



U.S. Department of Energy  
Office of Inspector General  
Office of Audit Operations

# Audit Report

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## Management Controls Over Title X Claims Reimbursement at the West Chicago Thorium Processing Facility

**OAS-M-04-08**

**September 2004**



## Department of Energy

Washington, DC 20585

September 24, 2004

### MEMORANDUM FOR THE ACTING ASSISTANT SECRETARY FOR ENVIRONMENTAL MANAGEMENT

FROM:

Rickey R. Hass,

Assistant Inspector General for Audit Operations  
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "Management Controls Over Title X  
Claims Reimbursement at the West Chicago Thorium Processing  
Facility"

#### BACKGROUND

In 1992, Congress passed *Title X* of the *Energy Policy Act of 1992 (Title X)* which established the authority and framework for providing Federal assistance for the remediation of contamination at active uranium and thorium sites. Congress authorized the reimbursement of cleanup costs, on a cost-sharing basis, and has established a reimbursement limit of \$365 million (plus inflation). *Title X* required the Department to administer all claims related to active uranium and thorium licensees. Federal regulation also provided the Department with claim approval authority and authorized it to obtain assurance as to the appropriateness of costs claimed by auditing documentation used to support claims for reimbursement.

Kerr-McGee Chemical LLC (Kerr-McGee), the sole thorium licensee, maintained a West Chicago processing facility comprised of approximately 43 acres and 21 production and support buildings. During the period of operation, the facility produced a variety of chemical compounds containing thorium and rare earth elements from ores and ore concentrates - a significant portion of which were dedicated to Federal projects. Kerr-McGee is in the process of decontaminating and decommissioning the facility under a closure plan and in a manner approved by the State of Illinois. Kerr-McGee has estimated the total cost of cleaning up the facility to be \$608 million. Based on an assessment of its past production, the Department agreed to pay 55.2 percent, about \$336 million, of Kerr-McGee's costs. The objective of the audit was to determine whether the Department obtained adequate assurance that only reimbursable costs would be paid to Kerr-McGee for remediation of the West Chicago thorium processing facility.

#### RESULTS OF AUDIT

Our audit of Kerr-McGee's 2002 claimed costs disclosed that it had inappropriately claimed costs that had not actually been paid in the claim year and overhead expenses that were not allowable or allocable. The Office of Inspector General's audit and the Department's technical and financial review identified about \$7.3 million in non-reimbursable costs claimed by Kerr-McGee for 2002. The Office of Inspector General also questioned \$14 million in overhead



previously approved by the Department from the 1994 through 2001 claims. This occurred because the Department had not developed an assurance strategy that included both adequate technical and financial reviews of the Kerr-McGee claims. As a result, the Department could pay Kerr-McGee up to \$164 million more for clean-up without adequate assurance that only reimbursable costs will be paid.

During the audit, the Department initiated corrective actions by requiring that DCAA issue an opinion on the adequacy of the 2002 claimed costs and by removing the \$4 million in disallowed cost from the 2002 claim payment. We view the Department's actions as a positive first step in addressing this important issue and have made several formal recommendations that, when fully implemented, should help to ensure that reimbursed costs are allowable and appropriate.

### MANAGEMENT REACTION

The Acting Assistant Secretary for Environmental Management (EM) concurred with the report's findings and recommendations and has initiated corrective actions. EM agreed to strengthen its review process by requiring opinions on audits of future claims and ensuring technical participation in the on-site financial audits. EM also agreed to conduct an additional audit of the 1994 through 2001 overhead allocations and adjust future payment for any non-reimbursable costs. EM's comments are summarized on page four of the report and are included in their entirety as Appendix 2.

