

ER-B-00-02

AUDIT REPORT

SECURITY OVERTIME AT THE OAK RIDGE OPERATIONS OFFICE



JUNE 2000

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



DEPARTMENT OF ENERGY
Washington, DC 20585

June 21, 2000

MEMORANDUM FOR THE MANAGER, OAK RIDGE OPERATIONS OFFICE

FROM: Terry L. Brendlinger, Manager (Signed)
Eastern Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Security Overtime at the Oak Ridge Operations Office"

BACKGROUND

Historically, the Oak Ridge Operations Office (Operations Office) has obtained security services from its site operating contractors. Until recently, Lockheed Martin Energy Systems, Inc., (LMES) was responsible for operating the three major sites in Oak Ridge and providing security services at these sites. In Calendar Year (CY) 1999, LMES' Security Division worked 186,000 hours of overtime, at a cost of \$5.1 million, accounting for 50 percent of LMES' total overtime hours for the year.

Recent changes have resulted in the Operations Office's three major sites being operated by three different contractors. To gain more administrative and cost control over security, and to capitalize on the efficiencies associated with a centralized approach, the Operations Office awarded a time-and-material-award-fee contract for security services to Wackenhut Services, Inc., (Wackenhut) in October 1999. The objective of this audit was to determine whether the Operations Office's new security contract provides incentives for Wackenhut to reduce overtime and minimize costs.

RESULTS OF AUDIT

The new contract does not provide Wackenhut with incentives to reduce overtime or minimize costs. To the contrary, the contract allows Wackenhut to work up to 26 percent more overtime than worked by LMES. This occurred because the Operations Office did not consider contractual incentives for overtime reductions to be necessary. In addition, the Operations Office did not perform a comprehensive analysis to evaluate staffing and overtime requirements for the new contract. As a result, if Wackenhut works the maximum overtime allowed by the contract, the Department will incur at least \$8.1 million in avoidable overtime costs during the 3-year base term of the contract. In addition, the Department could incur \$3.2 million in excessive award fee during the 3-year base term of Wackenhut's contract.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and agreed to initiate corrective actions.

Attachment

SECURITY OVERTIME AT THE OAK RIDGE OPERATIONS OFFICE

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OVERVIEW

INTRODUCTION AND OBJECTIVE

Historically, the Operations Office has obtained security services from its site operating contractors. Until recently, Lockheed Martin Energy Systems, Inc., (LMES) was responsible for operating the three major sites in Oak Ridge and providing security services at these sites. In Calendar Year (CY) 1999, LMES' Security Division worked 186,000 hours of overtime, at a cost of \$5.1 million, accounting for 50 percent of LMES' total overtime hours for the year.

Recent changes have resulted in the Operations Office's three major sites being operated by three different contractors. To gain more administrative and cost control over security, and to capitalize on the efficiencies associated with a centralized approach, the Operations Office awarded a time-and-materials-award-fee contract¹ for security services to Wackenhut in October 1999. The contract requires Wackenhut to perform multi-disciplinary services, including a protective force, information security, and personnel security for the Y-12 Plant, Oak Ridge National Laboratory, East Tennessee Technology Park, and other Oak Ridge facilities. The contract provides security services for CYs 2000 through 2002, plus two 1-year options. The 3-year base term of the contract is valued at \$218 million.

The objective of the audit was to determine whether the Operations Office's new security contract provides incentives for Wackenhut to reduce overtime and minimize costs.

CONCLUSIONS AND OBSERVATIONS

The new security contract does not provide Wackenhut with incentives to reduce overtime or minimize costs. To the contrary, the contract allows Wackenhut to work up to 26 percent more overtime than worked by LMES. This occurred because the Operations Office did not consider contractual incentives for overtime reductions to be necessary. In addition, the Operations Office did not perform a comprehensive analysis to evaluate staffing and overtime requirements for the new contract. As a result, if Wackenhut works the maximum overtime allowed by the contract, the Department will incur \$37 million in fully-burdened overtime costs during the 3-year base term of the contract, including at least \$8.1 million in avoidable overtime. In addition, the Department could incur \$3.2 million in excessive award fee during the 3-year base term of Wackenhut's contract.

¹ The Operations Office combined elements of a time-and-materials contract and incentive contracting provisions of the Federal Acquisition Regulation resulting in a hybrid time-and-materials-award-fee contract. The Operations Office priced labor hours in accordance with time-and-materials requirements except it excluded profit from the hourly rate. Profit was priced separately as award fee in accordance with incentive contracting.

These conditions are similar to findings reported in prior Office of Inspector General reports (Appendix 2) on contractor overtime practices at other Department sites.

The matters discussed in this report represent material internal control weaknesses within the Department that should be considered when preparing the yearend assurance memorandum on internal controls.

