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THE U.S. DEPARTMENT OF ENERGY'S  
MANAGEMENT OF ASSOCIATED  
WESTERN UNIVERSITIES  
GRANT PROGRAM

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THE U.S. DEPARTMENT OF ENERGY'S MANAGEMENT  
OF ASSOCIATED WESTERN UNIVERSITIES  
GRANT PROGRAMS

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| SUMMARY.....                                     | 1           |
| PART I - APPROACH AND OVERVIEW .....             | 3           |
| Introduction .....                               | 3           |
| Scope and Methodology .....                      | 3           |
| Background .....                                 | 4           |
| Observations and Conclusions .....               | 4           |
| PART II - FINDINGS AND RECOMMENDATIONS .....     | 6           |
| 1. Management of DOE's Grant Programs .....      | 6           |
| 2. AWU Costs .....                               | 11          |
| PART III - MANAGEMENT AND AUDITOR COMMENTS ..... | 14          |

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

THE U.S. DEPARTMENT OF ENERGY'S MANAGEMENT  
OF ASSOCIATED WESTERN UNIVERSITIES  
GRANT PROGRAMS

Audit Report Number: WR-B-98-02

SUMMARY

The Department of Energy (DOE), recognizing the need to maintain a strong science and engineering base at a time when enrollments in these disciplines were declining, implemented several educational programs. Among these were educational programs to provide faculty and students of United States (U.S.) colleges and universities with energy-related training and research experience. Associated Western Universities (AWU), a nonprofit organization, administered post-secondary educational programs for DOE through grants and, occasionally, subcontracts. The objectives of the audit were to determine whether: (1) DOE was achieving its goal of enhancing U.S. science and engineering education and (2) AWU was appropriately accumulating and classifying its costs.

We found that DOE was not fully achieving its objective of enhancing science and engineering education for students of U.S. colleges and universities. Since 1994, DOE has funded an increasing number of recipients who did not meet the educational program eligibility requirements. This occurred because the Richland Operations Office (Richland) and Idaho Operations Office (Idaho), which are responsible for the grants, included grant provisions that allowed AWU to make exceptions to the citizenship, residency, and educational institution affiliation requirements of the programs. Furthermore, national laboratory officials, who had little knowledge of educational program requirements, assumed AWU's responsibility for identifying recipients and focused on the candidates' research strengths, not their eligibility. The steadily increasing number of exceptions reduces the effectiveness of programs intended to enhance science and engineering education in the U.S.

In addition, we found that AWU had not complied with cost principles for nonprofit organizations as required under the terms of the grants. Specifically, AWU misclassified a \$13,000 overrun of direct program cost as indirect cost, incurred \$40,000 of idle facility costs that were unallowable under the terms of the grant, misclassified indirect costs as direct costs, and claimed reimbursement for consultant costs that were inappropriate under the terms of the consulting contract. These discrepancies resulted in \$53,000 of questionable costs, as well as costs having been charged to the Office of Energy Research (ER) grant that should have been charged to the Richland and Idaho grants.



## PART I

### APPROACH AND OVERVIEW

#### INTRODUCTION

The DOE, recognizing the need to maintain a strong science and engineering base at a time when enrollments in these disciplines were declining, implemented several educational programs. Among these were educational programs that provided faculty and students of U.S. colleges and universities with energy-related training and research experience. AWU, a nonprofit organization, administered post-secondary educational programs for DOE through grants and, occasionally, subcontracts. The grants from DOE, which average \$21.6 million per year in total, provide financial assistance to recipients through stipends and allowances for travel and housing. The objectives of the audit were to determine whether: (1) DOE was achieving its goal of enhancing U.S. science and engineering education and (2) AWU was appropriately accumulating and classifying its costs.