Attachment

cc: Deputy Assistant Secretary for Logistics and Waste Disposal Enhancements, EM-10  
Director, Office of Commercial Disposition Options, EM-12

# MANAGEMENT CONTROLS OVER TITLE X CLAIMS REIMBURSEMENT AT THE WEST CHICAGO THORIUM PROCESSING FACILITY

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## THORIUM REIMBURSEMENT CLAIMS

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### Background

Since 1994, Kerr-McGee Chemical LLC (Kerr-McGee) has been submitting annual reimbursement claims to the Department of Energy (Department) for payment of costs incurred to remediate thorium related contamination at its West Chicago processing site. These claims are typically reviewed by the Department's program manager on an annual basis. In addition, the Department has arranged for financial reviews of these claims by the Defense Contract Audit Agency (DCAA) to ensure that costs are properly recorded, accounted for in accordance with Generally Accepted Accounting Principles, and are supported by reasonable documentation. Based on the results of these reviews, Kerr-McGee's claim is adjusted so that the Department pays its predetermined share of remediation costs.

From 1994 through 2002, Kerr-McGee submitted claims valued at \$439 million, of which the Department's share amounted to approximately \$242 million. Claim review procedures employed by the Department during this time resulted in a reduction of actual payments by approximately \$344,000. On April 28, 2003, Kerr-McGee submitted a \$48 million claim for remediation costs incurred during 2002. The Department's review of the 2002 claim was performed concurrently with this audit.

### Review of Claimed Costs

Our audit of Kerr-McGee's 2002 claimed costs disclosed that Kerr-McGee had inappropriately claimed \$7.3 million in non-reimbursable costs, including \$6.6 million in costs not actually paid in the claim year and unallowable overhead expenses of \$675,000.

The review of the 2002 claimed costs identified \$6.6 million in non-reimbursable direct costs. After performing additional audit procedures not initially included in the Department's review process, the Office of Inspector General (OIG) and DCAA identified \$4.9 million in accrued costs and other costs that were not actually paid in 2002. The Department's *Guidance for Preparation of Reimbursement Claims under Title X of the Energy Policy Act (Guidance)* specifies that costs can only be claimed after they have actually been paid. These costs were not necessarily inappropriate or unallowable and, based on our limited examination, appear to be primarily attributable to timing differences normally encountered in an accrual based accounting

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system. As such, these charges may be resubmitted in the appropriate period and could be reimbursed during subsequent periods. In addition, the OIG and DCAA found accounting errors that resulted in the double counting of some expenses that caused Kerr-McGee's claim to be inflated by about \$1.7 million. During the audit, Kerr-McGee prepared a new cost report for the 2002 claimed costs that was based on actual amounts paid during the claim year.

We also noted that the Department's review procedures did not identify overhead costs that were unallowable or not allocable. Since 1994, Kerr-McGee claimed about \$16.4 million in overhead costs. In reviewing the overhead costs for 2002, OIG auditors noted discrepancies in the allocation of such costs to West Chicago remediation projects. Also, the audit procedures arranged for by the Department, and performed by DCAA, did not require testing of the Kerr-McGee overhead pool for allowability. After discussing these concerns with the Department, it appropriately expanded its review of overhead costs and determined that \$675,000 of the \$2.4 million overhead costs in Kerr-McGee's 2002 claim were not reimbursable. Specifically, many of the costs were either not allowable or should have been charged directly to other projects. Based on the questioned overhead costs observed during the evaluation of the 2002 claim, we also reviewed reports from prior years and determined that the Department had approved \$14 million in similar overhead costs from the 1994 through 2001 claims without performing testing needed to isolate costs that were unallowable or not allocable.

**Reimbursement Claim Assurance Strategy**

The Department's claim reimbursement process for *Title X* of the *Energy Policy Act of 1992 (Title X)* was not completely effective because the Department's assurance strategy did not require onsite technical reviews and fully scoped audits of the claims.

Although the Department routinely visited the West Chicago site as part of its technical review, it did not consistently participate in DCAA financial reviews at Kerr-McGee Headquarters in Oklahoma City, Oklahoma. For example, while the 2000 and 2001 claimed costs totaling \$124 million were reviewed by DCAA, only limited assistance or participation was provided by Department personnel. According to Federal regulations and guidance, the technical review conducted by the Department should ensure that licensees are only making claims for activities related to site reclamation and should evaluate the reasonableness of the costs.

