

memorandum

DATE: April 11, 2007

Audit Report Number: OAS-L-07-11

REPLY TO
ATTN OF: IG-32 (A07DN056)

SUBJECT: Audit of the Department of Energy's Community and Regulatory Support Funding at the Richland Operations Office

TO: Manager, Richland Operations Office

INTRODUCTION AND OBJECTIVE

The Department of Energy's (Department) Office of Environmental Management provided \$60.1 million in Community and Regulatory Support funding in Fiscal Year (FY) 2005 to a number of Department sites. The funding is intended to be used for activities indirectly related to nuclear and hazardous waste cleanup, such as agreements with state regulatory agencies and transportation departments. During FY 2005, the Department's Richland Operations Office (Richland) received \$15.6 million. Richland provided funding to various regulatory agencies and state and local governments including the Washington Departments of Ecology (Ecology) and Health (Health), which received \$7.1 million in FY 2005. Funding purposes included: providing for regulatory costs incurred by the State of Washington for oversight of Hanford Site cleanup and closure activities; grants for emergency preparedness; and, payments-in-lieu of taxes for local counties that the Hanford Site occupies.

The objective of this audit was to determine if the Department is ensuring that Community and Regulatory Support funds are spent for the intended purpose and in the most effective manner.

CONCLUSIONS AND OBSERVATIONS

While the Department generally established controls to ensure that its Community and Regulatory Support funding at Richland was spent for the purposes intended and in the most cost effective manner, we noted two instances where further action is warranted. First, although Richland and Ecology established an oversight process to monitor Ecology expenditures of Department funds, the cost detail was not sufficient to ensure that funds were spent for the intended purpose. For example, cost information provided by Ecology was not sufficiently detailed to alert Richland that more than \$300,000 in Department funds had been expended for litigation activities which Richland had previously indicated was unallowable. These funds involved Ecology's legal defense of a cleanup-related Washington state ballot initiative that the Department was challenging.

Additionally, Richland had not resolved its need for more detailed cost information from Health for the Hanford Site Air Emissions Program (Emissions Program), which is being funded with about \$1.5 million per year in Community and Regulatory Support funds. This detail is needed to ensure that funds are being spent for their intended purpose and in the most effective manner. Since 2003, Richland has notified Health about concerns regarding this program, including a lack of: sufficient detail on invoices for payment, such as which facilities Health was reviewing and which regulations were being reviewed to determine compliance; a clearly defined work scope, which led to questions about the type of charges Richland would reimburse; and, a basis for Health's budget request. Health currently requests funding in an electronic mail to Richland as a single line item, without a detailed breakdown of costs. Likewise, a February 2003 Office of Environmental Management review of the Emissions Program found that reporting requirements were not rigorous.

It is important to note that Richland had established a process to receive detailed cost information from another Health program recipient of Community and Regulatory Support funding. This cost information was detailed to include a breakdown of budgeted costs, detailed work scope descriptions, and estimated time charges for Health employees. Without more detailed funding and expenditure information from Ecology and Health, the Department is at risk of being inappropriately charged for questionable costs such as the cleanup initiative.

In response to these concerns, we suggested that your office improve the expenditure oversight process with Ecology and establish a process for Health's Air Emissions Program to provide cost information necessary to meet needs; and, make a formal determination on the allowability and recovery of Department funds spent by Ecology on the legal defense of the initiative.

The Office of Environmental Management and your office agreed with the suggested actions and planned to conduct more detailed review and discussion of 1) invoices at regularly scheduled quarterly meetings with Ecology, and 2) planning, budgeting and invoicing linked to Hanford cleanup activities and schedules with Health. In addition, Richland is seeking repayment of Ecology legal expenditures for the initiative, and is currently determining whether it can honor Ecology's request to defer repayment until an appeals court decision is reached on the constitutionality of the initiative.

SCOPE AND METHODOLOGY

The audit was performed between April 2006 and January 2007 at the Department's Richland Operations Office and the Washington Departments of Ecology and Health, all in Richland, Washington. The scope of the audit focused primarily on expenditures in Fiscal Year 2005.

To accomplish the audit objective, we obtained and reviewed Department and State of Washington laws, regulations, policies, and procedures relevant to the funding of community and regulatory support activities; reviewed recipient budget, cost, and work scope information to determine if controls were in place to ensure that funds were spent effectively and for the intended purpose; reviewed the results of prior audits and reviews;

and, held discussions with officials from Richland, the Office of Environmental Management, and the Washington Departments of Ecology and Health.

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. Accordingly, we assessed the Department's controls over community and regulatory support funding to recipients. 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. Also, we considered the establishment of performance measures in accordance with the *Government Performance and Results Act of 1993* as they related to the audit objective. We found that the Department had not established performance measures for expenditures of community and regulatory support funds. We relied only to a limited extent on computer-processed data from funding recipients to accomplish our audit objective. Accordingly, we did not test the reliability of the data.

We discussed the audit results and suggested actions with Richland officials in January 2007. Because no formal recommendations are being made in this report, a formal response is not required. We appreciate the cooperation of your staff during our review.


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