(Signed)

Office of Inspector General

AVOIDABLE OVERTIME

Wackenhut's Contract Does Not Provide Incentives to Reduce Overtime or Minimize Costs

The new security contract does not provide incentives for Wackenhut to reduce overtime or minimize security costs. To the contrary, the contract provides financial incentives for Wackenhut to hire 100 additional security guards and still work 26 percent more overtime than worked by LMES in CY 1999.

LMES Security Division employees worked significant amounts of overtime on a continual basis in CYs 1998 and 1999 due to staffing shortages. For example, during CY 1999 two security guards averaged more than 30 hours of overtime per week, and 17 others averaged more than 20 hours of overtime per week. LMES could have avoided a portion of its overtime by hiring full-time security guards to fill vacant positions beginning in October 1998.

When the Operations Office decided to award a separate contract for security in 1999, it had an opportunity to reduce overtime costs by providing contractual incentives to Wackenhut to fill vacant security guard positions. The contract includes \$26 million for Wackenhut to hire 100 additional security guards and \$37 million to work 234,000 overtime hours each year. By comparison, the LMES security division worked only 159,000 overtime hours in CY 1998 and 186,000 overtime hours in CY 1999. Despite the increase in labor hours proposed for CYs 2000 through 2002, including both regular and overtime hours, the Operations Office did not increase the scope of work to be performed by Wackenhut.

Department's Goal Is More Cost-Effective Security Operations

The Department has a goal of more cost-effective operations. The *Department of Energy Annual Performance Plan for FY 2000* states that the Department will use prudent contracting and business management approaches that emphasize results, accountability, and competition; improve timeliness; and minimize costs. It also states that the Department will strengthen the management of its projects, materials, facilities, land, infrastructure, and other assets to ensure safe, sound, and cost-effective operations.

Management Did Not Consider Contractual Incentives Necessary or Analyze Staffing Requirements

Management did not include incentives in the new security contract because it did not consider contractual incentives to be necessary. In addition, the Operations Office did not perform a comprehensive analysis to evaluate staffing and overtime requirements for the new contract. The Contracting Officer believed that continuous oversight would provide sufficient controls to minimize Wackenhut's overtime. Specifically, the Operations Office would review Wackenhut's invoices to the Department and question any unusual overtime hours billed by the contractor.

Management did not perform a comprehensive analysis to determine the appropriate trade-off between increased staffing levels and the use of overtime for Wackenhut's contract. Operations Office officials stated that the provisions to hire additional guards and work 234,000 overtime hours were based on requirements outlined in the Site Safeguards and Security Plan developed by the previous security contractor. However, the Operations Office could not trace the proposed staffing or overtime hours to specific requirements of the Site Safeguards and Security Plan.

In our opinion, management's actions are not consistent with the Department's policy to use prudent contracting and business management approaches that emphasize results, accountability, and cost-effectiveness. The Government Performance and Results Act of 1993 was designed to improve Federal program effectiveness by promoting a new focus on program results and improving management of the Federal government. The new security contract with Wackenhut establishes a ceiling for overtime hours by job category; however, it does not include performance measures for overtime. The Operations Office could have established contractual incentives to reduce overtime hours and costs. For example, the contract could have included award fee provisions whereby Wackenhut could earn performance award fee by hiring additional security guards, working less overtime, and reducing overall security costs.

The Department Could Incur Avoidable Overtime Costs and Excessive Fee

The contract rewards the contractor for maximizing overtime hours and hiring 100 additional guards, rather than reducing the overtime worked and minimizing costs. If Wackenhut works the maximum overtime allowed by the contract, the Department will incur at least \$8.1 million in avoidable overtime costs during the 3-year base term of the contract. Avoidable overtime includes the cost of overtime in excess of the 186,000 hours worked by LMES in CY 1999. In addition to the overtime in excess of 186,000 hours, the Department could avoid an undeterminable amount of overtime associated with 12 to 30 vacant security guard positions.²

² LMES' Security Division was authorized to fill 22 vacant positions in July 1998. The division hired 13 guards between July and September 1998; however, with retirements and attrition, it still had 19 vacancies in September 1998. Between January and July 1999, LMES hired 7 more guards, leaving 12 positions unfilled. LMES announced a layoff in August 1999, and the hiring process was suspended. The number of vacancies increased to about 30 in February 2000.

