

DOE/IG-0487

# AUDIT REPORT

## THE RESTRUCTURE OF SECURITY SERVICES BY THE OAK RIDGE OPERATIONS OFFICE



OCTOBER 2000

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

October 31, 2000

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)  
Inspector General

SUBJECT: INFORMATION: Audit Report on "The Restructure of Security Services by the Oak Ridge Operations Office"

BACKGROUND

In Fiscal Year (FY) 1998, the Oak Ridge Operations Office (Operations Office) decided to restructure its security services in an effort to reduce cost, gain more administrative control, and to capitalize on the efficiencies associated with a centralized approach to security. This new approach was thoroughly vetted with senior Department officials at Headquarters. To achieve its objectives, in FY 2000 the Operations Office awarded a 3-year base term contract for security services valued at \$218 million to Wackenhut Services, Incorporated (Wackenhut).

In its analysis justifying the new approach, the Operations Office estimated that cost savings of approximately \$5 million a year would result from this new security services contract. Yet, in fact, security costs increased from \$78.4 million in FY 1999 to an estimated \$92.1 million in FY 2000. In response to the increase in security service cost, the Acting Deputy Administrator for Defense Programs requested that the Office of Inspector General evaluate security costs at the Oak Ridge Reservation to determine why costs increased after the Operations Office restructured security services under the Wackenhut contract. The objective of the audit paralleled the request from Defense Programs.

RESULTS OF AUDIT

The audit disclosed that the Operations Office did not manage the restructuring effort in a way that would have achieved its goals. Specifically, the Operations Office did not: perform an analysis of security service staffing levels; determine the scope of work to be transferred to Wackenhut; or develop cost-reduction measures or incentives to ensure efficient contractor performance. Also, despite its commitment to achieve greater economies in security services, the Operations Office did not consider cost as a ranking factor in the selection of the security services contractor. As a result, the Operations Office incurred at least \$7.5 million in avoidable security costs in FY 2000. Further, as described in our report, it did not meet its goal of consolidating security services under a single contractor.

We support efforts to improve the effectiveness and efficiency of security services at Oak Ridge. However, the Operations Office needs to improve its management of the security services if these objectives are to be achieved.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and agreed to initiate corrective actions.

Attachment

cc: Deputy Secretary  
Under Secretary for Energy, Science, and Environment  
Under Secretary for National Security/Administrator for Nuclear Security  
Director, Office of Security and Emergency Operations  
Chief of Defense Nuclear Security

# THE RESTRUCTURE OF SECURITY SERVICES BY THE OAK RIDGE OPERATIONS OFFICE

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# OVERVIEW

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## INTRODUCTION AND OBJECTIVE

In Fiscal Year (FY) 1999, the Oak Ridge Operations Office (Operations Office) obtained security services from Bechtel Jacobs Company, LLC (Bechtel Jacobs) at the East Tennessee Technology Park (ETTP), Lockheed Martin Energy Research Corporation (LMER) at the Oak Ridge National Laboratory (ORNL), and Lockheed Martin Energy Systems, Inc. (LMES) at the Y-12 Plant. LMES provided the protective forces for the three sites and other Oak Ridge facilities. The University of Tennessee-Battelle, LLC (UT-Battelle) began operating ORNL in FY 2000. To gain more administrative and cost control over security, and to capitalize on the efficiencies associated with a centralized approach, the Operations Office decided to restructure its security services in FY 1998. The Operations Office estimated that cost savings of approximately \$5 million a year would result from the consolidation of security services, primarily from the reductions of security services positions.

The Operations Office restructured its security services in FY 2000 by awarding a time-and-material-award-fee contract to Wackenhut Services, Incorporated (Wackenhut). The contract required Wackenhut to perform multi-disciplinary services, including a protective force, information security, and personnel security for the three sites and other Oak Ridge facilities. The contract provided for security services from January 10, 2000, through January 9, 2003, plus two 1-year options. The 3-year base term of the contract was valued at \$218 million. Wackenhut's transition period began on October 1, 1999, and lasted until January 9, 2000. The three operating contractors performed security services during the transition period and Wackenhut began providing the prime security services on January 10, 2000.

