



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Management Controls over Implementation of the Homeland Defense Equipment Reuse Program

OAS-M-08-03

December 2007



Department of Energy

Washington, DC 20585

December 11, 2007

MEMORANDUM FOR THE MANAGER, OAK RIGE OFFICE

FROM: *Jana R Lewis for*
George W. Collard
Assistant Inspector General
for NNSA and Energy Audits
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Management Controls over Implementation of the Homeland Defense Equipment Reuse Program"

BACKGROUND

In June 2002, the Department of Energy's (Department) Oak Ridge Office entered into an Interagency Agreement with the U.S. Department of Justice to provide excess radiological detection equipment and other equipment to designated state and local first responder agencies under the Homeland Defense Equipment Reuse (HDER) Program. On March 1, 2003, the Department of Justice transferred its responsibility for administering the HDER Program to the Department of Homeland Security. Under the Agreement, Oak Ridge located, received, evaluated, and rehabilitated excess Federal equipment for reuse by first responder agencies. Essential first responder equipment included items such as radiation detection meters and face respirators.

Oak Ridge used a contractor to carryout its responsibilities under the Agreement. As of December 2006, equipment with an acquisition value of more than \$1.5 million was stored at the HDER processing facility.

In January 2007, Oak Ridge temporarily suspended activities because of concerns about the effectiveness of property controls. Based on concerns raised to us by Oak Ridge management, we conducted this audit to determine whether controls were in place to ensure that all equipment transferred to the HDER Program was made available to approved first responders.

RESULTS OF AUDIT

While we found that Oak Ridge provided equipment to first responders in a timely manner, key property management controls were not in place to ensure that all equipment transferred to the HDER Program was made available to first responders. Specifically:

- All items approved for transfer to the HDER Program could not be located; and,
- Other equipment received by the HDER contractor was provided to first responders without prior Homeland Security approval.



We were precluded from fully testing HDER Program inventories because records of transferred property were not complete. However, we identified instances where transferred property could not be located. For example, Oak Ridge and its HDER contractor could not locate 11 of 30 items approved for transfer to HDER by one Department site. Equipment that was unaccounted for included heat stress monitors and a fuel tank and pump.

Key property management controls were not in place because Oak Ridge had not required its contractor to provide a complete accounting for equipment transferred by Federal sites to the HDER Program. Further, the contractor did not follow procedures established for the HDER Program. Specifically, the contractor allowed local responders to visit its processing facility and take equipment before it was entered into the Responder Knowledge Base, thereby preventing Homeland Security from reviewing and approving the request for the distribution of the equipment.

Without critical property management controls, the Department and Homeland Security cannot be assured that equipment vital to first responders is being made available as needed. In April 2007, Oak Ridge resumed HDER Program activities. Given the importance of the HDER equipment to first responders and Oak Ridge's decision to resume activities, we made recommendations to improve property management controls.

MANAGEMENT REACTION

Management agreed with our report and corresponding recommendations and noted the corrective actions that have been or will be taken to address weaknesses noted in the report. Management's proposed actions are responsive to our recommendations and are included in Appendix 2 of the report.

Attachment

cc: Chief of Staff
Deputy Director for Field Operations, SC
Manager, Oak Ridge Office
Team Leader, Audit Liaison Team, CF-1.2
Audit Liaison, Oak Ridge Office, SC-OR

REPORT ON MANAGEMENT CONTROLS OVER IMPLEMENTATION OF THE HOMELAND DEFENSE EQUIPMENT RESUSE PROGRAM

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EQUIPMENT TRANSFERS TO FIRST RESPONDERS

Equipment Availability

During our review, we identified several instances where equipment approved for transfer to the Homeland Defense Equipment Reuse (HDER) Program could not be located or was distributed to first responders without prior approval of the Department of Homeland Security (Homeland Security).

Transferred Equipment

We were unable to locate all equipment approved for transfer to the HDER Program at the contractor's HDER processing facility. Specifically, the Oak Ridge Office (Oak Ridge) and its HDER contractor were able to tentatively identify only 19 of the 30 items that had been approved for transfer by the Department of Energy's (Department) Ashtabula closure site. Based on discussions with Ashtabula closure site personnel, the items were likely shipped to the contractor's processing facility on multiple shipments over a four month period. However, controls did not provide sufficient evidence to determine whether the equipment actually arrived at the processing facility. Examples of the 11 items not found included equipment beneficial to first responders such as two heat stress monitors and a fuel tank and pump. In another instance, while observing the offloading of a HDER shipment to the contractor processing facility, we were only able to locate 9 of the 19 boxes of Personal Protective Equipment that were listed on the transfer document from the Department's Y-12 National Security Complex.

