

DOE/IG-0477

**I N S P E C T I O N
R E P O R T**

**INSPECTION OF
COST RECOVERY CONCERNS AT THE
OFFICE OF SCIENTIFIC AND
TECHNICAL INFORMATION**

JULY 2000



U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF INSPECTIONS

July 26, 2000

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman /s/
Inspector General

SUBJECT: INFORMATION: Report on "Inspection of Cost Recovery Concerns at the Office of Scientific and Technical Information"

BACKGROUND

The Office of Inspector General (OIG), U.S. Department of Energy (DOE), received a complaint concerning possible misuse of cost recovery funds at the Office of Scientific and Technical Information (OSTI). Specifically, it was alleged that: 1) some cost recovery funds from DOE's Office of Defense Programs were placed in OSTI's "general fund" and used for miscellaneous expenses unrelated to the Work Authorization provided by Defense Programs; 2) some cost recovery funds were used to cover Federal employee salaries; and 3) Defense Programs funds were used to purchase a computer server which was not used for a Defense Programs project. As you know, since the inception of our review, the Office of Defense Programs has become part of the National Nuclear Security Administration.

RESULTS OF INSPECTION

- The OIG found that OSTI stopped maintaining records containing sufficient details to account for all funds and costs in accordance with DOE Order 534.1, "Accounting," which requires DOE to maintain a system of accounts in accordance with regulatory requirements established by the Office of Management and Budget, the General Accounting Office, and the Department of the Treasury.
- The OIG found that cost recovery funds were used to pay OSTI Federal salaries. This may be contrary to appropriations law as OSTI's program direction account, which includes payment of Federal salaries, is a line item in the Congressional budget. However, based on the lack of detailed records, the OIG was unable to resolve whether OSTI's cost recovery activities resulted in an augmentation of OSTI's budget.
- The OIG found that OSTI did purchase a computer server with Defense Programs' funds. However, the computer server could not be used for the Defense Programs project as planned and was, therefore, used on another OSTI project. OSTI subsequently purchased another computer server with OSTI funds to use on the Defense Programs project. Because the computer server had decreased in cost, OSTI reimbursed Defense Programs the difference in cost.

We provided management with recommendations that, if implemented, would provide adequate detailed record keeping to account for all OSTI financial transactions, and strengthen weaknesses in OSTI's cost recovery activities for other DOE program offices. In addition, the Office of General Counsel, in consultation with the Office of the Chief Financial Officer, determined that DOE program offices may enter into agreements with OSTI for products or services unless otherwise funded by OSTI appropriations. However, the Office of General Counsel could not determine if OSTI's costs for performing work beyond OSTI's appropriation was an improper augmentation because OSTI did not maintain detailed records.

Management's comments were responsive to the recommendations.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Under Secretary for Nuclear Security
General Counsel
Chief Financial Officer
Director, Office of Science
Director, Office of Scientific and Technical Information

Inspection of Cost Recovery Concerns at the Office of Scientific and Technical Information

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Overview

INTRODUCTION AND OBJECTIVE

The Office of Inspector General, U.S. Department of Energy (DOE), received a complaint concerning the Office of Scientific and Technical Information (OSTI), which is located in Oak Ridge, Tennessee. Specifically, the complainant alleged that OSTI possibly misused cost recovery¹ funds from a DOE program office. OSTI is the key organizational element for DOE's retention of research and development information.

The Department of Energy plays a major role in the nation's research and development (R&D) through DOE's extensive system of national laboratories and partnerships with industries, academia, and other R&D performers. According to the DOE Fiscal Year (FY) 2000 Congressional Budget Request, DOE's national laboratories employ nearly 30,000 scientific and technical personnel. The Department has historically devoted significant resources to funding R&D activities and is among the top five Federal R&D funding agencies regardless of the criteria used: total R&D, basic research, applied research, development, or academic research. DOE spent approximately \$7 billion for R&D in FY 1999 and plans to spend \$7.5 billion in FY 2000. In most instances, scientific and technical information is the only demonstrable result of the research.

DOE Order 241.1, "Scientific and Technical Information Management," establishes Department of Energy requirements and responsibilities to ensure that scientific and technical information is identified, processed, disseminated, and preserved. This is the mission of DOE's Technical Information Management program which is carried out by OSTI. OSTI is the repository for unclassified and classified scientific and technical information. OSTI provides the scientific community and the public access to DOE's research and development efforts. Particularly significant is OSTI's interagency agreement with the Government Printing Office, which provides searchable, full-text access to unclassified scientific and technical information via the internet.