#### SCOPE AND METHODOLOGY

The audit was conducted from January through July 1997 at AWU, three offices that issued the grants (Headquarters ER, Richland, and Idaho), and at the Golden Field Office, which provided funding for the program through Idaho. In addition, audit work was conducted at the management and operating contractors of three national laboratories: the Idaho National Engineering and Environmental Laboratory in Idaho Falls, Idaho; the Pacific Northwest National Laboratory (PNNL) in Richland, Washington; and the National Renewable Energy Laboratory in Golden, Colorado. To accomplish the audit objectives, we:

- reviewed applicable laws, regulations, and policies;
- reviewed grant documents and subcontract instruments;
- reviewed files maintained by AWU and the national laboratories;
- interviewed personnel from AWU, DOE, and the national laboratories concerning the administration of the grants; and,
- reviewed AWU cost data, office space utilization, and Defense Contract Audit Agency (DCAA) reports on AWU.

Because the first objective of our review focused on DOE's goal of enhancing U.S. science and engineering education, we selected and reviewed files for 33 out of 338 non-U.S. citizens who received financial support from AWU between October 1, 1993 and March 31, 1997. These recipients were selected from a listing provided by AWU that included undergraduate and graduate students, as well as postdoctoral fellows, research associates, and faculty.

The audit was conducted in accordance with generally accepted Government Auditing Standards for performance audits, which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objectives. This included controls over awarding of financial support and accounting for grant funds. 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. Our only reliance on computer data was data that had been processed on systems audited by DCAA. Because DCAA had audited the systems and had not found any material weaknesses, we considered the data to be reliable without further review.

In addressing the second audit objective, our review of cost data was limited to a portion of AWU's accounts, for the period October 1994 through January 1997. We did not perform an audit for the purpose of expressing an opinion on the total cost incurred or claimed by AWU.

An exit conference was held with procurement and program officials at Idaho on February 17, 1998. Officials at Richland waived a final exit conference based, in part, on concurrence with the recommendations and a prior videoconference on December 11, 1997.

## BACKGROUND

AWU was established as a nonprofit organization in 1967. At that time, it was comprised of 21 institutions of higher education and was funded with \$220,000 from the Atomic Energy Commission (a predecessor to DOE) with the mission to plan, coordinate, and administer educational programs which enhanced science and engineering within DOE and the Nation. By 1997, AWU had grown to be a consortium of over 64 institutions of higher education and was receiving an average of \$21.6 million per year since Fiscal Year (FY) 1994 to support DOE's educational efforts. At the time of the audit, AWU received funding through three DOE grants. For FYs 1994-1996, ER provided \$11.6 million, Richland provided \$28.9 million, and Idaho provided \$24.2 million. This funding was provided to AWU under grant documents that were issued in September and October 1993. Idaho was responsible for establishing the indirect cost rate applicable to all three grants.

While ER and Idaho grants were issued directly to AWU, the Richland grant was issued to Washington State University (WSU). In 1993, WSU issued a subcontract to AWU to carry out the educational programs on its behalf. At the time of the audit, WSU was still acting as an intermediary between Richland and AWU.

## OBSERVATIONS AND CONCLUSIONS

Our audit disclosed that the purpose of DOE's educational programs was not being achieved as currently carried out. Specifically, an increasing number of ineligible grant recipients were being allowed to participate in DOE's educational grant programs when the objective of the programs was to enhance science and engineering education at U.S. institutions. However, the grants addressed in this audit were conceptually different from most of the grants awarded by DOE. While most of the grants awarded by DOE are sponsored by a DOE Headquarters program office, the Richland and Idaho grants represent a combination of DOE program funding

from up to 32 different DOE facilities and no designated Headquarters oversight. As such, management of the grants has been placed on Richland and Idaho, which have limited resources and experience in managing DOE grants. In light of these conditions, Richland and Idaho have been responsive to the findings and recommendations made. Through their efforts, the Richland and Idaho programs are being re-evaluated to ensure that the objectives are met.

## PART II

### FINDINGS AND RECOMMENDATIONS

#### 1. Management of DOE's Grant Programs

##### FINDING

To enhance science and engineering education in the U.S., DOE established educational programs to provide college and university students with energy-related training and research experience. Under the Richland and Idaho grants, however, the purpose of the educational programs was not being met because recipients who did not meet the programs' eligibility requirements were allowed to participate. This occurred because the Operations offices had included grant provisions that allowed AWU to make exceptions to the citizenship, residency, and U.S. educational institution affiliation requirements of the educational programs. The number of such exceptions granted steadily increased in recent years. In addition, AWU was not providing either operations office with program management reports, which could have been designed to disclose data about exceptions being made. Furthermore, national laboratory officials, who had little knowledge of educational program requirements, assumed AWU's responsibility for identifying recipients and focused on the candidates' research strengths rather than their eligibility. Thus, the educational benefits originally intended by DOE were not realized to the extent possible.

