

ER-B-99-06

AUDIT
REPORT

BECHTEL JACOBS
PAYROLL CREATION



U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

APRIL 1999



DEPARTMENT OF ENERGY

Washington, DC 20585

April 14, 1999

MEMORANDUM FOR THE ACTING MANAGER, OAK RIDGE OPERATIONS OFFICE

FROM: Terry L. Brendlinger, Manager (Signed)
Eastern Regional Audit Office
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Bechtel Jacobs Payroll Creation"

BACKGROUND

The Oak Ridge Operations Office (Operations Office) awarded a contract to the Bechtel Jacobs Company, LLC (Bechtel Jacobs) in December 1997. The terms of the contract require Bechtel Jacobs to create new jobs in the Oak Ridge area with a cumulative payroll of \$427 million through Fiscal Year (FY) 2003. In FY 1998, the contract required Bechtel Jacobs to create \$11 million in new payroll. The objective of the audit was to determine if Bechtel Jacobs met its commitment to create at least \$11 million in new payroll in the Oak Ridge, Tennessee area through September 30, 1998.

RESULTS OF AUDIT

We could not determine if Bechtel Jacobs met its new payroll commitment. Bechtel Jacobs reported that it created \$13.5 million in new payroll through September 30, 1998. In our opinion, the Department was not provided with sufficient data to fully verify that all claimed payroll had been created. The Operations Office verified that Bechtel National, Inc., and Jacobs Engineering Group Inc., created \$4.9 million in new payroll through September 30, 1998. However, the only data supporting the remaining \$8.6 million claimed by Bechtel Jacobs were letters from local companies showing the amount of new payroll claimed. The Operations Office did not require Bechtel Jacobs to obtain sufficiently detailed records to support the local companies' claims, and accepted the letters as adequate support. The Operations Office believed that company officials would not sign payroll creation claims unless the claims were true. As a result, the Department has little assurance that Bechtel Jacobs created \$13.5 million in new payroll, and Bechtel Jacobs may have received up to \$4.5 million in fee to which it was not contractually entitled.

We recommend that the Acting Manager, Oak Ridge Operations Office (1) adhere to the terms of the contract to have Bechtel Jacobs provide data that will enable validation of new payroll, (2) fully validate Bechtel Jacobs' payroll creation claims, and (3) recoup fee in accordance with the terms of the contract if Bechtel Jacobs fails to meet its payroll creation commitments.

MANAGEMENT REACTION

Management disagreed with the audit finding and Recommendation 2. Although management concurred with Recommendations 1 and 3, their comments suggest that no corrective actions are planned. The Operations Office stated that obtaining certification letters from local companies, and Bechtel Jacobs' assurance that the information was factual to the best of its knowledge, provided adequate validation of new payroll claims. The Operations Office believed any further validation of local companies' records would have a chilling effect on participation in the payroll creation program.

The audit concluded that certification letters do not provide reasonable assurance that all reported payroll was actually achieved. Subsequent reviews of the new corporate payroll reported by Bechtel Jacobs' parent companies resulted in a 21-percent reduction in those claims even though the claims were certified by company officials. Therefore, we believe that the payroll creation claims made by local companies might also be significantly reduced if the claims were subject to review.

Attachment

cc: Deputy Secretary
Under Secretary

BECHTEL JACOBS PAYROLL CREATION

TABLE OF CONTENTS

Overview

Introduction and Objective	1
Conclusions and Observations.....	2

Verification of Payroll Claims

Details of Finding	4
Recommendations and Comments	5

Appendix

Scope and Methodology	8
-----------------------------	---

Overview

INTRODUCTION AND OBJECTIVE

In March 1997, the Operations Office invited companies to submit proposals for a performance-based contract for the management and integration of environmental programs at Departmental facilities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. One of the objectives for this new contract was to stimulate community investment by requiring corporate initiatives to create jobs that are not dependent on Departmental resources. The evaluation criteria for proposals stated that 15 percent of the total score awarded to each bidder would be based on new payroll creation plans.

The Operations Office awarded this contract to Bechtel Jacobs in December 1997. Under the contract, Bechtel Jacobs was required to create new jobs with a cumulative payroll of \$427 million. The table below shows the amount of new payroll Bechtel Jacobs was required to create by the end of each fiscal year.

Bechtel Jacobs New Payroll Creation Commitments	
Fiscal Year Commitment	Payroll Creation
1998	\$ 11 million
1999	43 million
2000	65 million
2001	84 million
2002	103 million
2003	<u>121 million</u>
Total	<u>\$427 million</u>

Bechtel Jacobs was required to create \$11 million worth of new jobs by the end of FY 1998. The contract defined new jobs as jobs created by the direct action of Bechtel Jacobs that are not dependent on Departmental expenditures for their creation or continuation. This includes all primary jobs as well as supporting jobs like subcontractors and material suppliers. However, new jobs do not include retail sales or other indirect and incidental jobs that result from general increases in the economy. Additionally, new jobs cannot displace other existing jobs. The contract established a mechanism to recoup fees from Bechtel Jacobs for failing to meet its commitments for new payroll creation. The contract states that Bechtel Jacobs will forfeit \$1 in fee for each \$1 of

payroll not created, not to exceed one-half of the fee earned in any fiscal year.

