United States Government
Department of Energy
memorandum

DATE: August 19, 1996

REPLY TO
ATTN OF: IG-1

SUBJECT: INFORMATION: Report on "Audit of the Department of Energy's User Facilities"

TO: The Secretary

BACKGROUND:

The Department of Energy has for years made certain designated user facilities available to universities, industry, and other research organizations. Due to technology transfer efforts and excess capacities, even more facilities, such as defense program facilities, are being made available to outside users. Today, Department user facilities fall into one of three categories - designated user facilities, other user resources, and Technology Deployment Center/User Facilities. The objectives of the audit were to determine whether (1) user facility agreements were priced to ensure full cost recovery; (2) user facility agreement collections were properly deposited; and (3) financial assistance provided to visiting researchers at designated user facilities was allowable and reasonable.

DISCUSSION:

We found that Technology Deployment Center/User Facility and designated user facility agreements were priced in accordance with Department policies. However, other user facility agreements were not always priced to ensure full cost recovery. Agreements executed at Los Alamos National Laboratory (Los Alamos) prior to establishment of its Technology Deployment Center/User Facilities, and user resource agreements executed at the Idaho National Engineering Laboratory (INEL) were not always priced appropriately. During the period October 1992 through March 1995, Los Alamos inappropriately waived over $725,000 in Department added factor and depreciation costs in 41 user facility agreements. INEL also inappropriately waived the Departmentms added factor and depreciation and priced some agreements at zero cost.

In addition, the audit showed that user facility agreement collections were not always properly deposited. Los Alamos retained user agreement collections in its letter of credit account rather than depositing the collections into the Treasury, as required by Public Law. As of the end of Fiscal Year 1995, Los Alamos was holding over $943,000 in user facility agreement collections, including about $168,000 that should have been deposited to the Treasury to offset the Departmentms administration appropriation.

Finally, the audit showed that Sandia National Laboratories provided visiting researchers to its Combustion Research Facility with financial and housing assistance that we questioned as being allowable. Sandia provided the visiting researchers, primarily foreign nationals, with stipends, furnished apartments, and allowances for relocation, travel and subsistence expenses at a cost of about $689,000. Sandia provided the assistance even though visitors were normally expected to be self-supporting.

Department management generally agreed with our findings and proposed corrective actions on the recommendations in the report.

(Signed)

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Under Secretary

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF
THE DEPARTMENT OF ENERGYmS USER FACILITIES

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Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.

This report can be obtained from the
U.S. Department of Energy
Office of Scientific and Technical Information
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Oak Ridge, Tennessee 37831

Report Number: DOE/IG-0395

Western Regional Audit Office
Albuquerque, NM 97185-5400

Date of Issue: August 1996

AUDIT OF
THE DEPARTMENT OF ENERGYmS USER FACILITIES

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

AUDIT OF THE DEPARTMENT OF ENERGYmS USER FACILITIES

Audit Report Number: DOE/IG-0395

SUMMARY

The Department of Energy (Department) has for years made certain designated research facilities available to universities, industry, and other research organizations. Due to technology transfer efforts and excess capacities, even more facilities, such as defense program facilities, are being made available to outside users. Today, Department user facilities fall into one of three categories - designated user facilities, other user resources, and Technology Deployment Center/User Facilities. The objectives of the audit were to determine whether (1) user facility agreements were priced to ensure full cost recovery; (2) user facility agreement collections were properly deposited; and, (3) financial assistance provided to visiting researchers was allowable and reasonable.

We found that the Department priced Technology Deployment Center/User Facility and designated user facility agreements in accordance with Department policies. However, other user facility agreements were not always priced to ensure full cost recovery, and collections were not always properly deposited. In addition, our audit showed that at one designated user facility, visiting researchers were provided with financial and housing assistance that we questioned as being allowable.

