

DATE: January 27, 1997

REPLY TO  
ATTN OF: IG-1

SUBJECT: INFORMATION: Summary Audit Report on Contractor  
Employee Relocation and Temporary Living  
Costs

TO: The Acting Secretary

This summary report highlights systemic problems with contractor charges for contractor employee relocation and temporary living costs. Over the past 5 years, the Office of Inspector General issued nine audit reports that identified unreasonable and unallowable charges for employee relocation and temporary living costs by contractors and their subcontractors. We found that contractors were reimbursed for these costs because the Department of Energy (Department) did not use clearly defined contract provisions that were consistent with standard Federal Acquisition Regulation (FAR) or Department of Energy Acquisition Regulation (DEAR) clauses, as appropriate, to limit reimbursements to allowable and reasonable amounts. Because of the sizable number of contractor changes in process and anticipated and the related relocation of contractor employees, the Department is committing significant resources to relocate contractor personnel. Based on this, we concluded that the issues raised in the audit reports require the attention of the Department's senior managers.

Our audit reports showed that the Department reimbursed contractors \$13.6 million for costs associated with employee relocation and temporary living costs that we found to be either unallowable or unreasonable. Specifically, the reports disclosed that a total of \$2.2 million was charged for relocation costs that, in our opinion, were unreasonable or unallowable. One report identified charges of about \$3.4 million for relocation related income taxes that were specifically unallowable per the DEAR. Also, our audits of temporary living costs performed on subcontractors identified charges of about \$8 million that did not meet the DEAR requirement for reimbursement.

The FAR and the DEAR state that in order for costs to be allowable, they must be both reasonable and allocable. The FAR and the DEAR also permit the Department and its contractors, with certain limitations, to negotiate "advance agreements" regarding the reasonableness and allocability of relocation and temporary living costs. Advance agreements can also be used to assist in developing performance criteria and metrics for contracts that

contain business management performance incentives.

We recommended that the Department use clearly articulated FAR and DEAR standards and criteria for reasonableness and allowability for employee relocation and temporary living costs in its contracts and, where appropriate, in advance agreements. Increasing the specificity in the Department's contract provisions, consistent with the FAR and the DEAR, could greatly reduce or eliminate the systemic problems identified in our previously issued audit reports and provide a means for more effective contract administration.

In November 1994, the Deputy Assistant Secretary for Procurement and Assistance Management issued a memorandum to all operations offices and contracting personnel that identified measures designed to reduce the amount of unreasonable and unallowable costs claimed by and reimbursed to contractors. The Department and its contractors also initiated corrective actions for site specific findings reported in our past reports. However, additional actions are necessary to (1) resolve the root cause of the problems and (2) provide the tools needed for effective contract administration.

A draft of this report was sent to officials in the Office of the Deputy Assistant Secretary for Procurement and Assistance Management for review and comment. Management's response to the draft included a plan of action with the goal of ensuring that contractor reimbursements for employee relocation and temporary living costs were consistent with Departmental policy. Management's comments are summarized in Part III. The verbatim comments can be found in the Appendix II.

(Signed)

John C. Layton  
Inspector General

cc: Deputy Secretary  
Under Secretary  
Audit Liaison

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL

SUMMARY AUDIT REPORT ON  
CONTRACTOR EMPLOYEE RELOCATION AND  
TEMPORARY LIVING COSTS

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U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL

SUMMARY AUDIT REPORT ON  
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TEMPORARY LIVING COSTS

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## PART I OVERVIEW

### INTRODUCTION

The purpose of this report is to highlight an area of contracting that requires Departmental attention to ensure that only reasonable and allowable costs are reimbursed for contractor employee relocation and temporary living costs. The Office of Inspector General issued nine audit reports over the past 5 years that identified almost \$13.6 million of unreasonable or unallowable charges by contractors for employee relocation and temporary living costs. The absence of adequate controls to limit reimbursements to reasonable and allowable amounts was primarily caused by either vague contractual provisions or contractual provisions that were not consistent with the FAR or DEAR. The result has been that contractors were reimbursed for employee relocation and temporary living costs for which they were not entitled. Because of the sizable number of contractor changes in process and anticipated and the related relocation of contractor employees, we believe the issues raised in the audit reports require the attention of the Department's senior managers.

