U.S. Department of Energy
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Office of Audit Services

Audit Report

The Department of Energy's Management of Contractor Intergovernmental Personnel and Change of Station Assignments

DOE/IG-0761

March 2007

Department of Energy
Washington, DC 20585
March 26, 2007

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's Management of Contractor Intergovernmental Personnel and Change of Station Assignments"

BACKGROUND

The Department of Energy's contractor-operated facilities use Intergovernmental Personnel Act (IPA) and Change of Station (COS) assignments to permit contractor employees to work at other organizations. IPA assignments are temporary transfers of personnel between the contractor and a Federal agency. Under COS assignments, personnel are temporarily transferred to a non-Federal organization (i.e., personnel loan agreements between contractors, non-profit organizations, or private sector entities). The Department's national laboratories frequently use IPA and COS assignments.

Under the IPA Act, the Office of Personnel Management, as part of its Mobility Program, issued provisions regarding the cost and duration of IPA assignments. Specifically: (i) IPA costs should be allocated among participating entities to reflect the mutual benefits of the program; (ii) employee expenses should be limited to either per diem or relocation costs; and, (iii) IPA assignments should be relatively short term in nature – no more than two years (with an allowance for an additional two years, if justified). IPA provisions do not apply directly to contractor COS assignments. However, absent more definitive criteria, they provided an effective benchmark for evaluating the reasonableness of Departmental COS assignments.

The objective of this audit was to determine whether the Department was effectively managing the contractor use of IPA and COS assignments. Our review focused on six of the Department's national laboratories—Argonne; Lawrence Berkeley; Lawrence Livermore; Los Alamos; Sandia; and, Pacific Northwest.

RESULTS OF AUDIT

The Department did not have a system to determine the number and propriety of IPA and COS assignments. Relying purely on data provided by contractors managing the six laboratories, we identified 250 active IPA/COS assignments. We performed a detailed review of 77 such assignments and found that the Department was not actively ensuring that the IPA and COS assignments were cost effective; operated in accordance with existing procedures or good business practice; or, that taxpayer-provided funds supporting IPA/COS assignments were put to the best possible use. We found that 31 of the 77 IPA/COS assignments had questionable components. Under these assignments, which were sponsored by Los Alamos, Lawrence Livermore, and Sandia, the Department's contractors:

- Paid all the costs associated with 16 assignments even though the participating entities benefited from the assignments and should have shared the costs;
- Paid excessive allowances for 12 assigned employees, including the payment of both relocation and travel per diem costs; and,
- Assigned 10 employees to other organizations for extended periods of time, in one case up to 15 years, without ensuring that their assignments were the most cost-effective approach to meeting the purported requirements.

We found, as well, that the Los Alamos National Laboratory had not collected funds due to the Department under cost-shared agreements for IPA assignments. As of September 27, 2006, we identified $891,000 that had not been collected.

We did not find similar problems at Argonne, Lawrence Berkeley and Pacific Northwest Laboratories, which accounted for less than twenty percent of the IPA/COS assignments included in our review.

Some of the problems noted during our review were especially troubling. For example, Lawrence Livermore National Laboratory paid 100 percent of the costs for four assignments (approximately $3.7 million) even though it recognized that the participating entities benefited from the assignments. In another case, Los Alamos National Laboratory agreed to pay 100 percent of the estimated $289,000 in costs for an IPA assignment that appeared designed to simply resolve a challenging personnel decision. This was done with knowledge of Department representatives but was contrary to the intent of the IPA Mobility Program. In addition, Sandia National Laboratories placed an employee on loan to a non-profit organization for an extended period of approximately 12 years to perform community outreach activities. Sandia National Laboratories paid the full cost of the employee's assignment, more than $1 million during that period. In March 2005, after its nearly 12-year term, the Department became aware of this assignment and initiated action to evaluate the assignment. It should be noted that the costs discussed in the above examples, while incurred by the contractors, were fully reimbursed by the Department.

We found that the Department had not established adequate policy regarding IPA/COS assignments. Although the Department had issued guidance for IPA assignments, the guidance was not specifically structured so as to be applicable to contractors on IPA/COS assignments with other Federal agencies and private organizations. Officials acknowledged that the lack of Departmental guidance contributed to the ineffective management of IPA/COS assignments for contractor employees.