Los Alamos National Laboratory (Los Alamos) user agreements executed prior to establishment of its Technology Deployment Center/User Facilities, and Idaho National Engineering Laboratory (INEL) user resource agreements were not always priced appropriately. During the period October 1992 through March 1995, Los Alamos inappropriately waived Departmental added factor and depreciation costs of over $725,000 in 41 user agreements. INEL also inappropriately waived the Departmentms added factor and depreciation and priced some agreements at zero cost.

In addition, the audit showed that Los Alamos did not properly deposit collections resulting from user facility agreements executed prior to establishment of its Technology Deployment Center/User Facilities. Los Alamos retained user agreement collections in its letter of credit account rather than depositing the collections into the Treasury. As of

the end of Fiscal Year 1995, Los Alamos was holding over $943,000 in user facility agreement collections, including about $168,000 that should have been deposited to the Treasury to offset the Departmentms administration appropriation.

Finally, the audit showed that during Fiscal Years 1994 and 1995, Sandia National Laboratories (Sandia) provided 34 visiting researchers to its Combustion Research Facility with financial and housing assistance that we questioned as being allowable. Sandia provided the visiting researchers, primarily foreign nationals, with stipends, apartments, and allowances for relocation, travel, and subsistence expenses at a cost of about $689,000. Sandia provided the assistance even though visitors were normally expected to be self-supporting.

Department management generally agreed with the findings and agreed to initiate action on the recommendations in the report. Management comments on our findings are included in Part III of this report.

____(Signed)_______________
Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Department has specialized facilities, collectively referred to as user facilities, that are available for use by industry and academia. The objectives of the audit were to determine whether (1) user facility agreements were priced to ensure full cost recovery; (2) user facility agreement collections were properly deposited; and (3) financial assistance provided to visiting researchers at designated user facilities was allowable and reasonable.

SCOPE AND METHODOLOGY

The audit was conducted at the Department's Headquarters; the Albuquerque, Idaho, Oakland, and Oak Ridge Operations Offices; the Idaho National Engineering Laboratory; Lawrence Livermore, Los Alamos, and Sandia National Laboratories; and, the Y-12 Plant. The audit was conducted between June 1995 and March 1996.

To accomplish the audit objectives, we:

* reviewed applicable laws, regulations, policies, and procedures;

* reviewed selected user facility agreements;

* reviewed the accounting for user facility agreement collections; and,

* interviewed Department and laboratory officials.

The audit did not rely extensively on computer-processed data. Therefore, we did not fully examine the reliability of computerized data used. The audit was conducted according to generally accepted Government auditing standards for performance audits, which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective.

We assessed significant internal controls with respect to the audit objectives. 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. Internal control weaknesses disclosed by the audit are discussed in Part II. Department officials waived an exit conference.

BACKGROUND

The Federal Government has for many years fostered scientific and technical education and research to improve Americams competitive edge in the international marketplace. In recent years, it has become important to continue developing new technologies and to transfer these technologies to industry. Due to this technology transfer effort and excess capacities, the Department has opened many of its facilities to universities, industry, and other research organizations. Today, Department user facilities fall into one of the following categories.

Designated User Facilities

Designated user facilities originated in the 1970s under the Office of Energy Research. The term "designated user facility" is used to describe sophisticated scientific facilities, equipment, software and expertise that is available at Department laboratories for use by industry and academia.

Other User Resources

Other research facilities, not officially designated as user facilities, are also available to outside users. These "other user resources" include major scientific instrumentation, laboratories and other technical facilities, whose primary purpose is to serve the needs of in-house laboratory staff, but which can be shared as a dual benefit with the outside technical community. Designation of such resources as available to outside users is subject to local management decisions.

Technology Deployment Center/User Facilities

Technology Deployment Center/User Facilities are facilities, capabilities or resources used at laboratories or production facilities whose primary function is to satisfy Department needs. In May 1993, Defense Programs officially designated the Oak Ridge Centers for Manufacturing Technology at the Y-12 Plant as the first Technology Deployment Center/User Facility. In February 1994, the Assistant Secretary for Defense Programs delegated to the Albuquerque Operations Office the authority to approve Technology Deployment Center/User Facilities for its laboratories and production plants. Since then, the Department has delegated authority to approve Technology Deployment Center/User Facilities to the Oakland Operations Office.

