



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

Audit Report

Modular Office Facilities for Recovery Act Program Activities at the Hanford Site



OAS-RA-L-13-04

July 2013



Department of Energy
Washington, DC 20585

July 9, 2013

MEMORANDUM FOR THE MANAGER, RICHLAND OPERATIONS OFFICE

A handwritten signature in black ink, appearing to read "David Sedillo".

FROM: David Sedillo, Director
Western Audits Division
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Modular Office Facilities for Recovery Act Program Activities at the Hanford Site"

BACKGROUND

The Department of Energy's Richland Operations Office (Richland) awarded a contract, effective October 1, 2008, to CH2M HILL Plateau Remediation Company (CHPRC) to remediate select portions of the Hanford Site's Central Plateau. As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), Richland designated \$1.3 billion of Recovery Act funding to the Plateau Remediation Contract to accelerate CHPRC's work scope from April 2009 through September 2011.

Due to the influx of Recovery Act funding in 2009 and the accelerated schedule, CHPRC hired an additional 1,757 employees, including subcontractors. To provide office space for these temporary employees, CHPRC procured a total of 176 modular facilities consisting of 114 purchased and 62 leased facilities. Modular facilities ranged from single-wide to five-wide modular structures and included space designated for work stations, lunch areas, lockers, showers and conference rooms. These facilities were acquired at an approximate total cost of \$29 million. This cost included the purchase price of structures, set up costs, and related costs such as constructing sidewalks, parking lots and lighting.

The Office of Inspector General received an allegation that a number of the facilities CHPRC purchased with Recovery Act funds were either never used or were underutilized. Accordingly, we initiated this audit to determine if modular facilities purchased with Recovery Act funding were fully utilized for Recovery Act mission activities.

RESULTS OF AUDIT

Our review substantiated the allegation. In particular, we discovered that CHPRC incurred as much as \$1.5 million more than necessary by purchasing unneeded modular facilities and almost \$600,000 in lease costs that could have been avoided by more expediently returning leased

facilities that were no longer needed. In fact, we found that 7 of 176 facilities purchased with Recovery Act funds were not utilized through September 30, 2011, the date that most Recovery Act work at Richland ended. We could not determine whether the remaining facilities were underutilized because the contractor's documentation did not adequately justify the need for all of the facilities.

Facilities Acquisition / Disposition

We identified seven facilities with costs totaling \$1,470,000 that were not utilized¹ to support Recovery Act work scope. Specifically:

- Two of four "five-wide" facilities along with two adjoining restroom structures purchased with Recovery Act funds were not utilized until October 2011. CHPRC purchased the four facilities, in November 2010, for a total cost of \$1,142,000. These buildings contained office space for 48 people, but remained vacant until October 2011, after the majority of Recovery Act work ended. Although these facilities were occupied in October 2011, this was after CHPRC staffing returned to near pre-Recovery Act levels leaving space available in other facilities. Furthermore, the employees that eventually moved into the five-wide facilities were primarily moved from other structures purchased with Recovery Act funds as well as older modular facilities, leaving several of those facilities vacant after the move.
- Three of 14 shower facilities, purchased in July 2010, for a total cost of \$328,000, were not utilized to support Recovery Act work scope. In fact, as of the end of the majority of Recovery Act work, these facilities were not connected to utility services such as power and water. CHPRC management acknowledged that these facilities were not utilized for Recovery Act work scope, and has since re-deployed these facilities to areas where they could be used.



Figure 1: Five-wide modular offices.

We also found that CHPRC did not return leased facilities after they were no longer needed. As a result, CHPRC may have incurred additional costs of \$598,000 in lease payments. Finally, CHPRC did not have detailed plans for the future use of purchased facilities that were no longer needed for Recovery Act work.

¹ The Government Services Administration's (GSA) Federal Property Management Regulations define "not utilized property" as an entire property or portion of a property that is not occupied or used for current program purposes of the accountable agency or property that is occupied in caretaker status only. According to GSA, property that is not utilized is generally considered vacant. (41 C.F.R. 101-47.801)

