



**U.S. Department of Energy**  
**Office of Inspector General**  
**Office of Audits and Inspections**

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# AUDIT REPORT

Funds Control Management of Savannah  
River Nuclear Solutions Recovery Act Projects

OAS-M-15-06

July 2015

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**Department of Energy**  
Washington, DC 20585

July 16, 2015

MEMORANDUM FOR THE ACTING ASSISTANT SECRETARY FOR ENVIRONMENTAL  
MANAGEMENT AND THE CHIEF FINANCIAL OFFICER

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass  
Deputy Inspector General  
for Audits and Inspections

SUBJECT: INFORMATION: Audit Report: "Funds Control Management of  
Savannah River Nuclear Solutions Recovery Act Projects"

BACKGROUND

The *American Recovery and Reinvestment Act of 2009* (Recovery Act) provided the Department of Energy (Department) \$5.1 billion for Defense Environmental Cleanup. These funds afforded the Department's Office of Environmental Management the opportunity to accelerate completion of site cleanup activities and reduce cleanup program life-cycle costs. While the language in the Recovery Act included a single amount for Defense Environmental Cleanup, the Office of Management and Budget (OMB) apportioned the funds at the project level based on the technical scope, performance milestones, and cost profiles described in each project operating plan. Unspent project funds were not to be used for other purposes and were to be returned to the Department of the Treasury. The Office of Environmental Management authorized Savannah River Site's management and operating contractor, Savannah River Nuclear Solutions, LLC, (SRNS) to spend \$1.4 billion on four separate Recovery Act projects: \$720 million for Transuranic and Solid Waste; \$417 million for P&R Area; \$236 million for Site-wide, Soil & Groundwater; and \$24 million for M&D Area.

In January 2013, the Office of Inspector General received an allegation that SRNS had inappropriately used Recovery Act funds. The complainant alleged that after performance fee had been paid for one project, SRNS improperly revised accounting entries that reduced the amount of fee for that project and then reallocated the fee to the other three projects. The complainant also alleged that specific questionable costs were charged to Recovery Act projects. We initiated this audit to examine the facts and circumstances surrounding these allegations and to determine whether the Department managed Recovery Act projects performed by SRNS in accordance with funds control requirements.

RESULTS OF AUDIT

We substantiated the allegations and found that the Department's Savannah River Operations Office (Operations Office) did not always manage Recovery Act projects performed by SRNS in

accordance with funds control requirements. Specifically, we confirmed that the Department did not follow funds control restrictions when SRNS, in response to incorrect guidance from the Operations Office, reduced documented fee charges for the Transuranic and Solid Waste project and reallocated that amount to the other three projects.

By reducing and reallocating accounting entries, SRNS made it appear that funds were available to perform additional work in the Transuranic and Solid Waste project and, in fact, additional work was performed. However, the funds were not actually available because SRNS had previously expended the funds as fee for the Transuranic and Solid Waste project. As a result, the financial systems at that time showed that funds allocated by OMB for the other three projects were, in essence, used to pay the fee associated with the Transuranic and Solid Waste project. Ultimately, after the projects were completed, the Operations Office told us it took action to reallocate costs related to the projects, actions that resolved any potential funds control issues. Management informed us that its actions were consistent with normal project management practices and involved a review of work packages to ensure they were consistent with past cost practices and aligned costs with benefit to the projects. We did not review the reallocation process and express no opinion regarding its adequacy.

We also confirmed that SRNS, as alleged, charged about \$155,000 in questionable costs to Recovery Act projects, including entertainment, promotional items, and commemorative coins.

### **Project Fee Allocation**

Appropriation language in the Recovery Act included a single dollar amount for Defense Environmental Cleanup activities. However, at the Department's request, OMB apportioned this amount among the projects using separate Category B restrictions for each approved project. At the Savannah River Site, the Office of Environmental Management authorized SRNS to perform four separate projects with distinct funding amounts: \$720 million for the Transuranic and Solid Waste project; \$417 million for the P&R Area project; \$236 million for the Site-wide, Soil & Groundwater project; and \$24 million for the M&D Area project.

According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, Category B refers to restricting the use of the funds to the purpose of the project. The projects had to be executed as apportioned and funds could only be obligated within amounts apportioned for each project. Despite these imposed funds controls and the fact that SRNS was paid performance fee for Transuranic and Solid Waste project activities, the Operations Office directed SRNS to reverse accounting entries that recorded the project's performance fee and reallocate those charges to the other three SRNS Recovery Act projects. Specifically, about \$17.8 million was removed from the Transuranic and Solid Waste project for fiscal year (FY) 2011.

