

AUDIT
REPORT

THE
U.S. DEPARTMENT OF ENERGY'S
FACILITY REUSE AT THE ROCKY
FLATS ENVIRONMENTAL
TECHNOLOGY SITE



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

AUGUST 1998

August 20, 1998

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Acting Inspector General

SUBJECT: INFORMATION: Audit Report on "The U.S. Department of Energy's Facility Reuse at the Rocky Flats Environmental Technology Site"

BACKGROUND

For several decades, the Rocky Flats Environmental Technology Site (Site) operated as part of the Nation's nuclear weapons production complex. In 1989, however, the Department of Energy (DOE) ceased production at the Site and, by 1992, DOE began transitioning Rocky Flats to a cleanup mode. DOE's goal is to convert the Site to beneficial use in a manner that is safe, environmentally and socially responsible, physically secure, and economical. We initiated this audit to determine whether the Site was maximizing its reuse of excess facilities.

RESULTS OF AUDIT

The Rocky Flats Field Office (Field Office) scheduled all of the Site's facilities for demolition without having formally analyzed the reuse potential of these facilities. During the audit we identified over 30 facilities which may have potential for reuse. However, we did not make the kind of in-depth cost/benefit studies that the DOE requires before such decisions are made. We recommended that the Field Office analyze the Site's facilities to determine which, if any, are appropriate for reuse and that the results of this analysis be coordinated with the local community reuse organization.

MANAGEMENT REACTION

Field Office management did not concur with the finding and recommendations. In responding to a draft of this report, management confirmed that, "specific individual analyses are not available for each facility or all facilities at the Site." (Emphasis supplied.) Further, management expressed its disagreement with our conclusion that the facilities at the Site, and specifically the 31 facilities identified during the audit, should be considered for reuse, citing such factors as building age, radiological or chemical contamination, cost of improvements to conform to current building codes and the marketability of the facilities. In evaluating the comments, we recognized, and have so acknowledged in this report, that the issues raised by management could be deciding factors in any final decision on reuse of the Site facilities. However, we concluded that Departmental facility reuse decisions should be based on the kind of formal analytical data called for in the DOE guidance. Our judgment in this matter was influenced by the value of the Department's investment in the Rocky Flats Site, the cost of the Federal remediation effort at the Site, and the Department's commitment to making former DOE facilities available to the local communities for economic development.

Attachment

cc: Deputy Secretary
Under Secretary

THE U.S. DEPARTMENT OF ENERGY'S FACILITY REUSE AT THE ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE

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OVERVIEW

INTRODUCTION AND OBJECTIVE

For several decades, the Rocky Flats Environmental Technology Site (Site) mission was nuclear weapons production. When the Cold War ended, the mission changed to cleaning up the Site. Presently, the Site is scheduled for closure in 2010. However, the Rocky Flats Field Office (Field Office) has been challenged to accomplish closure by 2006. All of the Site's facilities, therefore, will become excess by 2010 or sooner. A January 1997 report, *Linking Legacies, Connecting the Cold War Nuclear Weapons Production Processes To Their Environmental Consequences*, published by the Office of Environmental Management has pointed out that 470 facilities at the Site are no longer needed to fulfill the Department of Energy's (DOE) mission.

DOE's stated goal is to convert the Site to beneficial use. In this conversion, DOE has recognized that it must consider how excess facilities can be appropriately reused. This recognition was emphasized in the July 1995 plan, *Privatization of the Rocky Flats Environmental Technology Site*, which stated that the Site's facilities represented substantial taxpayer investment and that DOE, as well as the community, would benefit from reuse. Our audit objective was to determine whether DOE was maximizing reuse of the Site's excess facilities.

CONCLUSIONS AND OBSERVATIONS

The Field Office has scheduled all of the Site's facilities for demolition without first having analyzed their potential for reuse. Thus, the Field Office may not be maximizing the reuse of these facilities. During the audit, we identified 31 facilities that may be potential candidates for reuse.