Distributed Equipment

Furthermore, the HDER contractor provided equipment to first responders without prior Homeland Security approval. Specifically, we identified two instances where the contractor allowed first responders to physically visit its HDER processing facility and take equipment without approval of Homeland Security. The contractor had entered some of the selected equipment into the Department's Asset Reutilization Inventory System (ARIS) while other items had not been entered. For those items that had been accounted for in ARIS, HDER contractor personnel improperly recorded them in the system as recycled, indicating that the items were unfit for HDER Program use and had been disposed of, rather than indicating that the equipment had been provided to the first responders. The ARIS inventory system was used to update, on a quarterly basis, Homeland Security's Responder Knowledge Base through which it approved first responder's equipment requests.

Property Controls

Key property controls were not in place to ensure that equipment was controlled and made available to first responders. For example, Oak Ridge did not require a complete accounting of all equipment transferred to and received at the HDER processing facility, and did not require the HDER contractor to reconcile receipts with site transfer documents. Departmental sites were allowed to send equipment to HDER through transfer documents that contained generalized, rather than specific, descriptions of the items transferred to the program. Examples of generalized descriptions on the approved transfer documents include "miscellaneous air and water monitoring equipment," "miscellaneous radiological supplies" and "personal protection clothing, various." In the absence of a complete listing of equipment and with no requirement in place to reconcile inventory received to the transfer documents, it is difficult for Oak Ridge to determine which items have actually been transferred to the HDER processing facility and ultimately made available to first responders.

Also, the HDER contractor did not follow established procedures for entering data in inventory systems and in issuing equipment to first responders. Under HDER Program procedures, first responders must submit justifications to Homeland Security for specific items. Homeland Security approves distribution of the equipment based on the needs identified by the first responders. Despite these procedures, the contractor allowed two local first responders to visit the processing facility and take equipment without approval from Homeland Security.

Impact on First Responders

Without proper controls, the Department cannot be assured that equipment is being provided to first responders in order to enhance their domestic preparedness capabilities. During the course of the HDER Program, Oak Ridge provided equipment to fire departments, emergency management agencies, and law enforcement agencies that otherwise might not have the ability to procure the items, some of which were new and still in the original boxes. This equipment is vital to the mission of first responders.

RECOMMENDATIONS

We recommend that the Manager, Oak Ridge Office:

1. Establish controls to ensure that the description and quantity of items transferred to the HDER Program is clearly identified;
2. Require the HDER contractor to reconcile deliveries and receipts;

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3. Ensure that all useful items transferred to HDER are accurately and appropriately reflected in ARIS; and,
 4. Enforce HDER procedures on the contractor which require Department of Homeland Security approval of equipment distributions.

Management and Auditor Comments

Management immediately took action to address the deficiencies noted in the report. These changes include instituting a more rigorous equipment tracking system; drafting new procedures for the execution of the program; and, improving oversight of contractor activities. Additionally, management has developed a corrective action plan to address the recommendations contained in the report. These actions include revisions to the HDER Operating Manual to reflect the implementation of additional controls, increased oversight by Departmental staff, and updating the existing contractor's Statement of Work.

We consider Management's comments and actions to be responsive to the weaknesses and recommendations identified in the report. Management's comments are included in Appendix 2 of the report.

Appendix 1

OBJECTIVE

The objective of this audit was to determine whether the Oak Ridge Office has controls in place to ensure that all equipment transferred to the Homeland Defense Equipment Reuse (HDER) Program was made available to approved first responders.

SCOPE

We conducted the audit from March to October 2007 at the Oak Ridge Office in Oak Ridge, Tennessee. The scope of the audit covered equipment transfers to the HDER Program since 2002.

METHODOLOGY

To accomplish the audit objective, we:

- Obtained and reviewed laws, regulations, policies, and procedures relevant to the HDER Program;
- Reviewed related prior audit reports and reviews;
- Evaluated Oak Ridge Office internal controls over the transfer of excess property;
- Reviewed files and documentation related to HDER property transfers;
- Analyzed transferred property inventory listings; and,
- Interviewed key personnel at the Oak Ridge Office, Ashtabula closure site, and Oak Ridge's HDER contractor.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. The audit included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. We were precluded from fully testing HDER Program inventories because records of transferred property were not complete. However, we used alternative procedures, including observation of property transfers, to support our finding and conclusion. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Also, we evaluated the Department of Energy's implementation of the *Government Performance and Results Act of 1993* as it related to the audit objective.

