

DOE F 1325.6
(08-03)

United States Government

Department of Energy



memorandum

DATE: November 21, 2005

Audit Report Number: OAS-L-06-02

REPLY TO
ATTN OF: IG-36 (A05OR016)

SUBJECT: Audit of "Property Transfers at the East Tennessee Technology Park"

TO: Gerald Boyd, Manager, Oak Ridge Office

INTRODUCTION AND OBJECTIVE

In 1999, the Oak Ridge Office (Oak Ridge) implemented a personal property title transfer strategy at the East Tennessee Technology Park (ETTP) aimed at increasing the effectiveness of property management and disposal methods. Oak Ridge planned to transfer the title of Government personal property to subcontractors in exchange for reduced subcontract costs. It was expected that the transfers would reduce the Department of Energy's (Department) cost to manage Government property and support reindustrialization efforts at the site.

Oak Ridge awarded two subcontracts using the property title transfer strategy. In 1999, the J.A. Jones Construction Services Company (J.A. Jones) was awarded the maintenance site services subcontract. Also in 1999, American Technolitics, Inc. (ATI) was awarded the site's facility management, surveillance, inspection, and testing subcontract. We conducted this review to determine whether the transfers to subcontractors at ETTP were in the Government's best interest.

CONCLUSIONS AND OBSERVATIONS

Although we determined that Oak Ridge had discontinued the transfer strategy, we identified several areas where the transfers did not adequately protect the Department's interests. Specifically, Oak Ridge did not ensure that adequate consideration was received for the transferred property, nor did it ensure the availability of mission-essential equipment upon subcontract completion. For example:

- Oak Ridge transferred maintenance equipment with an acquisition value of about \$7 million to J.A. Jones to perform maintenance services at ETTP. We were not able to identify the amount of consideration or specific cost savings associated with the transfer. Instead, we concluded that J.A. Jones was paid \$10,000 more to take title to the property than if the Department provided the equipment without transferring title. When J.A. Jones filed bankruptcy in 2003, the Department bought most of the equipment back as part of a \$1.5 million settlement.

- Oak Ridge transferred facility management, surveillance, inspection, and testing equipment with an acquisition value of about \$1.3 million to ATI. Once again, we were not able to identify the amount of consideration or specific cost savings associated with the transfer. Instead, we concluded that ATI was paid \$574,000 more to take title to the property than if the Department retained title. When ATI completed its subcontract in 2005, the Department was forced to negotiate with another contractor to obtain filter testing services that continued.

While we recognize that the property transfers could provide potential benefit to the Department, Oak Ridge did not implement key controls to ensure the Government's interest would be protected when carrying out the property title transfer strategy. For example, Oak Ridge did not determine the fair market values of the property or conduct an independent cost-benefit analysis before approving the transfer plan. In addition, Oak Ridge did not incorporate provisions in the subcontracts to adequately protect its interests when either the subcontracts were terminated or when missions continued after the subcontracts were completed. An effective pre-transfer analysis could have determined property values while evaluating proposed consideration, mission-related risks, and monetary impacts.

Should Oak Ridge resume the property transfer strategy as part of the closure of ETTP, we suggest implementing additional controls to protect the substantial amount of property remaining at the site. Specifically, Oak Ridge should:

- Incorporate contract clauses to ensure the availability of mission-essential equipment upon contract completion;
- Ensure that property values are determined and adequate consideration is received prior to transfer; and,
- Develop methods to effectively evaluate the cost and benefits of property title transfers.

Without clearly defined controls or procedures in place, future property title transfers may not adequately protect the Government's interest.