To facilitate new job creation in the Oak Ridge area, Bechtel Jacobs provided incentives such as loan guarantees, rent subsidies, and relocation assistance to its corporate parents and various local companies.

The Office of Inspector General recently issued a report on a similar job creation program at the Hanford Site. Report DOE/IG-0430, *Project Hanford Management Contract Costs and Performance*, concluded that most of the new jobs created by Fluor Daniel Hanford, Inc., (Fluor Daniel) in FY 1997 were not comparable in skill and wage levels to the jobs lost at the Hanford Site through workforce reductions. Consequently, the new jobs did not help the Department meet its long-term goal of stabilizing and diversifying the Tri-Cities economy. We recommended that the Richland Operations Office establish performance expectations that define the quality of jobs promised by Fluor Daniel and desired by the Department. Management did not concur with the finding and recommendation.

The objective of this audit was to determine if Bechtel Jacobs met its commitment to create at least \$11 million in new payroll in the Oak Ridge area through September 30, 1998.

We could not determine if Bechtel Jacobs met its new payroll commitment. Bechtel Jacobs reported that it created \$13.5 million in new payroll through September 30, 1998. In our opinion, the Department was not provided with sufficient data to fully verify that all claimed payroll had been created. The Operations Office verified that Bechtel National, Inc., and Jacobs Engineering Group Inc., created \$4.9 million in new payroll through September 30, 1998. However, the only data supporting the remaining \$8.6 million claimed by Bechtel Jacobs were letters from local companies showing the amount of new payroll claimed. The Operations Office did not require Bechtel Jacobs to obtain sufficiently detailed records to support the local companies' claims, and accepted the letters as adequate support. The Operations

CONCLUSIONS AND OBSERVATIONS

Office believed that company officials would not sign payroll creation claims unless the claims were true. As a result, the Department has little assurance that Bechtel Jacobs created \$13.5 million in new payroll, and Bechtel Jacobs may have received up to \$4.5 million in fee to which it was not contractually entitled.

The audit identified issues that management should consider when preparing its yearend assurance memorandum on internal controls.

(Signed)

Office of Inspector General

VERIFICATION OF PAYROLL CLAIMS

Payroll Claims Could Not Be Verified

We could not verify that Bechtel Jacobs created \$13.5 million in new payroll between March 10, 1997, and September 30, 1998. The Operations Office validated \$4.9 million in payroll created by Bechtel National, Inc., and Jacobs Engineering Group Inc., transferring or expanding corporate activities to the Oak Ridge, Tennessee area. To facilitate the validation process, Bechtel Jacobs provided the Operations Office access to detailed records including employee names, rates of pay, and projects billed to support that these new jobs existed and were not dependent on Departmental funding.

The validation process resulted in downward adjustments to Bechtel Jacobs' claim for new corporate payroll. On October 30, 1998, Bechtel Jacobs claimed their efforts created \$6.2 million in new corporate payroll. Bechtel Jacobs later reduced their claim to \$5.5 million. Operations Office's validation of the corporate payroll resulted in the claim being further reduced to \$4.9 million.

The Operations Office did not obtain detailed payroll records to validate the remaining \$8.6 million in new payroll reported by Bechtel Jacobs. The only data provided to the Operations Office to support the claims of 14 local companies were letters, signed by company officers, stating the amount of new payroll claimed and the number of new jobs created. We do not believe that these letters provide sufficient data to verify the local companies' claims.

Contract Requires Bechtel Jacobs to Provide Access to Data

The contract established specific requirements that Bechtel Jacobs must follow to substantiate new payroll creation claims. The contract requires that Bechtel Jacobs provide an annual report detailing its progress toward meeting the \$427 million payroll creation commitment, and access to data that validates the amount of payroll created in each fiscal year. Further, the Operations Office and Bechtel Jacobs negotiated an Advanced Understanding on Implementation of Community Investment Provisions which required Bechtel Jacobs to provide the Operations Office with actual payroll data, supplied by each employer.

Also, the contract established a mechanism to recoup fees from Bechtel Jacobs for not achieving the payroll creation commitment. Specifically, the contract states that Bechtel Jacobs' "inability to deliver such commitments [payroll creation] for any fiscal year will result in the forfeiture of \$1 in fee for each \$1 worth of payroll not delivered, not to exceed one-half of the fee earned in any fiscal year. "

Despite the contractual requirement to make data available for

Operations Office Did Not Establish an Effective Validation Process

validation, the Operations Office did not require Bechtel Jacobs to provide sufficient data to support local companies' claims. The Operations Office determined that letters were adequate support to validate the claims. The Operations Office and Bechtel Jacobs were concerned that many local companies would not participate in the payroll creation effort if their participation required them to open their books and records to Government auditors. Also, the Operations Office believed that company officials would not sign payroll creation claims unless the claims were true.

Department Has Little Assurance That Bechtel Jacobs' Claims Were Accurate

As a result, the Department has little assurance that Bechtel Jacobs created \$13.5 million in new payroll as of September 30, 1998. The verification process resulted in significant reductions in Bechtel Jacobs' claim for new corporate payroll. If the claims of the 14 local companies were validated, it is likely that additional reductions to Bechtel Jacobs' new payroll creation claim would occur.