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Based on the OIG's evaluation of financial reviews conducted since 1995, we determined that the Department did not examine Kerr-McGee's entire claim for allowability and allocability. The Department arranged for DCAA to perform financial reviews to determine whether the *Title X* requirement that Kerr-McGee's claimed costs be recorded properly and supported by reasonable documentation had been met. As demonstrated by work performed during this audit, the audit work arranged for by the Department, though consistent with Department *Guidance*, was not sufficient to allow DCAA to provide an opinion as to whether or not the claim was fairly stated, complete, and accurate.

To its credit, the Department initiated corrective actions regarding the claim and audit assurance process. The Department requested that DCAA conduct an additional review of the 2000 and 2001 claimed costs, with participation by Department personnel, and required DCAA to issue an opinion on whether the 2002 claim was fairly stated, complete, and accurate. In addition, the Department plans to request DCAA assistance in determining the allowability of Kerr-McGee overhead charges.

### **Reimbursement of Costs**

Because past technical and financial reviews were limited, there is a risk that the Department has paid Kerr-McGee for non-reimbursable costs associated with the West Chicago remediation project. The OIG's audit and the Department's technical and financial review determined that \$7.3 million of Kerr-McGee's 2002 claimed costs were not, in fact, reimbursable. According to the Department, these costs were removed from the 2002 claim payment, thereby reducing the Department's share by about \$4 million. Based on the improper allocation of overhead from the 2002 claim, additional savings are likely to result from a more extensive review by the Department and DCAA of the 2000 through 2001 claimed costs and the \$14 million in overhead costs claimed from 1994 through 2001. The Department's portion of that overhead amount is about \$7.7 million. Reforms in this area are important because, based on current funding authority for the completion of the West Chicago remediation project, the Department could reimburse an additional \$164 million in costs.

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**RECOMMENDATIONS**

We recommend that the Assistant Secretary for Environmental Management (EM) ensure that planned corrective actions announced during the review are implemented by:

1. Expanding DCAA's current scope of work to include fully-scoped claim audits that will provide an opinion on the accuracy of overhead allocations and the adequacy of the 2002 claimed costs and future reimbursement claims;
2. Tasking DCAA, or other qualified firm, to review Kerr-McGee overhead allocations from the 1994 through 2001 claimed costs to test for allowability and allocability and, if appropriate, recovering non-reimbursable costs; and,
3. Strengthening technical reviews to ensure Kerr-McGee's claims are fairly stated, complete, and accurate.

**MANAGEMENT REACTION**

The Acting Assistant Secretary for EM concurred with the report's findings and recommendations. EM emphasized that although scheduling conflicts prevented the Department's staff from attending the DCAA financial review of the 2000 through 2001 claimed costs, the staff does work closely with DCAA throughout the review process. However, EM recognized that there are advantages to performing the on-site audits concurrently and has made it a standard practice to do so since 2002. Thus, EM agreed to strengthen its review process by requiring opinions on audits of future claims and ensuring technical participation in the on-site financial audits. The Department also agreed to conduct an additional audit of the 1994 through 2001 overhead allocations and adjust future payment for any non-reimbursable costs.

**AUDITOR COMMENTS**

Management's comments, which are included in their entirety as Appendix 2, are responsive to our recommendations.

## Appendix 1

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### **OBJECTIVE**

To determine whether the Department obtained adequate assurance that only reimbursable costs will be paid to Kerr-McGee for remediation of the West Chicago thorium processing facility.

### **SCOPE**

The audit was performed at Albuquerque's Environmental Restoration Division, Albuquerque, New Mexico; Kerr-McGee LLC Headquarters, Oklahoma City, Oklahoma; and the West Chicago thorium processing facility, West Chicago, Illinois from September 29, 2003 to March 25, 2004. The audit was limited to a review of the Department's claim review process from 1994 through 2003 and an evaluation of Kerr-McGee's 2002 claimed costs.

### **METHODOLOGY**

To accomplish the audit objective, we:

- Reviewed applicable laws, regulations and Departmental guidance to establish program requirements;
- Participated in the Department and DCAA on-site review at Kerr-McGee Headquarters of their 2002 claim submittal;
- Reviewed supporting documentation, including technical reviews and DCAA audits;
- Interviewed Department, DCAA, and Kerr-McGee personnel responsible for preparing or reviewing the Title X reimbursement claims;
- Reviewed the Department's process for reviewing Kerr-McGee overhead costs; and,
- Evaluated the sufficiency of the Department's agreed upon procedures with DCAA.