Additionally, with one exception, that being the Sandia Site Office, Department officials had not monitored contractor use of IPA or COS assignments. Specifically, site office officials had not reviewed the relevancy, length, and funding arrangements for IPA/COS assignments. To its credit, at Sandia, site officials began approving COS assignments in Fiscal Year 2004.

The Department incurred about $11.3 million for the 31 IPA/COS assignments that are discussed in this report. These assignments either exceeded the four-year maximum term and/or had excessive relocation allowances. In addition, the costs of some of the assignments were not properly allocated among participating entities. As of the date of this report, the use of IPA/COS assignments continues. Unless clear and precise Federal guidance is promulgated and more aggressive contract management emphasis is applied to the IPA/COS program, additional questionable costs will be incurred.

We recognize that the IPA/COS concept may benefit the Department; however, it is incumbent upon Departmental officials to ensure that the program is managed in the best interests of the U.S. taxpayers. Accordingly, the report includes recommendations to address the problems we found and to place the IPA/COS program on a sound footing going forward.

In a previous Office of Inspector General (OIG) report, *Management of Facility Contractors Assigned to the Washington, D.C. Area* (DOE/IG-0710, November 2005), involving other assignments of contractor employees, the OIG noted that the Department needed guidelines for evaluating the reasonableness of cost, including parameters for limiting or reducing the cost of contractor employees detailed to the Washington, D.C., area. A similar effort is a starting point for addressing concerns regarding the IPA/COS program.

MANAGEMENT REACTION

Management concurred with the finding and recommendations. Specifically, the National Nuclear Security Administration (NNSA) agreed to take the lead in developing guidance to correct problems discussed in our report. NNSA committed to present the guidance to the Department's Under Secretaries and the Field Management Council for standardization throughout the Department. Departmental procurement and human capital management officials who have an acknowledged direct interest in this matter concurred with this approach.

Attachment

cc: Deputy Secretary
Acting Under Secretary of Energy
Under Secretary for Science
Acting Administrator, National Nuclear Security Administration
Chief of Staff

REPORT ON THE DEPARTMENT OF ENERGY'S MANAGEMENT OF CONTRACTOR INTERGOVERNMENTAL PERSONNEL AND CHANGE OF STATION ASSIGNMENTS

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Management of Assignments

The Department of Energy (Department) is not ensuring the cost effective use of contractor Intergovernmental Personnel Act (IPA) and Change of Station (COS) assignments. Specifically, among 31 of 77 IPA/COS assignments reviewed, we found that contractors in some cases:

- Paid all the costs associated with the assignment even though it appears that they should have shared the costs with the participating entities benefiting from the assignment;

- Paid excessive allowances to assigned employees, including the payment of both relocation and travel per diem costs; and,

- Assigned employees to other organizations for extended periods of time, in one case about 15 years, without ensuring their assignments were the most cost effective approach to meeting mission needs.

Additionally, the Los Alamos National Laboratory (Los Alamos) had not collected monies due to the Department under cost-share agreements for IPA assignments. As of September 27, 2006, we identified $891,000 that had not been collected.

The costs incurred for and the duration of contractor IPA and COS assignments were not consistent with the guidance established by the Office of Personnel Management in IPA Mobility Program Provisions (IPA provisions) that summarize requirements for both federal and non-federal employees. Although these IPA provisions are not directly applicable to contractor COS assignments, we used them as a benchmark to evaluate the reasonableness of costs and assignment duration in the absence of more definitive criteria.

<u>Cost Sharing</u>

Sixteen assignments were not cost shared with the host organizations even though the assignments were intended to benefit both the laboratories and host organizations. IPA provisions state "Cost Sharing arrangements for mobility assignments should be based on the extent to which the participating organizations benefit from the assignment. The larger share of costs should be absorbed by the organization which benefits most from the assignment." Further, assignments should not be arranged to meet personal interests of employees or for other personnel reasons.

We found the following instances where assignments were not cost shared and in one case, appeared to facilitate a personnel decision.