The number of facilities by type at each location, as of December 31, 1995, is as follows:

Location	Designated User Facilities	Other User Resources	Technology Deployment Centers
Sandia	2		19
Los Alamos	6	0*	44
Oak Ridge	12		
Lawrence Livermore			3
INEL		71	
Y-12			1

(*) Prior to having facilities designated as Technology Deployment Centers, Los Alamos categorized many of its user facilities as Other User Resources. In April 1994, Los Alamos had 81 facilities in this category.

User Facility Agreements

Although all three types of user facilities are available to outside users, there is one significant difference between them: the price for using them. Designated user facilities are generally available to industry and academia free of charge if the research performed is nonproprietary (not protected by secrecy, patent, or copyright) and of interest to the Department. For proprietary use, the Department charges users on a full cost recovery basis. Pricing for using other user resources and Technology Deployment Center/User Facilities, on the other hand, is based on full cost recovery including depreciation and added factor, irrespective of whether the research is proprietary or nonproprietary.

OBSERVATIONS AND CONCLUSIONS

Our audit showed that Technology Deployment Center/User Facility and designated user facility agreements were priced appropriately at the locations visited. However, other user facility agreements were not always priced at full cost and collections were not always handled properly. In addition, our audit showed that at one designated user facility, visiting researchers were provided with financial and housing assistance that we questioned as being allowable. Our findings and recommendations are discussed in detail in Part II of this report.

When preparing its yearend assurance memorandum on internal controls, the Albuquerque and Idaho Operations Offices should consider our finding regarding full cost recovery. Albuquerque should also consider our findings regarding the handling of user facility agreement collections and assistance to visiting researchers.

PART II

FINDINGS AND RECOMMENDATIONS

1. Pricing of User Facility Agreements

FINDING

Department of Energy regulations require that the price for materials and services sold to persons and organizations outside the Federal Government shall be the Governmentms full cost. We found, however, that Los Alamos National Laboratory (Los Alamos) and the Idaho National Engineering Laboratory (INEL) did not always price user facility agreements at full cost. Los Alamos inappropriately waived Department added factor and depreciation costs on user facility agreements executed prior to establishment of its Technology Deployment Center/User Facilities. INEL also inappropriately waived added factor and depreciation costs, and did not recover general and administrative and overhead costs on some agreements. Los Alamos and INEL priced the agreements improperly because (1) Los Alamos assumed that certain agreements were exempt from full cost recovery; and (2) INEL implemented policies, approved by the Idaho Operations Office, that allowed INEL to price agreements at less than full cost. As a result, Los Alamos did not recover about $725,000 due to the Treasury. The total amount of costs that INEL did not recover could not be determined.

RECOMMENDATIONS

1. We recommend that the Manager, Albuquerque Operations Office, direct Los Alamos to:

* establish written policies and procedures to ensure that user facility agreements are priced appropriately; and,

* reimburse the U.S. Treasury for Department added factor and depreciation costs that Los Alamos waived without Department approval.

2. We recommend that the Manager, Idaho Operations Office, direct INEL to:

* establish policies and procedures to ensure full cost recovery on future user agreements; and,

* attempt to renegotiate existing user agreements to recover costs and specify facility usage.

MANAGEMENT REACTION

Albuquerque and Idaho Operations Office management generally concurred with the recommendations. Part III of this report includes detailed management and auditor comments.