We substantiated the allegation that charges for performance fee applied to one of the four Recovery Act projects was inappropriately reversed and reallocated to the other three projects. Reallocating fee created the impression that unused Recovery Act funds were available in the Transuranic and Solid Waste project, an action which permitted SRNS to use those funds to accomplish additional work. Additional scope of work had been identified in the Recovery Act

Performance Evaluation and Measurement Plan (Performance Plan) as unbudgeted additional work that could be performed if cost efficiencies within the project provided sufficient funds to cover the cost and fee. The Performance Plan also stated that SRNS had to provide evidence of the cost efficiencies and exercise due diligence to ensure the work was completed within the baseline. Although SRNS did claim some cost efficiencies in the solid waste portion of the Transuranic and Solid Waste project, after recording contractor earned fee, there would be insufficient funds in the overall project account to fund the additional unbudgeted work. By reallocating the Transuranic and Solid Waste fee to other Recovery Act projects, the Operations Office created the impression that the "freed up" funds were available to support the additional work. Shifting fee to other projects, some of which had surplus funds, also reduced the amount of funds that otherwise would have been returned to the Department of the Treasury.

After we started our audit, the Operations Office requested formal opinions from Department Headquarters personnel on whether fee for one project could be charged to a different project account. Officials from both the Department's Office of the General Counsel and the Office of the Chief Financial Officer informed the Operations Office that the reallocation direction given to SRNS was incorrect. Because all four of the SRNS Recovery Act projects were apportioned with OMB imposed restrictions, funds used to pay costs, including fee, were required to be charged to the project for which the associated scope of work was performed. Specifically, it was the position of the Office of the General Counsel that such funds control measures could not be violated and funds provided for a project could not be used for activities under another project. The Office of the General Counsel also noted that because Recovery Act funds expired for obligation in September 2010, the apportionments were locked, so it was no longer possible to formally reprogram these funds.

### **Funds Control Concerns**

Operations Office personnel held multiple discussions related to the potential for a funds control violation. As early as September 2011, a financial management official informed Operations Office senior management and Savannah River Site Recovery Act Program management officials that the reversal and reallocation of performance fee violated generally accepted accounting principles by disassociating fee from where it was earned. A contract management official told us that as early as November 2012 he raised concerns that the reallocation could result in a funds control violation because the reallocation of fee gave the false appearance that funds were available in the Transuranic and Solid Waste project for SRNS to accomplish additional unbudgeted work. In fact, in August 2013, he noted that the reallocation of performance fee did not meet the definition of cost efficiencies. The potential for a funds control violation related to the reallocation of performance fee was discussed in multiple internal Operations Office meetings, starting as early as November 2012, and between Operations Office personnel and personnel from the Department's Office of the Chief Financial Officer.

### **Actions to Remedy Fee Allocation**

When informed by the Department's Office of the Chief Financial Officer and Office of the General Counsel that the direction to SRNS to redistribute performance fee across project accounts was incorrect, the Operations Office initiated efforts to remedy the impact of the fee

allocation issue. First, federal officials identified objective performance fee to be reallocated to the appropriate projects as identified in the Performance Plan. As a second measure, the Contracting Officer proposed recasting fixed fee. Fixed fee was fee negotiated for efforts related to adding Recovery Act terms into the contract rather than for specific projects. Originally, fixed fee was allocated between the projects based on a percentage of total project cost. The Contracting Officer proposed recasting fixed fee according to performance risk. He contacted the Department's Office of the General Counsel for a determination as to whether this was permissible and received confirmation that there was no objection as a matter of fiscal law. Analysis at that time showed that even after correcting the allocation of performance fee and recasting fixed fee, costs for two project accounts would exceed their obligated amounts: the Transuranic and Solid Waste project by about \$17 million and the M&D Area project by about \$2.4 million.

Finally, in December 2013, the Operations Office and SRNS initiated a review of work scope and realigned costs for completed Recovery Act scope to ensure that it had all been assigned to the most appropriate Recovery Act project consistent with past practices, future cost comparisons, and alignment of costs and benefits. The Operations Office Chief Financial Officer indicated that the scope review was not undertaken to correct cost overruns or misallocated fee.