SCOPE AND METHODOLOGY

The audit was performed from January through November 2005, at the Department's East Tennessee Technology Park and Oak Ridge Office in Oak Ridge, Tennessee. The audit scope was limited to personal property title transfers occurring during the award of Bechtel Jacobs Company LLC (Bechtel Jacobs) subcontracts from 1999 to 2005. To accomplish the audit, we obtained and reviewed documents relating to the transfer strategy, including planning and justification documents as well as the Requests for Proposal and awarded subcontracts; reviewed findings from prior audit reports; assessed internal controls; and, interviewed key Bechtel Jacobs and Department personnel.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Accordingly, we evaluated the Department's implementation of the *Government's Performance and Results Act* and determined that performance measures related to property title transfers at ETTP had not been established. 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. Also, since we did not rely upon automated data processing equipment to accomplish our audit objective, we did not conduct an assessment of the reliability of computer processed data. The Oak Ridge Office waived the exit conference.

We appreciate the cooperation of your staff during our review. Because no formal recommendations are being made in this letter report, a formal response is not required.



Fredrick G. Pieper, Director
Energy, Science and Environmental
Audits Division
Office of Inspector General

cc: Team Leader, Audit Liaison Team, CF-1.2
Audit Liaison, Office of Environmental Management, EM-33
Audit Liaison, Oak Ridge Office, FM-733

DOC F (12/03)
(M-10)

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DATE: November 21, 2005

REPLY TO
ATTN OF: IG-36 (A05OR016)

SUBJECT: Audit Report on "Property Transfers at the East Tennessee Technology Park"

TO: Assistant Inspector General for Audit Planning and Administration

Attached is the required final letter report package on the subject audit. The pertinent details are:

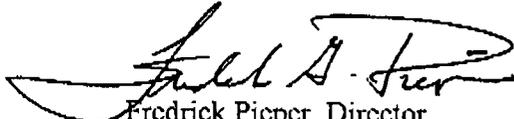
1. Staff days:	Programmed	<u>N/A</u>	Actual	<u>N/A</u>	
	Elapsed days:	Programmed	<u>278</u>	Actual	<u>265</u>

2. Names of OIG audit staff:

Assistant Director:	Phil Beckett
Team Leader:	Rick Buchanan
Auditor-in-Charge:	Debbie Solmonson
Audit Staff:	Crystal McKee

3. Coordination with Investigations and Inspections:

The letter report was provided to the Office of Investigations and the Office of Inspections for comment on September 7, 2005. Follow-up discussions were held on November 8, 2005. Their responses indicated that the report would not affect any ongoing investigations or inspections.


Fredrick Pieper, Director
Energy, Science and Environmental
Audits Division
Office of Inspector General

Attachments:

1. Letter Report (3)
2. Monetary Impact Report
3. Audit Project Summary Report
4. Audit Database Information Sheet

MONETARY IMPACT OF REPORT NO.: OAS-L-06-02

- 1. Title of Audit: Property Transfers at the East Tennessee Technology Park
- 2. Division: ESE/ORAG
- 3. Project No.: A05OR016
- 4. Type of Audit:

Financial: _____ Performance: X
 Financial Statement _____ Economy and Efficiency X
 Financial Related _____ Program Results _____
 Other (specify type): _____

5.

FINDING		COST AVOIDANCE		QUESTIONED COSTS				MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	(D) Recurring Amount Per Year	(E) Questioned	(F) Unsupported	(G) Unresolved	(H) Total (E)+(F)+(G)	(I) C=Concur N=Noncon U=Undec	(J) Y=Yes N=No
	Property Transfers at the East Tennessee Technology Park	\$0	\$0	\$0	\$0	\$0	\$0	N/A	N
TOTALS--ALL FINDINGS		\$0	\$0	\$0	\$0	\$0	\$0		

6. Remarks: Our audit disclosed that although Oak Ridge had discontinued the transfer strategy, we identified several areas where the transfers did not adequately protect the Department's interests. Specifically, Oak Ridge did not ensure that adequate consideration was received for the transferred property, nor did it ensure the availability of mission-essential equipment upon subcontract completion. These events occurred because Oak Ridge did not have specific procedures in place to implement the property title transfer strategy. Should Oak Ridge resume the property transfer strategy as part of the closure of ETTP, we suggest implementing additional controls to protect the substantial amount of property remaining at the site.

