OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-19-25 April 2019

LEASED SPACE AT SELECTED DEPARTMENT OF ENERGY SITES

Department of Energy
Washington, DC 20585

April 3, 2019

MEMORANDUM FOR THE DIRECTOR, OFFICE OF ASSET MANAGEMENT
MANAGER, RICHLAND OPERATIONS OFFICE
MANAGER, OFFICE OF RIVER PROTECTION

FROM: Sarah B. Nelson
Assistant Inspector General
for Technology, Financial, and Analytics
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Leased Space at Selected Department of Energy Sites"

BACKGROUND

The Department of Energy maintains an inventory of approximately 21,000 real property assets covering an estimated 131.4 million square feet. The inventory is comprised of real property that is either owned or leased by the Department, General Services Administration, and Department contractors. The Office of Asset Management has responsibility for establishing policy, guidance, and oversight for the Department's real and personal property[1]. The Office of Asset Management's Senior Real Property Officer, who also is the Director of the Office of Asset Management, has overall responsibilities for monitoring and reporting on the real property inventory. Program offices are responsible for identifying and developing real property requirements as well as the execution of acquisition and disposal transactions.

The Department's corporate real property inventory system is the Facilities Information Management System (FIMS), which stores real property asset data and is required to be kept current throughout its lifecycle. FIMS is a real-time database used to make decisions regarding real property management and for reporting information to the General Services Administration, Office of Management and Budget, Congress, and the taxpayers. According to FIMS data as of July 2018, the Department maintained approximately 15 million gross/rentable square feet of leased space, costing approximately $314 million in annual rent; this total included space that was leased directly by the Department, through the General Services Administration, or by the Department's contractors. Due to the amount of leased space, we conducted this audit to determine whether the Department and its contractors managed leases at selected sites in accordance with applicable regulations and policies.

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[1] Real property is defined as land, together with the improvements, structures, and fixtures located thereon. Personal property includes all equipment, material, and supplies not classified as real property.

RESULTS OF AUDIT

We found that the Department and its contractors were generally managing leases at selected sites in accordance with applicable regulations and policies. Our review of a sample of leased space at 45 facilities, which included buildings and trailers located at 6 sites, found that the Department and its contractors had generally managed and reported these leases in accordance with applicable criteria, including proper acquisition, review and approval, utilization of space, and classification. However, our audit identified two issues regarding the reporting of leased space by the Department's contractors. Specifically, we found:

- Contractors at the Hanford Site had not properly classified 25 leased trailers as real property. Though not originally part of our sample of leased space for 45 facilities, after identifying that trailers were misclassified at the Hanford Site, we selected an additional 25 leased trailers and determined that all 25 were misclassified.

- Contractor leased space information within the Department's FIMS for 29 of 45 leased facilities reviewed was not always complete and accurate.

The misclassification of leased trailers occurred because site office and contractor officials at the Hanford Site were unclear of the requirement to re-classify personal property trailers as real property once the trailers became affixed to the ground or permanently attached to utilities. Furthermore, inaccurate and incomplete information contained within FIMS occurred because contractor leased space had not always been entered correctly or consistently. As a result of the identified issues, the Department does not have correct information to make sound business decisions and may incur additional costs.

We also found that when contractors had conducted cost analyses, factors such as radiological disposition and vendor removal costs had not been considered when making lease or purchase decisions. We suggest that, in the future, contractors include these types of costs in a comprehensive cost analysis to determine whether leasing is in the best interest of the Government.

Leased Trailers at the Hanford Site

Our review found that three Hanford Site contractors[2] had not always properly classified trailers as real property. According to Department Order 430.1C, *Real Property Asset Management*, a trailer becomes real property once it is affixed to the ground or permanently connected to a utility service. Even though the requirements of Department Order 430.1C do not automatically apply to contractors, the application of the Order was assigned through the contract terms and conditions. During our visit to the Hanford Site, we observed a number of trailers that were not included in property listings. Based on subsequent discussions with Federal and contractor property management officials, we determined these trailers were improperly identified or classified as personal property rather than real property. In 2010, the Department issued a

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[2] Contractors include Mission Support Alliance, LLC (MSA); CH2M Hill Plateau Remediation Company, LLC (CHPRC); and Washington River Protection Solutions, LLC (WRPS).