DETAILS OF FINDING

Department regulation 10 CFR 1009, "General Policy for Pricing and Charging for Materials and Services Sold by DOE," states that the Departmentms price for materials and services sold to persons and organizations outside the Federal Government shall be the Governmentms full cost. The Department implements this regulation in DOE Order 2110.1A, "Pricing of Departmental Materials and Services." The order defines full cost as all direct and allocable costs, including, but not limited to, the following cost elements:

direct labor (including fringe benefits), direct materials, power and utilities, and maintenance;

indirect costs, i.e., common costs that cannot be directly assigned to specific cost objectives;

contractor profit/fees and management allowances paid by the Department;

depreciation, including depreciation costs that are directly associated with facilities and equipment utilized, and allocated depreciation costs for support and general facilities and equipment; and,

added factor, which includes general and administrative costs and other support costs that are incurred for the benefit of the Department.

The Department's added factor and depreciation may be waived in certain circumstances. According to Departmental guidance dated October 1, 1991, Heads of Field Elements may approve requests for waiver of Departmental added factor and depreciation if a specifically identified, currently funded Department program derives a direct benefit as a result of the proposed work. The Department can also waive added factor and depreciation for small businesses and nonprofit organizations. In 1994, the Office of Management and Budget granted the Department's request for a waiver of added factor and depreciation for all small businesses and nonprofit organizations participating in funds-in agreements, such as user facility agreements. The waiver was effective October 1, 1994.

PRICING OF AGREEMENTS AT LOS ALAMOS AND INEL

Los Alamos did not price many of its user facility agreements at full cost. Los Alamos entered into 54 user facility agreements during Fiscal Years 1993 through 1995. In 13 of the 54 agreements, Los Alamos charged the Departmentms full cost, including added factor and depreciation, or requested and received Department approval to waive costs. However, in the remaining 41 agreements Los Alamos inappropriately waived the Department's added factor and depreciation costs. Generally, agreements stated that the Department had approved waivers of the added factor and depreciation. However, Los Alamos never submitted waiver requests to the Department for approval.

INEL also did not always price user agreements appropriately. As of December 20, 1995, INEL had entered into 11 user facility agreements. INEL charged the Departmentms full cost in only 2 of the 11 agreements and waived Department added factor and depreciation in 4 others. INEL waived added factor and depreciation costs in 3 of these 4 because the users were small businesses, and in the fourth because the proposed work was nonproprietary. INEL priced its remaining five agreements at zero cost. The five agreements did not even include charges to recover facility maintenance or utility costs.

REASONS FOR NOT FULLY RECOVERING COSTS

Prior to establishing its Technology Deployment Center/User Facilities, Los Alamos did not include added factor and depreciation costs on user facility agreements involving nonproprietary work. According to a Los Alamos official, the Laboratory did not charge users for added factor and depreciation because the Department had granted Los Alamos a blanket waiver for such costs on nonproprietary agreements. However, Los Alamos could not provide documentation to support that the Department had ever granted such a waiver. In April 1995, Los Alamos began pricing agreements in accordance with Technology Deployment Center/User Facility guidance established by Albuquerque. The guidance required full cost recovery, unless waived by the Department. Los Alamos, however, did not establish its own written policies and procedures to ensure consistent compliance.

INEL's User Resource Program, approved by the Idaho Operations Office, implemented policies that affected full cost recovery. For example, it was INEL's policy to waive added factor and depreciation on nonproprietary agreements. In addition, INELms pricing policy was intended to recover only the incremental costs that users incurred. Facility maintenance or lease costs were not to be billed to users. INEL would price labor purchased by users at the fully burdened rate. However, if no labor hours were expended, INELms system for capturing costs did not have a mechanism for recovering organizational burden, common support and general and administrative costs.

Other INEL policies that affected full cost recovery were those that allowed INEL employees to use user facilities for personal business and permitted users to hire INEL employees to act as the users. INEL employees were required to perform such work on their off time. However, because users were not purchasing INEL labor hours, costs such as common support and organizational burden were not being recovered.

Since our audit, INEL placed its User Resources Program in a "hold" status and proposed policy changes to include pricing user activity at full cost. It is unknown whether the INEL Operations Office approved these changes.

