

memorandum

DATE: August 13, 2007 Audit Report Number: OAS-L-07-21

REPLY TO
ATTN OF: IG-32 (A06PR047)

SUBJECT: Audit of Executive Compensation at Selected National Nuclear Security Administration Sites

TO: Director, Policy and Internal Controls Management, NA-66

INTRODUCTION AND OBJECTIVE

As part of a Department of Energy-wide audit of executive compensation, we reviewed four National Nuclear Security Administration (NNSA) sites. Specifically, we reviewed executive compensation costs incurred and claimed for Fiscal Years 2003, 2004, and 2005 at Los Alamos National Laboratory (LANL), Lawrence Livermore National Laboratory (LLNL), Sandia National Laboratories, and the Y-12 National Security Complex.

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 executive compensation. 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 four NNSA 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.

During the period covered by our audit, we observed that the Department reimbursed the University of California, the contractor for LANL, LLNL, and Office of Science's Lawrence Berkeley National Laboratory, for the cost of operating the University's

Office of Laboratory Management (LMO), which oversees the laboratories. 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 Department require that contracting officers 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. NNSA sites included in the audit were: Los Alamos National Laboratory, in Los Alamos, New Mexico; Lawrence Livermore National Laboratory in Livermore, California; Sandia National Laboratories in Albuquerque, New Mexico and Livermore, California; and, the Y-12 National Security Complex in Oak Ridge, Tennessee. The scope of the Department-wide audit covered executive compensation costs incurred and claimed for Fiscal Years 2003, 2004, and 2005 and included the annual 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.

06/19/01 WED 10:24 FAX 609 421 3001 010

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.



Fredrick G. Pieper, Director
Energy, Science and Environmental
Audits Division
Office of Inspector General

cc: Director, Office of Management
Team Leader, Audit Liaison Team, CF-1.2
Audit Liaison, MA-70