Utilization of Facilities

Due to the lack of and/or incomplete nature of the records available, we were unable to draw a conclusion as to the overall utilization rate of leased and purchased facilities. Specifically, we noted that the contractor's records for tracking where Recovery Act hires were placed and how often the new facilities were actually utilized, were incomplete, and had significant limitations. CHPRC provided us with information from its Human Resources system, the only data available supporting the whereabouts of its employees during the Recovery Act. However, CHPRC informed us that the data had significant limitations and would be difficult to rely on. When we discussed this concern with Federal managers, Richland management acknowledged that the contractor did not have adequate documentation to demonstrate that the mobile facilities were adequately used due to lack of data in the contractor's Human Resources records that had no work locations listed for hundreds of employees. However, Richland officials pointed out that the contractor was not required to document occupancy of specific trailers, and the Recovery Act time period was characterized by extremely challenging conditions. Richland officials noted, however, that they believed it was reasonable to assume that some of these employees used the mobile trailers in question, while others may have used existing facilities. Additionally, Richland officials pointed out that hundreds more of employees were assigned to "process facilities" and as such, may or may not have ever worked in the new mobile trailers. While we acknowledge Richland management's assertion, it was impossible for us to fully evaluate the utilization of leased and purchased facilities because of the lack of complete worker location records.

Return of Leased Facilities

Despite the reduction of CHPRC personnel to near pre-Recovery Act levels as of September 30, 2011, which coincided with the end of the large majority of Recovery Act work, we noted that CHPRC did not return the leased facilities promptly. We concluded that it would have been



Figure 2: Mobile office areas include permanent sidewalks, lighting, roadways and utilities.

reasonable for CHPRC to decrease the number of leased facilities as the staff reductions took place. However, CHPRC continued to lease these facilities well past what was needed, and incurred \$598,000 in lease costs since September 30, 2011.

CHPRC took action to return 40 of the 62 leased facilities as of August 31, 2012, 11 months after the majority of the Recovery Act work had been completed.

According to CHPRC officials, it did not initially return the remaining 22 facilities because of the substantial cost of return and because the facilities were in use. We noted at the time that CHPRC had continued to

lease the remaining 22 facilities using Recovery Act and non-Recovery Act funds at a monthly cost of \$36,215. However, we found that although it was indeed expensive to return the trailers, it was much more expensive to keep them. Specifically, we found the average cost to return

each facility was a one-time payment of approximately \$10,500. Furthermore, according to our analysis of relevant lease agreements, CHPRC likely will still incur the \$10,500 cost to return each facility regardless of when it is surrendered. Although CHPRC asserted that the facilities were in use, CHPRC could not verify that claim due to incomplete documentation. Furthermore, our walkthrough of CHPRC facilities in October 2011, revealed that there was significant space available for employee occupancy. We reasoned that because the Recovery Act hires had largely been released by the end of September 2011, and there was a significant amount of available space in other CHPRC owned facilities, the facilities leased to house the Recovery Act employees were no longer needed.

In response to our draft report, management disagreed with the conclusion that 22 facilities were not needed, stating that to date, 10 of these trailers have been transferred to other contractors, while the other 12 units will be returned by May 2013. Management acknowledged that a more accurate forecast of personnel reductions may have enabled a faster return of leased facilities. Further, management stated that the contractor had considered a faster approach for the demobilization of the leased facilities, stating that the contractor compared continued lease payments for some trailers (the slower option) to the increased cost of overtime and temporary employees necessary for a faster demobilization. For the slower approach, management identified a cost that was \$3.9 million less than the faster demobilization. However, the contractor was not able to provide documentation to support this calculation, nor did the contractor fully document the alternative analysis that management states led it to retain the facilities for that period of time.

Planning

We attributed the problems associated with procurement of facilities that were not used during the Recovery Act period to poor planning and estimating practices at CHPRC. We acknowledge that the Recovery Act work and schedule presented management with tremendous challenges. Nevertheless, we concluded that the contractor purchased more facilities than necessary to support Recovery Act work because it did not adequately plan for supplemental space prior to procuring additional facilities, and did not adequately justify the need for the number of facilities acquired. Notably, CHPRC did not conduct an adequate space utilization assessment on existing facilities prior to purchasing additional modular office facilities. Although not specifically required by the Department, we concluded that such a space utilization assessment was warranted given the number of facilities and cost involved in acquiring the facilities.

Utilization of Recovery Act Funds

CHPRC incurred about \$2.1 million for facilities that were either not needed, or no longer needed. We question these costs that we considered to be unreasonable per Federal Acquisition Regulation 31.201-3(a), *Determining Reasonableness*, which states, "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business." These funds could have been better used to support other pressing cleanup priorities at the Hanford Site. We also are concerned that additional Recovery Act funds spent to purchase and/or lease all of the other facilities may not have been efficiently used. However, due to the limitations and lack of data described in this report, we were unable to determine if this occurred.