COSTS NOT RECOVERED

Los Alamos did not recover $725,336 in added factor and depreciation costs that were due to the U.S. Treasury. Department policy required that collections of Department added factor and depreciation be deposited into the Departmental Administration Appropriation special receipt account and that the funds be offset against the Departmentms administration appropriation.

We could not determine the amount of costs that INEL did not recover from the five agreements that it priced at zero cost. This occurred because the agreements did not specify anticipated usage, and actual usage was not recorded. Without knowing projected or actual usage, we could not calculate what INEL should have charged and recovered for organizational burden, common support, general and administrative costs, and Department added factor and depreciation.

We determined that INEL should have recovered $2,794 from one agreement in which it did not charge the user for added factor and depreciation costs. INEL waived the added factor and depreciation costs because the proposed user activity was nonproprietary and it was INELms policy to exclude such costs when pricing nonproprietary agreements. It is unclear whether the Department can hold INEL accountable for not recovering full costs on the above mentioned agreements, since INEL used pricing policies that were approved by the Idaho Operations Office.

2. Handling of User Facility Agreement Collections

FINDING

Public Law 95-91 requires that proceeds from the use of Department equipment and facilities by others be deposited in the Treasury. However, we found that for agreements executed prior to April 1995, Los Alamos deposited its user facility agreement collections into its letter of credit. Los Alamos used some of the funds to offset user facility agreement costs and retained portions representing Department added factor and depreciation until users completed agreement work. This condition occurred because the Department did not establish specific guidance for handling user facility agreement collections. As of the end of Fiscal Year 1995, Los Alamos was holding over $943,000 in user facility agreement collections. This included about $168,000 in Department added factor and depreciation that should have been offset against the Departmentms administration appropriation.

RECOMMENDATIONS

1. We recommend that the Office of Chief Financial Officer establish Departmentwide financial policy guidance regarding user facility agreement collections.

2. We recommend that the Manager, Albuquerque Operations Office direct Los Alamos to remit the balance of retained user facility agreement funds to the Treasury.

MANAGEMENT REACTION

The Office of Chief Financial Officer concurred with the recommendation to establish financial policy guidance regarding user facility agreement collections. Albuquerque Operations Office management concurred with the recommendation to direct Los Alamos to remit the balance of retained user facility agreement funds to the Treasury. Part III of this report includes detailed management and auditor comments.

DETAILS OF FINDING

Public Law 95-91, the Department of Energy Organization Act, establishes administrative provisions over the use of Department facilities. Section 649 states that proceeds resulting from the use of facilities by public and private agencies, corporations, associations, or other organizations or individuals be deposited in the Treasury. These proceeds may be used to pay directly the costs of the equipment or facilities provided. According to the Departmentms policies on reimbursable work, portions of reimbursements that represent Department added factor and depreciation are to be deposited into the Departmental Administration Appropriation special receipt account and offset against the Departmentms administration appropriation.

COLLECTIONS AT LOS ALAMOS

For agreements executed prior to April 1995, Los Alamos did not deposit user facility agreement collections to the Treasury. Instead, it deposited such collections into its letter of credit account. In Fiscal Years 1993 through 1995, Los Alamos collected and deposited about $3.4 million to its letter of credit. Los Alamos accounted for the proceeds, which represented advance payments from sponsors, by crediting the funds to Funds-Held-for-Others accounts assigned to each user. Each month, Los Alamos debited these accounts to reduce the amount of the advance by the amount of the previous monthms costs. Since establishing its Technology Deployment Center/User Facilities, Los Alamos has deposited user agreement collections into the Treasury.

For those agreements in which Los Alamos collected Department added factor and depreciation, Los Alamos credited the portion of the added factor and depreciation to a separate Funds-Held-for-Others account. It was Los Alamosm practice to retain these funds until the agreements were completed. Once completed, Los Alamos would then deposit the added factor and depreciation into the U.S. Treasury.