- Lawrence Livermore National Laboratory (Livermore) agreed to pay 100 percent of the cost for four assignments with an approximate cost of $3.7 million as of August 2006. However, Livermore did not have documentation to support its funding decisions. In fact, one Livermore manager stated that he was not sure why an assignment costing Livermore about $723,000 was not cost shared. He stated that most funding decisions are verbally negotiated between Livermore's division directors and the host organizations. Furthermore, according to the Livermore manager, funding decisions are highly dependent on the availability of funds within site organizations, i.e., if a Livermore division has a surplus of funds, it may agree to pay 100 percent of the assignment costs even though the host entity benefits from the assignment.

- Sandia National Laboratories (Sandia) paid all of the expenses for two assignments at a cost to the Department of approximately $1.4 million as of August 2006. Sandia stated that the purpose of the assignments was to provide community service and authoritative advice to a host entity. Sandia did not maintain any documentation to support its decision to pay the entire cost of the assignments.

- Los Alamos agreed to pay 100 percent of the costs for 10 assignments at a cost to the Department of approximately $3 million as of August 2006. Specifically, Los Alamos did not have documentation to justify why it agreed to pay all costs associated with these assignments even though they benefited the recipient organizations. For example, the University of California (UC) initiated an IPA assignment of a senior Los Alamos official to the Defense Threat Reduction Agency (DTRA). Los Alamos agreed to pay 100 percent of the costs of the IPA assignment even though it benefited

DTRA. The employee was tasked with developing and implementing a strategy for DTRA's science and technology program.

We concluded that the IPA assignment was negotiated to facilitate a personnel decision to remove the senior official from Los Alamos, with the Department's knowledge. The IPA assignment allowed the individual: (1) to continue employment with Los Alamos/UC, although there were no plans for a return to the Laboratory; and, (2) to become eligible for retirement benefits. On June 1, 2006, during the course of our audit and subsequent to an internal audit report which questioned the allowability of the cost associated with the assignment, UC agreed to transfer the assignment and its cost from Los Alamos to UC. As of June 1, 2006, the cost to the Department associated with this assignment was about $289,000.

Excessive Allowances

The laboratories paid excessive amounts for dislocation allowances, including relocation and temporary living expenses. According to the IPA provisions, an agency may reimburse a federal or non-federal employee for either limited relocation expenses, such as housing and furniture rental costs, or a per diem allowance for temporary living expenses in accordance with Federal Travel Regulations, but may not pay both. In addition, the IPA provisions state that a per diem allowance should not be paid for an assignment expected to last for more than one year or for an indefinite period. However, the laboratories exceeded reimbursement limitations noted in the provisions by paying 12 assignees for both relocation and per diem allowances. Specifically, we noted that:

- Sandia paid six assignees approximately $361,000 in dislocation allowances during Fiscal Years (FYs) 2004 and 2005, which included reimbursement for both per diem and relocation. Furthermore, Sandia was the only contractor in our review that paid assignees an additional 10 percent special salary increase (approximately $102,000 for these six assignees) for accepting the assignments.

- Los Alamos reimbursed five assignees for both per diem and relocation expenses, totaling approximately $243,000 during FYs 2004 and 2005. According to one IPA agreement, the host agency stated that the Los Alamos assignee had to choose between the reimbursement of per diem or relocation costs. However, Los Alamos agreed to reimburse all expenses in excess of the reimbursement limitations.

- At Livermore, an assignee on loan to a research facility in a foreign country was paid approximately $400,000 for dislocation allowances during FYs 2004 and 2005. Although the assignee has been on loan since June 1998, the site continued to pay for dislocation allowances including reimbursement for housing/cost of living adjustments, furniture rental, renter's insurance, car allowance, private school for a dependent, and foreign language lessons for a spouse. As of June 2006, total assignment costs were approximately $2.7 million.