SUGGESTED ACTIONS

To address the issues identified in this report, we suggest that the Manager, Richland Operations Office:

1. Direct the Contracting Officer to consider questioned costs contained in this report during the process for making a final determination of the allowability of costs incurred on the CHPRC contract;
2. Ensure that the contractor fully documents alternative analyses for business decisions relating to acquisition and disposal of leased facilities; and
3. Ensure that the process used to acquire facility property is fully justified, and clearly linked to staff needs and usage.

In responding to our draft report, management stated that Richland completed \$1.6 billion of Recovery Act scope under budget while creating thousands of meaningful jobs and achieving footprint reduction. While management generally agreed with our suggested actions, it provided comments on some of the conclusions and observations contained in the draft. This report reflects changes made in response to management's comments.

Attachments

cc: Deputy Secretary
Acting Under Secretary for Nuclear Security
Senior Advisor for Environmental Management
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine if modular facilities purchased with American Recovery and Reinvestment Act of 2009 (Recovery Act) funding were fully utilized.

SCOPE

The audit was performed from October 2011 to November 2012, at the Richland Operations Office and the CH2M HILL Plateau Remediation Company (CHPRC) in Richland, Washington. The audit scope was limited to the modular facilities procured by CHPRC using Recovery Act funding. Due to inadequate documentation at CHPRC, we were unable to complete our analysis on facility utilization, and were therefore unable to determine whether the modular facilities purchased with Recovery Act funding were fully utilized.

METHODOLOGY

To accomplish the audit objective, we:

- Researched and reviewed Federal regulations and Department of Energy (Department) guidance related to acquisitions and real property;
- Conducted walkthroughs of Recovery Act facilities;
- Obtained and reviewed CHPRC's occupancy records and utilization statistics for all the acquired modular facilities;
- Reviewed human resource records for all modular facilities acquired;
- Obtained and reviewed modular office facility records including building diagrams and purchase orders; and
- Held discussions with Department officials from the Richland Operations Office, the Office of Acquisition and Project Management, and CHPRC.

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, we assessed significant internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRA Modernization Act of*

2010 as it relates to our audit objective and found that the Department had not established performance measures applicable to the procurement and installation of modular office facilities. 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 achieve the objective of our audit.

We held an exit conference with Department officials on June 25, 2013.

PRIOR REPORTS

- Management Alert on [*Protective Force Training Facility Utilization at the Pantex Plant*](#), (DOE/IG-0855, September 2011). The audit found that the National Nuclear Security Administration's Office of Secure Transportation (OST) plans to construct a Physical Training/Intermediate Use of Force (PT/IUF) facility at the Pantex Plant may not be cost effective or necessary. Specifically, the audit noted that Pantex Plant's existing PT and IUF facilities have the capacity to fulfill OST's training needs. OST's analysis to justify the construction of a new facility did not fully consider the capability and capacity of existing facilities.
- Management Alert on [*Planned Actions Related to the National Energy Technology Laboratory's Simulation-Based Engineering User Center*](#), (OAS-RA-11-08, April 2011). The audit found that the plan to acquire and install a Performance Optimized Data Center may not be the least costly available option. Specifically, the audit noted that over 3,000 square feet of usable space was available in the existing data center that was not being utilized nor were there firm plans to use the space in the future. The audit found that the acquisition of additional data center space could undermine efforts to more effectively utilize existing real property. In addition, the use of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds to procure what may be unnecessary data center space raises concerns about the effective use of the Department of Energy's (Department) finite resources.
- Audit Report on [*The Department's Infrastructure Modernization Projects under the Recovery and Reinvestment Act of 2009*](#), (OAS-RA-L-11-04, March 2011). The audit found that the Department generally complied with Recovery Act requirements. However, the audit identified an instance in which Lawrence Berkeley National Laboratory planned infrastructure improvements for which there was no immediate need. This occurred because the Laboratory had not adequately ensured that Recovery Act spending yielded the optimum benefit to the Department.
- Audit Report on [*The Audit of Leased Facilities at Los Alamos National Laboratory*](#), (WR-B-95-02, January 1995). The audit found that Los Alamos National Laboratory (Los Alamos) did not always obtain needed facilities in the most advantageous manner. Los Alamos leased portable office trailers rather than purchasing them, even though cumulative leasing costs were substantially higher than initial purchasing costs. This practice occurred because Los Alamos had neither estimated the length of time such office space was needed, nor performed adequate "lease versus purchase" analyses to determine the most economical method of acquisition.

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