DEPARTMENT POLICIES AND PROCEDURES

The Department's accounting policies and procedures did not implement Public Law 95-91ms requirements for depositing user facility agreement proceeds. Department Order 2200.6A, Chapter IX, Reimbursable Work, Revenues, and Other Collections, specifically excluded user charges from its policies and procedures applicable to reimbursable work. However, nowhere else in the Order was the treatment of user charges discussed. The same is true of Chapter 13 of the Departmentms Accounting Handbook, which replaced the Order in October 1995. This happened even though the Department established a working group in 1994 to develop financial policy related to user facilities.

Albuquerque made an effort to establish guidance regarding user facility agreement collections. In February 1995, Albuquerquems Financial Management Division established policy guidance on the accounting and budgeting of user facility agreements. The policy, which applied to Albuquerquems contractors, required Los Alamos to treat user facility agreements similar to Funds-In Agreements and Cooperative Research and Development Agreements. The guidance also stated that the Department would make funds available to contractors in the Approved Funding Plan to the extent that contractors notified Albuquerque that the sponsorms cash advance had been received and deposited to the proper appropriation fund. Although this policy provided for administrative control over user facility agreement funds collected by Albuquerque's contractors, Department-wide policies and procedures are necessary to ensure consistency throughout the Department.

COLLECTIONS HELD BY LOS ALAMOS

As of the end of Fiscal Year 1995, Los Alamos was holding $943,041 of the $3.4 million collected in Fiscal Years 1993 through 1995. The amount included $168,250 in Department added factor and depreciation that was due to the U.S. Treasury. Los Alamos planned to retain the collections and use a portion to offset costs incurred in completing open agreements. Once users completed their agreements, Los Alamos planned to deposit funds representing added factor and depreciation with the U.S. Treasury.

3. Assistance to Visiting Researchers

FINDING

Visitors who perform research at the Department's Designated User Facilities are to be self-supporting. In Fiscal Years 1994 and 1995, however, Sandia National Laboratories provided financial and housing assistance to 34 of 83 long-term visiting researchers at its Combustion Research Facility (CRF). This condition occurred because of a lack of controls in the CRF's visitor program and Sandiams interpretation of its contract with the Department. As a result, we question the allowability of about $689,000 incurred during Fiscal Years 1994 and 1995.

RECOMMENDATIONS

We recommend that the Manager, Albuquerque Operations Office:

* disallow and recover the cost of financial and housing assistance provided to visitors at Sandiams Combustion Research Facility; and,

* direct Sandia to establish policies and procedures regarding visiting researchers.

MANAGEMENT REACTION

Albuquerque Operations Office management generally concurred with the recommendation and proposed to conduct a "for cause" review in order to make a determination on the allowability of the questioned costs. Albuquerque management also agreed to direct Sandia to establish policies and procedures for visiting researchers. Part III of this report includes detailed management and auditor comments.

DETAILS OF FINDING

Visitors who wish to perform research at Department designated user facilities are expected to support themselves. At Sandia, invitation letters to visitors of the CRF state that visitors are normally to be self-supporting. At designated user facilities located at Oak Ridge and Los Alamos, visitors are responsible for their travel and living expenses. In addition, Sandiams contract with the Department requires that Sandia accommodate visitors, but is silent with regard to providing assistance to visitors.

FINANCIAL AND HOUSING ASSISTANCE TO VISITORS

In Fiscal Years 1994 and 1995, the CRF hosted 83 long-term, visiting researchers. Even though visiting researchers were to ordinarily support themselves, Sandia provided stipends; housing; and relocation, travel and living allowances to 34 visitors, at a cost of about $689,000. Fifteen of the 34 visitors received more than one type of assistance.

Stipends

Sandia provided $418,916 in stipends to 15 of the 83 visiting researchers. Sandia provided the stipends to allow visiting researchers to participate in research for the purpose of educational enhancement and professional development. The stipends varied in amount and length of time. For example, one individual received a $3,000 stipend for one month, while another received $4,442 per month for almost two years.