OSTI's program mission includes collection and retrieval capability for classified nuclear information by providing R&D results from DOE's and its predecessors' programs to authorized DOE, contractor, and other agency personnel. Classified information is used for maintaining a credible nuclear deterrent. Due to recent changes in the U.S. nuclear posture, the Department

¹ Cost recovery refers to the Federal Government's policy of recovering cost for services rendered or material provided to recipients as prescribed in OMB Circular A-130, Appendix, "Cost Accounting, Cost Recovery, and Interagency Sharing of Information Technology Facilities," and in OMB Circular A-25, "User Charges."

must now rely on scientific understanding, expert judgment, and computer modeling rather than on nuclear testing.

Although the OSTI mission has remained basically the same, OSTI staffing and budget had been reduced by 46 percent since 1995. In FY 1995, OSTI had 286 full time equivalent Federal and contractor employees. By FY 1999, this number was 134 employees. Also, OSTI's budget was \$16.1 million in FY 1995 and \$8.6 million in FY 1999. Customer use of OSTI's internet systems has increased from 250,000 accesses in FY 1995 to 1.2 million in FY 1999, and 3 million pages of full-text information are available electronically, compared to zero in 1995.

During this time period, OSTI also continued to receive approximately \$5 million a year through a full cost recovery program from other DOE program offices as well as other governmental and non-governmental agencies and programs. OSTI activities which support Departmental elements have been conducted on a full cost recovery basis since the late 1980's. OSTI's cost recovery program is based upon DOE Order 2110.1A, entitled "Pricing of Departmental Materials and Services," dated July 14, 1988, and current OSTI policy.

Specifically, the objective of this inspection was to review the complaint received by the Office of Inspector General alleging that:

- Some cost recovery funds from DOE's Office of Defense Programs (DP) were placed in the OSTI "general fund" and used for miscellaneous expenses unrelated to the Work Authorization provided by DP.
- Some cost recovery funds were used to cover Federal employee salaries.
- DP funds were used to purchase a computer server for a classified project; however, the server was placed on an unclassified project unrelated to the work DP was funding.

CONCLUSIONS AND OBSERVATIONS

The OIG reviewed approximately \$550,000 allotted to OSTI from DP in FY 1998. Of that amount, the OIG could not track approximately \$150,000 of the DP funds that were spent by OSTI because OSTI management decided to stop maintaining a detailed cost accounting system. The OIG determined this decision to be contrary to DOE Order 534.1, "Accounting," which requires DOE to maintain a system of accounts in accordance with regulatory requirements established by the Office of Management and Budget (OMB), the General Accounting Office, and the Department of the Treasury. Additionally, the OIG concluded that the method OSTI used to cost recover funds from DP may not be in accordance with DOE policy because OSTI does not record Federal employee hours spent working on projects. Finally, although none of the DP cost recovery funds appears to have been used to pay OSTI Federal salaries, the OIG found that other cost recovery funds have been used to pay OSTI Federal salaries. This may be contrary to appropriations law as OSTI's program direction account, which includes payment of Federal salaries, is a line item in the Congressional budget. Based on Office of General Counsel comments to our draft report, it was determined that there was insufficient information available to conclude whether an improper augmentation had occurred.

The OIG recommended that the Chief Financial Officer direct OSTI to ensure OSTI records contain sufficient details to account for all funds, assets, liabilities, and costs. Further, the OIG recommended that the Director of OSTI take appropriate corrective action for cost recovery. OSTI has agreed to develop a costing methodology to be approved by the Office of the Chief Financial Officer.

Details of Findings

OSTI's Use of a Full Cost Recovery Program for DOE Program Offices

The majority of the \$5 million in cost recovery projects managed by OSTI is for DOE program offices. However, OSTI's use of a full cost recovery program for DOE program offices is not authorized by DOE Order 2110.1A and Title 10, Code of Federal Regulations (C.F.R.), Part 1009 - "GENERAL POLICY FOR PRICING AND CHARGING FOR MATERIALS AND SERVICES SOLD BY DOE," which are applicable only to cost recovery work performed for external organizations. Though the Economy Act provides OSTI the authority to perform reimbursable work for other DOE program offices, the Department has not issued implementing procedures through DOE directive or regulation for such reimbursable work for DOE programs.

OSTI's cost recovery policy, dated December 2, 1996, was established and approved internally by OSTI senior officials. OSTI's full cost recovery policy specifically references DOE Order 2110.1A. However, the purpose of DOE Order 2110.1A is "to establish policy for establishing prices and charges for materials and services sold or provided by the Department . . . to external organizations." Therefore, the OIG determined that because DOE Order 2110.1A only addresses external organizations, corrective actions are needed for OSTI to continue applying full cost recovery to other DOE program offices.