### **Fee Allocation Methodology**

In general, we found that the allocation methodology that the Operations Office implemented for Recovery Act performance fee did not clearly align fee with project work scope. The SRNS Cost Accounting Standards Board Disclosure Statement stated that Recovery Act incentive fee would be allocated on a monthly basis to the separate project accounts as directed by the Operations Office. Accordingly, SRNS allocated fee amounts to the project accounts via monthly journal entries in accordance with letters of direction from an Operations Office Contracting Officer. However, we found that the letters of direction that allocated fee did not coincide with project-specific milestones described in the Performance Plan. Further, SRNS drew down funds for fee based on "invoices" approved by the Operations Office for completed milestones rather than the letters of direction. Thus the actual drawdown of fee did not match the allocated amounts posted to the financial records for each project.

### **Funds Control Methodology**

The original issue regarding the reversal of fee from one Recovery Act project and then charging it to the other three projects occurred because the Operations Office sought to maximize the use of Recovery Act funds without fully considering the OMB restrictions on the use of the funds. The Contracting Officer Technical Representative, Operations Office Chief Financial Officer, and Project Management team were required to review costs on a regular basis to ensure that SRNS did not exceed obligated ceilings. Senior Operations Office officials told us that the fee transfer was initiated to permit the completion of additional desired work scope in the Transuranic and Solid Waste project. Contrary to established internal controls intended to ensure that costs were charged to appropriate project codes and cost overruns were prevented, this fee transfer distorted total project costs and masked potential cost overruns.

Weaknesses in fee allocation methodology occurred, in part, because Operations Office officials responsible for directing SRNS to reallocate fee told us that they did not understand the Category B funds control restrictions imposed by the OMB apportionments. They operated under the notion that the Recovery Act fee was not associated with any particular project until the Operations Office assigned fee to a particular project. An Operations Office project management official stated that the Performance Plan was silent on how fee was to be funded. Although site procedures required Operations Office management to identify the total available fee, determine the funding source, and document how fee was to be distributed, the procedures did not specifically require documenting the fee funding source in the Performance Plan. According to Operations Office officials, the funding source for fee was included in financial documents; however, the funding source was not necessarily made available to project management and contract management personnel unless requested.

Operations Office officials also maintained that, per the SRNS contract, fee is not actually earned until the end of the project when the Fee Determining Official issues a letter awarding the final amount of fee earned; therefore, any fee drawn down by SRNS would be subject to adjustment in the proper course of contract administration. However, the position of the Department's Office of the General Counsel supports our determination that the provisional nature of fee does not permit assigning it across funds control points to a project where it was not anticipated to be earned. A Fee Determining Official letter awarding SRNS over \$98 million in earned fee for Recovery Act work was sent to the contractor in March 2014. However, the financial systems were not amended to correctly allocate performance and fixed fee until September 2014.

No formal review of potential funds violations was initiated because Operations Office management officials, including the Chief Financial Officer, believed that they had until the Recovery Act end date in FY 2015 to make accounting adjustments to prevent expenditures in any of the Recovery Act projects from exceeding the obligation amounts. Additionally, in September 2014, an official from the Department's Office of the Chief Financial Officer told us that they had unofficially looked at the Operations Office's corrective actions for the misallocated fee, including the cost transfers, and saw no need to perform a formal Anti-Deficiency Act violation review.

### **Impact on Recovery Act Project Account Balances**

Failure to manage Recovery Act projects in accordance with funds control requirements resulted in the Operations Office allowing SRNS to continue to perform work when there were insufficient project funds available. Furthermore, after all corrective actions had been made, the Department still had to use base appropriation funds to pay amounts that exceeded the amounts obligated for two of the SRNS Recovery Act projects. Additionally, the Operations Office took over a year after the projects were completed to develop and implement the corrective actions. All work on SRNS Recovery Act projects was completed by the end of July 2013 when the Transuranic and Solid Waste project was finished. At that time, Operations Office officials were already aware of problems related to the FY 2011 misallocation of performance fee. However, corrective actions were not finalized until September 2014.

Even after correctly allocating performance fee, recasting fixed fee and transferring scope and associated costs across projects, the Operations Office still had to use approximately \$4.4 million of non-Recovery Act funds for two projects that exceeded the amounts provided to SRNS for those projects. About \$1.7 million of base appropriation funds were used to cover potential overruns in the Transuranic and Solid Waste project and another \$2.7 million of base funds were used to cover potential overruns in the M&D Area project.