Memorandum titled "Removal of Personal Property Trailers from the Department's Facilities Information Management System (FIMS)." This policy change should have removed all remaining personal property trailers from FIMS. Prior to 2010, real and personal property trailers were both recorded in FIMS. Included in that Memorandum was a direction to sites to review personal property trailer records within the Department's FIMS and re-classify trailers that met the above criteria as real property. During our walk-throughs, we confirmed that the 25 leased trailers were either affixed to the ground and/or connected to permanent utilities, thus making them real property per the Department's definition. Despite the Department's direction, we found that the Hanford Site had not re-classified its trailers as real property, and therefore, the trailers were not being properly accounted for in the Department's FIMS. As a result, the FIMS data used to make key property management decisions may not accurately reflect the Department's real property.

Inaccurate and/or Incomplete Information within FIMS

We found that FIMS data on the leased space for 45 facilities included in our sample was not always accurate and/or complete. Department Order 430.1C requires that FIMS data fields be kept current throughout the real property asset lifecycle. In addition, it requires data to be verified and validated to ensure accuracy. In our review of FIMS data fields, which included initial lease date, square footage, annual rent, lease expiration date, and total number of occupants, we identified a number of discrepancies. Examples included:

- Contractor leased space at four facilities at the Hanford Site reflected zero occupants in FIMS; however, during our walk-throughs, we identified that the facilities were occupied.

- Contractor leased space at one facility managed by the Argonne National Laboratory listed its annual rent as almost $2.4 million in FIMS; however, based on our review of the lease agreement and discussions with contractor officials, the annual rent ranged from approximately $670,000 to $727,000.

- Sites had incorrect or inaccurate information on initial lease dates, expiration dates, and total number of occupants. As an example, for a facility at the Oak Ridge National Laboratory (ORNL), the initial lease date in FIMS was listed as October 4, 2011; however, the lease agreement was dated March 22, 1999.

Without accurate and complete information within FIMS, the Department's key decision-makers may not be able to rely on the information contained within management reports. We discussed a number of discrepancies noted during our audit with contractor officials, and corrections were made to FIMS.

Reporting of Leased Space

The improper classification of trailers occurred because site office and contractor officials at the Hanford Site were unclear of the requirement to re-classify trailers. Furthermore, contractor leased space information in the Department's FIMS was not always complete and accurate. These inaccuracies were caused by human errors and from contractor personnel not always providing updated information to FIMS Administrators.

While a current Department regulation defines requirements for a real property trailer, site office and contracting officials at the Hanford Site were unclear on the requirements for re-classifying trailers from personal property to real property after modifications were made during the trailer lifecycles. Prior to the release of the Department's 2010 Memorandum titled "Removal of Personal Property Trailers from the Department's Facilities Information Management System (FIMS)," trailers may have been initially classified as personal property within FIMS. However, after March 2010, any trailer that had been permanently affixed to the ground or attached to utilities should have been re-classified from personal property to real property. While the definition of a real property trailer has been consistent since the 2010 Memorandum, subsequent formal guidance had not been issued to re-enforce the process for re-classifying leased trailers from personal property to real property when the circumstances change. Specifically, the direction in the Memorandum had not been re-circulated since 2010 or added to any property management guidance.

