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

Audit Report

Property Disposals at the Yucca Mountain Project

DOE/IG-0664

September 2004

Department of Energy
Washington, DC 20585

September 27, 2004

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on "Property Disposals at the Yucca Mountain Project"

BACKGROUND

Yucca Mountain is located on the western edge of the Nevada Test Site, approximately 100 miles northwest of Las Vegas, Nevada. In 1977, the Department of Energy (Department) began studying Yucca Mountain to determine the possibility of constructing a geologic repository for spent nuclear fuel and high-level radioactive waste. In July 2002, the multi-billion dollar Yucca Mountain Project was designated to be the Nation's first facility for storing high-level nuclear waste.

In 2003, in preparation for the license application phase for the repository, the Department's Office of Civilian Radioactive Waste Management (OCRWM) initiated an effort to dispose of excess property and inventory. During site characterization studies at Yucca Mountain and at other sites which had been under consideration, OCRWM accumulated 9,000 metric tons of equipment and materials that were no longer needed. Normally, disposal procedures require offering excess property for reuse within the program element, then to other Department organizations, and finally to other government entities. If there were no need for the property within the Government, the property could be auctioned to the highest bidder.

Rather than handling the disposition of excess property with its existing contractor resources, OCRWM engaged a specialized contractor through a Basic Ordering Agreement managed by the Oak Ridge Operations Office to dispose of a wide variety of government-owned property. OCRWM paid the contractor $73,000 and gave the contractor title to all the property it removed from Yucca Mountain. We conducted the audit to determine whether the property disposals at the Yucca Mountain Project were executed in a method most beneficial to the Government.

RESULTS OF AUDIT

The audit disclosed that the Fiscal Year 2003 Yucca Mountain property cleanup and disposal effort did not maximize the recovery of the Government's investment. Specifically, OCRWM gave the contractor approximately 9,000 metric tons of property and the Government received no monetary benefit from the sale of potentially reusable property. We noted that the disposal contractor was given property that had a significant potential residual value, including:

- Refurbished mining equipment that had only 165 hours of use;
- Power centers and a conveyor belt feeder that had never been used and a generator listed in new condition; and,
- Several thousand tons of iron and steel, some of which were never used.

In addition, two diagnostic trailers that belonged to the National Nuclear Security Administration were inappropriately turned over to the disposal contractor. Also, a drilling rig that had been declared excess was disposed of through sale even though another Department site had notified Yucca Mountain officials that it needed the property.

The uneconomic disposal of Yucca Mountain property occurred because normal disposition procedures – including offering available property to other Department sites – were not followed. Also, the claimed savings used to justify the decision to use an alternative disposal method (in this case, a disposal contractor) were unreliable, based on inventory information that incorrectly assessed the age, condition, quantities, ownership, and depreciation rates of the property identified for disposal. As a result, the Department lost the potential to recover funds that could have been used to satisfy pressing mission needs. In short, the financial advantage of disposing of excess property was shifted, essentially in its entirety, from the government to the disposal contractor.

While we recognize the challenges facing OCRWM in their efforts to prepare its license application, the economic use of the Government's funds, in our judgment, is critically important. Consequently, we concluded that more careful attention needs to be paid to property disposal methodologies. We identified similar property disposal issues in our report on the *Transfer of Excess Personal Property from the Nevada Test Site to the Community Reuse Organization* (DOE/IG-0589, March 2003). In that instance, we determined that the Department needed to assure that Federal taxpayers received reasonable consideration for property transferred. We made several recommendations in this report designed to ensure that future property deemed excess at the Yucca Mountain site is disposed of in a manner that maximizes benefit to the Government and other stakeholders.

MANAGEMENT REACTION

The Deputy Director, Office of Repository Development, concurred with the recommendations and planned to take corrective actions. Specifically, management agreed to follow the Department's normal property disposition procedures, accurately prepare and document cost justifications used to support future property disposals, and follow the Department's property and inventory management requirements. However, the Deputy Director did not concur with some of our conclusions related to the cost effectiveness of the alternatives, the quantity and quality of the property disposed, and the value of some of the items.