##### RECOMMENDATIONS

We recommend that the Managers of the Richland and Idaho Operations Offices:

1. revise the educational program grants issued to AWU to restrict recipient eligibility to those individuals who can further the goals of the program;
2. direct AWU to identify and select only eligible recipients;
3. inform the participating laboratories of AWU's responsibility to identify recipients and of the objectives and eligibility requirements for the educational programs; and,
4. monitor AWU's performance through periodic program management reports prepared by AWU.

##### MANAGEMENT REACTION

Management at Richland and Idaho concurred with the finding and recommendations. Part III of the report provides detailed management and auditor comments.

## DETAILS OF FINDING

The objectives of DOE's educational programs and the eligibility requirements are defined by various documents. For example:

- Secretary of Energy Notice 23-90, Support for Science, Mathematics and Engineering Education (May 21, 1990). The Notice stated the Secretary's intent to fully utilize the resources of DOE to assist in the critically important national effort to strengthen and improve education fundamental to the production of qualified mathematicians, scientists, and engineers. To do so, DOE and its contractors and laboratories were to commit to educational programs involving U.S. colleges and universities.
- Department of Energy Science Education Enhancement Act, Public Law 101-510 (November 5, 1990). Congress found that (1) U.S. college and university enrollments in mathematics, science, and engineering were sharply declining and (2) improvements were needed in these disciplines to provide the trained and educated citizenry to carry on DOE's and the Nation's programs. Congress authorized DOE to support research appointments for undergraduate and graduate students and faculty at DOE facilities for the purpose of encouraging more students to pursue scientific careers.
- DOE Education Programs Catalog (1994). The Catalog stated that DOE's education efforts would be linked with those of other Federal agencies through the Federal Coordinating Council for Science, Engineering, and Technology. Two of the council's priorities were to foster multi-disciplinary applied research programs and to recruit and retain U.S. students. Placing emphasis in these areas would help ensure a steady supply of well-educated, highly skilled scientific personnel to carry out DOE's mission.
- Catalog of Federal Domestic Assistance. The Catalog descriptions for DOE education programs administered by AWU for the Richland grant restricted eligibility to U.S. citizens or residents who were science and engineering students or faculty at U.S. colleges and universities. For ER and Idaho grants, the Catalog descriptions restricted eligibility to institutions of higher education and cited science-related educational goals.

These documents showed that the overall objective of DOE educational programs was to enhance science and engineering education in the U.S. Consistent with this objective, the documents led us to conclude that it was the intent of these programs that the recipients should be U.S. citizens or permanent residents and be affiliated with U.S. colleges or universities.

## USE OF EDUCATIONAL GRANTS

The acceptance into the educational programs of recipients who did not meet the programs' eligibility requirements limited DOE's ability to enhance science and engineering education for students of U.S. colleges and universities. For FYs 1994 through 1996, for example, AWU paid over \$6 million in stipends and allowances to recipients who did not meet the eligibility requirements of being U.S. citizens or permanent residents. Further, in many of these instances, the recipients were not affiliated with a U.S. college or university. As shown in the following table, these recipients and the funding they receive have become an annually increasing share of total recipients and available funding.

*Table – Recipients during Fiscal Years 1994 - 1996*

| Fiscal Year  | Recipients |                     |         | Funding (000s)   |                     |         |
|--------------|------------|---------------------|---------|------------------|---------------------|---------|
|              | Total      | Eligibility Not Met | Percent | Total            | Eligibility Not Met | Percent |
| <b>1994</b>  | 1,539      | 90                  | 5.8     | \$ 14,177        | \$ 1,431            | 10.1    |
| <b>1995</b>  | 1,592      | 114                 | 7.2     | 16,307           | 2,064               | 12.7    |
| <b>1996</b>  | 1,487      | 157                 | 10.6    | 14,701           | 2,580               | 17.6    |
| <b>Total</b> |            |                     |         | <b>\$ 45,185</b> | <b>\$ 6,075</b>     |         |

*(Note: The total funding figures presented represent payments to recipients at the undergraduate level and above.)*

The table shows that the percentage of recipients not meeting the eligibility requirements almost doubled between 1994 and 1996, growing from 5.8 percent of total recipients in 1994 to 10.6 percent in 1996. Funding of such participants also grew as a percentage of total funding, going from 10.1 percent in 1994 to 17.6 percent in 1996.

