



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

Recovery Act Funded Projects at the SLAC National Accelerator Laboratory



OAS-RA-L-11-05

March 2011

Memorandum

DATE: March 8, 2011

Audit Report Number: OAS-RA-L-11-05

REPLY TO

ATTN OF: IG-32 (A10RA007)

SUBJECT: Audit Report on "Recovery Act Funded Projects at the SLAC National Accelerator Laboratory"

TO: Manager, SLAC Site Office, SC-SSO

INTRODUCTION AND OBJECTIVE

In February 2009, the President signed the American Recovery and Reinvestment Act of 2009 (Recovery Act) into law. The Department of Energy's (Department) Office of Science received approximately \$1.6 billion through the Recovery Act which it used to invest in science projects including approximately \$97 million for major construction, laboratory infrastructure, and research efforts at the SLAC National Accelerator Laboratory (SLAC) located in Menlo Park, California. These funds were allocated to eight projects to improve mission readiness and science capability. SLAC is managed and operated by Stanford University. The SLAC Site Office is responsible for overseeing SLAC, including its management of these projects.

Based on the importance of the Recovery Act's investment in science projects, we initiated this audit to determine if the Department is efficiently and effectively managing its Recovery Act funded projects at SLAC.

CONCLUSION AND OBSERVATIONS

Our review of three SLAC Recovery Act funded projects, accounting for over \$47 million, did not reveal problems with schedule or budget. In addition, for the specific SLAC projects we tested, we did not identify material issues with compliance with Recovery Act requirements, including the segregation of funds. We noted, however, that in some instances SLAC did not always comply with its internal requirements designed to ensure that subcontractor invoices and purchase requisitions for Recovery Act related work were adequately reviewed and properly classified. Specifically, SLAC had not always:

- Properly approved subcontractor invoices for Recovery Act work prior to payment; and,
- Ensured that Recovery Act subcontractor invoices and purchase requisitions were clearly identified as Recovery Act funded work.

Subcontractor Invoice Approval

SLAC did not always properly approve Recovery Act subcontractor invoices prior to paying them. As of July 2010, SLAC had awarded 407 subcontracts with a total value of \$10.1 million to support the three projects we reviewed. We reviewed 13 subcontract invoices from these projects totaling over \$1.1 million, and we found that six invoices were not approved by a Procurement Specialist and a Subcontract Technical Representative prior to payment. According to SLAC's *Business Services Division Procurement Description*, invoices that exceed \$25,000 are required to be approved by a Procurement Specialist as well as a Subcontract Technical Representative prior to payment to ensure the subcontractor complied with its contractual obligations. Specifically, as part of the approval process, the Subcontract Technical Representative is responsible for verifying that the invoice is in accordance with the subcontract terms and notifying the Procurement Specialist of any unreasonable amounts or unsatisfactory subcontractor performance. However, the 6 invoices mentioned above had individual amounts that exceeded the \$25,000 threshold and were paid even though they had not been approved as required. SLAC management stated that this situation occurred due to lack of adequate training. In particular, SLAC explained that new procurement procedures requiring the Procurement Specialist and Subcontract Technical Representative reviews were developed in 2009; however, some of its personnel were still following its old procedures.

Recovery Act Designation

SLAC also did not always ensure that subcontract invoices and requisitions clearly identified Recovery Act funded work. Our testing revealed that for 11 of the 13 subcontractor invoices we reviewed, SLAC accepted the invoices for payment even though they did not clearly delineate Recovery Act billings. SLAC's prime contract stated that invoices must clearly indicate the portion of the invoice that is for work funded by the Recovery Act. The markings are designed to ensure that the contractor and subcontractor segregate obligations and expenditures related to Recovery Act funding. SLAC management noted that, due to an oversight, the above requirement was not included in their policies and procedures or subcontract terms and conditions; and therefore, the subcontractors did not designate Recovery Act work on their invoices. Despite the lack of inclusion of the Recovery Act classification requirement, we determined that subcontractor costs were appropriately segregated for the items we tested, in part, because the invoices were linked to requisition numbers that were specific to the Recovery Act. We noted, however, that purchase requisitions were not always clearly designated as funded by the Recovery Act.