Despite the restructure, security costs increased from \$78.4 million in FY 1999 to an estimated \$92.1 million in FY 2000. In response, in May 2000, the Acting Deputy Administrator for Defense Programs requested that the Office of Inspector General evaluate security costs at the Oak Ridge Reservation and determine why costs increased after the Operations Office restructured security services under the Wackenhut contract. Accordingly, the objective of the audit was to determine why security costs increased at the Oak Ridge Reservation after the restructure.

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**CONCLUSIONS AND  
OBSERVATIONS**

Security costs increased primarily because the restructure of security services led to an increase in staffing levels, overtime, and award fee. The restructuring did not produce the cost savings predicted by management because the Operations Office did not manage the restructure to achieve the goal of consolidation. Specifically, the Operations Office did not perform an analysis of the staffing levels, determine the scope of work to be transferred to Wackenhut, or develop cost-reduction measures or incentives to ensure efficient contractor performance. Also, the Operations Office did not consider cost as a ranking factor in the selection of the security services contractor. Finally, the Operations Office committed more funds to the Wackenhut contract than planned by the Chief Financial Officer (CFO). As a result, the Operations Office incurred at least \$7.5 million in avoidable security costs in FY 2000 and did not meet its goal of consolidating security services under a single contractor.

The audit identified issues that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)  
Office of Inspector General

## **COSTS INCREASED DUE TO RESTRUCTURING**

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### **Costs Increased**

Security costs increased from \$78.4 million in FY 1999 to an estimated \$92.1 million in FY 2000 primarily due to the restructure of security services in FY 2000. The restructure of security services led to an increase in staffing levels, overtime, and award fee. Transition costs were also incurred as part of the restructure.

#### Security Positions

The restructure of security services in FY 2000 led to an overall increase of 104 positions. Approximately 47 of the additional positions were for management and administrative duties. An additional 27 security guards were added and the remaining 30 positions were added for various security services such as personnel security and computer security. Including Wackenhut's 617 positions, the total number of security services positions totaled 744 after the restructure compared to 640 positions before the restructure.

#### Overtime

Overtime costs increased by \$1,454,000 under the restructured security services. Approximately \$910,000 of the increase was for the payment of overtime to Wackenhut's supervisors. LMES pays supervisors overtime for hours in excess of 45 hours per week at the straight time rate. However, Wackenhut pays supervisors overtime for hours in excess of 40 hours per week at the time-and-a-half rate. Wackenhut paid supervisors the premium rate for hours in excess of 40 hours per week because it was allowed by the contract. Approximately \$340,000 in overtime cost was attributed to time spent on providing security services for new projects at each of the sites in FY 2000. The contract was amended in August 2000 to allow for the additional time for the projects.

The Office of Inspector General (OIG) performed an audit of security overtime at the Operations Office in FY 2000. Report ER-B-00-02, *Audit of Security Overtime at the Oak Ridge Operations Office* (June 2000), concluded that the new contract did not provide Wackenhut with incentives to reduce overtime or minimize costs. We recommended that the Operations Office: 1) perform a comprehensive cost analysis to determine the appropriate trade-off between increased staffing levels and the use of overtime in the execution of the scope of work authorized in the Wackenhut contract, 2) use the cost analysis as a basis to establish measurable performance objectives with incentives, and 3) ensure future security services contracts include incentives to reduce overtime and minimize costs. The Operations Office was responsive to the audit and began corrective actions to address the recommendations in July 2000.

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### Award Fee

The award fee paid for security services increased by \$2.9 million under the restructured security services. The award fee paid to LMES for security services in FY 1999 was \$1.6 million, and the award fee to be paid under the restructured security services in FY 2000 is estimated at approximately \$4.5 million. The FY 2000 award fee includes about \$900,000 for LMES and \$3.6 million for Wackenhut. The award fee impact will be higher in FY 2001 since Wackenhut will perform security services for the entire fiscal year. Bechtel Jacobs and UT-Battelle were not included in the award fee comparison because the award fee tied to their security services did not change from FY 1999 to FY 2000.

### Transition Costs

The restructure of security services in FY 2000 required a transition period from October 1, 1999, through January 9, 2000. Wackenhut did not perform security services during the transition time; however, it incurred approximately \$934,000 in transition costs for management and administrative personnel and other start-up costs. Almost \$534,000 of the transition cost was for salaries for the corporate and administrative staff. The remaining costs were for items such as rent for buildings, travel and per diem, computer expenses, and supplies.

