

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF
FIRE AND EMERGENCY MEDICAL SERVICES
COST SHARING BETWEEN THE DEPARTMENT OF ENERGY
AND LOS ALAMOS COUNTY

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet five to seven days after publication at the following alternative addresses:

Department of Energy Headquarters Gopher
gopher.hr.doe.gov

Department of Energy Headquarters Anonymous FTP
vml.hqadmin.doe.gov

U.S. Department of Energy Human Resources and Administration
Home Page
<http://www.hr.doe.gov/refshelf.html>

Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.

Report Number: WR-B-96-01 Western Regional Audit Office
Date of Issue: October 2, 1995 Albuquerque, New Mexico 87185

AUDIT OF FIRE AND EMERGENCY MEDICAL SERVICES
COST SHARING BETWEEN THE DEPARTMENT OF ENERGY
AND LOS ALAMOS COUNTY

TABLE OF CONTENTS

Page

	SUMMARY.....	1
PART I	- APPROACH AND OVERVIEW.....	2
	Introduction.....	2
	Scope and Methodology.....	2
	Background.....	3
	Observations and Conclusions.....	4
PART II	- FINDING AND RECOMMENDATIONS.....	6
	Cost Sharing of Fire and Emergency Medical Services Between the Department and Los Alamos County.....	6
PART III	- MANAGEMENT AND AUDITOR COMMENTS.....	11

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

AUDIT OF FIRE AND EMERGENCY MEDICAL SERVICES
COST SHARING BETWEEN THE DEPARTMENT OF ENERGY
AND LOS ALAMOS COUNTY

Audit Report Number: WR-B-96-01

October 2, 1995

SUMMARY

The Department of Energy (Department) provides fire and emergency medical services to Los Alamos County (county) under the Atomic Energy Act of 1954. Since the county's inception, the Department and the county have been working toward making the county self-sufficient. To help achieve this goal, the Department negotiated a contract transferring responsibility for fire and emergency medical services to the county and allocating the expected \$39.9 million in costs between the parties. The purpose of the audit was to determine if the costs for fire and emergency medical services were shared appropriately commensurate with the use of the services.

We found that the Department was paying about 99 percent of costs (\$39.4 million) while using about 47 percent of the services. We also noted that the formula used to arrive at the cost allocation was neither justified as reasonable nor appropriately documented. In fact, data needed to reconstruct the formula and fully understand it was not available. As a result, the Department and the county cannot be assured that costs are allocated fairly and that neither party is unnecessarily subsidizing the other. We recommended that the Department either develop alternative methods for sharing fire and emergency medical services costs or separate responsibility for these services between the Department and the county. Management agreed.

PART I

APPROACH AND OVERVIEW

INTRODUCTION

Los Alamos County was created in 1964 as a response to a Congressional mandate, promulgated in the Atomic Energy Act of 1954. Because the county came into existence via the Atomic Energy Act, the Department provided fire and emergency medical services. In the intervening years, however, the Department and the county have worked toward making the county self-sufficient. The contract for fire and emergency medical services represented

a step in the direction of self-sufficiency by requiring the county to begin paying for its share of the related costs.

The purpose of the audit was to determine if the costs for fire and emergency medical services were shared appropriately commensurate with the use of the services.

SCOPE AND METHODOLOGY

The audit was conducted at Los Alamos from November 1994 through March 1995.

To accomplish the audit objective, we:

- o reviewed the prime contract between the Department and the county relating to the terms and payments of the contract;
- o reviewed laws and regulations and applicable Federal Acquisition Regulations concerning negotiation of contracts;
- o interviewed Los Alamos Area Office and Albuquerque Operations Office personnel responsible for administering the contract between the Department and the county; and,
- o reviewed January through September FY 1994 usage records for fire and emergency medical services.

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. We did not rely on computer-generated data in developing this audit because such data did not appear to reflect actual occurrences and transactions. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of the audit. An exit conference was held with the Department of Energy at the Los Alamos Area Office on August 10, 1995.