Extended Assignments

The laboratories assigned 10 employees to other organizations for extended periods of time without ensuring the assignments were the most cost-effective approach to meeting mission needs. In some cases, assignments were extended without formal agreements or transition plans for returning the employees to the laboratories. This practice was contrary to IPA regulations requiring that assignments be short term - limited to two years with a two-year extension, if justified. After the fourth continuous year, the employee must return to his/her originating duty station for at least 12 months if assigned to a different agency or at least 60 days if returning to the same agency before entering into a new IPA agreement. Although the IPA provisions do not apply to contractor COS assignments, they can be used as a benchmark for evaluating the reasonableness of these assignments, in the absence of more definitive criteria. For example, we noted that:

- Six employees at Livermore were on extended assignments for more than four years. None of the assignments had transition plans for the assignees to return to Livermore. In fact, several Livermore department managers stated that transitioning assignees back to the site was typically a difficult process. Additionally, Livermore had not performed any analyses to ensure that these extended assignments were cost effective to Livermore or the Department. One assignment is currently in its 15th year, but was originally designated for six months and was extended with an "open" end date. The assignment has cost the Department approximately $1.2 million as of August 2006.

- A Sandia employee was on a COS assignment for approximately 12 years without the execution of a written agreement. During the 12 years, the employee never physically worked at Sandia, and instead served as executive officer of a non-profit organization. Sandia had no analyses to demonstrate that this extended assignment was a cost effective approach for the site to meet a mission requirement. The assignment has cost the Department over $1 million. In March 2005, the Department became aware of the assignment and is currently reviewing it for cost allowablility.

- Los Alamos had three assignments that had been extended beyond four years. One IPA assignment had been in effect for six years and at the time of our review, Los Alamos was in the process of extending the assignment. Additionally, a COS assignment to another Department contractor was in effect for nine years, and there was no formalized transition plan for the employee to return to Los Alamos. The third IPA assignment has been in effect for approximately 5 1/2 years.

In each of the above cases, the concerned laboratories had not identified or determined the cost benefit of alternatives available to meeting the objectives of the IPA/COS assignments.

Outstanding Balances

Our analysis of IPA/COS assignment accounts receivable balances at Los Alamos confirmed a recent Los Alamos internal audit finding that Los Alamos had failed to collect monies owed to Los Alamos from IPA/COS assignments. Specifically, the internal audit group identified approximately $1 million due to Los Alamos from host entities as of June 30, 2005. As of September 27, 2006, we identified $891,000 that had not been collected. During the course of our audit, Los Alamos acknowledged the need to improve its collection of IPA/COS receivables and implemented corrective actions to address the collection problems.

Guidance and Oversight

The Department has not developed the policy and guidance or provided the oversight necessary to effectively manage contractors' use of IPA and COS assignments.

<u>Departmental Guidance</u>

The Department has not provided guidance to its contractors regarding the duration of assignments or the reimbursement of allowances (relocation and per diem costs) to assignees working at other agencies. Additionally, it has not required contractors to identify and determine the cost benefit of alternative approaches to achieving the mission objectives of IPA/COS assignments that involve extended duration and/or extensive relocation costs.

Although the Department has established guidance (DOE M 321.1-1, Intergovernmental Personnel Act Assignments) for federal and non-federal employees on IPA assignments who are assigned to the Department, the guidance does not provide specific coverage for contractor employees who go to other federal agencies and organizations on IPA/COS assignments. Department officials confirmed the current IPA assignment policy would not apply to such assignments and stated that the lack of clear guidance has contributed to the ineffective management of IPA/COS assignments for contractor employees.

Officials at the laboratories stated that the language in the Intergovernmental Personnel Act of 1970 (IPA Act) and the IPA Mobility Program Provisions was vague and, therefore, was not uniformly implemented. In addition, the laboratories had internal policies and guidance that were not consistent with the IPA Act, federal regulations, or Mobility Program Provisions. For example, the laboratories relied on internal policies and guidance to extend IPA assignments beyond four years and to reimburse temporary living allowances beyond one year. In some cases, laboratory officials told us that the extended assignments and relocation expenses were justified by the mission benefits provided by the IPA/COS assignments. However, as discussed above, the laboratories had not identified and determined the cost benefit of alternatives to achieve the same mission benefits at reduced costs.

