



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

Management Alert

Extended Assignments at Princeton
Plasma Physics Laboratory



Department of Energy
Washington, DC 20585

May 17, 2012

MEMORANDUM FOR THE SECRETARY

FROM: 
Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Management Alert on "Extended Assignments at Princeton Plasma Physics Laboratory"

BACKGROUND

Princeton University operates the Princeton Plasma Physics Laboratory (Princeton) under a contract with the Department of Energy's Office of Science. Princeton works with partners around the world to develop fusion as an energy source. The Laboratory's annual operating costs are about \$80 million, all of which is reimbursed by the Department.

As an integrated management and operating contractor, Princeton's financial accounts are combined with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Princeton is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Allowable costs are incurred costs that are reasonable, allocable and allowable in accordance with the terms of the contract, applicable cost principles, laws and regulations.

On May 8, 2012, we issued a separate contract audit report on *Audit Coverage of Cost Allowability for Princeton Plasma Physics Laboratory during Fiscal Years 2009-2010 under Department of Energy Contract Numbers DE-AC02-76CH03073 and DE-AC02-09CH11466* (OAS-V-12-06, May 2012). One of the objectives of that audit was to determine whether questioned costs and internal control weaknesses impacting allowable costs that were identified during audits and reviews had been adequately resolved. During the course of our contract audit, we identified specific costs that we considered to be unreasonable and related internal control weaknesses that led to the questionable costs.

CONCLUSIONS AND OBSERVATIONS

The Department reimbursed Princeton \$1.04 million for lodging subsidies incurred by two employees who were on extended assignments – 14 years in one case and 9 years in the other. While existing Laboratory policy permitted temporary assignments, the duration of these particular assignments appeared to be excessive and inconsistent with Department policies that we used for benchmarking purposes. Consequently, we considered these costs to be unreasonable, and, as a result, we questioned their allowability.

Extended Assignments

The Department reimbursed Princeton approximately \$1.04 million for lodging subsidies paid to two employees on extended assignments, an amount we considered unreasonable because the subsidies were not limited in duration or reduced in amount. One employee had been on extended assignment for about 14 years (approximately \$600,000 in per diem), while the other about 9 years (approximately \$400,000 in per diem). In the most recent year, for example, each of these employees received per diem of about \$4,000 per month or \$48,000 a year. In addition to the lodging subsidies, the employees were paid what the Laboratory referred to as "field service premiums" of 12 percent of their salaries for the duration of their extended assignments. These premiums currently amount to a total of \$2,700 per month or \$32,400 per year. All of these costs were fully reimbursed by the Department. The employees worked on fusion research projects conducted with General Atomics in San Diego, California. According to the cost principles in Federal Acquisition Regulation (FAR), Subpart 31.2, a cost is reasonable, if in its nature and amount, it would be incurred by a prudent person in the conduct of competitive business. We do not believe that this test was met in these cases.

Subsequent to our bringing this matter to its attention, the Department's Office of Science, to its credit, identified and self-reported two additional instances of Princeton employees who were on extended travel for greater than 3 years. Science reported that one employee had been on extended travel since June 2002, on assignment to the Massachusetts Institute of Technology and had received total lodging reimbursements of over \$400,000. Another employee had been on extended travel since October 2007, on assignment to the Oak Ridge National Laboratory and had received total lodging reimbursements of over \$95,000. Both employees had also received a field premium of 12 percent of salary. Although we are uncertain of the total costs involved and details regarding the two employees the Office of Science identified, it appears that based on length alone, the cost of these assignments is questionable as well.

The Department did not have specific policies concerning extended assignments that are directly applicable to Princeton. Therefore, to assess the reasonableness of these subsidies, we benchmarked Princeton's policy against Department policies that address extended assignments for other contractor and Department employees. In each case, these policies limit the duration and/or amount of lodging subsidies contractors or employees can receive when on extended assignments. Specifically:

- Department Order 350.2b, *Use of Management and Operating or Other Facility Management Contractor Employees for Services to DOE in the Washington, D.C. Area*, states that long-term contractor assignments to Washington, DC must be approved annually and be limited to a maximum of 3 years. The Order states that assignments in excess of 3 years should be considered relocations and reimbursements in excess of salaries and benefits should cease. It also requires that reimbursements be reasonable and based on actual costs or a reduced per diem rate.
- Department Manual 321.1-1, *Intergovernmental Personnel Act Assignments*, states that employees temporarily transferred to a new location may be paid the lesser of a reduced per diem or relocation expenses. The lodging per diem on extended assignments should not exceed 55 percent of the normal temporary duty lodging allowance for the location. Additionally, per diem allowances are intended for short-term assignments of 2 years or

less and are not authorized beyond the 2 years, even if the assignment is extended. This policy applies to employees temporarily transferred between the Federal government and state, local, and tribal governments; institutions of higher education; and eligible non-Federal organizations, including Federally Funded Research and Development Centers.

