



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

Inspection Report

Alleged Waste and Abuse in the Office of Economic Impact and Diversity

INS-L-12-07

September 2012



Department of Energy
Washington, DC 20585

September 27, 2012

MEMORANDUM FOR THE DIRECTOR, OFFICE OF MANAGEMENT
DIRECTOR, OFFICE OF ECONOMIC IMPACT AND DIVERSITY

Sandra D. Bruce

FROM: Sandra D. Bruce
Assistant Inspector General
for Inspections
Office of Inspector General

SUBJECT: INFORMATION: Inspection Report on "Alleged Waste and Abuse in
the Office of Economic Impact and Diversity"

BACKGROUND

The Department of Energy's Office of Economic Impact and Diversity (ED) develops and executes Department-wide policies affecting equal employment opportunities, small and disadvantaged businesses, minority educational institutions, and historically under-represented communities. ED's mission is to develop and implement initiatives designed to ensure that minorities are afforded an opportunity to fully participate in Department programs.

At the beginning of Fiscal Year 2012, ED, along with other Department programs, was operating under a Continuing Resolution (CR). As a result, funding was allocated and provided to programs, including ED, based on expenses necessary for the practical and efficient work of the Department. The Department's budget guidance required all Department programs to exercise the utmost caution and prudence in spending during the CR.

The Office of Inspector General received a complaint alleging that ED had engaged in wasteful spending, including: (1) the approval of a \$40,000 construction project to expand a senior official's office space even though a large vacant office existed; (2) the purchase of Liquid Crystal Display Televisions (LCD TVs) for select ED officials to reflect a higher status; (3) the purchase of iPads for senior ED officials to reflect a higher status; (4) a \$50,000 pool of "fun money" to "shower someone with a good idea;" and, (5) the use of high-cost limousine services while on travel. We initiated this inspection to examine the facts and circumstances surrounding the allegations.

CONCLUSIONS AND OBSERVATIONS

We were unable to substantiate the allegations that the actions taken by ED management were inappropriate. While we did determine that a senior official approved the reconfiguration of ED office spaces, the construction project did not appear to be unreasonable or excessively costly. We did, however, identify procedural issues that could, if not addressed, increase the risk that projects could begin and be completed even though funding had not actually been authorized.

Office Suite Construction

Officials from ED told us that they had taken action to reconfigure office spaces, at a cost of approximately \$40,000, for the following reasons:

- Some of ED's office space was lost to the Office of Energy Efficiency and Renewable Energy during the summer of 2010;
- A new ED Director was nominated in August 2011 and office space needed to be allocated for the new Director;
- A new ED Office of Diversity and Inclusion was created; and,
- ED staff needed to be aligned with their respective Directors.

The Department's Office of Management (MA), Space Management (Space Management), reviewed and approved ED's construction request. The request included \$7,850 for carpet installation, which is discussed in this report. Given the circumstances, the reconfiguration decision appeared to be a matter to be within management's discretion and was not unreasonably costly. We did note, however, that certain administrative processes regarding project approval and funding allocation were not properly completed prior to commencement of construction.

Internal Authorization Process

We determined that ED did not follow its internal practice requiring the requesting official to prepare an internal Funding Authorization Memorandum (FAM) for the construction work. The FAM is required to contain the funding amount, fund code and description, to include the requestor's justification for the expenditure and the respective ED senior official's approval. Instead; a senior official emailed an ED budget staff member with a courtesy copy to another ED senior official to approve funding for the office construction. We also determined that the email did not contain a justification for the construction, fund code, or an authorized senior ED official's approval. Further, we observed that ED prepared a FAM for the carpet purchase and installation valued at approximately \$7,850. However, ED did not receive the approving official's signature. These procedural deviations could result in unauthorized expenditures.

Procurement Process

We determined that Space Management inappropriately authorized the contractor to begin construction without receiving prior approval from the Office of Headquarters Procurement Services (Procurement) to award an Order for Supplies and Services (Order) as required.¹ Space Management awarded a two-year Indefinite Delivery Indefinite Quantity (IDIQ) construction contract valued at approximately \$4 million to perform construction and alteration projects

¹An Order for Supplies and Services serves as a task order for services or a delivery order for supplies placed against an established contract.

within the Department. According to the Federal Acquisition Regulation (FAR) 52.216-22, *Indefinite Quantity*, and the terms of the base contract, only a Department Contracting Officer (CO) is authorized to issue an Order. Our review of the contract and related procurement documents revealed that Space Management issued a requisition to Procurement that established funding, authorization and a timeframe for the construction. Space Management notified the contractor to begin work on November 10, 2011. The contractor completed ED's construction between November 11, 2011, and November 16, 2011. However, we determined that Procurement did not award the Order for the contractor to start work until November 30, 2011 – 14 days after the completion of ED's office construction.