While we specifically considered each of the issues identified by management, we concluded that problems with the analysis used to support the disposal decision and significant property management weaknesses led to the problems described in our report.

As more fully addressed in the body of our report, management was also unable to furnish documentation or analysis to support the reported benefits of using the disposal contractor or progress in reforming the property management process. Management's comments are included in their entirety in Appendix 3.

Attachment

cc: Deputy Secretary
Director, Office of Civilian Radioactive Waste Management
Deputy Director, Office of Repository Development

REPORT ON PROPERTY DISPOSALS AT THE YUCCA MOUNTAIN PROJECT

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Property Disposals

The audit disclosed that property and inventory (property) disposals at the Yucca Mountain Project were not performed in the most cost-beneficial manner. Specifically, the Office of Civilian Radioactive Waste Management (OCRWM):

- Gave property that was still usable and had a potential residual value[1] to the disposal contractor;
- Inappropriately gave property belonging to another Department organization to the disposal contractor; and,
- Sold a drilling rig even though another Department site needed the property to satisfy a mission requirement.

Usable Property

As a condition of its contract for disposal of excess property, OCRWM surrendered title to a wide variety of equipment and inventory items. Most notable among those items was a piece of refurbished equipment known as a roadheader. This property – a type of mining equipment used for drilling tunnels – was purchased in 1999 for approximately $567,000. OCRWM added several accessories costing $225,000 to the roadheader making the total value $792,000. The disposal contractor subsequently listed the roadheader for sale on the Internet without an asking price, stating that it was in very good condition with only 165 hours of use. We identified other roadheaders for sale on the Internet with prices ranging from $225,000 to $523,000.

Two power centers and a conveyor belt feeder, which had never been used, and a generator, which was listed in new condition, were also given to the contractor for disposal. The two power centers were initially purchased for $68,000 in 1998 and, at the time of the disposal, could have appreciated to over $82,000 in value. We estimated that the feeder, purchased for $60,000 in 1995, was valued at over $35,000 after identifying an 18-year old feeder listed for sale. A new generator would cost $27,000 which is the same amount paid for the generator in 1998. We located a similar generator with over 9,000 hours of use for sale on the Internet for $13,500.

[1] The residual values are presented as rough order of magnitude estimates only. They are primarily based on like kind property available for sale and listed on the Internet as of May 2004. Since these estimates are based on asking price only, they may not actually be achievable.

OCRWM, through its contractor, also disposed of about 4,580 tons of iron and steel, some of which was never used. Because OCRWM had not performed an analysis of cost and quantities of the metals prior to the sale to the disposal contractor, we used the average market price for scrap metal during the time of disposal – $161 per ton – to calculate that the estimated value of the iron and steel would have been $737,000. After paying the costs for loading, shipping, and radiation surveys, OCRWM could have netted $29,000 by selling the iron and steel on its own.

Property Belonging to the National Nuclear Security Administration

Two diagnostics trailers, belonging to the Department's National Nuclear Security Administration (NNSA), were also turned over to the contractor for disposal. The trailers were used for recording data when conducting various weapons tests – a function completely outside the scope of OCRWM's Yucca Mountain Project. The NNSA determined that the trailers were missing when it conducted its physical inventory seven months after the disposal. NNSA transferred ownership of the trailers to OCRWM only after disposal of the trailers was discovered.

Property Needed

Finally, a drilling rig that had been declared excess was sold through the General Services Administration (GSA). While a normal disposal procedure, OCRWM proceeded with the sale even though it had agreed to sell the drilling rig to Bechtel Nevada. In August 2002, Bechtel Nevada inquired about the drilling rig and then, in January 2003, the Nevada Site Office made a formal request that the drilling rig be transferred. According to OCRWM officials, the formal request was not received; however, the Nevada Site Office furnished us with a copy of the Transfer Order for Excess Personal Property form supporting the agreement to sell the property to Bechtel Nevada. Four months after this request, OCRWM sold the drilling rig through GSA and received nearly $67,000. Bechtel Nevada estimated that it would cost approximately $200,000 to purchase a similar drilling rig and that they did not have enough money in the budget to procure the item.