Not only were there more recipients who did not meet the programs' eligibility requirements, but an increasing number of such recipients were postdoctoral fellows, who are much more expensive to fund. In 1994, for example, postdoctoral fellows represented only 10 percent of the recipients who did not meet the eligibility requirements and accounted for 6.3 percent of the funding provided to such recipients. By 1996, however, the percentages had grown to 28.7 percent and 53.5 percent, respectively.

## MANAGEMENT CONTROLS OVER EDUCATIONAL GRANT PROGRAMS

The grants issued by Richland and Idaho were funding recipients who did not meet the eligibility requirements, at an increasing number, because the Operations offices had included grant provisions that allowed AWU to make exceptions to the citizenship, residency, and U.S. educational institutional affiliation requirements of the educational programs. In addition, AWU was not providing either Operations office with program management reports, which could have been designed to require data about exceptions being made. Furthermore, national laboratory officials, who had little knowledge of educational program requirements, assumed AWU's

responsibility for identifying recipients and focused on the candidates' research strengths, not their eligibility.

Both Operations offices had included grant provisions that allowed AWU to make exceptions to the eligibility requirements. Although Idaho's earlier contract with AWU specifically stated that citizenship, residency, and institutional requirements must be met for all recipients, the October 1993 grant it issued allowed for exceptions -- on a case-by-case basis -- to these eligibility requirements. An Idaho official told us that the provision for exceptions was added to the grant at the request of a DOE Headquarters official. The exception provisions opened DOE's educational programs to recipients who did not meet the programs' eligibility requirements.

We could not identify a basis for granting exceptions that was consistent with the educational objectives of the programs. However, once permitted, there were no controls established by the Operations offices to monitor the use of exceptions. AWU was not required to forward exceptions to the Operations offices for approval. Also, although the grant issued by Richland required periodic program management reports from AWU, as did the Idaho grant beginning in 1997, AWU did not provide either Operations office with such reports. These reports could have been designed to require data about exceptions being made by AWU. Therefore, when AWU made exceptions to the eligibility requirements, DOE was unaware of the actions or AWU's justification for granting exceptions. Recognizing this reporting weakness, Idaho modified its grant to require technical program reporting on a quarterly basis beginning with the first quarter of FY 1997. AWU, however, had not submitted any of the required reports at the time of our audit.

In addition, AWU routinely approved exceptions for an increasing number of recipients because it allowed the laboratories to identify and select candidates. As the grant administrator, AWU was responsible for identifying and screening recipients. However, over time, AWU's role was reduced to in-processing candidates preselected by the laboratories. Since the laboratories were unaware of or did not recognize the fundamental objectives of DOE's educational programs, their selection emphasized the candidates' research expertise, without regard to any eligibility requirements. Specifically, we concluded that in many cases grants were awarded to researchers whose presence enhanced the capability of the laboratory or the ability of the laboratory to compete for work, but whose participation was not consistent with DOE's educational program objectives.

#### ENHANCEMENT OF U.S. SCIENCE AND ENGINEERING PROGRAMS

DOE's educational programs were designed to enhance science and engineering education and provide a trained and educated citizenry to carry on DOE's and the Nation's programs. At least one follow-up study has shown that, in fact, some educational programs implemented by DOE have met with success. A recent working paper prepared by Argonne National Laboratory and the Oak Ridge Institute for Science and Education surveyed the current career paths for recipients in DOE's educational programs during the 1980s. The study found that, out of the graduate and postgraduate recipients responding to the survey, 45 percent were currently

employed at one of the Federal laboratories or at a four-year college or university. Federal, state, or local governments employed another 11 percent.