The Field Office, by scheduling all of the Site's facilities for demolition, has in effect made the decision that demolition is the best course of action without first determining whether reuse is feasible or cost effective. Reuse may be feasible because the Site is located in Jefferson County, one of the fastest developing areas in Colorado. The Jefferson Center Associates, a nonprofit organization formed by Jefferson County, is planning to develop 5,700 acres of land on the west and south sides of the Site for office, industrial, commercial, and residential uses. Thus, the Site's proximity to ongoing and planned development may make its facilities marketable. If reuse was feasible, the community surrounding the Site could potentially realize significant economic benefits and DOE could avoid spending millions of dollars in demolition costs.

As DOE continues to downsize, consolidate, or close major complexes, it must weigh the impact of its actions in excessing unneeded facilities. As this and other Office of Inspector General (OIG) reports have shown, however, management has not always planned ahead and fully considered the economic consequences of its decisions. For example, in report ER-B-98-01, *Audit of the Deactivation, Decontamination, and Disposal of Surplus Facilities at the Savannah River Site*, management did not proceed with its disposal process in an expedient manner because the Operations Office did not compile a site-wide list of facilities, establish priorities, or provide sufficient funds. This led to the unnecessary expenditure of funds. Similarly, in report DOE/IG-0408, *Audit of Shutdown and Transition of the Mound Plant*, management did not consider the economic impact of keeping Mound open to perform one operation when it would have been more economical to close the facility and move the operation elsewhere. Likewise, in report DOE/IG-0360, *Audit of the Transfer of Government-Owned Property at the Mound and Pinellas Plants*, management planned to excess personal property that was not properly screened elsewhere in DOE. As a result, DOE may lose the use of property worth several hundred million dollars. Although these reports have a different focus, their common theme is the importance of managers properly weighing the impact of their actions not only on DOE and the local communities but also on taxpayers.

Field Office management disagreed with our finding and recommendations. Management's comments are summarized on page 6 and provided in detail in Appendix 3.

In our opinion, the matters discussed in this report represent material internal control weaknesses within DOE that should be considered when preparing the yearend assurance memorandum on internal controls.

(Signed)
Office of Inspector General

REUSE OF EXCESS FACILITIES

Potentially Reusable Facilities Scheduled For Demolition

The Field Office has scheduled all Site facilities to be demolished by 2010 including facilities that the local community reuse organization, the Rocky Flats Local Impacts Initiative (Initiative), had targeted for reuse. The Initiative analyzed 12 facilities and selected 9 for reuse. Later, the Initiative dropped 3 of the 9 facilities due to a lack of a perceived market or because of the costs associated with bringing the facilities up to Federal and commercial standards. According to Field Office management, the remaining 6 also may not be marketable or may follow another disposition path. However, despite the stated position of the Field Office, we noted that the Initiative is still considering these 6 facilities for reuse.

To determine if other facilities were candidates for reuse, we applied characteristics of the 9 facilities selected by the Initiative and identified 31 additional potential candidates located outside the Protected Area. These 31 facilities have 627,491 square feet of space and cost about \$121 million. (Specific details about these 31 facilities can be found in Appendix 2.) The Field Office has scheduled 4 of these facilities for demolition beginning in 1998. The Field Office pointed out that either there is no market for these facilities or that the cost to bring them to Federal and commercial standards far outweighs the benefits associated with reuse.

The objective of this audit did not include determining whether specific facilities were reusable. Consequently, we acknowledge that reuse of facilities identified during this review may not be feasible or cost effective. However, the Field Office itself does not know the reuse potential of the 31 facilities. When asked to provide the results of market or cost benefit analyses, for example, a Field Office official stated that such analyses had not been performed. The Field Office cannot demonstrate whether or not reuse is the most appropriate method of disposal of these properties.

