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United States Government

Department of Energy



memorandum

DATE: April 10, 2006
Audit Report No.: OAS-L-06-11

REPLY TO:
ATTN OF: IG-32 (A05ID043)

SUBJECT: Audit of "Contract Transition Activities at the Idaho Operations Office"

TO: Manager, Idaho Operations Office

INTRODUCTION AND OBJECTIVE

The Department of Energy's Idaho Operations Office has ongoing missions focused primarily in the areas of nuclear energy and environmental cleanup. From October 1, 1999 to February 1, 2005, Bechtel BWXT Idaho, LLC (Bechtel) managed facility operations for both of these missions. In Fiscal Year 2005, two separate contracts began in order to add focus and clarity to each respective mission. First, the Idaho National Laboratory contract was awarded to Battelle Energy Alliance to manage the ongoing nuclear energy operations under the direction of the Department's Office of Nuclear Energy, Science and Technology. This contract also incorporated operations at the Argonne National Laboratory-West facility, previously operated under contract with the University of Chicago. The contract became effective on February 1, 2005. Second, the Idaho Cleanup Project contract was awarded to CH2M-WG Idaho, LLC to manage environmental cleanup work under direction of the Department's Office of Environmental Management. This contract became effective on May 1, 2005.

With the change in contractors came the need to transition many administrative processes. These transition activities included transferring management authority for human and physical resources from prior contractor organizations to new contractors. Also, site services such as transportation, emergency response, and information systems were assigned to the new contractors who have entered into agreements to provide these services to each other. In consideration of these challenges, we conducted this audit to determine whether the contract transitions at the Idaho Operations Office were effectively managed.

CONCLUSIONS AND OBSERVATIONS

Except as noted below, nothing came to our attention during the audit to indicate that the transitions were not managed effectively. However, during the audit, we noted a concern with the effectiveness of transitioning ongoing audits managed by Bechtel.

Transition of Ongoing Internal Audits

We noted that Bechtel's resolution of questioned costs for two ongoing internal audits that were in progress at the time of contract transition were not clearly documented. At the time of contract transition, Bechtel internal auditors had questioned \$586,000 from two ongoing audits. After contract transition, Bechtel management determined that most of the costs originally questioned in the two ongoing audits were allowable. Specifically:

- In the Draft 2003/2004 Relocation Audit, Bechtel auditors originally identified more than \$440,000 in questioned and unallowable costs. However, the final report only claimed approximately \$11,000 as unallowable. The disposition of the other \$429,000 questioned costs was not explained in the workpapers.
- The Draft FY 2004 Cost Allowability Report identified more than \$146,000 in questioned and unallowable costs. However, the final report reduced this amount to \$7,400 without an explanation in the workpapers.

This occurred, in part, because the auditors who performed the audit fieldwork and were familiar with the audit results were transferred from Bechtel to Battelle Energy Alliance during the transition and Bechtel had appointed a new staff to complete the audits. Although the original auditors were present during management's review of the questioned costs, they were not allowed to participate in discussions or decisions related to changing the reported costs because they were no longer Bechtel employees. Additionally, the new Bechtel auditors failed to document their rationale for reducing the questioned costs. As a result, the Idaho Operations Office's contracting officer does not have the necessary information to evaluate Bechtel's disposition of costs. Accordingly, we suggest that the Idaho Operations Office require Bechtel to reconstruct its determination of cost allowability for the audits addressed above and provide the results to the contracting officer for a final determination.


SCOPE AND METHODOLOGY

We conducted the audit from September 2005 to January 2006 at the Idaho National Laboratory and Department's Idaho Operations Office in Idaho Falls, Idaho. It included a review of the Department's handling of transition activities from July 2004 through January 2006. To accomplish the objective, we:

- Interviewed personnel at the Idaho Operations Office, Battelle Energy Alliance, CH2M-WG Idaho, LLC, and Bechtel to discuss transition expectations, challenges, and oversight;
- Reviewed the Department's contracts with Battelle Energy Alliance, CH2M-WG Idaho, and Bechtel with respect to transition activities;
- Reviewed the Department's and contractors' transition plans to identify required activities and schedules;
- Compared the contractors' transition results to the Department's required activities;
- Evaluated the Department's strategy for splitting site services between the contractors; and,
- Reviewed the Department's internal controls over activities affected by the transition.

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 considered the establishment of performance measures as they relate to the audit objective. We found no performance measures related specifically to the scope of this 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. Finally, we did not assess the reliability of computer-processed data because only a limited amount of computer-processed data was used during the audit.

We coordinated this letter report with officials from the Idaho Operations Office on January 30, 2006. Since no formal recommendations are being made in this letter report, a formal response is not required. We appreciate the cooperation of your staff throughout the audit.


Fredrick G. Pieper, Director
Energy, Science and Environmental
Audits Division
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cc: Team Leader, Audit Liaison Team (CF-1.2)
Audit Liaison, Idaho Operations Office