Foreign visitors benefited the most from these stipends. Of the 15 visitors who received stipends, 9 (60 percent) were not U.S. citizens. The cost of stipends provided to foreign nationals was $304,423, which accounted for over 72 percent of the $418,916 in stipends that Sandia provided.

Housing Assistance

Sandia provided housing to visiting researchers at a cost of $127,298 in Fiscal Years 1994 and 1995. Sandia leased eight apartments with the intent of subleasing them to Sandia-sponsored visitors, such as cooperative program students. Yet, Sandia allowed 16 visiting researchers, and in some cases their families, to reside in the apartments at no cost. One visitor was scheduled to receive free housing from July 1994 to July 1996. Sandia furnished the apartments, which consisted of five two-bedroom and three three-bedroom properties. In addition, Sandia paid for utilities, local telephone service, cable television, and cleaning expenses. Sandia only required that visitors pay for long distance telephone calls and a set-up fee. Total costs associated with the apartments in Fiscal Years 1995 and 1994 were $104,969 and $100,991, respectively. Rent receipts, reimbursements for long distance telephone calls, and non-refundable set-up fees were $34,274 in Fiscal Year 1995. We projected Fiscal Year 1994 receipts to be $44,388, based on average deposits made in the last four months of the Fiscal Year. The net costs incurred by Sandia for Fiscal Years 1994 and 1995 were $127,298.

As in stipends, foreign nationals benefited the most from the free housing. Ten of the 16 visiting researchers who received housing at no cost were not U.S. citizens.

Relocation, Travel, and Living Allowances

Sandia provided $78,215 in relocation, travel, and living allowances to 20 visiting researchers during Fiscal Years 1994 and 1995. Allowances consisted primarily of flat weekly or monthly allowances. Recipients were paid without having to itemize actual expenses. For example, a visitor from the University of California-Irvine received $750 a week for transportation and subsistence expenses for 17 weeks without having to account for his actual expenses.

General & Administrative Costs

Sandia incurred $64,737 to provide financial assistance to visiting researchers. Sandia incurred general and administrative costs because Sandia used a third party, Associated Western Universities, to administer the payment of stipends and related relocation and travel assistance to visiting researchers. Associated Western Universities charged Sandia a 14.3 percent general and administrative rate for their services. In at least one case, Sandia used Associated Western Universities to administer the payment of a stipend because the visiting researcher was not a U.S. citizen and Sandia could not pay the individual directly.

Visitors Provided With Multiple Types of Assistance

Sandia provided more than one type of assistance to 15 of the 34 visiting researchers who received assistance. For example, Sandia provided nine visiting researchers with stipends and travel or relocation allowances. Sandia provided a visiting researcher from Germany with a monthly stipend of $800, a $800 relocation allowance, a $3,500 travel allowance, and a furnished apartment. This was in addition to $27,000 that the visitor was to receive from an organization in Germany.

CONTROLS OVER VISITING RESEARCHERS

Visiting researchers received financial, housing and travel assistance because of a lack of controls in the CRF's visitor program and Sandiams broad interpretation of its contract with the Department.

According to a CRF official, Sandia provided assistance to visitors only when it was convinced that assistance was warranted by an increase in productivity. However, we could not evaluate how such determinations were made. Sandia had no written policies or procedures for determining when assistance was warranted. Sandia also had no policies or procedures for determining the amount or types of assistance to be provided.

Financial assistance funded through Associated Western Universities was not approved by the Department. Sandia used federal agency orders to send funds to Associated Western Universities. Sandia was required to submit such orders to the Departmentms Kirtland Area Office for approval. However, according to a Kirtland Area Office official, Sandia did not submit federal agency orders for Associated Western Universities to the Department for approval.

Sandia interpreted its contract with the Department to allow housing to visiting researchers. In January 1995, Sandiams Internal Audit Department questioned $48,246 associated with the apartments Sandia leased in Livermore. Management disagreed and stated that while Sandia's contract with the Department was silent regarding the particulars of "accommodation," it could be interpreted to include the apartments.