As previously noted, FIMS data fields are to be kept current throughout the real property asset lifecycle, as well as verified and validated to ensure accuracy. For the contractors we reviewed, this requirement was incorporated within their contracts with the Department and/or their own internal policies. Department officials noted that contractors are required to enter and validate data relative to their leases; however, contractor leased space was not always being entered correctly or consistently. Human error and the timeliness of FIMS Administrators receiving updated information from field personnel caused inaccurate or incorrect leased space information. For example, when contract modifications were made to leased space, officials stated that the updated information was not always provided to the FIMS Administrators in a timely manner. Further, the Department conducts an annual review to validate and verify FIMS data fields for reporting purposes; however, Department officials indicated that contractor data was not required to be included in this effort.

Improve Quality of Management Decisions

As a result of issues identified above, the Department's management and decision-making process for real property and the overall footprint may be impacted, although we did not identify any specific issues during the audit. As of July 2018, contractor leased information within FIMS accounted for approximately 76 percent of the total number of leased facilities throughout the Department at an annual rent cost of over $147 million. Absent proper classification of leased trailers as real property, the number of and dollars associated with real property assets may be understated. The information generated from the FIMS is used to measure the cumulative outcomes of real property decisions on the portfolio inventory, alignment, functionality, condition, utilization, disposition, and management. For example, the FIMS data is used to support key performance indices included in reports such as the Department's Asset Management Plan and the Real Property Efficiency Plan. The quality of the decisions made from this information is a direct function of its underlying data. These reports are the guiding principles/strategies for ensuring the Department's portfolio of real and personal property assets is appropriately sized and aligned to efficiently support mission execution and for executing the National Strategy for the "Reduce the Footprint" policy. Since contractor data represents approximately 76 percent of the total number of leased facility space within FIMS, it may be helpful to include contractor data as part of the Department's validation procedures to ensure Federal oversight is provided and to verify data accuracy.

OTHER MATTERS

We also found that the contractors at the Hanford Site had not conducted comprehensive cost analyses prior to initial acquisition to support their decisions to lease rather than purchase trailers. Federal Acquisition Regulation (Subpart 7.4), *Equipment Lease or Purchase*, states that agencies should consider whether to lease or purchase equipment, such as trailers, based on a case-by-case evaluation of comparative costs and other factors. Regulations state that cost comparisons should consider such factors as the length of time equipment is to be used, maintenance and service costs, and/or estimated trade-in or salvage value. Further, Department of Energy Order 458.1, *Radiation Protection of the Public and the Environment*, requires Departmental elements responsible for the management and operation of radioactive material or property to conduct radiological activities that include a release or clearance of property for disposition with the potential to contain residual radioactive material. However, according to contract officials, the costs related to performing applicable radiological disposition activities and general vendor return costs (i.e., transportation of trailer) had not been considered in the cost analyses performed. Trailers that support the environmental cleanup mission of the Department, such as at the Hanford Site, may be exposed to radiological contamination throughout their lifecycles. As such, these trailers must go through a series of radiological disposition activities to ensure safe removal and return to the vendor, and therefore, radiological disposition activities should be included in cost analyses.

To its credit, one of the contractors, Washington River Protection Solutions, LLC (WRPS), had conducted a cost analysis of existing leased trailers. Based on the cost analysis, which included quantifying radiological disposition activities, WRPS determined that it would be too costly to continue its leasing activities and made the decision to purchase the trailers. Specifically, WRPS estimated that the cost of performing the radiological disposition activities averaged $112,500 per single-wide trailer and adding this amount would increase the cost of leasing compared to purchasing the trailer. The following table illustrates the radiological disposition activity and vendor removal cost analysis for WRPS's previously leased trailers on the Hanford Site. For example, as shown below for Trailer No. 1, the lease cost analysis of a triple-wide trailer included an estimated cost of $337,500 for radiological disposition activities and $21,350 for vendor removal cost, increasing the total amount to lease the trailer by $358,850. The total cost to lease this trailer is higher than the purchase price of approximately $140,000.