BACKGROUND

The five-year fire and emergency medical services contract between the Department and the county took effect December 1, 1992, and was in its third year at the time of our audit. Introductory contract language indicated that the Department and the county shared the goal of making the county self-sufficient. The contract itself was viewed as a vehicle toward that end, in that it required the county to begin paying for services to the community. Significant contract provisions regarding costs and cost-sharing included:

- o Total estimated costs of \$39.9 million over the five-year period.
- o Sharing of costs based on a formula that was to use 1988 appraised property values.
- o A required county contribution, based on the formula, of \$594,000 annually. This contribution was to be phased in incrementally beginning with 20 percent of the annual amount (\$118,800) in the third year, 40 percent (\$237,600) in year 4, and 60

responsibility for fire and emergency medical services between the Department and Los Alamos County.

Management responded positively to the audit by indicating that the optimum solution to the recommendations was the separation of fire and emergency medical services between the county and the Department. Under the separation, the county and the Department would each own and operate separate fire departments and ambulance services. Each party would, therefore, pay 100 percent of their respective costs of operations.

In our opinion, the Department should consider its inability to determine whether it is paying a fair price for fire and emergency medical services at Los Alamos National Laboratory a material internal control weakness when preparing the yearend assurance memorandum on internal controls.

PART II

FINDING AND RECOMMENDATIONS

Cost Sharing of Fire and Emergency Medical Services Between
The Department of Energy and Los Alamos County

FINDING

The Code of Federal Regulations required the procurement of reasonably priced goods and services. Similarly, the fire and emergency medical services contract between the Department and Los Alamos County contained language requiring that the costs of these services be shared fairly and reasonably. In contrast, other contract terms required the Department to pay up to 99 percent of the costs, a share that appeared unreasonably high given that the Department used only about 47 percent of the services. This apparent inequity occurred because contract costs were allocated based on an undocumented formula that may have included questionable assumptions and incomplete data. As a result, neither the Department nor the county could be assured that costs were shared fairly and that neither party was subsidizing the other unnecessarily.

RECOMMENDATIONS

We recommend that the Manager, Albuquerque Operations Office, direct the Contracting Officer to:

1. Either develop alternative methods for sharing fire and emergency medical services costs with Los Alamos County, or develop a process which separates responsibility for these services between the county and the Department. Each alternative should be based on a documented rationale.
2. Assure that any future contract negotiations with Los Alamos County for these services are based on one or more of the alternatives developed.
3. Open a dialog with Los Alamos County aimed at exercising renegotiation provisions in the current contract.

(Unique services (3 percent)	1.2	(
(Management allowance	1.0	2.2	(
(Costs to be shared by both parties	37.7	(
((
(Multiplied by County's share	.50	(
((
((
County portion of shared costs	18.8	((
(((((
((
("Reasonable" Department share	21.1	(
((
((
((

Using this approach, a reasonable Departmental share of costs would be about \$21.1 million, or 53 percent of the total amount. As noted, however, the Department's actual costs under the contract will be about \$39.4 million, or 99 percent.

Our approach may not have considered all factors necessary in determining whether the Department is paying a fair price for services. It illustrated, however, that sharing costs on the basis of a reasonable factor--in this case, use of services-- could yield an expected cost allocation drastically different than the one contained in the contract. In the absence of documentation justifying the Department's rationale, this disparity caused us to question the contract's fairness.

CONTRACT PRICE DETERMINATION

The contract's potential unfairness stems from its reliance on a cost-sharing formula that did not appear reasonable and was not fully documented. The formula, represented graphically below, purportedly multiplied the ratio of 1988 appraised county and Laboratory property values by the price of the previous fire and emergency medical services contract.

$$\frac{\text{County Property Value}}{\text{County + Lab Property Values}} \times \text{Price of previous contract} = \text{Annual county share of contract costs}$$

The price of the previous contract was about \$5.7 million and the contract stated that the answer produced by this formula was an annual county share of \$594,000. For several reasons, we were unable to determine--based on our review of the contract file and interviews with Department, Laboratory, and county officials--the validity of this formula. First, the number used for the value of Laboratory property was not documented in the contract file and was unknown to anyone we spoke to. In fact, Department, Laboratory, and county officials all told us that a formal appraisal had never been done of laboratory land and buildings. Second, the formula yields an answer indicating that the county's property value was about 10 percent and the Laboratory's value about 90 percent of the total (\$594,000/\$5.7 million). Again, there was no documentation in the contract files or with any of the parties that this was a reasonable estimate. Finally, there was no explanation in the contract file as to the reasonableness of estimating the county's share of costs based on the previous \$5.7 million contract rather than the current contract worth \$39.9 million.