Property and Inventory Management

The uneconomic disposal of Yucca Mountain property occurred because normal disposition procedures were not followed. Specifically, OCRWM did not offer its excess property for reuse within the program element, other Department organizations, or other government entities or attempt to sell the property at auction.

In addition, the claimed savings achieved by using a disposal contractor were incorrect.

For example, OCRWM estimated that it would take a total of 66 hours per item to sell the 1,300 property items through normal procedures. This estimate included ten hours per item to review potential Department and Federal requirements, which equates to over six staff years. Further, OCRWM duplicated the costs for radiation surveys, sales, and loading by including 35 hours in the 66 hours for these processes and also showing them as separate items when reporting the savings it achieved. Finally, OCRWM cited a cost savings of $700,000 for annual preventative maintenance costs. However, their annual preventative maintenance costs for disposed property for the year prior to the sale were only $61,000. OCRWM was unable to provide documentation to support the estimates used in their reported cost savings.

Officials also categorized the Yucca Mountain property as potentially contaminated. Disposing of contaminated items is generally more costly than disposing of uncontaminated items. However, the disposal contractor identified only five items that were actually contaminated out of more than 1,300 disposed items.

Poor property management practices by the Office of Repository Development also contributed to flaws in the analysis prepared to support the use of a disposal contractor. In particular, when the time came to dispose of the property and make a decision on the disposal methodology, OCRWM did not know the quantity or value of its inventory. The Department's property and inventory management practices require field elements and contractors to maintain accurate and up-to-date accounting records to provide the proper accountability for the Department's investment in property. Specifically, physical inventories of capital equipment are required at least every two years and at least once a year for inventory and related property. In addition, the property and accounting records must be reconciled and adjusted annually to physical quantities. However, OCRWM was unable to accurately assess the condition and value of its property because it did not:

- Complete periodic physical inventories of its property;
- Reconcile the property and accounting records;
- Adjust the records to the physical quantities; and,
- Update the property records to accurately reflect the acquisition dates, value, and depreciation.

Fund Recovery

With the uneconomic disposal of Yucca Mountain property, the Department lost the potential to recover funds that could have been used to satisfy pressing mission needs. The disposal contractor currently in possession of the property is likely to realize a considerable profit upon the sale of the property. These funds might otherwise have been available for use on the Yucca Mountain Project. We estimated a loss of at least $458,000 for the items identified and the payment to the disposal contractor. Since OCRWM had not properly accounted for its property, the total impact to the Nuclear Waste Fund cannot be determined.

The Department may also incur additional expenses to purchase items already in its inventory. Specifically, the other Department site may have to purchase a drill rig to replace the one sold by OCRWM.

RECOMMENDATIONS

We recommended the Director, Office of Civilian Radioactive Waste Management, assure that property management personnel:

1. Follow the Department's normal property disposition procedures, to include:

   a. Offering property at fair market value to other Department or government programs; and
   b. Selling any remaining property at auction.

2. Accurately prepare and document cost savings used to support future property disposal decisions.

3. Follow the Department's property and inventory management requirements when managing property, to include:

   a. Conducting physical inventories, reconciling the property and accounting records, and making the necessary adjustments to accounting and physical property records; and
   b. Accurately recording property in property records.

MANAGEMENT REACTION

The Deputy Director, Office of Repository Development, concurred with the recommendations and agreed to implement corrective actions to ensure they are part of the overall approach to property management in the future. However, OCRWM believed that prior to the Office of Inspector General (OIG) review, it had actively begun taking significant actions as a result of the Performance Assessment Team review that identified the need for sweeping reform in contractor property management. Further, OCRWM did not concur with the context of some of the OIG's conclusions in the report.

Specifically, OCRWM believed that using the disposal contractor was the most cost effective of various alternatives evaluated and was the best option available to address the type of situation that existed at Yucca Mountain. OCRWM stated that current OCRWM management was faced with an excess property inventory backlog that had accumulated over a 20-year period. Closure of other Department sites was expedited in the mid-1980's through the transfer of large quantities of excess equipment and materials to Yucca Mountain, which was managed by the Nevada Test Site. The intent was to use the property at Yucca Mountain, but changes in technical scope eliminated the need for much of the material. After years of non-use and harsh exposure, the property was in such poor condition that OCRWM recognized that the majority of the property had little value beyond scrap. The equipment that did have some residual value was limited due to the remote location, condition, age and lack of recorded maintenance.