Reuse Guidance

The call for DOE elements to determine the disposal method, either through reusing or demolishing excess facilities, is in DOE Order 430.1, *Life Cycle Asset Management*, and in guidance entitled *Resourceful Reuse - Planning Future Uses of DOE Sites: A Guide for DOE Program and Real Property Managers (Reuse Guide)*. DOE issued the *Reuse Guide* to serve as an important resource for site managers and encouraged managers to use it to make reuse a reality. According to the *Reuse Guide*, DOE managers are responsible for determining whether excess facilities can be reused and stipulates that DOE elements, such as

determining whether excess facilities can be reused and stipulates that DOE elements, such as the Field Office, answer three basic questions:

1. What property is available for reuse?
2. How can the property best be reused?
3. How can the property be transferred to its future users?

To answer the first question, the Field Office was to analyze characteristics of the property, including environmental contamination, and then gain some sense of the marketability of the excess property. After the first question was answered, the Field Office and interested parties, such as the Initiative, were to address the other questions and identify the most beneficial use of the property.

According to the Field Office, the *Reuse Guide* is not a regulatory requirement and is not included in the Kaiser-Hill Company, LLC contract. We do not believe that inclusion or exclusion of the *Reuse Guide* is relevant since the stipulations we refer to are Federal functions. Our review of the *Reuse Guide* showed that it is an official DOE publication and there is every reason to believe that DOE intended for site managers to use it or to use the reuse principles that it includes. Absent some unusual circumstance, it appears reasonable to conclude that the guide was to be implemented at all DOE facilities, including this site. The Field Office also pointed out that the *Reuse Guide* discusses the need to evaluate the costs of making facilities comply with Federal regulations. We recognize the importance of evaluating the costs associated with reuse.

"Hands-Off" Approach to Facility Reuse

The Field Office had not determined what property was available for reuse. Field Office officials commented that they had taken a "hands-off" approach to facility reuse and, instead, relied on the Initiative. For example, one official stated that the Field Office had not analyzed the reuse potential of facilities and that if there were to be any hope for reuse, the Initiative would have to perform the analyses. Another official stated that it was the responsibility of the Initiative to identify buildings for reuse, not that of the Field Office.

The Field Office pointed out that the Initiative is to be consulted on matters of facility reuse. We agree that "consultation" is an appropriate description for the role of the Initiative in reuse decisions. However, since the Initiative functions in an advisory capacity, the Field Office still needs to play a decisive role in determining which Site facilities are available for reuse. In fact, as described in the *Reuse Guide*, the Field Office should take the lead in determining the most appropriate disposal

Reuse Benefits

method. The *Reuse Guide* states that after site managers identify reusable facilities, they should consult with other interested parties to decide the most beneficial use. Further, DOE Headquarters officials have stated that Site management, a Federal function, is responsible for determining the reuse or disposal of excess facilities. According to Environmental Management officials, Site management should determine how best to reuse facilities and to plan for and implement reuse strategies. According to Field Management officials, Site management has the authority to lease or sell its assets, including facilities, as soon as they are not needed.

Based on the guidance provided in the *Reuse Guide*, DOE, because it has the most knowledge about the Site facilities, is in the best position to identify facilities for reuse.

Economic development of communities surrounding DOE sites ranks as one of the most important reasons for DOE to responsibly divest itself of excess facilities. As part of economic development, facility reuse can provide significant benefits to the community. An example of economic benefits can be seen in a proposal by a private company to lease four Site facilities. The proposal estimated that reusing the four facilities would result in the following annual benefits to the community:

- 500 jobs, some of which could have been filled by former employees at the Site;
- \$20 million payroll;
- \$15 million of procurements from local vendors; and,
- \$3 million in local taxes.

Although DOE ultimately decided not to enter into a lease with the private company, the proposal demonstrates the kind of potential benefits that can be realized through reuse. The Field Office, in its comments on the draft audit report, argued that it expected the ultimate number of jobs created to be less than 500 and that any reuse benefits would be offset by additional costs to the Government. The Field Office may be correct. However, absent the analyses by the DOE which are called for in the *Reuse Guide* and which we are recommending, the DOE will not know what, if any, economic benefits could have been realized from reuse.