Departmental Oversight

Department officials did not review contractors' use of IPA/COS assignments. For example, Department site offices were generally unaware of the duration and cost of such assignments. However, the Sandia Site Office approved COS assignments per the Sandia contract. To its credit, Sandia recently implemented a centralized process for facilitating the management of assignments for loaned personnel. Specifically, Sandia developed an internal organization responsible for reviewing and approving all personnel loan assignments.

Operational Impacts

The Department incurred about $11.3 million for assignments included in our review that were either too long, resulted in excessive costs, or were not appropriately cost shared with host entities (See Appendix 3 for a summary of total estimated IPA/COS assignment costs). Additionally, Los Alamos did not collect about $891,000 in IPA/COS accounts receivable balances; these monies could have been applied to other mission needs. Further, we question about $289,000 associated with the IPA between UC and DTRA regarding the assignment of a former senior Los Alamos official. Until the Department provides additional guidance and effective oversight of contractors' use of IPA/COS assignments, it is likely to incur additional unnecessary costs.

RECOMMENDATIONS

To further strengthen controls over IPA/COS assignments with both federal and non-federal entities, we recommend that the Associate Administrator for Management and Administration, National Nuclear Security Administration (NNSA), develop guidance for contractor use of IPA/COS assignments to be presented to the Field Managers Council for adoption throughout the Department.

As part of the Department-wide guidance, we recommend the Chairman, Field Managers Council:

1. Require a determination of the cost benefit of alternatives to meeting the mission objectives of IPA/COS assignments; and,

2. Establish parameters and/or requirements for:

    - Length of assignment;

- Reimbursement of dislocation allowances; and,
- Cost sharing.

We recommend that the Managers, Los Alamos, Sandia, and Livermore Site Offices:

1. Develop and implement processes to ensure that the requirements of the established guidance are followed; and,
2. Make cost allowability determinations on amounts paid for assignees discussed in this report under IPA agreements/COS assignments and collect any unallowable amounts.

We also recommend that the Manager, Los Alamos Site Office, ensure that Los Alamos strengthens internal controls for collecting amounts owed to the Department for reimbursable assignments and collects outstanding balances.

MANAGEMENT REACTION

Management concurred with the finding and recommendations. Specifically, NNSA management agreed to take the lead for the the Department in developing guidance to correct problems discussed in our report. NNSA committed to present the guidance to the Department's Under Secretaries and the Field Management Council for standardization throughout the Department. Departmental procurement and human capital management concurred with this approach to addressing our recommendations.

AUDITOR COMMENTS

Management's comments are responsive to our recommendations.

OBJECTIVE

The audit objective was to determine whether the Department of Energy (Department) is effectively managing the use of contractor Intergovernmental Personnel Act (IPA) and Change-of-Station (COS) assignments to other federal agencies and qualified organizations.

SCOPE

The audit fieldwork was performed between December 2005 and November 2006, and included a sample of active assignments during Fiscal Year (FYs) 2004 and 2005, at the Argonne National Laboratory; Lawrence Berkeley National Laboratory; Lawrence Livermore National Laboratory; Los Alamos National Laboratory; Sandia National Laboratories; and, Pacific Northwest National Laboratory.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable laws and internal/external policies and procedures;
- Reviewed prior audits;
- Obtained listings of assignments that were initiated, active, or terminated during FYs 2004 and 2005;
- Judgmentally selected a sample of active IPA and COS agreements during FYs 2004 and 2005;
- Obtained and reviewed assignment agreements and correspondence files; and,
- Discussed processes for the implementation, management, review and approval of assignments with both laboratory and Department officials.

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 objective of the audit. Accordingly, we assessed the significant internal controls and performance measures established under the Government Performance and Results Act of 1993 and found that measures had not been established for contractor IPA and COS assignments. 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 determined that controls over computer-processed data were not integral to meeting the objectives of our audit. Management waived the exit conference.

PRIOR AUDIT REPORTS

The Office of Inspector General (OIG) and other audit organizations have previously reported on the implementation and management of contractors on loan to the Department of Energy (Department) and other organizations.