Table 1: WRPS Analysis[3]

Trailer No.	Trailer Size	Radiological Disposition Activity Cost	Vendor Removal Cost	Total	[redacted]	Purchase Price
1	3-wide	$ 337,500	$ 21,350	$358,850	[redacted]	$ 139,603
2	3-wide	$ 337,500	$ 21,350	$358,850	[redacted]	$ 132,520
3	3-wide	$ 337,500	$ 11,250	$348,750	[redacted]	$ 107,228
4	3-wide	$ 337,500	$ 11,250	$348,750	[redacted]	$ 106,664
5	2-wide	$ 225,000	$ 16,000	$241,000	[redacted]	$ 79,745
6	2-wide	$ 225,000	$ 7,235	$232,235	[redacted]	$ 67,180
7	1-wide	$ 112,500	$ 4,315	$116,815	[redacted]	$ 41,640
8	1-wide	$ 112,500	$ 4,315	$116,815	[redacted]	$ 36,707
9	1-wide	$ 112,500	$ 7,235	$119,735	[redacted]	$ 25,535
Total		**$ 2,137,500**	**$ 104,300**	**$2,241,800**	[redacted]	**$ 736,822**

Collectively, based on these approximate costs, the leased trailers would cost over $2.2 million if returned to the vendor versus the ultimate purchase price of almost $737,000. The cost analysis prompted WRPS to make an informed decision to discontinue leasing and purchase the trailers. Had the other two Hanford Site contractors performed similar cost comparisons on the remaining 16 trailers in our review, the Department may have realized cost savings. A Department official stated that it may be beneficial to consider updated guidance and/or policy to address how future leases or purchases of trailers are handled. As such, we suggest that the Hanford Site conduct a comprehensive analysis of leased trailers that would include factors such as radiological disposition activities and general vendor removal costs for new acquisitions, as well as existing trailers, to determine whether continuing to lease is in the best interest of the Government.

RECOMMENDATIONS

To address the issues noted in this report related to the re-classification of trailers and FIMS data, we recommend that the Director, Office of Asset Management:

1. Clarify the requirements regarding the re-classification of trailers from personal property to real property when the trailers meet the definition throughout their lifecycles.

2. Consider including contractor leased space in the scope of the Department's annual FIMS data validation review.

[3] WRPS included other factors (i.e., initial rental rate, years on site, approximate years left on site, etc.) in its cost analysis; however, for the purposes of this report, only trailer size, radiological disposition activity costs, vendor removal costs, and purchase price of trailers are reflected in Table 1.

To ensure the issues noted in this report related to trailers at the Hanford Site are addressed, we recommend that the Manager, Richland Operations Office, and the Manager, Office of River Protection, direct contractors to:

3. Ensure that the current inventory and future acquisition of trailers are appropriately classified per Department regulations and any trailers that meet the definition of real property are input into FIMS for accountability purposes.

MANAGEMENT RESPONSE

Management concurred with the report's recommendations and stated that it would take corrective actions to address the issues identified in the report. Specifically, management indicated that classification requirements for trailers would be incorporated into real property and specialized FIMS training. Additionally, management plans to incorporate the validation of contractor lease data into the annual FIMS validation guidance for fiscal year 2020. Further, in September 2018, management provided guidance and directed Hanford Site contractors to input trailers that met the definition of real property into FIMS.

AUDITOR COMMENTS

Management's comments and corrective actions were responsive to our recommendations. Management's comments are included in Attachment 3.

Attachments

cc: Deputy Secretary
Chief of Staff

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

We conducted this audit to determine whether the Department of Energy and its contractors managed leases at selected sites in accordance with applicable regulations and policies.

SCOPE

This audit was conducted between April 2017 and March 2019 at Department Headquarters in Washington, DC and Germantown, Maryland; Oak Ridge Office, Oak Ridge National Laboratory, Y-12 National Security Complex, and East Tennessee Technology Park in Oak Ridge, Tennessee; the Hanford Site consisting of the Richland Operations Office and the Office of River Protection in Richland, Washington; and the Pacific Northwest National Laboratory and Pacific Northwest Site Office in Richland, Washington. The audit was conducted under Office of Inspector General project number A17PT029.