Appendix 1

Our review did not identify any performance measures directly relating to the HDER Program. Finally, since we did not rely upon automated data processing information to accomplish our audit objective, we did not conduct an assessment of the reliability of computer processed data.

DOE # 1325.8
(3/96)

United States Government

Department of Energy
Oak Ridge Office

memorandum

DATE: November 29, 2007

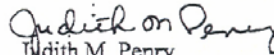
REPLY TO

ATTN OF: FM-733:Miller

SUBJECT: **DRAFT REPORT ON "AUDIT OF MANAGEMENT CONTROLS OVER
IMPLEMENTATION OF THE HOMELAND DEFENSE EQUIPMENT REUSE
PROGRAM"**

TO: George W. Collard, Assistant Inspector General for NNSA and Energy Audits, Office of
Inspector General, IG-32, FORS

This is in response to your November 5, 2007, memorandum with attached draft report,
subject as above. The Oak Ridge Office (ORO) concurs with the recommendations, and the
attached comments include corrective actions that have been initiated.


Judith M. Penry
Chief Financial Officer

Attachment

cc w/attachment:

G. J. Malosh, SC-3, FORS
G. G. Boyd, M-1, ORO
R. J. Brown, M-2, ORO
L. W. Clark, NS-50, ORO
D. H. Wilken, AD-40, ORO
B. J. Jackson, AD-421

Attachment

**OAK RIDGE OFFICE COMMENTS
OFFICE OF INSPECTOR GENERAL DRAFT REPORT ON
“AUDIT OF MANAGEMENT CONTROLS OVER IMPLEMENTATION OF THE
HOMELAND DEFENSE EQUIPMENT REUSE PROGRAM”**

General Comments:

The Oak Ridge staff has reviewed the draft report. We believe the report to be accurate and have no recommendations for changes regarding factual accuracy. In an effort to correct what we believe were deficiencies and address areas of concern with the existing Homeland Defense Equipment Reuse Program (HDER), Oak Ridge senior management has taken the initiative to immediately implement the following:

- Institute a more rigorous status tracking system that is provided to Department of Energy (DOE) senior management on a regular basis;
- draft new procedures for execution of the Program, consistent with the OIG recommendations;
- draft a new interagency agreement between DOE and the Department of Homeland Security (DHS);
- improve oversight of the contractor’s activities;
- co-locate contractor staff in DOE team offices; and
- improve customer communications for deployment of equipment that DHS had already approved prior to shut down of the Program.

Response to Report Recommendations:

We recommend that the Manager, Oak Ridge Office:

1. Establish controls to ensure that the description and quantity of items transferred to the HDER program is clearly identified.

The Oak Ridge Office (ORO) concurs with the recommendation. The ORO HDER Operations and Procedures Manual will be revised to reflect the implementation of additional controls to ensure that the description and quantity of items transferred to the HDER Program are clearly identified. In addition, the contractor’s Statement of Work (SOW) will be revised to incorporate changes to Task No. 1, *Implement, Maintain, and Support the HDER on behalf of the DOE Oak Ridge Office*. The HDER Operations and Procedures Manual will be incorporated by reference into the contractor’s SOW, and the contractor will be directed by the DOE Contracting Officer (CO) to implement the new controls. The target date for implementation of this recommendation is March 31, 2008.

2. Require the HDER contractor to reconcile deliveries and receipts.

ORO concurs with the recommendation. The ORO HDER Operations and Procedures Manual will be updated to include a process for reconciling deliveries and receipts. This manual will be added by reference into the revised contractor SOW. Additionally, a requirement will be added to the contractor's SOW, and the contractor will be directed by the DOE CO to prepare a monthly status report to DOE that will identify any unresolved discrepancies in deliveries and receipts. The target date for implementation of this recommendation is March 31, 2008.

3. Ensure that all useful items transferred to HDER are accurately and appropriately reflected in ARIS.

ORO concurs with the recommendation. The HDER contractor will be directed by the DOE CO through the revised SOW to maintain the database on a "real time" basis in the future. This requirement will also be reflected in the ORO HDER Operations and Procedures Manual which will be incorporated into the SOW. The target date for implementation of this recommendation is March 31, 2008.

4. Enforce HDER procedures on the contractor which require DHS approval of equipment distributions.

ORO concurs with the recommendation. The HDER contractor will be directed by the DOE CO to comply with the existing requirement to obtain the DHS approvals prior to equipment distribution. Additionally, ORO staff will review and approve all requests for equipment distributions prior to execution by the contractor. This process will be included in the revised ORO HDER Operations and Procedures Manual, which will be incorporated by reference into the revised SOW. The target date for implementation of this recommendation is March 31, 2008.

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3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
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