### BACKGROUND

The Department relies on prime contractors to manage and operate many of its facilities, including conducting research, performing environmental cleanup and operating major components of the weapons program. The Department should reimburse its contractors for costs incurred in the performance of these tasks in accordance with the terms of the contract and the provisions of the FAR and or the DEAR that apply to the contract. Incurred costs should be necessary and directly, or indirectly, attributable to the work under the contract.

The FAR sets the policy for the acquisition of goods and services by all executive agencies and is implemented and supplemented for the Department by the DEAR. Both the FAR and the DEAR contain principles that limit the reimbursement of incurred costs to those that are allowable, based on reasonableness and allocability, under their respective cost principles and the terms of the contract. Additionally, the FAR and the DEAR permit DOE and its contractors to negotiate the treatment of certain costs in advance of their incurrence and encourages such negotiations where reasonableness of amounts are difficult to determine. Advance agreements should be consistent with applicable acquisition regulations, be made a part of the contract, and include specific language and guidance that contractors can use to determine allowable charges to their contracts.

### SUMMARY OF REPORTS FINDINGS

The Office of Inspector General audit reports disclosed systemic problems of contractors charging the Department for unreasonable and unallowable employee relocation and temporary living and associated travel costs. These unreasonable and unallowable costs were charged because the Department did not use clearly defined contractual provisions that were consistent with the FAR or DEAR, as applicable, to establish reasonable and allowable charges for contractors. As a result, contractors claimed and were reimbursed about \$13.6 million for costs to which they were not entitled.

#### Employee Relocation Costs

The contractual provisions that authorize the contractor to claim cost reimbursement should be clearly articulated. However, our audit reports showed that the Department reimbursed contractors for employee relocation costs of about \$2.2 million that, in our opinion, were unreasonable or unallowable. An additional \$3.4 million was charged and reimbursed for specifically unallowable income taxes related to relocation costs. The following summaries of our travel and relocation audits highlight contractor charges that, in our opinion, were unreasonable and unallowable.

- o The report on the Audit of Management and Operating Contractor Relocation Costs (CR-B-95-04), identified about \$299,000 in unreasonable relocation costs. These costs were determined to be unreasonable because they were in excess of benchmarks developed based on prevailing practices. We used the contract provisions of the 11 contractors, their corporate policies, and Federal Travel Regulations to develop these benchmarks. Based on our benchmarks, we classified the following relocation costs as unreasonable: (1) continuing costs of ownership to maintain a vacant residence at the old location, \$70,662; (2) mortgage discount points, \$29,834; (3) loan origination fees, \$48,828; (4) buyers incentives, \$55,916; (5) shipment of household goods in excess of allowances; \$48,676; and (6) other temporary living costs, \$45,548.
- o During the Interim Audit of Costs Incurred at the Fernald Environmental Restoration Management Corporation (ER-C-95-03), we identified about \$97,000 of relocation costs that were unallowable per the FAR limits or were duplicate payments. Examples of unallowable relocation costs included: (1) family members' per diem that exceeded the FAR limit, \$2,765; (2) shipment of employees' boat, travel trailer, and recreational vehicle which was not allowable by the FAR, \$2,108; (3) title insurance costs reimbursed to employees as home selling expenses, \$11,646; (4) rent differential payments to employees who rented homes but did not retain ownership at the old location, \$6,450; and (5) shipment of household goods and airfare for which

no receipts were maintained for services claimed, \$7,566. We also found that the contractor had inadvertently billed the Department twice for the same service, \$27,584.