Further, Bechtel Jacobs may have received up to \$4.5 million in fee to which it was not entitled. Bechtel Jacobs could only support \$4.9 million of its \$11 million commitment as of September 30, 1998. The difference of \$6.1 million is questionable. The contract requires that Bechtel Jacob forfeit \$1 in fee for each \$1 in new payroll not delivered, up to one-half of the fee received in any fiscal year. Since Bechtel Jacobs received \$9 million in fee in FY 1998, Bechtel Jacobs may have received up to \$4.5 million in fee to which it was not entitled.

RECOMMENDATIONS

We recommend that the Acting Manager, Oak Ridge Operations Office:

1. Adhere to the terms of the contract to have Bechtel Jacobs provide data that will enable validation of new payroll,
2. Fully validate Bechtel Jacobs' payroll creation claims, and
3. Recoup fee in accordance with the terms of the contract if Bechtel Jacobs fails to meet its payroll creation commitments.

**MANAGEMENT
REACTION**

The Operations Office did not agree with the finding and recommendation two. Specifically, the Operations Office believed the audit conclusions were based upon a misinterpretation of the contract and the Advanced Understanding on Implementation of Community Investment Provisions. In discussions leading to the advanced understanding, the Operations Office and Bechtel Jacobs stated they agreed that the term "actual payroll data" means the aggregate payroll for each employer and the number of jobs represented by this payroll. Further, the Operations Office and Bechtel Jacobs agreed that validation of payroll creation claims would be satisfied by obtaining certification letters from the companies and Bechtel Jacobs certifying that the claims were factual to the best of their knowledge.

Management believed that conducting additional verification of payroll claims was unnecessary. The Operations Office stated that the Bechtel Jacobs contract does not require that local companies' payroll creation claims be audited. The Operations Office believed the Government does not have the authority to audit these companies' payroll records. Additionally, implementing such a requirement was deemed to have a chilling effect on participation in the community investment initiative. Finally, management believed the data submitted by Bechtel Jacobs provided a reasonable assurance that the reported payroll was actually achieved, and the data exceeds generally accepted standards for industrial development programs.

AUDITOR COMMENTS

Although management concurred with recommendations one and three, their comments suggest no corrective actions are planned. The contract states that Bechtel Jacobs "shall make available to DOE data that will validate the accomplishment of these commitments." Further, the advanced understanding requires Bechtel Jacobs to provide "actual payroll data by employer, supplied by the individual employer." If the Operations Office and Bechtel Jacobs agreed that the payroll claims made by local companies would not be subject to review, then the contract and the advanced understanding should state that payroll creation claims will be accepted without validation or review. Otherwise, certification letters, even when signed by company officials, do not provide an adequate basis for determining whether Bechtel Jacobs achieved its contractual payroll creation commitment. Without some access to supporting records, the payroll creation claims of local companies cannot be adequately validated.

Also, we disagree that the data provided by Bechtel Jacobs provided

reasonable assurance that the reported payroll was actually achieved. Subsequent reviews of the new corporate payroll reported by Bechtel Jacobs' parent companies resulted in a 21-percent reduction in those claims even though the claims were certified by company officials. Therefore, we believe it is likely that the payroll creation claims made by local companies would also be significantly reduced if the claims were subject to review. Further, the Operations Office did not support its belief that Bechtel Jacobs provided more detailed payroll creation data than generally expected for Federal or State industrial development programs. Management did not identify any industrial development programs similar to the Bechtel Jacobs contractual agreement.

Appendix

SCOPE

The audit was performed from December 1, 1998, to February 26, 1999, at the Operations Office in Oak Ridge, Tennessee. The scope of our audit was limited to Bechtel Jacobs' contract and the data used to support Bechtel Jacobs' new payroll creation claim for the period March 10, 1997, through September 30, 1998.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed the proposal submitted by Bechtel Jacobs when bidding on the management and integration contract, the contract awarded to Bechtel Jacobs, and an agreement clarifying the community investment provisions of the contract;
- Reviewed data supporting the Bechtel Jacobs new payroll creation claim for the period March 10, 1997, through September 30, 1998;
- Examined the Operations Office's review of payroll creation activities; and
- Discussed new payroll creation activities with Bechtel Jacobs and Operations Office officials.

The audit was performed 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. Accordingly, we assessed significant internal controls and measurable performance goals related to verifying Bechtel Jacobs' new payroll efforts. 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 did not assess the reliability of computer-processed data because very little computer-processed data were used during the audit.

We held an exit conference with the Operations Office's Assets Manager and Chief Financial Officer on March 17, 1999.

CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name _____ Date _____

Telephone _____ Organization _____

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following alternative address:

Department of Energy Management and Administration Home Page
<http://www.hr.doe.gov/ig>
or
<http://www.ma.doe.gov>

Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.

This report can be obtained from the
U.S. Department of Energy
Office of Scientific and Technical Information
P.O. Box 62
Oak Ridge, Tennessee 37831