OFFICE OF INSPECTOR GENERAL REPORTS

- *Management of Facility Contractors Assigned to the Washington, D.C. Area* (DOE/IG-0710, November 2005). The Department requires D.C. area assignments to be limited to one year in duration unless considered critical. However, the audit found that 36 of the 189 employees reviewed had been in the Washington area for 10 or more years. The assignment justifications were found to be inadequate or not prepared for the 30 people in the sample. It was also found that living expense reimbursements varied by laboratory, including one laboratory that paid an employee about twice the per diem rate for a year ($140,000 versus $70,000). The average annual employee assignment cost was $247,000, with as much as $576,000 per year for one person. As a result, the OIG recommended the establishment of guidelines for evaluating the reasonableness of cost, including parameters for limiting or reducing the cost of assignments.

- *Summary Audit Report on Contractor Employee Relocation and Temporary Living Costs* (DOE/IG-0400, January 1997). The audit 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 Federal Acquisition Regulations and Department of Energy Acquisition Regulations, 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. Since 1992, the OIG has issued nine audit reports that identified unreasonable and unallowable charges for employee relocation and temporary living costs by contractors and their subcontractors. The audits cited instances of salary allowances, relocation costs and temporary living allowances that appeared to be excessive.

GOVERNMENT ACCOUNTABILITY OFFICE REPORTS

- *Homeland Security (DHS) Needs to Improve Ethics-Related Management Controls for the Science and Technology Directorate* (GAO-06-206, December 2005). This audit focused on conflicts of interest created by IPAs at the Department of Homeland Security's Science and Technology Directorate. The purpose of the Directorate is to identify and develop countermeasures to chemical, biological, radiological, nuclear, and other emerging terrorist threats on the United States. The Directorate had 16 portfolio managers, of which 5 came from Department of Energy's (DOE) laboratories.

In Fiscal Year (FY) 2004, 23 percent of the Directorate's $761 million in funding went to DOE laboratories. The report stated that the role of the five managers, in determining where research and development projects and associated funds were directed, was unclear. This was attributed to there being no documentation of the decision-making process and the inability to determine the extent that IPA involvement affected funding decisions of their home laboratories. The report recommended that the Directorate take several steps designed to alleviate conflicts of interest and better define the role of IPAs in the organization.

CONTRACTOR INTERNAL AUDIT REPORTS

- *Audit of Intergovernmental Personnel Act and Change of Station Assignments (*Los Alamos National Laboratory Audits and Assessments Division, January 27, 2006). The audit report disclosed that IPA and COS assignments were generally consistent with DOE requirements and Los Alamos policies and procedures. However three issues were identified: outstanding balances from partners; potential conflicts of interest; and, lack of documentation for funding decisions.

  Specifically, the audit found that 24 of the 55 agreements reviewed had reimbursement terms. Of the 24, 22 had outstanding balances totaling more than $1 million as of June 30, 2005. About $962,000 of that amount was at least 60 days past due, including about $275,000 originally invoiced in FY 2003 and about $442,000 originally invoiced in FY 2004. The audit team identified a weakness in internal controls over the collection of reimbursable agreements. The problem was due to a sub-ledger system of work-for-others not working properly. There was no effort made to correct the system. As a result, several organizations with large balances had not been billed for over a year for their cumulative amounts due. In addition, seven potential conflicts of interest were identified. The conflicts of interest were identified as resembling lobbying activity. Lastly, the report expressed concern about inadequate justifications for funding decisions made, particularly those where Los Alamos was paying 100 percent of the costs. It noted that it was sometimes unclear why the other organizations were not contributing to the cost when they were receiving a benefit from the assignments.

SUMMARY OF TOTAL ESTIMATED IPA/COS ASSIGNMENT COSTS

Department's National Laboratories	Total Assignment Costs Not Shared with Host Entities	Excessive Allowances (FYs 2004-2005)	Extended Assignments	Total (1)
Los Alamos	$2,991,615	$242,575		
Livermore	$3,730,823	$407,528	$1,220,183	
Sandia	$1,368,424	$361,272	$1,056,218	
Total	$8,090,862	$1,011,375	$2,276,401	$11,378,638

(1) Approximately $113, 407 of this amount represents costs for assignments that had duplicative issues (i.e. cost sharing and excessive allowance issues).

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