U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

Idaho's Radiological and Environmental Sciences Laboratory

OAS-L-12-02 February 2012

Department of Energy

Washington, DC 20585

February 21, 2012

MEMORANDUM FOR THE MANAGER, IDAHO OPERATIONS OFFICE

Daniel M. Weeber

FROM: Daniel M. Weeber, Director
Eastern Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Idaho's Radiological and Environmental Sciences Laboratory"

BACKGROUND

The Department of Energy owns and operates the Radiological and Environmental Sciences Laboratory (RESL) through the Idaho Operations Office (Idaho). RESL is a reference measurements laboratory specializing in analytical chemistry, radiation measurements and calibrations, and quality assurance. RESL had been located at the Idaho National Laboratory (INL) site since 1949. The Department decided to move RESL to a new facility in Idaho Falls because the deterioration of the existing building was increasingly compromising RESL's ability to support the Department.

On April 7, 2011, the Office of Inspector General Hotline received a complaint alleging improprieties with the construction and operation of RESL. The complainant alleged that the construction, relocation and operation of RESL violated a number of Federal policy and procedural requirements. The objective of this audit was to determine whether the relocation and operation of RESL was appropriately managed.

CONCLUSIONS AND OBSERVATIONS

We did not identify material issues or obtain sufficient evidence to substantiate the allegations concerning RESL's operation and relocation to Idaho Falls. However, we did identify an internal control weakness that the Department should consider relating to accounting for renovation costs.

Phased Construction

The complainant alleged that RESL capital construction was being performed in phases to avoid the Congressional Line Item approval and reporting processes. The complainant explained that only a portion of RESL functions were being relocated to Idaho Falls in the first phase and the remainder of the integral functions would be relocated to an attached facility constructed as a new capital project after the first project was closed. According to Department policy, if the costs of a capital project exceed $10 million, which would have occurred if the two projects were combined, it would have been categorized as a Line Item project and required Congressional approval for funding.

Based on our review, we were unable to substantiate the complainant's assertion. Specifically, we found that the Department considered the relocation of RESL to Idaho Falls to involve two separate projects that included: (1) the renovation of an existing office facility; and, (2) the construction of a new laboratory facility; rather than the phased construction of a single facility. To accommodate RESL needs, the Department used operating funds to renovate the south end of a Department-owned facility to provide office space and related facilities for RESL. To meet the laboratory needs, the Department used General Plant Project (GPP) funds to construct a new laboratory adjacent to the renovated office space. The two buildings are connected by an enclosed walkway.

According to the Department's Office of Risk Management and Financial Policy, the RESL renovation and construction was not a single new construction project. *The Department's Accounting Handbook*, Chapter 10, prohibits the use of GPP funds, which do not require Congressional Line Item approval, to fund incremental segments in the construction of larger facilities. However, a Department policy official stated that the separate renovation and construction projects did not violate this policy. Instead, the Department considered the renovation of the existing office space a separate project which could be paid for with operating funds. Our review found that the use of operating funds for renovations does not violate accounting policies. The $2.1 million cost to renovate the office space was expensed and the nearly $9.8 million cost to construct the laboratory was capitalized. We also found that additional costs associated with conceptual design and project closeout of the laboratory, which totaled approximately $800 thousand, were also expensed according to Department policies.

<u>Mission Need and Privatization Study</u>

The complainant alleged that no Mission Need Statement was prepared to document the need for the capability that RESL provided. Further, the complainant indicated that no privatization study was performed to determine whether RESL program activities should be performed by the private sector or another Federal agency.

Contrary to the complainant's assertion, we found that mission need was documented and a privatization study was performed. Mission Need Statements are required by DOE Order 413.3B, *Program and Project Management for the Acquisition of Capital Assets.* These statements were completed in 2004 and revised in 2009 to support the relocation to the new facilities. Further, the statements outlined RESL capabilities, how it supports the Department's mission and discussed the statutory/regulatory requirements for the program. With respect to the privatization study, in 2007, the Department conducted a standard competition in accordance with the Office of Management and Budget Circular A-76 for RESL and concluded that Federal operation of RESL was preferred over privatization. Under the competition, two proposals were submitted, one from RESL and one from the Department's New Brunswick Laboratory. The New Brunswick Laboratory later withdrew from the competition and RESL was ultimately chosen as the most efficient organization.

<u>Alternative Analysis and Life Cycle Cost Estimating</u>

The complainant indicated that no alternative analyses or life cycle cost estimates were performed to evaluate the feasibility and cost effectiveness of various alternatives to new construction. The complainant also indicated that consideration should have included remodeling and refurbishing the current facilities, moving RESL functions to another surplus facility on the INL site, relocating RESL functions to another Department site, leasing laboratory space at a much reduced cost, or taking no action.

We did not substantiate the complainant's allegation that alternative analyses were not performed. We found that various alternatives were considered for RESL relocation. Alternatives analyses are required by DOE Order 413.3B when new assets are procured or constructed. A whitepaper, dated May 2009, discussed five options for moving RESL. The options considered using existing buildings at the INL site, building a new facility, modifying existing buildings and relocating the displaced personnel to leased space, and modifying an existing building to include adding an annex to the building. New construction of a combined office and laboratory facility proved to be a more costly alternative. Leasing was considered; however, this was a long term, Federally operated program, and the cost of leasing over the long term was determined to be prohibitive. According to the Idaho Assistant Manager for Infrastructure, a factor that complicated the use of leased space was that such space would have had to undergo significant modification to accommodate laboratory equipment that was unique to RESL. In particular, demolition and reconstruction would have been necessary to install RESL iron rooms, large steel vaults weighing several tons, into existing space. Additionally, equipment for safely examining samples of radioactive and hazardous materials required special filtering and ventilation that would have had to have been retrofitted if an existing facility was used. Such work would have increased the cost estimates of any option that considered the use of an existing facility. Also, relocating RESL to another site in the DOE complex would have required equipment moves and significant relocation expenses associated with moving approximately 20 RESL scientific staff to another site, in addition to the costs of modifying any existing facility to make it operational for RESL purposes.