Also, contrary to FAR requirements, we noted that verbal authorization and delegations were given to the Contracting Officer's Representative (COR) to task the contractor to start work. During our interview with a senior Space Management official, who is also the COR, we were informed that it was Space Management's practice, based on a verbal authorization and delegation from the CO, to task the contractor to begin work upon sending a requisition to Procurement. The Space Management official told us that this process helped to eliminate any potential backlog due to the high construction and alteration demands throughout the Department. In a meeting with MA officials regarding a draft of this report, they indicated that ED officials wanted the construction and related work expedited, resulting in reducing the procurement process from 30 days to 1 to 2 days. However, it was not MA's practice to task the contractor to begin work prior to sending a requisition to procurement. MA officials also told us and we confirmed that on November 10, 2011, Space Management officials sent procurement officials a requisition establishing the funding, costs, and scope of work. MA officials further indicated that upon receipt of the requisition, they determined that the CO provided a verbal authorization to the contractor to start work. During our discussion with the CO, the CO could not recall if a verbal authorization or delegation was made to the contractor or to the Space Management official to notify the contractor to begin work. However, the CO told us, in practice, that if the requisition was provided and funding was received it was not unusual to give verbal approval to the COR to notify the contractor to start construction on expedited or emergency projects. Nevertheless, FAR and the terms of the base contract require the CO to formally issue Orders to start work, including faxing an Order to the contractor on the next Government business day.

MA officials indicated that they are reviewing and updating its processes as necessary. They also told us that within the next 90 days, the Office of Administration will conduct mandatory training to ensure that employees maintain knowledge of relevant procurement policies and procedures. In addition, Space Management immediately addressed this issue by developing draft procedures indicating that contractors will be notified to start construction only after receiving email notification from Procurement that the Order has been awarded. The draft "IDIQ Work Flow Process" and the mandatory training should assist with ensuring that the appropriate officials (COs) are notifying the contractor to perform a task.

Electronics, Limousine Service and "Fun Money"

We did not substantiate the remaining allegations. Specifically, we received a number of explanations and rationale concerning the business purposes for the LCD TVs and iPads.

Additionally, we concluded that ED officials did not incur additional costs to the government by using a limousine service instead of a taxi or a shuttle service. We also were unable to substantiate that ED created a pool of \$50,000 for "fun money." Specifically, these officials stated that they had not established a pool of money. We concluded that generally costs were *de minimis* and the various justifications used for the use of a limousine service and the electronics purchases appeared to be legitimate.

IMPACT

Inappropriately tasking the IDIQ contractor could potentially expose the Department to claims resulting in administrative unfunded requirements. Specifically, any modification to the scope of work between the contractor and Space Management may increase potential risk of a contractor performing work outside of the original scope, which could lead to additional cost other than authorized by an Order. We believe that Space Management has taken an initial step to ensure that the Order is provided to the contractor prior to the start of construction. We made several suggestions designed to help ensure that similar authorization and funding issues do not recur.

SUGGESTIONS

We suggest that the Director, Office of Economic Impact and Diversity:

1. Ensure that ED's internal practices are implemented and that the Funding Authorization Memo justifying and approving goods and services is properly prepared and executed.

We suggest that the Director, Office of Management ensure that:

2. The Contracting Officer is issuing appropriate written approval for the task order to the contractor prior to construction; and,
3. Space Management and Procurement officials are aware of the procurement policies and procedures related to tasking the contractor.

No formal recommendations are being made and, as such, no response is required.

Attachment

cc: Deputy Secretary
Associate Deputy Secretary
Under Secretary for Energy
Chief of Staff

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this inspection was to examine the facts and circumstances surrounding the allegation that the Department of Energy's (Department) Office of Economic Impact and Diversity (ED) had a number of instances of wasteful spending concerning: (1) the approval of a \$40,000 construction project to expand a senior official's office space although a large vacant office existed; (2) the purchase of Liquid Crystal Display Televisions for select ED officials to reflect a higher status; (3) the purchase of iPads for senior officials to reflect a higher status; (4) a \$50,000 pool of "fun money" to "shower someone with a good idea;" and, (5) the use of high-cost limousine services while on travel.

SCOPE

This allegation-based inspection was conducted between February 2012 and September 2012 at Department Headquarters in Washington, DC.

METHODOLOGY

To accomplish the objective, we:

- Interviewed Department officials from ED, the Office of Budget, Office of Headquarters Procurement Services, Office of Management Space Management, Office of Management Property Management, and Office of Management Travel Services; and,
- Reviewed and analyzed applicable Federal and Department regulations, directives, policies and procedures for continuing resolution, construction, procurement, travel and budget; and relevant construction, procurement, budget and travel documentation.

We conducted this allegation-based inspection in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation*. Those standards require that we plan and perform the inspection to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions and observations based on our inspection objective. We believe the evidence obtained provides a reasonable basis for our conclusions and observations based on our inspection objective. Accordingly, the inspection included tests of controls and compliance with laws and regulations to the extent necessary to satisfy the inspection 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 inspection. Finally, we relied on computer-processed data, to some extent, to satisfy our objective. We confirmed the validity of such data, when appropriate, by reviewing source documents.

An exit conference with the Office of Economic Impact and Diversity was waived. Further, an exit conference was held with the Office of Management on September 26, 2012.

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