- o The Report on Allowable Costs at Department of Energy Management and Operating Contractors (IG-0321), identified unallowable relocation costs and, accordingly, requested that the respective contracting officer seek reimbursement for the following: (1) relocation costs that were not approved by the contracting officer, \$53,102; (2) relocation allowances inconsistent with the DEAR or contract, \$95,316; and (3) relocation bonuses, \$328,919. The report disclosed that a contractor was reimbursed a total of \$95,316 for relocation allowances that were paid to employees in lieu of actual miscellaneous relocation expenses. However, the reimbursements were considered unallowable because individual relocation allowances exceeded the DEAR limit of \$1,000 per occurrence. In addition, this same contractor received \$328,919 for "special" relocation bonuses which were not consistent with relocation expenses allowed in the DEAR.
- o The Audit of Management and Operating Contractor Relocation Costs (CR-B-95-04), identified about \$42,000 of relocation costs that were reimbursed even though contract clauses were missing, vague, or nonspecific regarding their allowability. For example, contractors were reimbursed \$23,179 because 6 of 11 contracts did not contain the clause that would have made mortgage discount points unallowable. Unallowable relocation costs were also noted in the following categories: (1) continuing costs of ownership to maintain a vacant residence at the old location; \$4,857; (2) salary allowance to offset relocation costs, \$4,263; and (3) swing loans to cover the down payment on a new residence because the employee's equity was held up in the unsold former residence, \$9,618.
- o Unallowable relocation costs of \$32,000 were identified in the Audit of Internal Controls that Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to MK-Ferguson (WR-VC-94-08). Consistent with the DEAR, the contract stated that for a voluntary termination "an employee who is paid for moving or relocation expenses shall be required to reimburse the Company for the full amount if the employee voluntarily terminates within 12 months of employment." The contractor had four employees who received relocation assistance under the DOE contract and then voluntarily terminated their employment within 12 months. According to DEAR 970.3102-16(d), the contractor should refund or credit the relocation costs of \$32,476 to the Government.

Specifically Unallowable Employee Relocation Costs

- o The Report on Allowable Costs at Department of Energy Management and Operating Contractors (IG-0321), disclosed that a contractor and a subcontractor were reimbursed a

total of about \$3.4 million for income taxes they paid to employees to cover income tax liabilities caused by the relocations. The reimbursements for employee income taxes were specifically unallowable according to the DEAR. The required DEAR clause, to specifically classify such costs as unallowable, was omitted from the contract. The omission of the contract clause allowed the contractor to claim reimbursement for costs which were specifically unallowable.

#### Temporary Living Expenses and Associated Travel Costs

Temporary living expenses and associated travel costs are authorized for employees who work away from their official or permanent duty locations and incur additional living expenses. However, our audits of temporary living expenses and associated travel costs performed on several subcontractors identified charges of about \$8 million that did not meet that requirement. The following audit reports identified problems with charges for temporary living and associated travel costs.

- o The Report on the Application of Agreed-Upon Procedures with Respect to Temporary Living Allowance Costs Claimed (ER-CC-93-05), reviewed temporary living allowances paid to 136 subcontractor employees at one location from fiscal years 1988 through 1990. We found that employees were paid about \$3.2 million in temporary living allowances for working at their official duty station. Some of these employees lived in the local area and others had been transferred to the official duty station. We identified about 100 employees who inappropriately, in our opinion, received payments for temporary living allowances.
- o The Report on the Independent Audit of Travel and Temporary Living Allowance Costs Claimed (ER-CC-91-08), identified about \$2.4 million of unallowable temporary living allowances and associated indirect costs claimed by the subcontractor for payments to employees during fiscal years 1988 and 1989. Subcontractor employees were paid temporary living allowances for work performed at their official duty stations.
- o The Report on the Independent Audit of Travel and Temporary Living Allowance Costs Claimed for EBASCO Services, Inc. Contract (ER-CC-91-06), identified that the subcontractor paid its employees, and claimed reimbursement from the prime contractor, for temporary living allowances of about \$424,000 when the employees were performing duties at their permanent duty station. Similar problems were noted in the Report on the Independent Audit of Direct Subcontract Costs Claimed Under ABB Impell Corporation Contract (ER-CC-91-02). This audit report identified temporary living expenses totaling \$266,000 that were paid to employees for performing duties at their official duty stations from

fiscal years 1988 through 1989. Finally, the Report on the Independent Audit of Direct Subcontract Costs Claimed for ABB Combustion Engineering Nuclear Power (ER-CC-91-05), reported that reimbursements for temporary living allowances totaling about \$58,000 were not allowable. The subcontractor billed the prime contractor for relocation expenses paid to employees who were also receiving temporary living allowances while working at their official duty station. Employees were hired to work at the specific location and this made the location their "official duty station." The DEAR does not allow reimbursement of temporary living allowances paid to contractor employees who work at their "official duty station."