- Department Manual 552.1-1A, *U.S. Department of Energy Travel Manual*, states that when travel assignments exceed 30 days, the per diem should not be more than 55 percent of the applicable per diem rate for the locality. Payments above this level must be fully justified if lower cost lodging arrangements are unable to be made. This policy applies to Department employees and other persons travelling on behalf of the Department, except for contractors, who are specifically excluded.

Contributing Factors and Impact

Neither Princeton nor the Department's Princeton Site Office (Site Office) had taken what we would consider to be appropriate action to protect taxpayer interests by controlling the costs of these extended assignments. The reimbursements, from a purely technical standpoint, were not inconsistent with Princeton's extended assignment policy. Yet, when compared with other existing Department policies, these reimbursements were unreasonable.

Princeton officials stated that they had performed a cost analysis of the extended assignment policy prior to its adoption in 1998. According to supporting documentation, the existing policy was based on the assumption that assignments would be of a temporary duration of 3 years or less, an assumption that clearly was not applicable to the case of the Princeton employees on extended assignment. According to Princeton officials, the policy on extended assignments was incorporated into Princeton's contract with the understanding that associated costs were reasonable and allowable under the contract. Although the policy was omitted from the contract in 2001, along with subsequent modifications and extensions thereafter, Princeton officials told us that it remained in effect as part of the Personnel Practices Manual.

Further, safeguards designed to help ensure the appropriateness of extended assignments were not particularly effective. Despite multiple opportunities to review the policy, neither Princeton nor the Site Office could provide any evidence of revisiting this policy since it was approved, even though the cases identified during this audit showed that the assignment duration assumptions were unreliable. Further, while the employees in these cases had signed agreements stating their assignments would be for 1 year and 2 years, respectively, Princeton had extended the agreements annually without documenting the reasons for continuing the assignments or considering alternatives.

Because of the length of these assignments and the fact that Princeton never updated its 1998 analysis or evaluated other options, such as permanent changes of station for these employees, we questioned the reasonableness of the \$1.04 million in lodging costs and salary premiums for the two employees we identified.

Lessons Learned

We have previously reported on similar concerns with contractor extended assignments. For example, our audit report on *The Department of Energy's Management of Contractor Intergovernmental Personnel and Change of Station Assignments* (DOE/IG-0761, March 2007), found that contractors paid excessive allowances to assigned employees, including the payment of both relocation and travel per diem costs; and, had assigned employees to other organizations for extended periods of time, in one case about 15 years, without ensuring their assignments were the most cost-effective approach to meeting mission needs. This report also noted the Department had not provided guidance to its contractors regarding the duration of assignments or the reimbursement of allowances (relocation and per diem costs) to assignees working at other agencies.

Another audit report, *Management of Facility Contractors Assigned to the Washington, D.C. Area* (DOE/IG-0710, November 2005), found that contractor assignments were routinely extended beyond a year without documentation addressing the need for, and duration of, assignments and consideration of alternatives to long-term assignments, some of which had been extended to as long as 15 years. The audit also noted the Department had not promulgated standards for dislocation and other allowances for contractor employees assigned to the Washington, DC area.

In addition to the audit reports, the Office of Inspector General has investigated several contractors and their employees for improperly claiming per diem and lodging subsidies. These matters have been successfully prosecuted.

In response to the above reports and investigations, the Department revised one of the Departmental directives that we used as benchmarks, debarred contractors, and recovered substantial taxpayer-provided funds. We believe that actual experiences in major components of the Department's contractor community regarding the costs associated with extended assignments provide important lessons learned that may have broader applicability.

Recommendations and Path Forward

To address the immediate concerns at Princeton regarding extended assignments, in our separately issued contract audit report on audit coverage of cost allowability we recommended that the Manager, Princeton Site Office:

1. Direct the Contracting Officer to make a determination on the allowability of the lodging subsidy costs questioned in the report;
2. Direct the Contracting Officer to calculate the field service premiums paid to the employees over the duration of their extended assignments and make a determination of the allowability of the costs;
3. Perform a cost analysis of Princeton's policy concerning extended assignments to determine whether it is in the best interest of the Department to continue it; and,

4. Require Princeton to thoroughly justify assignment extensions by defining, to the extent possible, the entire period of the assignment and clearly demonstrating consideration of alternatives for meeting that need.

The Site Office agreed to take appropriate corrective actions regarding the above recommendations.