Department regulations also require radiological surveys to be conducted prior to release of the property. OCRWM believed that the radiological surveys would have cost the program over a million dollars, which exceeded any estimated value of the property. Finally, OCRWM disagreed with the OIG estimate of scrap metal prices.

Management's verbatim comments can be found in Appendix 3 of this report.

AUDITOR COMMENTS

Management's proposed actions are generally responsive to our recommendations. However, while OCRWM indicated that it had already implemented significant actions, we did not find information supporting an improvement in property management. Other than using the disposal contractor, no significant actions by OCRWM were evident during our audit. For example, OCRWM said it had conducted physical property inventories but, other than the results of a sensitive property inventory done in 2001, OCRWM had no documentation showing the results of the inventories. Bechtel SAIC conducted an inventory in 2002, but had not finished reconciling the property and accounting records as of September 2004.

Regarding management's comments on the context of the report, we noted that during the audit, OCRWM personnel informed us on several occasions that the disposal contractor was the best alternative. However, we found errors in the cost analysis OCRWM prepared in support of this action. Further, OCRWM had no supporting documentation to show how they made the cost determinations and did not have documentation for the estimated radiological survey costs. Additionally, OCRWM could not provide the estimated value of the property since some of the property was not included in the inventory and other property was included with incorrect acquisition costs, dates, and condition codes. With regard to the poor condition of the disposed property, we found that, contrary to OCRWM's attestation, over 70 percent of the property assigned to Bechtel SAIC was less than 10 years old and still had value. When determining the potential net return on the scrap iron and steel, we used average prices during September 2003 through December 2003, which was the period of time that most of the scrap iron and steel was removed from Yucca Mountain.

OBJECTIVE

The object of our audit was to determine whether the property disposals at the Yucca Mountain Project were executed in a method most beneficial to the Government.

SCOPE

The audit was performed from January to September 2004 at the Nevada Site Office and Office of Repository Development in Las Vegas, Nevada, as well as the Nevada Test Site, in Mercury, Nevada, and Yucca Mountain in Beatty, Nevada. The scope of the audit included a review of excess personal property disposals for calendar year 2003.

METHODOLOGY

To accomplish the objective, we:

- Reviewed Federal and Department policies related to property management;
- Analyzed records related to property disposals in 2003;
- Interviewed cognizant Department and contractor personnel; and,
- Assessed internal controls and performance measures established under the Government Performance and Results Act of 1993.

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 objective of the audit. Specifically, we tested controls for property disposals. Because our audit 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 since OCRWM's records did not accurately reflect the property that was disposed.

Management waived the exit conference.

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PRIOR AUDIT REPORTS

Office of Inspector General Reports

- *Transfer of Excess Personal Property from the Nevada Test Site to the Community Reuse Organization* (DOE/IG-0589, March 2003). The audit disclosed that Nevada's personal property transfer practices did not strike an appropriate balance between the effort to assist community development and the need to assure that Federal taxpayers received reasonable consideration for the property transferred to the Community Reuse Organization (CRO). In addition, Nevada made little effort, if any, to determine the current market value of the property provided to the CRO, nor did it confirm that the equipment's ultimate use would be for purposes directly related to developing the economies of the communities in and around the Nevada Site Office.

- *Inspection on the Management of Excess Personal Property at Lawrence Livermore National Laboratory* (INS-O-02-01, November 2001). The inspection disclosed weaknesses in Livermore's compliance with Department Property Management Regulations regarding high-risk personal property, reutilization screening of personal property, and public sales of surplus personal property. For example, Livermore program officials have not performed high-risk reviews of personal property items before the items were processed into Livermore's reutilization and disposal program. Also, Livermore had not recorded all reportable excess personal property items in the Energy Asset Disposal System for Department-wide reutilization screening.

- *Management Challenges at the Department of Energy* (DOE/IG-0626, November 2003). The report identified that the Department has traditionally faced challenges with contract administration and the OIG continues to consider it a management challenge. Further, the OIG identified the need for improvement in the oversight of community development activities.