The following discussion addresses the allegations and findings.

Allegation 1

- In FY 1998, some cost recovery funds from DP were placed in the OSTI "general fund" and used for miscellaneous expenses unrelated to the Work Authorization provided by DP.

DP Cost Recovery Funds Used for Purposes Unrelated to Work Authorization

In FY 1998, OSTI received approximately \$550,000 from DP to manage selected DP cost recovery projects. These funds were placed under OSTI's control using two budget and reporting (B&R) classification codes DP01 and DP05. The DP01 funds were allocated for the cost recovery project "Nuclear Weapons Information Group." The DP05 funds were allocated for two cost recovery projects, "Classified Support" and the "Joint Atomic Information Exchange Group."

The OIG found that for DP01 and DP05 (Joint Atomic Information Exchange Group) cost recovery projects, OSTI properly charged service or product expenses, such as travel, purchase orders, and subcontracted work, to the respective project. However, \$150,000 of the funds allocated to the DP05 (Classified Support) cost recovery project, rather than being charged directly to the DP05 B&R code as a service or product expense, was designated

“inhouse” and placed in the OSTI program mission account. OSTI did not maintain a detailed cost accounting system; therefore, the OIG was unable to determine whether the \$150,000 was spent for the OSTI program mission or the DP05 Classified Support cost recovery project.

OSTI’s project tracking system, called the Special Resource Tracking System (SRTS), tracks the allotted funds by project. The SRTS system is an online system that is accessible to OSTI’s Account Executives and the Project Managers. OSTI also uses DOE’s Departmental Integrated Standardized Core Accounting System (DISCAS). However, neither system indicates how the \$150,000 was spent. DOE Order 534.1, “Accounting,” requires records of DOE elements to “contain sufficient details to account for all DOE funds, assets, liabilities, and costs.” Contrary to this Order, neither system provided OSTI with a detailed cost accounting system which would identify specifically how the funds were eventually spent. Additionally, the OIG could not determine a valid justification for designating any of the cost recovery expense as “inhouse” and subsequently placing the funds in the OSTI program mission account.

Allegation 2

- Some cost recovery funds were used to cover Federal employee salaries.

Cost Recovery Funds Used to Pay Federal Salaries

The OIG found that approximately \$500,000 received through DOE cost recovery projects were placed in the OSTI program direction account to assist with payment of Federal salaries in FY 1998. OSTI officials told us that OSTI recovers Federal labor costs and has a cost recovery pricing policy based on DOE Order 2110.1A. Both the OSTI policy, “Office of Scientific and Technical Information Cost Recovery of DOE Resources Pricing Policy,” and DOE Order 2110.1A allow charging a customer for direct labor costs plus benefits of Federal employees. The OSTI policy and the DOE Order indicate that labor costs are composed of the time to complete the job and the pay scale of the labor skills required. The OSTI policy allows for using the actual labor and fringe benefits rate or a standard OSTI labor and fringe benefits rate. Both the DOE Order and the OSTI policy require knowledge of which employee worked on a project and how much time was spent on a specific project. However, the OIG was told OSTI employees only indicate when leave is taken, not what hours are spent on a particular project. Therefore, OSTI’s procedure for recovering labor costs of Federal employees is contrary to its policy and the DOE Order.

Additionally, the OIG found that the OSTI program direction account and OSTI's program mission account are line items in the Congressional budget. The OIG reviewed OSTI's FY 1999 Budget Execution Plan, which shows actual obligations and costs for FY 1998. It appears that not only did OSTI use approximately \$500,000 of cost recovery funds in its program direction account, OSTI also used approximately \$2.3 million of cost recovery funds in its program mission account. Also, this OSTI document indicates that OSTI had obligated these cost recovery funds to their OSTI accounts, possibly in addition to the Congressional appropriations amount.

The General Accounting Office/Office of General Counsel-92-13 Appropriations Law-Volume II, Chapter 6 "Availability of Appropriations: Amount, Part E. Augmentation of Appropriations," states that:

When Congress makes an appropriation, it is also establishing an authorized program level. In other words, it is telling the agency that it cannot operate beyond the level that it can finance under its appropriation. . . . Restated, the objective of the rule against augmentation of appropriations is to prevent a government agency from undercutting the congressional power of the purse by circuitously exceeding the amount Congress has appropriated for that activity.

