Laboratory
3. Report No./Date OAS-L-03-20 / September 11, 2003
4. Management Challenge Area: Contract Administration
5. Presidential Mgmt Initiative: Improved Financial Performance
6. Secretary Priority/Initiative: N/A
7. Program Code: SC
8. Location/Sites: Oak Ridge National Laboratory
9. Finding Summary:

Based on the results of our limited review, nothing came to our attention to indicate procurements made by UT Battelle (Battelle), the management contractor at the Laboratory, did not generally follow Departmental policies and prudent business practices. However, we noted that controls over government property could be strengthened.

10. Keywords:
 - Procurement
 - Government Property
 - Management Contractors
 - Subcontractors
 - Subcontract Administration