METHODOLOGY

To accomplish our objective, we:

- Reviewed Federal laws and regulations and Departmental guidance applicable to the management of real property and leased space;

- Reviewed prior audit reports and assessments issued by the Office of Inspector General and the Government Accountability Office related to the audit objective;

- Conducted interviews and meetings with Department and contractor officials responsible for the management of real property at the Headquarters, Program, and/or site level;

- Judgmentally selected Department sites for detailed review primarily based on quantity of gross rentable square footage of leased space per site; and

- Judgmentally selected a sample of 45 leased facilities from the above sites, which included 43 facilities leased by Department contractors and 2 facilities leased by the Department through the General Services Administration. This sample was judgmentally selected based on factors, including but not limited to, annual rent, gross and rentable square footage, number of occupants, and lease dates. We completed the following activities for the selected facilities:

    - Conducted physical walk-throughs and reviewed floor plans to ensure space was being properly utilized and occupied as intended;

    - Reviewed lease agreements and documentation to support the acquisition and Department review/approval of the leases;

- Reviewed multi-year invoices and/or other evidence of payment; and

- Compared information within FIMS and internal databases with source documentation and walk-through results to ensure data accuracy.

Since the selection of leased space was based on a judgmental sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population.

Though not originally part of our judgmental sample of leased space for 45 facilities, after identifying that trailers were misclassified at the Hanford Site, we selected an additional 25 leased trailers and conducted physical walk-throughs and observations to determine if they were affixed to the ground or permanently connected to a utility service.

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. Accordingly, the audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed compliance with the *GPRA Modernization Act of 2010* and found that the Department had established performance measures in accordance with the Act. In conducting our audit, we relied on computer-processed data. To assess the reliability of the data, we verified a judgmentally selected sample with source documents and found discrepancies. Despite the limitations in using the data for detailed analysis, we believe the data are sufficiently reliable as a general overall estimate. 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.

Management officials waived an exit conference on March 15, 2019.

PRIOR REPORTS

- Audit Report on *Modular Office Facilities for Recovery Act Program Activities at the Hanford Site* (OAS-RA-L-13-04, July 2013). The audit substantiated an allegation that a number of facilities purchased by the CH2M Hill Plateau Remediation Company at the Hanford Site with *American Recovery and Reinvestment Act* funds were never used. In particular, CH2M Hill Plateau Remediation Company 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 returning leased facilities that were no longer needed. Regarding leased space, the audit concluded that CH2M Hill Plateau Remediation Company did not return leased facility promptly as staff reductions took place at the end of *American Recovery and Reinvestment Act* work. Further, it was not possible to draw a conclusion as to the overall utilization rate of leased facilities due to a lack of and/or incomplete records.

- Audit Report on *The Department's Controls over Leased Space in the National Capital Area* (OAS-L-08-09, April 2008). The review of administrative and storage facilities leased by the Department of Energy and its Management and Operating Contractors at its Headquarters in the Washington, DC metropolitan area disclosed that progress had been made in minimizing under-utilized space and using comprehensive property development plans. No substantial vacant space was evident at any of the 15 locations visited, and the facilities appeared to be efficiently utilized. Additionally, the Department had adopted the use of 10-year property development plans that served to identify under-utilized and excess property and provide specific disposal arrangements. The Department had also made progress in improving its centralized property database and its coordination between responsible offices. Real estate specialists reported that the Facilities Information Management System was being used as their primary source of real property information.