Concerns About Economic Burden

Department officials were apparently concerned that requiring the county to pay a greater share of costs would negatively affect its economy. During the audit, we talked to several officials knowledgeable about the contract negotiations, including Los Alamos Area Office's contracting officer and legal counsel, and Albuquerque Operations Office's Deputy Manager. The consensus view of these individuals was that, at the time of the negotiations, the Department did not want to overburden the county. This view seems to be confirmed not only by the level of the county's contribution, but also by the fact that the contribution was not required during the first two years, and phased in over the five years after that.

We noted however, that relative to other counties in New Mexico, Los Alamos appeared able to pay an equitable share of costs for these types of services. The National Association of Counties, for example, indicated in its 1994 County and City Extra: Annual Metro, City, and County Data Book that Los Alamos County is ranked first among New Mexico counties in income per capita. In addition, a representative from New Mexico's Department of Finance stated that the county's effective tax rate (tax rate based on property value) was comparable to those of other New Mexico counties.

POTENTIAL CONSEQUENCES

Because the cost-sharing rationale and formula are not well documented, neither the Department nor Los Alamos County can be assured that the contract is fair and reasonable. Our analysis of usage statistics and costs to date showed that the Department may be subsidizing county taxpayers by up to \$18.3 million, representing the difference between the \$39.4 million the Department will pay under the contract terms and our estimate of a \$21.1 million "reasonable" share of costs. Such a subsidy may not be appropriate given Los Alamos County's relative affluence. Conversely, the contract's lack of a documented rationale also makes it impossible for Los Alamos County to determine that its share of costs is fair. Although unlikely, in our opinion, it is conceivable that the county is paying more than its fair share and is, therefore, subsidizing the Department at the expense of county taxpayers. Without the knowledge or documentation of what numbers were used in the original formula, why those numbers were used, and whether they formed a reasonable basis for cost allocation, the parties had no way to determine whether they will pay a fair price for the services, as required by Federal regulation.

PART III

MANAGEMENT AND AUDITOR COMMENTS

The Manager, Albuquerque Operations Office concurred with the finding and recommendations. Management's comments and our responses are included below.

Management Comments. Management concurred with recommendation 1 to either develop alternative methods for sharing costs with the county or develop a process which separates responsibility for the fire and emergency medical services. Under the separation, the Department and the county would each own and operate separate fire departments and ambulance services. Each would also pay 100 percent of their respective costs of operation.

In addition, management indicated that the Department and the county could both achieve a cost savings over the current arrangement due to lower staffing requirements, and reduced training costs. Management also indicated that at the present time, fire suppression and emergency services personnel must all be trained to a level high enough to allow an appropriate response to potentially complex situations at Department facilities in Los Alamos. The cost associated with this enhanced training and strict compliance could be significantly reduced under the proposed separation. At the present time, the contracting officer is pursuing two paralleled courses of action:

1. To evaluate the overall costs of this contract with the appropriate county officials in order to develop methods of lowering these costs.

2. Preparing legislation to be introduced which would transfer real property and capital equipment to the county for purposes of the separation, and planning to enter into extremely delicate sensitive negotiations with county officials and Laboratory management to set the stage for the separation to occur. This information is considered to be extremely sensitive at this point in time.

Management's proposed target date to effect the separation is December 31, 1996.

Auditor Comments. Management's comments are responsive.

Management Comments. With respect to recommendations 2 and 3, aimed at future negotiations with the county, management agreed that if the separation plan is not executed, the present cost-sharing formula needs to be renegotiated.

Auditor Comments. Management's comments are responsive.

IG Report No. WR-B-96-01

CUSTOMER RESPONSE FORM

The Office Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and therefore ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit or inspection would have been helpful to the reader in understanding this report?

2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this reports overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name	Date
Telephone	Organization

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, D.C. 20585
ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

* * * *

continued footnote

footnote continues next page