#### INITIATIVES BY MANAGEMENT

DOE Headquarters took action to focus attention on the problem of contractors being reimbursed for unreasonable or unallowable employee relocation costs and temporary living expenses and associated travel costs. In November 1994, the Deputy Assistant Secretary for Procurement and Assistance Management issued a memorandum to all operations offices and contracting personnel that identified measures designed to reduce the amount of unreasonable and unallowable costs claimed by and reimbursed to contractors. Management directed the respective personnel to take the necessary actions to review contractors' claimed costs and, where warranted, require reimbursement for costs deemed unallowable.

Corrective action was also taken by field elements and their respective contractors for site specific problems. For example, during the Interim Audit of Costs Incurred at Fernald Environmental Restoration Management Corporation (ER-C-95-03), contractor management at the Fernald Environmental Restoration Management Corporation agreed with our findings and subsequently refunded to the Department \$432,737 of the costs identified. They also agreed to review the remainder of the costs and refund any additional improper payments.

#### PART II CONCLUSION AND RECOMMENDATION

Although the Department and its contractors may have initiated corrective actions for specific findings in the reports listed in the attachment, additional actions are necessary to provide the tools needed for effective contract administration. Consequently, we recommend that the Department use clearly articulated FAR and DEAR standards and criteria for reasonableness and allowability for employee relocation and temporary living costs in its contracts and, where appropriate, in advance agreements. Implementation of the

recommendation would provide a significant measure of uniformity and consistency to the treatment of contractor employee relocation and temporary living costs for the entire DOE complex.

The Deputy Assistant Secretary for Procurement and Assistance Management concurred with the recommendation and provided a plan to improve contractual coverage of these costs as detailed in Part III.

\_\_\_\_\_(Signed) \_\_\_\_\_  
Office of Inspector General

### PART III MANAGEMENT AND AUDITOR COMMENTS

The Deputy Assistant Secretary for Procurement and Assistance Management agreed to take action to implement improved employee relocation and temporary living cost provisions in Departmental contracts as detailed below.

#### RECOMMENDATION

We recommend that the Department use clearly articulated FAR and DEAR standards and criteria for reasonableness and allowability for employee relocation and temporary living costs in its contracts and, where appropriate, in advance agreements.

Management Comments. Management's plan to improve the cost provisions was based on a short- and long-term strategy. In the short term, a memorandum will be issued to field offices requiring them to incorporate DEAR 970.3102 in all future management and operating contracts. In the long term, a project was included in the Fiscal Year 1997 business plan to review both the language of all DEAR 970.3102 cost principles and how they are applied to the Department's management and operating contractors.

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

Appendix I

#### REPORTS ISSUED

The following is a list of the audit reports, including

report numbers and titles, referenced in this report.

Report No.	Report Title
IG-0321	Report on Allowable Costs at Department of Energy Management and Operating Contractors (February 23, 1995)
CR-B-95-04	Audit of Management and Operating Contractor Relocation Costs (March 2, 1995)
ER-C-95-03	Report on the Interim Audit of Costs Incurred Under Contract No. DE-AC05-92OR21972 from September 1, 1992 to September 30, 1993, Fernald Environmental Restoration Management Corporation, Fernald, Ohio (May 11, 1995)
ER-CC-93-05	Report on the Application of Agreed-Upon Procedures with Respect to Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-89SR18035, October 1, 1987, to September 30, 1990, Bechtel National, Inc., San Francisco, California, and Bechtel Savannah River, Inc. North Augusta, South Carolina (May 3, 1993)
ER-CC-91-02	Report on the Independent Audit of Direct Subcontract Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 30, 1989, ABB Impell Corporation, Norcross, Georgia (October 24, 1990)
ER-CC-91-05	Report on the Independent Audit of Direct Subcontract Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 30, 1989, ABB Combustion Engineering Nuclear Power, Windsor, Connecticut (December 6, 1990)
ER-CC-91-06	Report on the Independent Audit of Travel and Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987 to September 30, 1989, ABCs Services Incorporated, New York, New York (December 24, 1990)
ER-CC-91-08	Report on the Independent Audit of Travel and Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 30, 1989, United Engineers and Constructors, Inc. Philadelphia, Pennsylvania (December 4, 1991)
WR-VC-94-08	Audit of Internal Controls that Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to

MK-Ferguson of Idaho Company Are Allowable  
Under Department of Energy Contract No.  
DE-AC07-89ID12721 (May 9, 1994)

IG Report No. \_\_\_\_\_

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