MANAGEMENT COMMENTS

Department of Energy
Washington, DC 20585

March 12, 2019

MEMORANDUM FOR TERI L. DONALDSON
INSPECTOR GENERAL

FROM: SCOTT WHITEFORD
DIRECTOR
OFFICE OF ASSET MANAGEMENT

SUBJECT: Draft Audit Report on "Leased Space at Selected Department of Energy Sites" (DOE–OIG–19-XX)

The Office of Inspector General (OIG) has requested comments on the subject draft report pertaining to audit findings at the Office of River Protection (ORP) and the Richland Operations Office (RL). The Department agrees with the findings/recommendations and will implement the below planned corrective actions to address the audit findings.

FINDING: The OIG found that

1. Contractors at Hanford had not properly classified leased trailers as real property.
2. Contractor leased space information in the Department's Facilities Information Management System (FIMS) was not always complete and accurate.

RECOMMENDATIONS & CORRECTIVE ACTIONS: To address the issues noted in this report, the OIG made three recommendations, two (2) for the Office of Asset Management and one (1) for the Richland Operations Office and Office of River protection:

Director, Office of Asset Management (MA-50):

1. Clarify Requirement - Clarify the requirements regarding the re-classification of trailers from personal property to real property when the trailers meet the definition throughout their lifecycles.

   Management Response – Concur
   Planned Corrective Action – Incorporate requirements into annual Real Property and specialized FIMS training.
   Estimated Completion Date – May 2019

2. Contractor Leases - Consider including contractor leased space in the scope of the Department's annual FIMS data validation review.

Management Response – Concur
Planned Corrective Action – Incorporate the validation of contractor lease data into the annual FIMS validation guidance for FY2020
Estimated Completion Date – Dec 2019

Office of Environmental Management (EM) - The Manager, Richland Operations Office, and the Manager, Office of River Protection, direct contractors to:

3. Trailers - Ensure that the current inventory and future acquisition of trailers are appropriately classified per Department regulations and any trailers that meet the definition of real property are input into FIMS for accountability purposes.

   Management Response – Concur, refer to the Attachment

CONCLUSION: If you have any questions to recommendations 1 and 2 addressed to MA-50, please contact Monja Vadnais at Monja.Vadnais@hq.doe.gov or by telephone on 202.586.6199. If you have any questions to recommendation 3 addressed to EM, please contact Paul Bosco at Paul.Bosco@hq.doe.gov or by telephone on 202-586-3524.

INFORMAL NOTE

DATE:	FEB 2 6 2019
TO:	ANNE MARIE WHITE, EM-1 Ann Marie White
FROM:	PAUL BOSCO, EM-5 PBosco
SUBJECT:	Office of Inspector General Draft Report, Audit of Leased Space at Selected Department of Energy Sites

The Office of Inspector General has requested comments on the subject draft report pertaining to audit findings at Office of River Protection (ORP) and Richland Operations Office (RL). The Department agrees with the findings/recommendations and implement the below corrective action to address the audit finding.

FINDING: The OIG found that contractors at Hanford had not properly classified leased trailers as real property.

RECOMMENDATION: The Manager, Richland Operations Office and the Manager, Office of River Protection direct contractors to ensure that the current inventory and future acquisition of trailers are appropriately classified per Department regulations and any trailers that meet the definition of real property are input into the Facilities Information Management System (FIMS) for accountability purposes.

CORRECTIVE ACTION: The Manager, Richland Operations Office and the Manager, Office of River Protection will ensure that the current inventory and future acquisition of trailers are appropriately classified per Department regulations and any trailers that meet the definition of real property are input into FIMS for accountability purposes. Guidance was provided to Hanford Site Contractors per Department regulations and trailers that met the definition of real property were directed to be inputted into FIMS. Corrective action was implemented on September 30, 2018.

I recommend you concur with the Department's response to the OIG draft report. If you have any questions, please contact Mr. Paul Bosco, Associate Principal Deputy Assistant Secretary for Corporate Services, at (202) 586-3524.

Concur: X Non-Concur: ______ Needs Discussion: ______ Date: MAR 0 5 2019

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Washington, DC 20585

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