While these results are encouraging, we are concerned that the increasing number of exceptions to the educational programs' eligibility requirements may substantially reduce the ability of these programs to achieve their intended objectives. It is unlikely that educational program funds provided to individuals who are not U.S. citizens, who do not have permanent residency status, and who are not affiliated with U.S. colleges and universities would enhance science and engineering education in the U.S.

## 2. AWU Costs

### FINDING

The cost principles applicable to the three AWU grants established the basis for classifying costs as direct or indirect as well as the factors for determining the allowability of costs. AWU did not comply with these cost principles. Specifically, AWU misclassified a \$13,000 overrun of direct program cost as indirect cost, incurred \$40,000 of idle facility costs that were unallowable under the terms of the grant, misclassified indirect costs as direct costs, and claimed reimbursement for consultant costs that were inappropriate under the terms of the consultant contract. These discrepancies resulted in \$53,000 of questionable costs, as well as \$224,000 of costs having been charged to the ER grant that should have been charged to the Richland and Idaho grants.

### RECOMMENDATIONS

We recommend that the Manager, Idaho Operations Office, direct the Contracting Officer to:

1. require AWU to adhere to OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, when accounting for direct or indirect costs; and,
2. recover any questionable costs and ensure that final incurred costs claimed and allowed by DOE adhere to applicable cost principles.

### MANAGEMENT REACTION

Management concurred with the finding and recommendations. Part III of the report provides detailed management and auditor comments.

### DETAILS OF FINDING

As a nonprofit organization receiving Federal grant funds, AWU is required to follow cost principles outlined in OMB Circular A-122, *Cost Principles for Nonprofit Organizations*. The cost principles establish requirements for classifying costs as direct costs or indirect costs. Direct costs are those costs that can be specifically identified with a particular final cost objective, that is, a particular award, project, service, or other direct activity of an organization. These direct costs are to be charged to the final cost objective with which they can be identified. Indirect costs are the costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Indirect costs are to be allocated and charged to the benefiting cost objectives in an equitable manner. The cost principles also set forth factors and criteria for determining the allowability of costs. Unallowable costs should, to the extent incurred by AWU, be paid out of AWU corporate funds rather than grant funds. We have questioned costs charged to the grants that, in our opinion, do not comply with the cost principles.

### Cost Overrun

AWU misclassified a direct cost overrun as an indirect cost. For FY 1995, ER provided \$75,000 to fund the Information Exchange program direct costs. AWU's records showed that \$88,000 of cost was incurred. AWU improperly classified the \$13,000 overrun as an indirect cost, which was then allocated to all three grants. We questioned the \$13,000 that exceeded the amount authorized by the ER grant.

### Idle Facility Cost

OMB Circular A-122 states that the costs of idle facilities are unallowable costs, except in certain circumstances. However, AWU charged the cost of idle facilities to the grants. AWU included \$22,000 in its indirect costs for a leased Washington, D.C., office before it was officially opened for business. According to AWU, this 2,000 square foot office was ready for occupancy on March 1, 1995, and was used intermittently until July 1995, when the office was officially opened for business. Use of a portion of the office subsequent to July 1995 is also questionable as idle space because the permanent office staff at Washington, D.C., never exceeded two full-time employees. In August 1996, the Idaho Contracting Officer informed AWU that the office was unnecessary and that its cost would be unallowable after September 1996. Despite this notification, AWU included \$18,000 of lease cost in its indirect costs for the months October 1996 through January 1997. We questioned a total of \$40,000 as idle facility cost.

We also noted that AWU could have idle facilities at their Salt Lake City and Richland offices. Based on the number of offices available and the number of employees occupying the offices in these locations, we estimated that 39 percent of the offices were unoccupied. AWU's Vice President of Operations stated that smaller spaces would be negotiated as the office leases expired.