### **Management did not Consolidate Security Services**

The restructuring did not produce the cost savings predicted by management because the Operations Office did not manage the restructure to achieve the goal of consolidation. Specifically, the Operations Office did not perform an analysis of the staffing levels, determine the scope of work to be transferred to Wackenhut, or develop cost-reduction measures or incentives to ensure efficient contractor performance. Also, the Operations Office did not consider cost as a ranking factor in the selection of the security services contractor. Finally, the Operations Office committed more funds to the Wackenhut contract than planned by the CFO.

The Operations Office did not perform an analysis of the staffing levels; instead, it allowed LMES, UT-Battelle, and Bechtel Jacobs to retain positions at each site after the restructure. A primary goal of the restructure was to consolidate security services under one prime contractor in order to reduce staff and gain more control of costs.



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The consolidation was intended to avoid inefficiencies associated with the infrastructures of the three operating contractors. Even though Wackenhut was considered to be the prime security services contractor, the three operating contractors maintained positions and continued to perform security tasks at their respective sites after the restructure. LMES retained 83 positions, UT-Battelle retained 23 positions, and Bechtel Jacobs retained 21 positions after the restructure.

In addition, the Operations Office allowed LMES, UT-Battelle, and Bechtel Jacobs to determine the scope of work to be transferred to Wackenhut. For example, LMES, UT-Battelle, and Bechtel Jacobs all retained physical security tasks after the restructure. Physical security involves the operation and maintenance of storage devices for protecting classified matter and monitoring tamper-indicating devices and alarms. Also, visitor control tasks were retained by all three site operating contractors. Additionally, LMES continued to maintain the badge readers for UT-Battelle and Bechtel Jacobs.

Further, the scope of work transferred to Wackenhut varied for each site. For example, the contractor responsible for performing unclassified computer security and classified computer security was different at each site. UT-Battelle retained both tasks completely. Bechtel Jacobs retained the unclassified computer security task but allowed Wackenhut to perform the classified computer security task. LMES gave both computer security tasks to Wackenhut but retained oversight of the two tasks and therefore continued to incur costs associated with the tasks. An additional example is the task of operations security. This task involves identifying and assessing security vulnerabilities and was retained by UT-Battelle. LMES and Bechtel Jacobs released the task of operations security to Wackenhut but retained oversight positions for the task and therefore continued to incur costs.

Also, the Operations Office did not develop cost-reduction measures or incentives to ensure efficient contractor performance. About 91 percent of Wackenhut's invoiced costs through September 3, 2000, were for labor. However, the award fee for labor was calculated as a percentage of estimated labor costs, including overtime premium and overhead. Since overtime hours are paid at one-and-one-half times the regular hourly rate, the contract includes 50 percent more

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available award fee for overtime hours than for regular hours. The practice of calculating fee based on total estimated costs, including overtime premium, encourages contractors to propose large amounts of overtime and other costs in order to obtain more award fee.

The Operations Office did not use cost as a ranking factor in selecting the security services contractor. Wackenhut's response to the request for proposal exceeded the Government estimate by \$34.5 million for the term of the contract, before consideration of the award fee increase. In fact, all of the offerors responding to the request for proposal exceeded the Government estimate by at least \$21.5 million. The Government estimate was considered reasonable since it was based on FY 1998 costs incurred by previous contractors for the same scope of work, adjusted for normal escalation.

Finally, more funds were committed to the Wackenhut contract than were planned by the Operations Office's CFO. Based on FY 1999 security service costs, the Operations Office's Financial Service Division established a funding limit for Wackenhut that covered the period from January 10, 2000, through September 30, 2000. However, a procurement request was authorized and approved by the Operations Office ending the project period on August 1, 2000. Consequently, Wackenhut managed their resources based on the approved request. Once the Operations Office recognized that the contract was not funded through the end of FY 2000 and that Wackenhut had managed the contract based on the August 2000 date, the Operations Office had to approve an additional \$3.6 million to fund the contract from August 2, 2000, through September 30, 2000. This action contributed to the increase in cost.

**Operations Office Could Have Avoided Security Services Costs**

The Operations Office could have avoided at least \$7.5 million in security services costs in FY 2000, including \$2.1 million for unnecessary security positions, \$2.5 million for avoidable overtime premium, and \$2.9 million for avoidable award fee. We determined the increase in management and administrative positions and retained oversight positions to be unnecessary because the goal of the restructure was to consolidate security services and reduce costs, not to add a layer of management. The increase in management and administrative positions could have been offset by a reduction in the positions retained by LMES, Bechtel Jacobs, and UT-Battelle.