QUESTIONED COSTS

We question the appropriateness and allowability of costs that Sandia incurred in providing assistance to visiting researchers. A basic premise of visitor programs at designated user facilities, including Sandia's CRF, is that visitors are to be self-supporting. In addition, Sandiams contract is silent with regard to providing assistance to visitors. Nevertheless, Sandia provided stipends, housing, and relocation and travel allowances to 34 visiting researchers during Fiscal Years 1994 and 1995. Foreign visitors benefited the most. We question $689,166 that Sandia incurred in providing financial and housing assistance to visiting researchers during Fiscal Years 1994 and 1995.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Department of Energy management generally concurred with our report. Responses were received from the Albuquerque Operations Office (Office of Energy, Science and Technology); Idaho Operations Office (Office of Chief Financial Officer); and the Department's Office of Chief Financial Officer (Office of Compliance and Audit Liaison Division). A summary of management comments and our responses follows.

1. Pricing of User Facility Agreements

Management Comments. Albuquerque agreed to direct Los Alamos to establish written policies and procedures to ensure that user facility agreements are priced appropriately. Albuquerque also agreed to direct Los Alamos to reimburse the Treasury for unwaived added factor and depreciation costs but stated that the amount to be reimbursed may be reduced. According to Albuquerque's comments, 5 of the 41 agreements in which Los Alamos waived added factor and depreciation costs without Department approval were believed to be with small businesses or non-profit organizations, thus making them eligible for waivers.

Upon certification of small business or non-profit status for the 5 agreements, the amount of costs that Albuquerque will direct Los Alamos to reimburse to the Treasury will be reduced by $99,987 to $625,349.

Idaho Operations Office management agreed to direct INEL to establish policies and procedures to ensure full cost recovery on future user agreements. The practice of charging full cost, where required by regulation, was implemented by INEL's management and operating contractor on March 1, 1996. The Idaho Operations Office will officially approve this practice by August 15, 1996.

Idaho Operations Office management partially concurred with the recommendation to direct INEL to attempt to renegotiate existing user facility agreements. Before attempting to renegotiate any agreement, Idaho will collect information that will provide estimates of projected usage of facility users. The benefit to the Government of recovering full costs will be weighed against the cost of renegotiating existing user agreements, including the cost of possible loss of credibility and goodwill. If warranted, Idaho will attempt to renegotiate the agreements.

Auditor Comments. Management's comments and proposed actions are responsive to the recommendations. However, Albuquerque and Idaho management did not provide target dates for completing all of the proposed actions.

2. Handling of User Facility Agreement Collections

Management Comments. Management concurred with the recommendations. The Office of Chief Financial Officer agreed to develop appropriate financial policy guidance regarding user facility agreement collections for inclusion in the Departmentms Accounting Handbook. The target date for issuance is January 31, 1997. Albuquerque management concurred with the recommendation to direct Los Alamos to remit the balance of retained user facility agreement funds to the Treasury. Management stated that Los Alamos had agreed to remit the retained funds to the Treasury by the end of Fiscal Year 1996. In addition, Los Alamos will conduct an internal review to ensure that the practice of retaining funds is not in effect in other funds-in programs.

Auditor Comments. Management's comments and proposed actions are responsive to the recommendations.

3. Assistance to Visiting Researchers

Management Comments. Albuquerque management generally concurred with the recommendation. Management proposed to conduct a "for cause" review of the operation of the Combustion Research Facility with emphasis on the questioned costs. The review will be conducted by management using contract, financial, and program experts. The "for cause" review is expected to begin by mid-August 1996 and be completed by the end of November 1996. Management has also agreed that policies and procedures concerning visiting researchers need to be improved and supplemented. Albuquerque has already initiated talks with Sandia regarding this issue. New procedures will start immediately and should be fully implemented by the end of Fiscal Year 1996.

Auditor Comments. Management's comments and proposed actions are responsive to the recommendation.

IG Report No. DOE/IG-0395

CUSTOMER RESPONSE FORM

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