### **Questioned Costs Resolved**

In addition to substantiating the allegation regarding fee reallocation, we also confirmed the allegation that certain questionable costs were inappropriately charged to Recovery Act projects. However, prior to the start of our review, these specific costs, totaling approximately \$155,000, were identified and resolved by the Operations Office's Contract Management Division. Specifically, the Contracting Officer identified approximately \$30,000 in labor and travel costs associated with corporate executive training that had been improperly charged to Recovery Act accounts. This amount was removed from the Recovery Act accounts and charged to the base contract. Additionally, SRNS had inappropriately charged one or more Recovery Act projects about \$95,000 for a celebration at the completion of the P&R Area project, about \$26,000 for billboards to promote the new site vision designated "Enterprise SRS," and about \$4,000 for commemorative coins. These costs were disallowed by the Contracting Officer and charged to the SRNS unallowable cost account. Furthermore, these costs were de-obligated from the Recovery Act funds and, according to the Contracting Officer, set aside for eventual return to the Department of the Treasury.

### **RECOMMENDATIONS**

To address the issues related to funds allocation, we recommend that the Acting Assistant Secretary for Environmental Management and the Department's Chief Financial Officer consider the issues observed during our review and take action to ensure the funds control process at the Savannah River Site:

1. Clearly communicates the designated funding source for project costs and fee; and
2. Adequately charges project costs, including fee, against the correct funding source throughout a project's period of performance.

### **MANAGEMENT RESPONSE**

The Office of Environmental Management, with concurrence from the Office of the Chief Financial Officer, provided comments on the report. Management disagreed that Recovery Act projects performed by SRNS violated funds control restrictions. They stated that the Operations Office mistakenly gave incorrect guidance to SRNS, but the Department caught the mistake and corrected it, thus ensuring that Recovery Act funds were spent in accordance with funds control requirements. Furthermore, with regard to Recommendation 1, Management stated that the Department's Chief Financial Officer provides the designated funding source for Office of Environmental Management projects and the Operations Office has followed and will continue

to follow funds control guidance. Regarding Recommendation 2, Management responded that the Operations Office has conducted formal training in internal controls and appropriations law, educated project managers about Category B restrictions, and revised fee allocation procedures. Additionally, Management stated that the Office of Environmental Management's Budget Office strengthened its internal controls, including reviewing apportionments and advice of allotments to ensure appropriate funds control at the Savannah River Site.

#### AUDITOR COMMENTS

Notwithstanding Management's position, we continue to believe that the Department failed to follow funds control restrictions when fee charges for one Recovery Act project were reduced and reallocated to the other three projects. We consider Management's comments only partially responsive to our recommendations. However, while not included in the written comments, subsequent to our field work, we learned that the FY 2015 SRNS base contract Performance Evaluation Measurement Plan includes information on funding sources for fee at the site project level that appears to address the intent of Recommendation 1. This action, along with the actions Management conveyed in response to Recommendation 2 to enhance controls to ensure proper funds control management at the Savannah River Site, appear to address the issues identified in the report. Management's comments are included in Attachment 3.

#### Attachments

cc: Deputy Secretary  
Deputy Under Secretary of Environment and Science  
Chief of Staff

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **OBJECTIVE**

The objective of this audit was to determine whether the Department of Energy (Department) managed *American Recovery and Reinvestment Act of 2009* (Recovery Act) projects performed by Savannah River Nuclear Solutions, LLC, (SRNS) in accordance with funds control requirements.

### **SCOPE**

Our audit focused on funds control issues pertaining to the four Recovery Act projects reviewed. Therefore, we did not review the costs incurred on the projects for allowability. We conducted this audit between July 2013 and July 2015, at the Savannah River Site in Aiken, South Carolina. The scope of the audit included a review of Recovery Act costs and fee associated with four Office of Environmental Management projects performed by SRNS at the Savannah River Site. Our review primarily focused on funds control issues contained in allegations made to the Office of Inspector General (OIG). The audit was conducted under OIG Project Number A13RA003.