In addition, we confirmed the assertion of the Idaho Assistant Manager for Infrastructure that life cycle cost estimates were not required by Department policies. Nonetheless, he believed that several years ago a life cycle cost analysis of refurbishing the existing RESL facility at the site may have been performed; but, he was not able to locate copies of this information. Based on our concerns about the need to retain such documentation to support management decisions, the Idaho Assistant Manager for Infrastructure agreed that this practice is important to project management and should have been done for this project.

Equipment, Personnel, Construction and Safety Issues

The complainant expressed concern that Government-furnished equipment and personnel relocation costs were not properly accounted for. Also, the complainant indicated that Idaho site construction and safety standards were waived to minimize total project costs and avoid the need for Congressional approval of the project.

We did not substantiate the complainant's allegation regarding improper accounting for Government-furnished equipment and personnel relocation costs. Both were treated in accordance with Department accounting policies. The only Government-furnished equipment identified for this project was the whole body counting iron rooms that had no remaining capital value when transferred to the new RESL. Prior to transfer to the new RESL, INL refurbished the room walls and paid for this with operating funds. Using operating funds to pay for the transportation and refurbishment of the rooms was in accordance with Department accounting policies. Also, personnel relocation costs are considered other project costs and are typically not capitalized. Because many of these costs would occur after the facility is completed, the costs would not factor into a decision regarding the need for Congressional Line Item approval for the project.

Further, we found no evidence to conclude that construction and safety standards were waived on these projects. The project execution plan stated that INL Integrated Safety Management would be implemented. Additionally, the two construction contracts required adherence to the Department-approved Worker Safety and Health Program, including occupation medicine provisions and building codes. Also, the project was designed and subsequently inspected to ensure that it met standards for the construction of new Federal buildings. Finally, construction punch-lists were completed to ensure the facility was built to specifications, and facility design drawings were updated to reflect the way the building was actually built – standard practices for construction projects.

Renovation Betterments

During our review we noted that the Department may not have appropriately capitalized costs associated with the renovation of the office facility. Specifically, Department policies require the capitalization of "betterments" – which are activities that may result in better quality of, or higher capacity from, a facility; extend the useful life of a facility; or are necessary for regulatory compliance – in the Department's accounting system. As part of the alterations for the office renovation project, the Department made changes to the facility's electrical, heating, ventilating, air-conditioning and plumbing systems, that, in certain instances, could have been defined as betterments that conceivably extended the useful life of the existing facility. Project managers rely on accounting officials to determine whether items of cost are betterments that should be capitalized. However, project management officials did not provide the data needed by accounting personnel to make an appropriate determination. Rather, the project manager determined whether costs would be capitalized or expensed. The project manager indicated a lack of familiarity with costing rules or the *Department's Accounting Handbook*. We discussed this weakness with management officials in Budget and Finance who agreed that there should be greater interaction between project managers and accounting officials in determining whether costs should be expensed or capitalized in the Department's accounting system.

SUGGESTED ACTIONS

To address the internal control issue noted within this report, we suggest that the Manager, Idaho Operations Office:

1. Evaluate activities in the renovation project that could be considered betterments and capitalize those costs, as appropriate;

2. Ensure that project managers work with accounting officials when making costing decisions on improvements to facilities to ensure proper categorization; and,

3. Ensure that available documentation to support project decisions is retained in the project files.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary of Energy
Assistant Secretary for Nuclear Energy
Director, Office of Management
Acting Chief Financial Officer
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the relocation and operation of Idaho Operations Office's Radiological and Environmental Sciences Laboratory (RESL) was appropriately managed.

SCOPE

The audit was performed between June 2011 and January 2012 at the Department of Energy's (Department) Idaho Operations Office and Idaho National Laboratory located in Idaho Falls, Idaho.

METHODOLOGY

To accomplish the audit objective, we:

- Conducted a targeted review of the construction, relocation and operation of RESL and as it related to the issues discussed in the complaint;

- Held discussions with officials from the Idaho Operations Office, RESL and the Office of Risk Management and Financial Policy, and with contractor officials regarding the operation and relocation of RESL;

- Toured the old RESL facility to ascertain its operating condition and understand the decision for relocation. We also toured the new facility to better understand the construction process and learn how RESL's functions would be performed in the new environment;

- Obtained and reviewed documentation pertaining to mission need, privatization, project execution plans, alternatives considered, construction contracts, construction costs and safety standards; and,

- Reviewed the *Department Accounting Handbook* and laws and regulations related to project management and costing.

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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective. Accordingly, the audit included tests of controls and compliance with laws and regulations to the extent necessary to satisfy our objective. In particular, we assessed the Department's implementation of the *Government Performance and Results Act of 1993* and concluded that it had established performance measures for the management of the construction project contract. 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 did not rely on computer-processed data to accomplish our audit objective.

An exit conference was held with Idaho Operations Office management on January 19, 2012.

IG Report No. OAS-L-12-02

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