### Cost Classification

AWU charged indirect costs directly to the ER grant. AWU's final cost objectives were the cost accounts created for the individual recipients supported under the three grants. Therefore, AWU should have classified the administrative costs that did not directly benefit the individual recipients as indirect costs, to be allocated and charged on a reasonable basis to all three grants. However, AWU was charging some administrative costs to just one grant, the ER grant. Specifically, in FYs 1995 and 1996 AWU charged over \$270,000 of expenditures incurred for program coordination, conferences, and meetings as direct costs to the ER grant. However, AWU's own description of these events showed that the costs were incurred for the common objective of enhancing AWU's ability to operate the educational programs for all three grants. As such, the costs should have been allocated and charged to all three grants.

For example, among the meetings were the annual Board of Directors meetings. AWU classified the travel expenses incurred for AWU staff and a consultant to attend Board of Directors meetings as direct costs to the ER grant. However, such costs should have been classified as indirect costs because the issues discussed at the meetings related to all three grants.

Further supporting the position that these were indirect costs was the fact that AWU had classified the related labor costs as indirect costs.

If all such program coordination, conference, and meeting costs had been properly classified as indirect in FYs 1995 and 1996, we estimated that \$224,000 of the \$270,000 of costs would have been charged to the Richland and Idaho grants. The Richland and Idaho grants would have been allocated \$127,000 and \$97,000, respectively, of this cost. Instead, the entire \$270,000 of cost was charged to the ER grant.

Although Idaho was aware that these costs were being charged directly to the ER grant, it did not require AWU to take corrective action. The DCAA concluded in an audit of AWU's 1992 incurred costs that these costs met the definition of general and administrative expenses and recommended reclassifying the costs from direct to indirect. However, the Idaho Contracting Officer responsible for establishing indirect rates for all three grants allowed the costs to be reimbursed to AWU because DCAA had not questioned the costs in the past and AWU was consistent in their practice of classifying costs in this manner. Therefore, AWU continued its method of charging indirect costs in a direct manner.

#### Consultant Cost

AWU incurred and claimed reimbursement for consultant costs that we considered inappropriate under the terms of the established consulting agreement and prudent business practices. AWU hired a consultant that, according to the consulting subcontract, was to assist it to evaluate existing programs, assess client needs for potential program growth, identify new opportunities outside present structures, and develop long-term growth opportunities. However, according to timesheets submitted by the consultant, many of the activities performed were not within the established scope of work. For example, AWU paid the consultant to review mail, assist with employee appraisals, identify new office space, interview and select candidates for administrative and management positions, and identify and evaluate accommodations and restaurants for Board of Directors meetings. While these activities are a normal part of AWU's efforts to carry out the grant activities, they were not within the scope of the consulting agreement and could have been performed by clerical or administrative staff.

## PART III

### MANAGEMENT AND AUDITOR COMMENTS

DOE management concurred with our report and recommendations. Responses were received from the Manager, Richland and the Chief Financial Officer, Idaho. Since Richland and Idaho each administered grants to AWU, both were required to respond to the recommendations for Finding 1. However, as the designated Cognizant Federal Agency responsible for establishing AWU's indirect cost rates, only Idaho was required to respond to Finding 2. A summary of management comments and our response follows.

#### Finding 1: Management of DOE's Grant Programs

Recommendation 1. Revise educational program grants issued to AWU to restrict recipient eligibility to those individuals who can further the goals of DOE's educational program.

Management Comments. Management at both Richland and Idaho concurred with the recommendation.

- **Richland Comments.** Concur. On February 5, 1998, Richland sent a letter to WSU to advise them to direct AWU to immediately initiate termination of all appointments of nonresident aliens. Richland stated that its grant to WSU had allowed use of nonresident aliens "only as an exception and on a case-by-case basis." However, it was now aware that this exception was inappropriate and should not have been allowed as part of DOE's educational program. The Richland grant expired on March 31, 1998.
- **Idaho Comments.** Concur. Effective November 25, 1997, Amendment No. A064 to the Idaho grant was issued to AWU which revoked the long-standing provision that allowed AWU to inappropriately place nonresident aliens. This grant now specifically requires, without exception, that all participants supported under the Idaho grant shall either be U.S. citizens or have permanent U.S. resident status.

Auditor Comments. Management comments are considered responsive to our recommendation.

Recommendation 2. Direct AWU to identify and select only eligible recipients.

Management Comments. Management at Richland and Idaho concurred with the recommendation.