### **METHODOLOGY**

To accomplish the objective, we:

- Researched Federal regulations and Department directives, policies, and procedures related to Recovery Act expenditures.
- Reviewed internal controls established by the Savannah River Operations Office and SRNS related to managing Recovery Act funds.
- Reviewed SRNS contract requirements related to the Recovery Act, specifically, performance evaluation and funds management.
- Examined Recovery Act project plans, including baselines and performance parameters.
- Assessed fee allocation methodology established in the SRNS Cost Accounting Standards Board Disclosure Statements.
- Analyzed Recovery Act project costs, allocated fee and invoiced fee information.
- Interviewed key personnel at the Savannah River Operations Office and Department Headquarters, including personnel from the Offices of Environmental Management, the Chief Financial Officer, and the General Counsel.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In particular, we assessed the Department's implementation of the *GPRRA Modernization Act of 2010* and determined that it had established performance measures related to project and contract management. 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. We relied on computer-processed data to accomplish our audit objective and verified the accuracy of the data by assessing the controls of the relevant financial systems, as necessary. We determined that the data was reliable for the purposes of our audit objective.

An exit conference was held with personnel from the Office of the Chief Financial Officer, the Office of the General Counsel, and the Office of Environmental Management on June 23, 2015.

## RELATED REPORTS

### Office of Inspector General Reports

- Audit Report on [Cost Transfers at the Department's Sodium Bearing Waste Treatment Facility Construction Project](#) (OAS-M-13-03, August 2013). The review found that due to cost escalation of the construction project, the Department of Energy (Department) approved a revised baseline, after which the contractor transferred funds to other nonproject accounts. Later, as part of its approval of additional revisions to the project baseline, the Department required a review of the cost transfers. The review found that some of the cost transfers were direct costs of the project that should not have been transferred. Management officials stated that the inappropriate cost allocation issues would be considered during contract closeout negotiations and could affect fee determination made by the Contracting Officer.
- Audit Report on [Home Office Expenses Submitted by Fluor Federal Services, Inc., on Savannah River Nuclear Solutions, LLC's U.S. Department of Energy Management & Operating \(M&O\) Contract No. DE-AC09-08SR22470](#) (OAS-L-13-08, April 2013). The audit disclosed that Savannah River Nuclear Solutions, LLC, costs incurred August 2008 through August 2012 included home office expenses from its use of loaned Fluor Federal Services, Inc., employees. Subsequent to the completion of audit field work, the Savannah River Operations Office Contracting Officer initiated action to disallow the home office expenses.
- Audit Report on [Implementation of the Recovery Act at the Savannah River Site](#) (OAS-RA-L-11-12, September 2011). The audit found that, overall, the Savannah River Site generally complied with *American Recovery and Reinvestment Act of 2009* (Recovery Act) requirements tested, such as reporting, flow down of requirements to subcontracts, and segregation of funds. Recovery Act projects were reported to be on schedule and within estimated costs. However, the report identified inaccurate distribution of invoiced costs. The contractor indicated that it planned to implement a new accounts payable system that would automate the process and better align invoices with cost distribution.
- Special Report on [Selected Department of Energy Program Efforts to Implement the American Recovery and Reinvestment Act](#) (OAS-RA-10-03, December 2009). The review found that obligating and overseeing Recovery Act funds represented a massive workload increase that strained resources and increased risk. Challenges included inadequate staffing for oversight functions and performance measures not always included in performance plans. One recommendation was to incorporate performance measures into the facility operation contract Performance Evaluation Measurement Plans.

## Government Accountability Office Reports

- Testimony on [\*Department of Energy: Observations on DOE's Management Challenges and Steps Taken to Address Them\*](#) (GAO-13-767T, July 2013). Although progress had been made, the Government Accountability Office (GAO) retained the Department organizations on its list of areas at high risk of waste, fraud, abuse, and mismanagement. GAO reported that the Department did not have reliable management data needed to prepare budget requests or identify and validate costs. Management and Operating contractors differed in how they classified and allocated indirect costs, which limited the ability to meaningfully compare cost management performance.
- Report on [\*Recovery Act: Most DOE Cleanup Projects Are Complete, but Project Management Guidance Could Be Strengthened\*](#) (GAO-13-23, October 2012). GAO reported that, according to the Office of Environmental Management data, the majority of the Recovery Act-funded cleanup projects were complete and met the Department's performance standard of not exceeding the cost target by more than 10 percent. However, GAO found inconsistencies in how Environmental Management documented scope, cost, and schedule targets making it difficult to assess project performance. In some cases, Environmental Management set scope targets differently in different documents and claimed project success even if key performance parameters were not achieved.
- Report on [\*Recovery Act: Most DOE Cleanup Projects Appear to Be Meeting Cost and Schedule Targets, but Assessing Impact of Spending Remains a Challenge\*](#) (GAO-10-784, July 2010). GAO determined that Environmental Management generally chose to use Recovery Act funds for cleanup projects that could be quickly started and finished. Most projects had existing contracts, which allowed the Department to validate cost and schedule targets within a short time. However, the Department faced familiar challenges in managing projects and measuring how funding affected cleanup goals. Although the Department took steps to strengthen project management and oversight for Recovery Act projects, GAO found that at the Savannah River Site the Department minimally met best practices associated with ensuring that estimates were accurate.