Specifically, our test work identified 4 line item transactions on 11 purchase requisitions that did not include a required Recovery Act designation. According to a Departmental Implementation Guide for the Recovery Act and SLAC's internal policy, *ARRA Made Easy*, all requisitions with Recovery Act funding must include the words "Recovery Act" as the first words in the description block of the purchase requisition. This requirement helps to track and report Recovery Act funding and ensure Recovery Act and non-Recovery Act funding are not combined on a single requisition, even as separate line items. According to SLAC procurement management, purchasing personnel noticed that

the initial purchase requisitions did not include the Recovery Act wording; however, since the process of approving requisitions takes a couple of weeks, they did not want to resubmit the requisitions and delay the purchasing process. We determined that Procurement later added the Recovery Act wording to these requisitions and that funding was appropriately segregated despite the original omission. As noted in the Department's guidance, to reduce the potential for comingling of Recovery Act and non-Recovery Act funding, all requisitions for Recovery Act-related purchases should contain the appropriate Recovery Act designation as required.

MITIGATING ACTIONS

After discussing our findings with SLAC management, SLAC initiated actions intended to mitigate these concerns. For example, SLAC advised Procurement Specialists, Subcontract Technical Representatives, and Accounts Payable personnel, through email notification and bi-weekly training sessions, that invoices greater than \$25,000 required approval from a Procurement Specialist and a Subcontract Technical Representative prior to payment. In addition, Accounts Payable personnel were advised not to make payments without proper approvals. SLAC management also stated that they provided training to personnel during a monthly staff meeting to ensure each line item on purchase requisitions is identified properly if Recovery Act funding is to be used. Finally, SLAC management revised its Recovery Act procedures to require subcontractors to mark invoices appropriately for Recovery Act purchases. SLAC management stated that from this point forward, they would ensure the revised requirements were included in all procurement awards.

The above mentioned actions, if successfully implemented, should address the concerns discussed in the report. However, we suggest that the SLAC Site Office provide continued oversight and monitoring to ensure that the reported corrective actions are effective.

Since no formal recommendations are being made in this report, a formal response is not required. We appreciate the cooperation of the various Department elements and SLAC during this effort.



David Sedillo, Director
NNSA & Science Audits Division
Office of Inspector General

Attachment

cc: Assistant Director, Office of Risk Management, CF-80
Team Leader, Office of Risk Management, CF-80
Audit Resolution Specialist, Office of Risk Management, CF-80
Audit Liaison, Office of Science, SC-41
Audit Liaison, SLAC Site Office

SCOPE AND METHODOLOGY

This audit was performed between July 2010 and January 2011, at the SLAC National Accelerator Laboratory (SLAC) and SLAC Site Office, located in Menlo Park, California. Our audit included a review of selected SLAC American Reinvestment and Recovery Act of 2009 (Recovery Act) projects. To accomplish the audit objective, we:

- Assessed compliance with policies and procedures, laws and regulations, and contract terms applicable to SLAC projects funded by the Recovery Act;
- Interviewed key personnel at the SLAC and the SLAC Site Office;
- Reviewed and tested a judgmental sample of SLAC subcontracts funded by the Recovery Act including the flow down of required clauses, central contractor registration, utilization of competition, and small business consideration; and,
- Reviewed project management activities of selected Recovery Act funded projects.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations necessary to satisfy the audit objective. 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. During the audit, we reviewed performance measures related to the Recovery Act in accordance with the *Government Performance and Results Act of 1993*. We utilized computer-processed data to identify the population of costs spent using Recovery Act funding in order to accomplish our audit objective. Based on our comparison of computer-processed data to supporting documentation, we determined that the data was sufficiently reliable to achieve the objectives of our audit.

Management waived an exit conference.

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