- **Richland Comments.** Concur. Based on the actions taken in response to Recommendation 1, Richland has restricted eligibility to U.S. citizens or permanent residents. In addition, the Richland grant, which expired on March 31, 1998, is being replaced with a master agreement between PNNL and AWU. On February 23, 1998,

Richland notified PNNL in writing to change the master agreement which they have in place with AWU to eliminate placement of nonresident aliens and restrict eligibility to U.S. citizens or individuals having permanent U.S. resident status.

- **Idaho Comments.** Concur. As stated in the response to Recommendation 1, Amendment No. A064 explicitly delineates participation requirements, restricting participant eligibility to U.S. citizens or to individuals having permanent residency status.

Auditor Comments. Management comments are considered responsive to the recommendation.

Recommendation 3. Inform participating laboratories of AWU's responsibility to identify recipients and of the objectives and eligibility requirements for the educational programs.

Management Comments. Management at Richland and Idaho concurred with the recommendation.

- **Richland Comments.** Concur. Richland's letter directing PNNL to change its master agreement with AWU also delineates the objectives and eligibility requirements for the educational programs. Although the new master agreement between PNNL and AWU is not for a program which is specifically a DOE educational program (such as the "University Laboratory Cooperative Program," which was funded by the previous Richland grants), the funds being utilized are DOE funds. Richland feels strongly that this is an appropriate time and mechanism to communicate to PNNL and AWU that use of DOE funding for appointments of nonresident aliens is improper and will no longer be allowed.
- **Idaho Comments.** Concur. With AWU's acceptance of Amendment No. A064, Idaho informed each participating DOE facility of the terms and conditions of the grant as well as the eligibility requirements, as amended.

Auditor Comments. Management comments are considered responsive to the recommendation.

Recommendation 4. Monitor AWU's performance through periodic program management reports prepared by AWU.

Management Comments. Management at Richland and Idaho concurred with the recommendation.

- **Richland Comments.** Concur. Richland will ensure that program management reports from AWU are provided on a quarterly basis to the Richland Contracting Officer responsible for oversight of the PNNL master agreement. Through this mechanism, Richland will be able to monitor AWU's performance and compliance with

the aforementioned requirements and changes to the master agreement between PNNL and AWU.

- **Idaho Comments.** Concur. There are reporting requirements that apply to both the ER and Idaho grants, wherein AWU is to provide technical progress reports. The reporting requirement for the ER grant remains and will be enforced by Idaho. In addition to the monthly financial reports being provided to Idaho, AWU submitted an informal programmatic progress report to Idaho, dated October 30, 1997. The Idaho grant requires quarterly technical progress reports. The next technical progress reports will be due in the months of February, May, and August of 1998. The final technical reports will be due 90 days after the grants expire, or by about January 1999.

Auditor Comments. While the comments are considered responsive to the recommendation, Richland and Idaho need to enforce the implementation of corrective actions. For example, Idaho initiated the requirement for quarterly technical reports in October 1996. However, the first technical report that was due from AWU in January 1997 was not received until October 30, 1997 - nearly nine months late.

#### Finding 2: AWU Costs

Recommendation 1. Require AWU to adhere to OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, when accounting for direct or indirect costs.

Management Comments. Concur. In a letter from the Contracting Officer to AWU, dated September 10, 1997, Idaho stated that the practice of charging indirect costs as direct effectively removes any control over indirect costs because any cost which exceeds the negotiated ceiling rate could be charged to a direct account. Therefore, any cost which is indirect in nature, but is charged direct, shall be considered unallowable effective October 1, 1997.

Auditor Comments. Management comments are considered responsive to the recommendation.

Recommendation 2. Recover any questionable costs and ensure that final incurred costs claimed and allowed by DOE adhere to applicable cost principles.

Management Comments. Concur. On January 30, 1998, Idaho informed AWU that recovery of questioned costs is a closeout requirement for the grants. The DCAA final incurred cost audit will be necessary to identify any other questioned costs, including those identified in Recommendation 1. Any questioned costs of the grants will be resolved prior to completing closeouts.

Auditor Comments. Management comments are considered responsive to the recommendation.

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