

AUDIT REPORT

STAFF AUGMENTATION WORKERS AT SANDIA NATIONAL LABORATORIES



MARCH 2000

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MEMORANDUM FOR THE MANAGER, ALBUQUERQUE OPERATIONS OFFICE

FROM: Lawrence R. Ackerly, Regional Manager /s/ Lawrence R. Ackerly
Western Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Staff Augmentation Workers at Sandia National Laboratories"

BACKGROUND

Sandia National Laboratories (Sandia) has used subcontractors to provide labor on an as needed basis. One mechanism for doing this is through its staff augmentation process, which is used for temporarily increasing staffing by contracting for individuals with specific labor skills. As of September 1999, Sandia had a total of 450 staff augmentation workers and spent \$27.5 million for their services during Fiscal Year 1999. Thus, the objective of our audit was to determine if Sandia's use of staff augmentation workers was economical.

RESULTS OF AUDIT

Sandia's use of staff augmentation workers was not economical. However, given the periodic need for temporary workers, we believe that some additional cost for short-term help is reasonable. We found, however, that 213 (47 percent) of Sandia's staff augmentation workers had over 3 years continuous service and, as such, are long-term workers as defined by Sandia in October of 1995. We determined that the cost for long-term staff augmentation workers was about \$936,000 per year more expensive than if those positions were filled with Sandia employees. Sandia was not aware of the additional cost associated with staff augmentation workers because it did not apply the center support overhead charge to the staff augmentation workers. Therefore, we recommended that the Manager, Albuquerque Operations Office require Sandia to limit staff augmentation contract workers to 3 years of service and consistently allocate the center support rate by charging it to both Sandia employees and all staff augmentation workers working on-site.

MANAGEMENT REACTION

Management concurred with our recommendation to limit staff augmentation workers to 3 years of service. Although management did not agree with the second recommendation, the action taken on the first recommendation will mitigate the second recommendation.

STAFF AUGMENTATION WORKERS AT SANDIA NATIONAL LABORATORIES

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Overview

INTRODUCTION AND OBJECTIVE

Sandia National Laboratories (Sandia) has, for many years, used subcontractors to provide labor on an as needed basis. One mechanism for this is through its staff augmentation process, which contracts for individuals with specific labor skills on a temporary basis. Sandia defined temporary employment as 3 years continuous service or less.

As of September 1999, Sandia had a total of 450 staff augmentation workers and during fiscal year (FY) 1999; Sandia spent \$27.5 million for their services. Thus, the objective of our audit was to determine if Sandia's use of staff augmentation workers was economical.

CONCLUSIONS AND OBSERVATIONS

Sandia's use of staff augmentation workers was not economical. For example, the cost of a Technical Writer was \$8,244 per year more expensive under a staff augmentation contract than as a Sandia employee. Although the cost of a staff augmentation worker was more expensive, we believe that some additional cost for short-term help is reasonable. We determined, however, that 213 of 450 staff augmentation workers have over 3 years of continuous service. By Sandia's own definition, such workers are no longer short-term help. Thus, we determined the cost for long-term staff augmentation workers was about \$936,000 per year more expensive than if those positions were filled with Sandia employees.

The audit identified a material internal control weakness that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)
Office of Inspector General

Cost Of Staff Augmentation Workers At Sandia

Long-Term Use Not Economical

Sandia's use of staff augmentation workers was not economical. As of September 1999, Sandia had a total of 450 staff augmentation workers, including 213 (47 percent) that had worked there for 3 or more continuous years. The following chart provides examples of the wide variety of jobs filled by long-term staff augmentation workers as well as the cost difference for specific jobs under staff augmentation contracts versus the same jobs filled with Sandia employees.

Annual Full Cost Differential By Job Title
Staff Augmentation Worker Versus Sandia Employee

Title	Staff Augmentation Worker	Sandia Employee	Difference
Technical Writer/ Editor	\$79,964	\$71,720	\$8,244
Computer Hardware Research/ Development	\$171,686	\$165,062	\$6,624
Electromechanical Technology	\$93,705	\$87,849	\$5,856
Engineering Support	\$68,841	\$63,978	\$4,863
Nuclear Engineering	\$104,012	\$99,749	\$4,263
Administrative Support	\$41,473	\$39,340	\$2,133

The full cost of a staff augmentation contract worker is the sum of the direct labor rate, the contractors' fringe rates, the contractors' profit margins, and Sandia's center support charges. The full cost of a Sandia employee is the sum of the standard labor rates, the fringe rates, and center support charges. The above chart illustrates that staff augmentation contract workers are more expensive than Sandia employees. We acknowledge, however, that on a short-term basis additional cost for specific work could be beneficial.

Requirements For Economy

Economy of operation is required of Sandia by its contract with the Department of Energy (DOE). Specifically, its contract states that the acquisition of property and services shall be obtained on a least-cost basis. Thus, Sandia should make staffing decisions based on what is most economical. Also, the Cost Accounting Standards require

**Why Staff
Augmentation
Costs More**

Sandia to allocate its indirect costs to its direct activities based on a beneficial or causal relationship between the costs. Sandia's center support charge is an indirect overhead cost that should be allocated to all that benefit from it.