While our current and past review efforts have focused on Princeton and other Department contractor sites, the frequency of incidents in this area suggests that the Department should address these matters on a corporate basis. Accordingly, to strengthen controls over contractor extended assignments, we recommend that the Director, Office of Management, develop and issue guidance to assist facility contractors in their development of extended assignment policies.

MANAGEMENT REACTION AND AUDITOR COMMENTS

The Office of Management concurred with our recommendation and stated that it had taken swift and decisive action, both with respect to the particular situation at Princeton, and the broader policy posture of the Department. Management stated that, in response to our recommendation, it has developed and issued guidance to address contractor extended assignments that are not covered by other Departmental guidance. Management stated that the guidance sets firm limits on reimbursement and other subsidies for contractor domestic extended personnel assignments. In addition, we were informed that Princeton has agreed to reimburse the Department \$1 million.

Finally, Department officials informed us that they took action to ensure that payments to the four assignees were discontinued. Specifically, the cognizant contracting officer notified Princeton that all reimbursements for the two individuals we identified and the two additional employees identified by the Office of Science were to be discontinued immediately and that future costs for these assignees would be considered to be unallowable.

We commend Management for taking prompt action to address our recommendation and to recover costs questioned as a result of our audit.

Management's comments are attached in their entirety.

Attachments

cc: Deputy Secretary
Associate Deputy Secretary
Acting Under Secretary for Science
Acting Chief Financial Officer
Director, Office of Management
Chief of Staff



Department of Energy
Washington, DC 20585

MEMORANDUM FOR GREGORY H. FRIEDMAN
INSPECTOR GENERAL

FROM: INGRID KOLB *Ingrid Kolb*
DIRECTOR, OFFICE OF MANAGEMENT *5-15-2012*

SUBJECT: MANAGEMENT DECISION ON INSPECTOR GENERAL'S DRAFT
MANAGEMENT ALERT ON EXTENDED ASSIGNMENTS AT
PRINCETON PLASMA PHYSICS LABORATORY (PPPL)

On April 16, 2012, the Inspector General (IG) issued a draft Management Alert, entitled "Extended Assignments at Princeton Plasma Physics Laboratory." The Department wholeheartedly agrees with the Inspector General's recommendations. We are committed to be good stewards of taxpayer money, and expect the contractors operating our facilities to be vigilant in ensuring that their own practices assure the most frugal and effective use of the taxpayer dollars with which they are entrusted.

Upon receipt of the draft Management Alert, the Department took swift action to assure that none of the other Management and Operating contractors running the Department's National Laboratories and other sites were providing employees with per diems and travel-related compensation for excessive durations.

At PPPL, we discovered that a policy change made in 1998 led to a series of decisions resulting in the reimbursements at issue. In response, we issued new Departmental policy governing the reimbursement of contractors on extended travel. The new policy will be incorporated into Princeton's contract. In addition, in an offer of good faith and in recognition of its stewardship of taxpayer funds, Princeton has agreed to reimburse the Department \$1.0 million.

We strongly concur with the recommendation in the Management Alert about the need for a consistent, Department-wide policy. Consistent with your recommendation, the Office of Management (MA) is issuing guidance to our contractors setting clear guidelines and requirements on compensation and reimbursements during extended assignments. Also, the Office of Science is examining how information on these expenses has been communicated to the site office and whether the review processes we have in place are sufficient. Finally, we are reviewing the actions and decisions by federal employees responsible for review of the travel costs here, and we will review our internal processes to ensure that excessive travel costs are not reimbursed going forward. Attached is the Management Decision for this recommendation.



MANAGEMENT DECISION
IG Draft Management Alert, *Extended Assignments at Princeton Plasma Physics Laboratory*
Issued April 16, 2012

We recommend that the Director, Office of Management:

Recommendation 1:

Develop and issue guidance to assist facility contractors in their development of extended assignment policies.

Management Decision

Concur

The Office of Management concurs with the recommendation. Upon receipt of the draft Management Alert, we took swift action, both with respect to the particular situation and the broader policy posture of the Department in this area.

As to the general policy, we have developed and issued guidance to address contractor extended assignments that are not covered by the Department of Energy Order 350.2b, *Use of Management and Operating or Other Facility Management Contractor Employees for Services to DOE in the Washington, D.C. Area*, Department Manual 321.1-1, *Intergovernmental Personnel Act Assignments*, or Department Manual 552.1-1A, *U.S. Department of Energy Travel Manual*. The guidance sets firm limits on reimbursement of lodging and other subsidies for contractor domestic extended personnel assignments.

In addition, in an offer of good faith and in recognition of its stewardship of taxpayer funds, Princeton has agreed to reimburse the Department \$1.0 million.

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