In addition, if the 31 facilities identified in this audit were found to be viable reuse candidates, DOE could avoid spending about \$69 million in planned demolition costs (see Appendix 2). These savings could be

In addition, if the 31 facilities identified in this audit were found to be viable reuse candidates, DOE could avoid spending about \$69 million in planned demolition costs (see Appendix 2). These savings could be used, for example, to further accelerate Site closure. Although the Field Office has not performed any analyses to support its position, it argued that the costs of making the 31 facilities marketable precluded their reuse. Consequently, the facilities have been scheduled for demolition.

RECOMMENDATIONS

We recommend that the Manager, Rocky Flats Field Office:

1. Analyze the facilities at the Site to determine what property is available for reuse.
2. Coordinate the results of the analysis with the Initiative to determine how best to reuse facilities.

MANAGEMENT COMMENTS

Management did not concur with the finding. In general, management disagreed that the 31 facilities cited in the report were potential candidates for reuse because the existing facilities needed substantial improvements that would be very expensive. Management stated that, it was not evident that the OIG considered such factors as building age, level of contamination, or improvements needed to make the facilities marketable. Management acknowledged that specific individual analyses are not available for each facility or all facilities at the Site. Rather, it relied on experiences learned from the National Conversion Pilot Project, the Lowry Air Force Base Redevelopment, and the Mound Closure Project, as a basis for arguing that reuse is not cost effective. Management's comments, without the detailed attachments, are provided in Appendix 3.

Management also did not concur with the recommendations. Management stated that it had a process in place to evaluate facilities for reuse and planned to continue it through Site closure. According to management, as facilities become excess, they are screened for reuse within the Site and then within DOE. Reuse potential and disposal potential are compared and the costs associated with both are analyzed. A disposition path is then determined and the Realty Officer approves the disposal action. This can only be accomplished when sufficient funds are available. Therefore, this analysis only occurs when facilities are funded as shown in the plan for site closure. Management stated that it has only reported nine facilities to the General Services Administration as excess. Finally, management stated that early, ongoing involvement of the Initiative in planning for facility

that early, ongoing involvement of the Initiative in planning for facility reuse, which was already in place, was logical, appropriate, and consistent with DOE guidance.

AUDITOR COMMENTS

The Field Office acknowledged that there was no documentation of market or cost benefit analyses for the 31 buildings we identified as potential candidates for reuse, and that such analyses had not been performed. We do not presume that our analysis identifying 31 potential candidates for reuse qualifies as the type of comprehensive analysis that is outlined in the *Reuse Guide*.

Analyzing the Site's facilities for potential reuse should be done as early as possible in order to maximize the benefits that may be realized. Although the Field Office has only reported 9 facilities to the General Services Administration as excess, all of the Site's facilities will become excess by 2010 or sooner. Analyzing the Site's facilities now, rather than when each facility is exceeded, would enable the Field Office to best decide whether facility reuse should be implemented and provide the Initiative with time to attract potential users. If, for example, the analysis identified a substantial number of facilities as potentially reusable, the business community might be more interested and the Field Office more inclined to proceed with facility reuse. Having some lead time would perhaps enable the Initiative to have customers/tenants ready to make use of the facilities once the Field Office declares them to be excess, further maximizing benefits.

Waiting until each facility is exceeded to determine its reuse potential precludes the Field Office from knowing how many other facilities are candidates for reuse, thus making reuse less attractive and leaving demolition as the only real viable option available. We acknowledge that lessons learned at other locations are beneficial, however, it would not be prudent for the Field Office to rely solely on these lessons as a basis for precluding the Site's facilities from being candidates for reuse.

Appendix 1

SCOPE

We performed the audit from March 1997 to March 1998 at the Field Office and Kaiser-Hill Company, LLC (Kaiser-Hill) located at the Site near Golden, Colorado.