According to the U.S. Department of Energy Fiscal Year 1998 Congressional Base Table by Appropriation, a set amount was obligated for OSTI's program direction account and a set amount for OSTI's program mission account. Therefore, the OIG determined that the addition of cost recovery funds to the OSTI accounts may have been an augmentation of appropriations. Because OSTI had inadequate record keeping, the Office of General Counsel determined there was insufficient information to conclude whether an improper augmentation had occurred.

Allegation 3

- DP funds were used to purchase a computer server for a classified project; however, the server was placed on an unclassified project unrelated to the work DP was funding.

Cost Recovery Funds Used to Purchase a Computer Server Used on an Unrelated Project

The OIG found that OSTI did purchase a computer server with DP01 funds, which was intended for the Nuclear Weapons Information Group (NWIG) cost recovery project. However, OSTI management explained that, due to technical delays, the server could not be used as planned and rather than let the equipment go unused, they agreed it would be better to use the server on the OSTI unclassified project, part of OSTI's program mission, with the explicit understanding that a new server would be purchased for the DP project when it was ready to resume. At the time the server was used for the OSTI unclassified project, OSTI management had not informed DP of the use of the server. However, during our inspection, OSTI management notified DP of their action.

Since the initial computer server was used for OSTI's unclassified project, OSTI decided to purchase, with OSTI funds, another server of the same model. This second server was to be used for the DP01 NWIG cost recovery project to replace the first server purchased with DP01 funds. During the OIG inspection OSTI discovered that the second server, although identical to the first one, had decreased in price and credited the difference of \$8,225 to DP01.

RECOMMENDATIONS

We recommend that the Chief Financial Officer:

1. Direct OSTI management to ensure OSTI records contain sufficient details to account for all funds, assets, liabilities, and costs.

We recommend that the General Counsel, in consultation with the Chief Financial Officer:

2. Review the issue of whether the cost recovery funds received by OSTI from DOE program offices are an augmentation of its appropriation in violation of law.

We recommend that the Director, Office of Scientific and Technical Information:

3. Take appropriate corrective action for cost recovery.

**MANAGEMENT
COMMENTS**

Management provided responses to the draft report. They concurred with Recommendations 1 and 3, and commented on Recommendation 2.

The Chief Financial Officer concurred with Recommendation 1. OSTI has advised the Office of the Chief Financial Officer “that actions to address this recommendation will be completed by October 1, 2000.”

Regarding Recommendation 2, the Office of General Counsel, in consultation with Office of the Chief Financial Officer, reviewed the issue and determined that “The Economy Act (31 U.S.C. 1535-36) authorizes the placing of orders for goods or services inter- or intra-departmentally on a reimbursable basis. . . . Thus, major organizational units (e.g., the . . . Office of Defense Programs) within DOE may enter into agreements with OSTI for products or services . . . as long as these products or services are not otherwise funded by OSTI appropriations.” However, the Office of General Counsel did “not have sufficient information on OSTI’s costs for performing work beyond OSTI’s appropriation to conclude whether there is an improper augmentation” as “OSTI did not maintain records that are detailed enough to determine its complete costs.”

OSTI management concurred with Recommendation 3. OSTI agreed to take two actions to resolve any issues associated with their cost recovery activities. First, OSTI “will submit a costing methodology to the Deputy Controller, outlining the process

[OSTI] will have in place on October 1, 2000, to fully account for actual federal labor cost in support of cost-reimbursable activities.” Second, for the internal DOE budget formulation process, September 1, 2000, OSTI “will add language to [their] Fiscal Year (FY) 2002 Congressional Budget Request to indicate that [they] provide cost-reimbursable services to other DOE offices and other government entities using both federal and contractor staff.”

The Office of the Chief Financial Officer additionally commented that “The CFO has determined that DOE Order 2110.1A, Pricing of Departmental Materials and Services, does not apply to OSTI work performed for other DOE program offices. It only applies to external organizations.”

**INSPECTOR
COMMENTS**

Management’s comments were responsive to the recommendations. The OIG has incorporated OSTI management’s general comments into the report where appropriate.

Appendix A

PREDICATION

The Office of Inspector General, U.S. Department of Energy, received a complaint concerning possible misuse of cost recovery funds at the Office of Scientific and Technical Information, which is located in Oak Ridge, Tennessee. The OIG initiated this inspection in April 1999.

METHODOLOGY

In conducting this inspection, the OIG identified and reviewed applicable Federal and DOE regulations. The OIG interviewed current and former DOE officials and employees. The OIG reviewed key records applicable to the inspection.

This inspection was conducted in accordance with Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

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