- *Property and Facilities at Grand Junction* (WR-B-00-02, December 1999). The OIG found that the Albuquerque Operations Office made premature decisions to transfer property and facilities in Grand Junction, Colorado, to a local community entity. Management made premature decisions without the benefit of complete analysis to support its decisions. Further, Management did not fully determine if other agencies had an interest in using the unneeded facilities, consider its own future needs, and did not determine the market value of the site.

Office of Civilian Radioactive Waste Management Related Reviews

- *Property Management System Review* (January 18, 2002). The Office of Quality Assurance Program Assessment Team (PAT) identified an overall weak contractor property system for acquiring, storing, managing and controlling equipment, supplies and materials. Specifically, the PAT conducted a sample of property items and found that property could not be located and acquisition costs recorded in the property records could not be supported by documentation in the files. Further the property records contained incorrect or no serial numbers.

  Additionally, the PAT found the contractor could procure supplies and materials when they were already on hand since there was no assurance that the supply function was operated effectively and efficiently to protect Government assets. For example, the PAT found that no inventory records existed for materials that were stored in a warehouse; items purchased in 1996 were never used; materials were found in their original packaging; and items stored in box cars, trailers and storage units were not inventoried.

Department of Energy
Office of Civilian Radioactive Waste Management
Office of Repository Development
1551 Hillshire Drive
Las Vegas, NV 89134-6321

QA: N/A

SEP 0 2 2004

MEMORANDUM FOR: Rickey R. Hass (IG-30)

FROM: W. John Arthur, III
Deputy Director

W. John Arthur, III

SUBJECT: Response to Office of Inspector General (OIG) Draft Audit Report, Property Disposals at the Yucca Mountain Project (A04LV037)

Enclosed are the Office of Civilian Radioactive Waste Management's comments on the OIG draft audit report entitled "Property Disposals at the Yucca Mountain Project." If you have any questions in this regard, please contact Suzanne P. Mellington at (702) 794-1454.

Enclosure:
Comments on the Office of Inspector General (OIG)
Property Disposals at the Yucca Mountain (A04LV037)

OFO:MLB-1878

cc w/encl:
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Records Processing Center = "5"

Comments on the Office of Inspector General (OIG)
Draft Audit Report Property Disposals
at Yucca Mountain (A04LV037)

Management Reaction:

Based on the Performance Assessment Team report of January 2002, the Office of Civilian Radioactive Waste Management (OCRWM) had previously recognized the need for sweeping reform in contractor property management at the Yucca Mountain Site, and had actively begun taking significant actions prior to this OIG review. We agree with the OIG's recommendations in this report and shall ensure they are part of our overall approach to property management in the future. However, we do not concur in the context of some of the OIG's conclusions in this report regarding the disposal of the excess property through the U.S. Department of Energy (DOE) National Center of Excellence for Metals Recycle Basic Ordering Agreement (BOA) managed at the Oak Ridge Operations Office. This property disposal process has been successfully implemented at multiple DOE sites throughout the complex, resulting in millions of dollars in cost savings and, while it is a unique model, it was wholly appropriate for our situation. None of the various alternatives evaluated prior to, during, or after execution of the disposal have been found to be more cost effective than the BOA. Therefore, the decision to disposition the property through the BOA was the most cost effective and efficient property disposal method available to the Project given the circumstances.

It should be appreciated that current OCRWM management was faced with an excess property inventory backlog that had accumulated over a 20 year period and involved multiple sites and contractors. In the mid-1980's, closure of DOE study sites in Idaho, Washington and Texas was expedited through the transfer of large quantities of excess equipment and materials to Yucca Mountain, which was managed by the DOE Nevada Test Site (NTS). The intent was to use the property at the Yucca Mountain study location; however, changes in technical scope eliminated the need for much of the material. Over the years, 9000 metric of tons of scrap metal, fencing, piping, heavy equipment such as drill rigs, mining equipment, water tanks, industrial equipment, and support materials was accumulated with no pedigree or intended future use. This obsolete equipment and material was stored in large equipment yards and remote locations at the Yucca Mountain Project site. After years of non-use and harsh exposure in the desert environment the property was in such poor condition, that OCRWM recognized that the majority of property had little value beyond scrap. The equipment that did have some asset residual value was limited due to the remote location, condition, age, and lack of recorded maintenance.