The audit was conducted 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 objective of the audit. 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 we did not consider such data to be critical to achieving our audit objective. We held an exit conference with the Office of Environmental Management's Director for the Office of Commercial Disposition Options on July 22, 2004.

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GSA FPMR (41 CFR) 101-11.6

United States Government

Department of Energy

# Memorandum

DATE: September 1, 2004

REPLY TO  
ATTN OF: EM-12 (Dave Mathes, 301-903-7222)

SUBJECT: Draft Report Entitled "Management Controls over Title X Claims Reimbursement at the West Chicago Thorium Processing Facility"

TO: Phillip L. Holbrook, IG-36

Thank you for your draft report entitled *Management Controls over Title X Claims Reimbursement at the West Chicago Thorium Processing Facility*. Your comments have been helpful in accelerating efforts initiated by the Department of Energy (DOE) to strengthen its claim review process.

We accept the recommendations of the draft Office of Inspector General (IG) report. However, we recommend several aspects of the draft report be clarified in the final report:

- Regarding the technical reviews, we acknowledge that the DOE's guidance document for the Title X program does not require the on-site technical audits (performed by DOE), and on-site financial audits (performed by the Defense Contract Audit Agency (DCAA)), to be conducted concurrently. We recognize that there are advantages to performing the on-site audits concurrently and have made it a standard practice to do so since 2002. However, the on-site audits are just one facet of the overall review process. DOE and DCAA auditors work closely together over the one-year claim review cycle in discussing audit strategy, conducting desktop portions of the review, discussing post-audit findings, and lessons-learned.
- At some places in the memorandum and the report, it is difficult to distinguish claim dollar amounts from Federal-share dollar amounts. Perhaps, the Federal share could be shown in parentheses.
- On page 1 of the report, last paragraph, it should indicate that DOE, in addition to the IG and DCAA, identified the specified unallowable costs and accounting errors.
- On page 2, it states 2000 and 2001 claimed costs were reviewed with limited assistance or participation by Department personal. Although DOE staff was not able to attend the DCAA financial review at Kerr-McGee's offices due to schedule conflicts, DOE staff did work closely with DCAA throughout the review process, as discussed in the first bullet.
- On page 3, it should be stated clearly that the \$4 million in disallowed costs were not included in the allocation for the payment made to Kerr-McGee in FY 2004.

Environmental Management (EM) will take, or has already taken, the following actions in response to the draft IG recommendations:

1. Expand DCAA's current scope of work to include fully scoped claim audits that will provide an opinion on the accuracy of overhead allocations and the adequacy of the 2002 claimed costs and future reimbursement claims.
  - EM has changed its audit procedures for the Kerr-McGee claims to require an opinion from DCAA. Implementation was completed with EM/DCAA/IG review of the FY 2003 claim (FY 2002 claimed costs).
2. Task DCAA, or other qualified firm, to review Kerr-McGee overhead allocations from the 1994 – 2001 claims to test for allowability and allocability and, if appropriate, recovering non-reimbursable costs.
  - Those claims will be reaudited, and if it is determined additional costs from those claims are non-reimbursable, the FY 2005 reimbursement to Kerr-McGee will be adjusted accordingly. For these claims, DCAA audit reports in DOE files show that the claims were tested for acceptability using the criteria in EM's Title X Guidance Manual.
3. Strengthening technical reviews to ensure Kerr-McGee's claims are fairly stated, complete, and accurate.
  - EM agrees with this recommendation and has strengthened the technical reviews by ensuring EM participation in the on-site DCAA financial audits.

If you have any further questions, please contact me at (202) 586-7709 or Frank Marcinowski, Deputy Assistant Secretary for Logistics and Waste Disposition Enhancements, at (202) 586-0370.



Paul M. Golan  
Acting Assistant Secretary for  
Environmental Management

cc:  
K. Boardman, NNSA Service Center  
R. Sena, NNSA Service Center  
J. Boone, EM-33

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