Additionally, in October 1995, Sandia developed a policy for its staff augmentation process. This policy defined staff augmentation as being a process for temporarily increasing a department or program staff by contracting for individuals with specific labor skills. The policy limited staff augmentation workers to 3 years of continuous service to Sandia.

The use of staff augmentation workers was uneconomical because of the overhead and profit margin charged by the staff augmentation contractors, and because Sandia did not follow its policy of limiting augmentation workers to 3 years. It was not readily apparent that the augmentation workers cost more than Sandia employees because Sandia did not fully distribute all of its center support charges. Under Sandia's method, the direct cost for a staff augmentation worker was their direct labor rate plus the contractor's fringe benefits, overhead, and profit ranging from 34-49 percent. On the other hand, the direct cost for a Sandia employee was their standard labor rate plus the fringe benefit rate of about 20 percent and center support charges that averaged 19 percent. Since the labor rates of staff augmentation workers and Sandia employees were comparable, when these indirect rates were added, the cost appeared about the same. However, this comparison was skewed because center support was not charged to staff augmentation workers.

Center support rates should have been charged to both Sandia employees and all staff augmentation workers. Examples of center support include the center director's time; environment, safety and health training; space costs; facilities services; and computer support. Since staff augmentation workers are employed on-site and work along side Sandia employees, they benefit from and should be charged the costs of center support. In fact, Sandia already charges center support to 11 staff augmentation workers in one of its organizations. Thus, in a correct cost comparison of staff augmentation workers and Sandia employees, the cost of a staff augmentation worker would be substantially higher than a Sandia employee. For example, under this method, a Drafter/Designer costs \$86,684 per year under a staff augmentation contract and \$79,591 per year as a Sandia employee.

With respect to the 3-year limitation, Sandia did not adhere to its own requirement because program groups did not want to lose augmentation workers who had become valuable to Sandia. Such workers played a vital role and, in the view of program officials, could not be replaced without disruption.

Costs And Risks

The 213 positions filled by staff augmentation workers on a long-term basis cost Sandia about \$936,000 per year more than if those positions were filled with Sandia employees. Further, long-term use of staff augmentation workers creates a risk to Sandia that the personnel could be construed as Sandia employees who could be entitled to additional benefits.

RECOMMENDATIONS

We recommended that the Manager, Albuquerque Operations Office require Sandia National Laboratories to:

1. implement its staff augmentation policy to limit staff augmentation workers to 3 years of service; terminate or convert those staff augmentation workers who have 3 years or more of continuous service to regular Sandia employees; or fill the positions with regular Sandia employees, unless clear justification can be made as to a limited short-term future need for each position; and,
2. consistently allocate the center support rate by charging it to both Sandia employees and all staff augmentation workers working on-site.

MANAGEMENT REACTION

Management concurred with the first recommendation to limit staff augmentation workers to 3 years of service or to the expiration date of the worker's current contract. If Sandia has a continuing need for workers' services at the completion of their current contract, it has agreed to convert those workers to Sandia employees or submit to DOE a justification for a new short-term agreement to meet future needs.

However, management disagreed with the second recommendation. Management did not want to allocate the center support rate to both Sandia employees and staff augmentation workers on-site equally because the rate is more attributable to a Sandia employee than to an augmentation worker. Further, management questioned the report's conclusion that the long-term staff augmentation worker is more expensive than the Sandia employee. Management said that the Office of Inspector General did not use established standard labor rates for Sandia employees and did not apply the same labor hours to the staff augmentation worker.

Management also pointed out that it has drastically reduced the amount of augmentation workers since FY 1997. In fact, the costs of augmentation workers is approximately five percent of the total Sandia labor costs. Thus, the cost objective of the second recommendation would be minor. Finally, it has agreed to revisit the issue in the future if cost allocation inequalities still exist.

AUDITOR COMMENTS

Management's comments to the first recommendation are responsive. However, it disagreed with the second recommendation. Although we agree that center support costs are not equally attributed to both types of workers and the labor costs of augmentation workers are small, the records maintained at Sandia do not provide a better way to allocate these costs. Regardless, center support costs should be allocated to benefiting components on a consistent and fair basis. With respect to the costs of Sandia employees, the report was based on established standard labor rates and annualized. To make the two types of labor consistent, we annualized the staff augmentation workers' salary based on the worker's contract. Thus, we believe our conclusions are accurate.

Appendix

SCOPE

The audit was performed at the Albuquerque Operations Office and Sandia National Laboratories from July to November 1999. We limited our review to Sandia's staff augmentation program.

METHODOLOGY

To accomplish the audit objective, we:

- reviewed DOE guidance on the use of staff augmentation workers;
- interviewed appropriate Sandia officials to understand their procedures for using staff augmentation workers;
- obtained staff augmentation workers' start dates to determine if the workers were, in fact, temporary; and,
- performed detailed analysis of the difference in cost between a staff augmentation worker and a Sandia employee.

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 objectives of the audit. In accordance with the *Government Performance and Results Act of 1993*, we determined there were no applicable performance measures in the staff augmentation contracts. 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 performed limited testing of the reliability of computer-processed data.

An exit conference was held with management officials on February 22, 2000.

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