7. Contractor: _____
 8. Contract No.: _____
 9. Task Order No.: _____

10. Approvals:
 Division Director/Date [Signature] 11/21/05
 Technical Advisor/Date [Signature]

Office of the Inspector General (OIG)
 Audit Project Office Summary (APS)

Report run on: November 21, 2005 6:04 PM

Audit#: A05OR016 Ofc: ORA Title: PROPERTY MANAGEMENT AT EAST TENNESSEE PARK

**** Milestones ****

	Planned	End of Survey	Revised	Actual	
Entrance Conference:.....	01-OCT-04		10-JAN-05	10-JAN-05	
Survey:.....			22-APR-05	22-APR-05	
Draft Report:.....			15-AUG-05		
Completed (With Report):..	30-SEP-05	22-APR-05	15-OCT-05	21-NOV-05	(R)
-----Elapsed Days:	364	102	278	315	
			Elap. Less Susp:	265	

Date Suspended: 05-OCT-05 Date Terminated:
 Date Reactivated: 06-NOV-05 Date Cancelled:
 DaysSuspended(Cur/Tot): 0 (50) Report Number: OAS-L-06-02
 Rpt Title: Report Type: LTR LETTER REPORT
 PROPERTY TRANSFERS AT THE EAST TENNESSEE TECHNOLOGY PARK

**** Audit Codes and Personnel ****

Class: PER PERFORMANCE
 Function: 004 PROPERTY/INVENTORY
 MgtChall: 009 MANAGEMENT
 Site: SSA CONTRACT/GRANT ADMIN AD: 327 BECKETT
 SecMiss: ENV SINGLE-SITE AUDIT AIC: 741 SOLMONSON
 PresInit: IFP ENVIRONMENTAL QUALIT Team Ldr: 727 BUCHANAN
 IMPROVED FINANCIAL P Tech Adv: 255 ELMORE

**** Task Information ****

Task No:
 Task Order Dt: CO Tech. Rep:
 Orig Auth Hrs: Orig Auth Costs:
 Current Auth: Current Auth Cost:
 Tot Actl IPR Hr: Tot Actl Cost:

**** Time Charges ****

Emp/Cont Name	Numdays	Last Date
HAYES, A	0.6	12-NOV-05
BUCHANAN, P	21.3	12-NOV-05
MCKEE, C	89.4	16-SEP-06
SOLMONSON, D	117.9	12-NOV-05
Total:	229.2	

Office of the Inspector General (OIG)
Audit Project Office Summary (APS)

Report run on:

November 21, 2005 6:04 PM

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Audit History

Audit No: A05OR016

History Date: 21-NOV-05

History Text:

PB/ ENTERED COMPLETED WITH REPORT DATE.

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A05OR016
2. Title of Audit: "Property Transfers at the East Tennessee Technology Park"
3. Report No./Date: *DA-06-02 11/21/05*
4. Management Challenge Area: Contract Administration
5. Presidential Mgmt Initiative: Improved Financial Management
6. Secretary Priority/Initiative: Environmental Programs
7. Program Code: EM
8. Location/Sites: East Tennessee Technology Park and Oak Ridge Office, Oak Ridge, TN.

Finding Summary: Our audit disclosed that although Oak Ridge had discontinued the transfer strategy, we identified several areas where the transfers did not adequately protect the Department's interests. Specifically, Oak Ridge did not ensure that adequate consideration was received for the transferred property, nor did it ensure the availability of mission-essential equipment upon subcontract completion. These events occurred because Oak Ridge did not have specific procedures in place to implement the property title transfer strategy. Should Oak Ridge resume the property transfer strategy as part of the closure of ETTP, we suggest implementing additional controls to protect the substantial amount of property remaining at the site.

9. Keywords:
Personal property
Bechtel Jacobs Company, LLC
Subcontracting
Title transfer