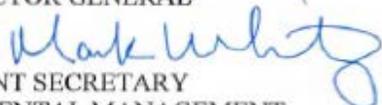
## MANAGEMENT COMMENTS



Department of Energy  
Washington, DC 20585

MAY 15 2015

MEMORANDUM FOR DANIEL M. WEEBER  
ASSISTANT INSPECTOR GENERAL  
FOR AUDITS AND ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL

FROM: MARK WHITNEY   
ACTING ASSISTANT SECRETARY  
FOR ENVIRONMENTAL MANAGEMENT

SUBJECT: Draft Audit Report on "Funds Control Management of Savannah River Nuclear Solutions Recovery Act Projects"

The Office of Environmental Management (EM) appreciates the opportunity to have reviewed the Inspector General's draft audit report on "Funds Control Management of Savannah River Nuclear Solutions Recovery Act Projects."

EM would like to provide clarification about two statements of the report as well as offer reaction to the recommendations.

1. The last paragraph on Page 1 and the first paragraph of Page 2 states:

*"We substantiated the allegations and found that the Department's Savannah River Operations Office (Operations Office) did not always manage Recovery Act projects performed by SRNS in accordance with funds control requirements. Specifically, we confirmed that SRNS violated funds control restrictions by reducing documented fee charges for the Transuranic and Solid Waste project and reallocating that amount to the other three projects."*

The language in the last paragraph on page 1 is incorrect and should be revised. The DOE Savannah River Site gave incorrect guidance to the contractor, and DOE caught the mistake and corrected it. Therefore, the Recovery Act funds were spent in accordance with funds control requirements.

2. The second paragraph on Page 4 states:

*"Finally, in December 2013, the Operations Office and SRNS initiated a review of work scope they believed could appropriately be transferred between the four project accounts. The stated intent of this scope and cost realignment was to review completed Recovery Act scope to ensure that it had all been assigned to*



*the most appropriate Recovery Act project consistent with past practices, future cost comparisons, and alignment of costs and benefits.”*

The Department thinks that the first sentence is inaccurate and contradicts the second sentence. The second sentence conveys the accurate reason for the review. Therefore, we request that the text be revised as follows: “Finally, in December 2013, the Operations Office and SRNS initiated a review of work scope and cost realignment for completed Recovery Act scope to ensure that it had all been assigned to the most appropriate Recovery Act project consistent with past practices, future cost comparisons, and alignment of costs and benefits.”

With regard to the recommendations, EM provides the following responses:

**Recommendation 1:** Clearly communicates the designated funding source for project cost and fee.

**EM’s Response:** The Department of Energy (DOE) Chief Financial Officer provides to EM the specific designated funding source for EM projects. The DOE Savannah River Site has followed and will continue to follow DOE funds control guidance.

**Recommendation 2:** Adequately charges project costs, including fee, against the correct funding source throughout a project’s period of performance.

**EM’s Response:** The DOE Savannah River Site (SR) has taken measures to strengthen internal controls, including conduct of formal training in internal controls and appropriation law, educated project managers about Category B restrictions, and revised fee allocation procedures. Relevant SR directives will be updated to ensure proper documentation of the fee allocation process. Any changes to allocation of fee will require a Contracting Officer's Letter of Direction, reviewed by SR’s Offices of the Field Chief Financial Officer (CFO), Chief Counsel, and Acquisition Management. The Field CFO and Budget Director will perform an integral role, advising the Configuration Control Board and the Fee Board to ensure project managers are fully aware of any fiscal issues or limitations that could impact cost allocations. Additionally, the EM headquarters Budget Office strengthened its internal controls as well, including reviewing apportionments and advice of allotments, to ensure appropriate SR funds control.

If you have any questions, please contact me or Ms. Connie Flohr, Acting Deputy Assistant Secretary for Program Planning and Budget, at (202) 586-8754.

cc: Kenneth Picha, EM-20  
Connie Flohr, EM-60 (Acting)  
Ming Zhu, EM-61 (Acting)  
Bruce Martin, SRS

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Department of Energy  
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.