Further, the Department could incur \$3.2 million in excessive award fee during the 3-year base term of Wackenhut's contract. Excessive award fee includes \$1.3 million based on proposed overtime premium costs and \$1.9 million based on the proposed cost of hiring 100 additional security guards. The available award fee for Wackenhut's contract was calculated as a percentage of proposed labor costs, including overtime premium and overhead. Since overtime hours were priced at one-and-one-half times the regular hourly rate, the contract includes 50 percent more available award fee for overtime hours than for regular hours. The practice of calculating fee based on total costs, including overtime premium, encourages contractors to propose large amounts of overtime in order to obtain more award fee. Further, since the hiring of 100 additional security guards is intended to decrease overtime, the award fee related to hiring new employees results in a duplication of a portion of the fee included for overtime hours.

On its first invoice covering 49 days, Wackenhut billed the Department 27,664 overtime hours. At this rate, Wackenhut will incur 206,000 overtime hours in the first year, which is an increase of about 11 percent over LMES' 1999 overtime hours.

RECOMMENDATIONS

We recommend that the Manager, Oak Ridge Operations Office:

1. Perform a comprehensive cost analysis to determine the appropriate trade-off between increased staffing levels and the use of overtime in the execution of the scope of work authorized in the Wackenhut contract;
2. Use the cost analysis as a basis to establish measurable performance objectives with incentives for Wackenhut in the Annual Performance Evaluation Plan for the Wackenhut contract to incentivize the most cost-effective use of overtime; and
3. Ensure that future security services contracts include performance incentives to reduce overtime and minimize costs, and do not allow higher rates of fee for overtime hours compared to regular hours.

MANAGEMENT REACTION

Management concurred with the finding and recommendations and agreed to initiate corrective actions. Specifically, management agreed to have Wackenhut perform a cost analysis upon which performance incentives can be based. In addition, management agreed that future security services contracts will include incentives to keep overtime at a minimum.

AUDITOR COMMENTS

Management's comments were responsive to the finding and recommendations.

Appendix 1

SCOPE

The audit was performed from May 24, 1999, to April 28, 2000, at the Oak Ridge Operations Office and Y-12 Plant in Oak Ridge, Tennessee. The scope of the audit included overtime charges reported in the LMES Payroll and Leave System from January 1998 through December 1999, and the Oak Ridge Operations Office prime contract with Wackenhut issued in October 1999. On June 1, 2000, we held an exit conference with the Chief Financial Officer, Oak Ridge Operations Office.

METHODOLOGY

To accomplish the audit objective, we:

- Analyzed security overtime costs incurred by LMES employees for CYs 1998 and 1999;
- Reviewed the Department's contract for security services with Wackenhut;
- Evaluated the overtime and overall cost provisions in the Wackenhut contract;
- Discussed the goals and objectives of the new security contract with Operations Office personnel;
- Interviewed LMES employees to determine reasons for overtime worked in CYs 1998 and 1999;
- Quantified avoidable costs associated with the new security contract; and
- Discussed the establishment of performance incentives with Operations Office 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, the assessment included reviews of applicable sections of the Wackenhut contract, including the performance measures established in the contract. 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 conduct a reliability assessment of computer-processed data because only a very limited amount of computer-processed data was used during the audit.

Appendix 2

PRIOR AUDIT REPORTS

The Office of Inspector General has issued the following audit reports addressing overtime at various Department sites.

1. DOE/OIG-0381, *Management and Operating Contractor Overtime Costs*, dated October 27, 1995. The purpose of the audit was to evaluate contractor overtime payments for compliance with applicable regulations and contract provisions. The objective was to determine whether the Department had controls in place to monitor and manage contractor overtime use. An analysis of the 50 management and operating contracts that were in effect at the end of Fiscal Year 1994 and a detailed review at four of these contractors showed that the Department did not adequately monitor and manage contractor efforts to minimize overtime. Management did not specifically concur or nonconcur with the finding and recommendations. Management commented that it had identified a need to implement an overtime policy that was consistent with contract reform initiatives and that balances the need for reduced oversight against the need to demonstrate responsible stewardship of taxpayer dollars.
2. WR-B-95-05, *Transportation Safeguards Division Couriers' Work Schedules*, dated April 3, 1995. The objective of the audit was to determine if the Transportation Safeguards Division established couriers' work schedules to effectively and economically meet operating needs. The couriers worked a traditional 40-hour work schedule from Monday through Friday that did not fit the job requirements. As a result, the couriers received an average of 39 hours of overtime each pay period. Management partially concurred and acknowledged that cost savings possibly could be realized.
3. DOE/IG-0354, *Management and Cost of the Department of Energy's Protective Forces*, dated July 27, 1994. The purpose of the audit was to determine if protective forces were efficiently managed and appropriately sized in light of the changing missions and current budget constraints. The audit noted several opportunities for the Department to improve the operational efficiency of the protective forces operations, including eliminating overtime paid to officers prior to completion of the basic 40-hour workweek. Management concurred with the findings and recommendations and took appropriate actions to improve the efficiency of managing protective forces.

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