METHODOLOGY

To accomplish the audit objective, we:

- reviewed DOE and Field Office guidance on the decommissioning and reuse of facilities;
- interviewed Field Office and Kaiser-Hill officials to understand their procedures for facility decommissioning;
- interviewed Headquarters, Field Office, Kaiser-Hill, and Initiative officials responsible for managing and planning for the reuse of excess facilities at the Site;
- reviewed documents concerning the reuse of excess facilities; and,
- analyzed the potential reuse of facilities scheduled for demolition using characteristics (age, size, and level of contamination) similar to the nine facilities initially selected by the Initiative for reuse.

We conducted the audit according to 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. We limited our review of internal controls to those controls associated with the reuse of excess facilities. Because we limited our review, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We did not rely extensively on computer-generated data. Therefore, we did not fully examine the reliability of the computerized data used.

We held an exit conference with Field Office and Kaiser-Hill managers on July 16, 1998.

Appendix 2

	Bldg.	Facility Name	Built	Size, Sq. Ft.	Demolition Cost	Demolition Year	Cost (a)
1	111	Administration	1953	44,046	\$3,950,000	2000	\$2,103,110
2	112	Telecommunications	1953	9,280	200,000	2005	2,482,799
3	115	Office	1987	16,964	375,000	2005	1,364,448
4	116	Office	1991	16,700	375,000	2000	1,003,100
5	119	Fitness Center	1988	11,200	240,000	2005	839,934
6	121	Plant Protection	1953	6,530	160,000	2005	3,209,367
7	122	Occupational Health	1953	8,600	200,000	2005	1,814,795
8	123	Health Physics and Analytic Labs	1953	18,891	430,000	1998	4,217,841
9	124	Water Treatment Plant	1953	8,308	290,000	2006	3,068,678
10	128	Vehicle Shelter	1980	2,448	25,000	2005	125,000
11	331	Fire Station	1953	23,540	800,000	2009	2,230,622
12	333	Paint Shop and Sand Blast	1953	3,060	60,000	2000	278,962
13	334	General Offices and Maintenance	1953	42,950	1,500,000	2000	1,395,696
14	441	Production Support Offices	1953	17,790	375,000	2004	1,972,113
15	442	Filter Test Lab	1953	8,370	25,000	2000	392,583
16	443	Heating Plant	1953	18,606	2,500,000	2007	25,033,179
17	452	Office Buildings	1983	6,000	110,000	2000	505,081
18	549	Alarm Systems Office	1957	1,920	25,000	2000	10,000
19	551	General Warehouse and Shop	1953	44,140	1,000,000	2000	937,952
20	552	Storage Building	1953	4,170	160,000	2003	121,376
21	662	Storage	1957	2,600	74,000	1999	92,220
22	663	Storage and Shipping	1961	4,446	74,000	1999	9,318
23	664	Waste Storage and Shipping	1972	13,730	700,000	2009	3,213,477
24	875	Filter Polonium	1966	3,297	358,800	1998	1,158,408
25	880	Storage	1968	800	50,000	1998	7,818
26	881	Manufacturing and General Support	1953	245,160	43,926,000	2005	57,817,132
27	885	Storage	1962	960	25,000	1999	40,000
28	886	Nuclear Safety Lab	1965	10,785	8,639,000	1998	2,294,371
29	906	Central Waste Storage	1994	25,000	800,000	2008	2,695,932
30	993	Security Storage Vault	1963	1,200	25,000	2005	57,859
31	995	Low Level Sewage Treatment	1953	6,000	1,200,000	2007	432,154
Totals				627,491	\$68,671,800		\$120,925,325

(a) Cost = Acquisition Cost + Capital Improvement Costs

Appendix 3

United States Government

Department of Energy

Rocky Flats Field Office

memorandum

DATE: June 4, 1998

REPLY TO

ATTN OF: FCFO:FCRG:04650

SUBJECT: Draft Audit Report on Facility Reuse at the Rocky Flats Environmental Technology Site

TO: Lawrence R. Ackerly, Manager, IG-35, Western Regional Audit Office

My staff and I have reviewed the subject report, and have attended an exit briefing with members of your audit team regarding their draft findings on facility reuse at the Rocky Flats Environmental Technology Site (Site). We disagree with this report and its conclusions. RFFO is concerned that perhaps all the information provided by my staff was not reviewed nor effectively analyzed by the OIG. Given the amount of time and effort that the Site staff spent over the last nine months attempting to assist the auditors, we were surprised at the conclusions reached.