An issue that further compounded the challenge was the fact that DOE regulations require DOE sites to be accountable and have adequate information to justify the release of property. If property (without the appropriate pedigree) resides at a location which is known to have radioactive contamination, DOE requires radiological release surveys to be conducted prior to release to protect the public. The estimate for using Bechtel Nevada, OCRWM's Management and Operating (M&O) contractor, to survey the property required an expenditure of over $250 per metric ton.

Environmental Protection Agency studies have estimated radiological survey costs nationally at $180 per metric ton. Since there was 9,000 metric tons of property, these radiological release surveys would have cost the program over a million dollars, which exceeded any estimated value of the property. These surveys would have been required even if the property was sent to the NTS landfill.

The BOA was developed to dispose of a wide variety of government-owned property, the residual asset value of which could be used to offset overall program costs incurred by traditional dispositioning actions. This national DOE contract vehicle was designed to address the type of situation that existed at Yucca Mountain. Faced with its legacy property challenge, OCRWM utilized the BOA as the best available option.

The report also suggests that OCRWM could have recovered $52,000 to $125,000 in scrap value from the 4,580 tons of scrap recovered by the contractor over logistical costs if OCRWM had sold it itself. However, these estimates are based on 2004 scrap market values of $166 to $182 per ton which are significantly higher then the 2003 scrap values of $112 to $123 per ton (American Metals Market 8/19/2003) that were in effect when the contract was awarded. Using the same logistical costs of $708,000 and the 2003 scrap values, OCRWM would have lost $145,000 to $195,000 by pursuing this approach. Additionally, the equipment resale values cited in this report are commercial internet values and do not reflect government auction values which are traditionally lower.

OCRWM does concur in whole to the OIG recommendations regarding future property management activities. These recommendations will be implemented by the Office of Facility Operations (OFO), Office of Repository Development (ORD), including initiating a review of the M&O's disposition system.

<u>Recommendation 1</u>

Follow the Department's normal property disposition procedures, to include:

a) Offering property at fair market value to other Department or government programs; and

b) Selling any remaining property at auction.

<u>Response</u>

Concur: Based upon the results of an internal review of the property disposal system, implementing processes will be revised as necessary to ensure that ORD's processes address both the disposition of property to other Department or government programs and the provisions for selling remaining property at auction, if found appropriate.

In the future, DOE will utilize the Performance Evaluation Management Program to emphasize the need for contractor compliance with all property management requirements. In addition, the OFO will mandate that contractors utilize internal monitoring through use of their Self Assessment Program.

The OFO will also continue to perform periodic assessments of property management implementation, utilizing procedure LP-PMC-006-OCRWM, Independent Assessment. A schedule of planned assessments will be provided by November 31, 2004.

Recommendation 2

Accurately prepare and document cost justifications used to support future property disposal decisions.

Response

Concur: As part of the internal review of the disposal process, the OFO will evaluate AP-PMC-015, Cost Estimating, for adequacy in documenting cost justifications for future property disposal decisions. Based upon the results of that review, AP-PMC-015 will be revised as necessary. Estimated Completion Date: December 31, 2004

Recommendation 3

Follow the Department's property and inventory management requirements when managing property, to include:

a) Conducting physical inventories, reconciling the property and accounting records, and making the necessary adjustments to accounting and physical property records; and

b) Accurately recording property in property records.

Response

Concur: The M&O contractor will be directed to complete reconciliation and closeout of all prior inventory campaigns by September 30, 2004. In addition, they will be directed to identify any inventory for which full accounting records are incomplete. Any inventory lacking full accounting records will be reported to DOE. DOE will oversee the reconciliation and adjustment of these property accounting records.

The Contractor will be required to submit fiscal year (FY) 2005 inventory plans for review and approval to the DOE Organizational Property Management Officer by October 29, 2004. The FY 2005 inventory plan will require contractors to identify all property, including property categorized as high risk and sensitive. Estimated Completion Date: October 29, 2004.

IG Report No.: DOE/IG-0664

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