

memorandum

DATE: August 13, 2007

Audit Report Number: OAS-L-07-19

REPLY TO
ATTN OF: IG-32 (A07PR059)

SUBJECT: Audit of Executive Compensation at Selected Office of Science Sites

TO: Chief Operating Officer, Office of Science

INTRODUCTION AND OBJECTIVE

As part of a Department of Energy-wide audit of executive compensation, we reviewed seven Office of Science sites. Specifically, we reviewed executive compensation costs incurred and claimed for Fiscal Years 2003, 2004, and 2005 at Argonne National Laboratory (Argonne), Brookhaven National Laboratory (Brookhaven), Lawrence Berkeley National Laboratory (LBNL), Oak Ridge Institute for Science and Education, Oak Ridge National Laboratory, Princeton Plasma Physics Laboratory, and Thomas Jefferson National Accelerator Facility. We also considered work that the Defense Contract Audit Agency had performed for executive compensation in their prior audits of Pacific Northwest National Laboratory.

The amount of executive compensation that can be reimbursed to Department of Energy (Department) contractors is limited by legislation, regulations, and contract terms. For example, reimbursable compensation is limited to the annual cap determined by the Administrator, Office of Federal Procurement Policy (OFPP). In addition, Department of Energy Acquisition Regulations, Federal Acquisition Regulations, Department policies and guidance, as well as contract provisions establish limitations and guidelines for determining whether executive compensation is reasonable and allowable. Generally, executive compensation includes salaries, bonuses, incentive compensation, pension contributions, health benefits, and other fringe benefits.

The objective of our audit was to determine whether executive compensation reimbursed to contractors was allowable, consistent with contract terms, and conformed with applicable Federal requirements and guidance.

CONCLUSIONS AND OBSERVATIONS

For the Office of Science sites we reviewed, we found that executive compensation reimbursed to contractors did not exceed the annual cap determined by the Administrator, OFPP, and the contractors complied with applicable provisions of procurement regulations, Department policies and guidance, and their contracts.

However, at two sites, Argonne and Brookhaven, we identified questioned costs related to executive compensation. For Argonne, operated by the University of Chicago, we questioned \$414,867 consisting of \$60,346 for chauffeurs, \$253,632 for fringe benefit costs associated with unallowable salary costs, and \$100,889 for the salary and fringe benefits of an Argonne executive. For Brookhaven, operated by Brookhaven Science Associates, we questioned \$31,472 consisting of \$10,727 for an executive's salary in excess of the approved salary ceiling and \$20,745 for fringe benefit costs associated with unallowable salary costs.

We issued separate reports to the Managers of the Argonne and Brookhaven site offices providing details of our questioned costs and recommending that the responsible contracting officers determine the allowability of our questioned costs and recover costs determined to be unallowable. We also recommended that the contracting officers determine whether costs, similar to those identified in our audit, were claimed after September 30, 2005, and recover costs determined to be unallowable.

During the period covered by our audit, the Department reimbursed the University of California, the contractor for LBNL, for the cost of the University's Office of Laboratory Management (LMO), which oversees the laboratory. Although within applicable OFPP caps and consistent with Department policies, procedures, and contract terms, in some instances, LMO executives were compensated at rates and received increases that were higher than other offices of the University. Even though all LMO costs were charged to Department contracts, the Department was not involved in determining executive compensation levels and increases for LMO executives. We suggest that, as a condition for future reimbursement, the contracting officer for LBNL review and approve the reasonableness of compensation levels and annual increases for LMO executives.

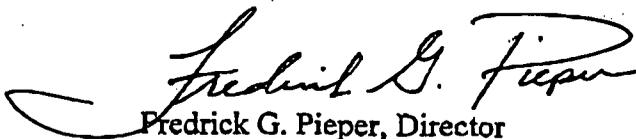
SCOPE AND METHODOLOGY

The Department-wide audit was conducted from July 2006 to July 2007 at the Office of Management, Department support offices and site offices, and 13 contractor sites. Office of Science sites included in the audit were: Argonne National Laboratory, in Argonne, Illinois; Brookhaven National Laboratory in Upton, New York; Lawrence Berkeley National Laboratory in Berkeley, California; Oak Ridge Institute for Science and Education and Oak Ridge National Laboratory in Oak Ridge, Tennessee; Princeton Plasma Physics Laboratory in Princeton, New Jersey; and, Thomas Jefferson National Accelerator Facility in Newport News, Virginia. In addition, at Pacific Northwest National Laboratory, we ascertained whether the Defense Contract Audit Agency had covered executive compensation in their prior audits. The scope of the Department-wide audit covered executive compensation costs incurred and claimed for Fiscal Years 2003, 2004, and 2005 and included the compensation of about 200 executives including facility directors, deputy directors, key personnel, and other senior management employees. Compensation included salaries, bonuses, incentive compensation, pension contributions, health benefits, other fringe benefits, travel and relocation reimbursements, and any other payments made to the executive or on behalf of the executive.

To accomplish the audit objective, we identified executives and their compensation; verified compensation to accounting records and supporting documentation; and, tested compliance with legislation, regulations, Department policies and guidance, and contracts.

We conducted the audit 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. 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, and found that the Department had not established performance measures specifically addressing executive compensation. We relied on computer-processed data to accomplish the audit objective. When appropriate, we performed limited test work of data reliability during our audit and determined that we could rely on the computer-processed data.

We appreciate the cooperation of your staff during our review. Because no formal recommendations are being made in this report, a formal response is not required.



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