My staff has numerous comments on individual portions of the report; these are attached. In general, we disagree as follows:

- 1) RFFO disagrees with the OIG conclusion that 31 buildings could be considered for reuse - - As an example, the draft report alludes to 31 facilities that its authors believe should be considered for economic reuse. It is not evident, however, that the audit team considered such factors as building age, the presence of radiological or chemical contamination, or the improvements that would need to be made to these structures per uniform building code requirements, to make them marketable. Some buildings on the list (such as Building 886) are known to contain radiological contamination, while numerous others are 45 years old and have no remaining useful life. Additionally, the report makes no mention of the fact that there will be no infrastructure such as fire or emergency services or utilities available to these buildings at the end of the Site closure project. The factors effectively preclude reuse of many Site buildings.

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- 2) Economics of reuse at the Site are not considered in the report - -The report does not address the substantial costs to the government that are involved in the reuse of facilities. Among these are the millions of dollars required to decontaminate many of these buildings so that they can be occupied by the general public. For example, the Department of Energy has spent approximately \$20 million to decontaminate and refurbish two buildings and equipment that were occupied by the National Conversion Pilot Project, a cost that the government would incur many times over if the buildings proposed by the audit team were to be seriously considered for reuse. Costs that would be incurred in preparing a building for reuse include detailed characterizations, remediation of asbestos and other hazards, and renovation to bring old buildings up to code and in conformance with the Americans with Disabilities Act. Additionally, the audit does not address the costs that would be incurred by the government for upkeep and maintenance of these buildings beyond the scheduled dates for their demolition, as well as the costs of supplying utilities to them.

- 3) RFFO disagrees with the logic used to reach the conclusions expressed in the report -- The conclusions of the draft report cannot be supported by the available data. Most troubling in this regard is the statement on page 4 of the draft, which states: “If the facilities were reused, DOE might also avoid spending \$69 million in demolition costs, which could be used to further accelerate Site closure.” This statement not only fails to account for the technical and economic factors noted above, but it also does not consider the fact that money will need to be spent at some point, quite possibly by the government, to tear these aging structures down.

- 4) The draft report does not consider community sentiment (and thereby, building marketability) - -The audit team concludes that relying on the Rocky Flats Local Impacts Initiative (RFLII) to help determine which buildings were of interest to outside parties for reuse, was “inappropriate.” This conclusion fundamentally ignores RFLII’s mission, supported by DOE funding, which is to advise us on the economic impacts of our decisions (such a role for the community reuse organization - in this case RFLII - is also supported by the DOE guidance referenced in the draft report). It also ignores the fact that decisions regarding the future use of government resources cannot be made unilaterally by the government and then imposed upon the community, as the draft report implies. The report’s implication that DOE should expend closure resources on attempting to convince the community to consider reuse of other buildings that the community is clearly not interested in is counterproductive.

In summary, the conclusions reached in the draft report are not supported by relevant facts. Although the OIG requests an individual analysis for all facilities, the real estate requirements and the Resourceful Reuse Guide provide that these analyses are performed only after the

Appendix 3

building/facility is excess to DOE. RFFO has used models such as experience learned from the NCPP project, the Lowry Air Force Base Redevelopment, and the Mound Closure Project as a basis for statements in the attachments to this report. Specific individual analyses are not available for each facility or all facilities at the Site.

If you have any questions, please contact me at 303-966-2025.

Jessie M. Roberson
Manager

2 Attachments

NOTE: *The attachments contained detailed valuable information which has been incorporated into the body of the report. Because of the volume of text in the various attachments, they have not been included in this report.*

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