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We determined the increase in overtime and award fee to be avoidable because the Operations Office did not require Wackenhut to perform specific tasks or meet specific performance expectations to earn the additional cost and fee.

We were unable to determine whether the number of security service positions retained by LMES, UT-Battelle, and Bechtel Jacobs after the restructure was appropriate; however, we estimated that the Operations Office could have avoided \$2.1 million for the cost of 47 additional management and administrative positions and 8 remaining oversight positions at LMES, UT-Battelle, and Bechtel Jacobs. In addition, the \$2.5 million increase in avoidable overtime was estimated by comparing LMES' overtime in FY 1999 to Wackenhut's overtime in FY 2000. Finally, the \$2.9 million increase in award fee was determined by comparing \$1.6 million in award fee paid to LMES for security services in FY 1999 to \$4.5 million in total award fee paid to Wackenhut and LMES for security services in FY 2000.

## **RECOMMENDATIONS**

We recommend that the Manager, Oak Ridge Operations Office:

1. Consolidate security services at the Oak Ridge Reservation by evaluating staffing at all of the on-site security service contractors and eliminating duplicative and nonessential positions;
2. Define the scope of work to be performed by each of the on-site security service contractors;
3. Develop cost-reduction measures or incentives and tie them to the award fee determination to ensure efficient contractor performance;
4. Use cost as a ranking factor in evaluating source selections for time-and-materials contracts; and
5. Ensure that future procurement request authorizations do not commit more funds to contracts than planned by the Chief Financial Officer.

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**MANAGEMENT REACTION**

Management concurred with the finding and recommendations and agreed to initiate corrective actions. Specifically, management agreed to review the security services tasks performed by Wackenhut and the on-site contractors. The review will focus on identifying redundant and overlapping functions and activities. The Operations Office also agreed to implement the remaining recommendations.

**AUDITOR COMMENTS**

Management's comments were responsive to the finding and recommendations.

# Appendix

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## SCOPE

The audit was performed from June 5, 2000, to September 22, 2000, at the Operations Office, ETTP, ORNL, and the Y-12 Plant in Oak Ridge, Tennessee. The scope of the audit included costs of security services reported by LMES, UT-Battelle, Bechtel Jacobs, Wackenhut, and other Oak Ridge facilities for FYs 1999 and 2000. We did not evaluate the change in the quality of security as a result of the restructure.

There are differences in scope and timing between our prior audit on overtime and this audit. The prior audit focused on a comparison of overtime hours paid at the time-and-a-half rate by LMES in calendar year 1999 and the overtime hours and associated award fee allowed under the 3-year base term of the Wackenhut contract. This audit focused on a comparison of actual costs incurred for all of the security services for the Oak Ridge Reservation in FYs 1999 and 2000. Management's response to the prior report on overtime will help to reduce the increase in overtime costs identified in this report.

## METHODOLOGY

To accomplish the audit objective, we:

- Analyzed and compared security services costs incurred before and after the restructure;
- Traced the costs of security services reported by LMES, UT-Battelle, Bechtel Jacobs, and other Oak Ridge facilities to supporting databases;
- Determined and quantified the reasons for the increase in security services costs;
- Determined the scope of security services work performed by contractors in FYs 1999 and 2000;
- Evaluated the number of positions for security services in FY 2000;
- Reviewed the Department's contract for security services with Wackenhut;
- Examined procurement files; and
- Held discussions with Department and contractor personnel regarding security services for the Oak Ridge Reservation.

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The audit was performed 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 audit objective. Accordingly, the assessment included reviews of costs incurred on security services at the Operations Office for FYs 1999 and 2000. 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. To achieve the objective of the audit, we relied extensively on computer-processed data contained in the contractors' databases. We assessed the reliability of the data and found it to be adequate.

As part of our review, we evaluated the Operations Office's expectations and performance measures for security services. Performance measures were established for each of the operating contractors in accordance with the Government Performance and Results Act of 1993. However, specific performance measures were not established to reduce the significant amount of overtime hours and costs under the Wackenhut contract.

We discussed the audit finding and recommendations with officials from the Oak Ridge Operations Office on September 26, 2000.

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