



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Management Controls Over Administration of the WERC Project



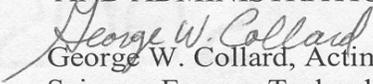
Department of Energy

Washington, DC 20585

May 18, 2004

MEMORANDUM FOR THE ASSOCIATE ADMINISTRATOR FOR MANAGEMENT AND ADMINISTRATION, NNSA

FROM:


George W. Collard, Acting Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "Management Controls Over
Administration of the WERC Project"

BACKGROUND

In response to Congressional direction, the Department funded WERC (A Consortium for Environmental Education and Technology Development). WERC is headquartered at New Mexico State University and sponsors activities at this university and others. The project supports various environmental efforts including education, outreach, research, and student-level design contests. Funding began in 1990 and, through August 2003, the Department of Energy has provided over \$56 million to the project. Under the new cooperative agreement, initiated in 2001, the Department is required to fund the project at \$2.5 million per year through 2007. Funding is provided by Environmental Management and the project is administered by the Environmental Restoration Division at the National Nuclear Security Administration Service Center located in Albuquerque, New Mexico.

As we observed in our reports on *The McNeil Biomass Project* (DOE/IG-0630, December 2003) and *Financial Assistance for Biomass-to-Ethanol Projects* (DOE/IG-0513, July 2001), the Department has not always provided adequate oversight to Congressionally directed projects. Based on our previous work and on specific concerns raised about this project, we initiated this audit to determine whether the Department was adequately managing its financial assistance to the WERC project.

RESULTS OF AUDIT

The Department did not always ensure that the WERC project was accomplishing its goals or that reimbursed costs were appropriate. Specifically, we noted that WERC:

- Awarded only \$31,000 of \$130,000 in planned fellowships during Fiscal Years 2002 and 2003;
- Funded less than 50 percent (8 of 18) of planned research projects during Fiscal Years 2002 and 2003; and,



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- Did not execute approximately \$3.7 of the \$7.5 million that the Department has obligated to the project under the new agreement.

In addition, of the \$2 million we reviewed, we questioned \$193,000 (9.7 percent) of costs claimed by and reimbursed to WERC since February 2000 for items such as food and travel. These situations occurred because the Department was not always substantially involved in monitoring the project. For example, officials were not always aware of WERC activities and accepted documents for planning, budgeting, and expenditures that lacked the amount of detail needed for monitoring. As a consequence, Federal project officers could not ensure that WERC was meeting its stated goals and spending funds in accordance with its budget proposals. While management indicated that the WERC project has provided numerous benefits to the public, the Department could not demonstrate that those benefits were commensurate with the \$56 million in public funds expended on the project.

To its credit, the Department required that the WERC Fiscal Year 2004 budget proposal provide additional detail regarding costs. The Department also modified the language in the new cooperative agreement to permit greater involvement in the project. Despite these positive actions, areas for improvement still exist. We made a number of recommendations that, if implemented, should improve the oversight of the WERC project.

MANAGEMENT REACTION

Management concurred with the report and the corresponding recommendations, and indicated that they are in the process of implementing controls designed to address the issues highlighted in this report. Management also stated that it would be discussing the dollar amounts questioned in the report with WERC and New Mexico State University staff. Management comments are included in their entirety in Appendix 1.

Attachment

cc: Manager, NNSA Albuquerque Service Center
Deputy Assistant Secretary for Business Operations, EM

REPORT ON MANAGEMENT CONTROLS OVER ADMINISTRATION OF THE WERC PROJECT

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WERC ACTIVITIES AND EXPENDITURES

Completion of Planned Activities

We found that WERC (A Consortium for Environmental Education and Technology Development) was not executing all the planned activities set forth in its annual budget proposals. For example, WERC:

- Awarded only \$31,000 of the \$130,000 in proposed fellowships at New Mexico State University (NMSU) during Fiscal Years (FY) 2002 and 2003. These fellowships were intended to provide a support program to students pursuing degree programs at WERC institutions and create an infrastructure to develop future environmental scientists, engineers, and policy makers.
- Funded less than 50 percent (8 of 18) of research projects proposed during the past 2 fiscal years. The majority of these research projects were to address Departmental site needs and to develop technologies to address critical national environmental issues.
- Did not execute approximately \$3.7 of the \$7.5 million that the Department of Energy (Department) had made available to the project since 2001. WERC personnel stated that they had not established internal plans to expend these funds because funding was irregular and they were concerned about over-committing funds. Furthermore, the WERC Executive Director told us that he intended to use funds remaining after the agreement expires to continue operations and execute an orderly closeout.

WERC Expenditures

Our review of 9 NMSU invoices identified over \$193,000 out of approximately \$2 million (9.7 percent) in questionable expenditures for meals, travel, and costs that were not properly supported. These expenditures included:

- \$148,353 for meals that were not set forth in the budget proposals and had not been approved as required by the Department;
- \$2,324 of questionable travel costs;

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- \$2,055 that was not in the annual budget proposal for 10 copies of a book that the Executive Director revised and received royalties from;
 - \$10,163 for miscellaneous expenditures, such as airfare and professional services, which should not have been allocated to the Department because these costs were not set forth in the budget proposals; and,
 - \$30,780 for various expenditures that WERC could not adequately explain despite repeated requests for such information.

We also questioned the appropriateness of WERC directly charging indirect labor for administrative personnel to the Department rather than allocating these costs to its various projects. For example, WERC's receptionist is charged 100 percent to the Department but the employee also works on projects funded by other sources. Additionally, the Department is charged for all general support costs related to design contests in spite of the fact that other entities also sponsor and fund the contests. The WERC Executive Director told us that he believes it is appropriate to charge these costs to the Department because WERC, including the design contests, would not exist without funding from the Department. We were unable to specifically quantify the proper allocation of the administrative and design contest costs to the Department because documentation provided to us by NMSU was insufficient.

PROJECT MANAGEMENT CONTROLS

Although the cooperative agreement required the Department's substantial involvement, we found that Environmental Restoration Division (ERD) officials were not always aware of WERC activities and accepted planning, budgetary, and expenditure data that lacked the detail needed for monitoring. We also observed other project control concerns that impacted the ability of the project manager to provide effective oversight of the agreement.

Substantial Involvement

Based on our inquiry, we learned that the project officer had only limited information regarding WERC's specific activities. The project officer was not aware that WERC personnel attended a number of conferences and shareholders meetings and was not informed of at least one course that was developed. Compounding this lack of involvement, the project officer was not clearly responsible for overall monitoring and direction of the project. For example, other Department officials provided guidance to WERC without notifying the project officer. In several instances, the project officer's supervisor also overrode her decision to withhold payments because of insufficient documentation supporting WERC requests for reimbursement.

Budgetary Data

ERD accepted WERC's annual budget proposals even though they lacked the detail necessary to effectively monitor the project. These proposals were supposed to include planned activities and costs for the upcoming year and were designed to be the Department's primary control instrument over the project. ERD approved the proposals even though they did not provide details regarding specific activities, carryover funds, cost sharing, program income, or anticipated funding from other sources. Further, ERD did not require that milestones tie back to activities outlined in budget proposals or be quantifiable and measurable. For example, the FY 2002 proposal had a spring and fall milestone for fellowships that simply required WERC to issue fellowships but did not stipulate the number to be awarded. Finally, ERD did not request that WERC modify proposals to reflect the actual funding provided or remove duplication of activities between proposals. For example, ERD approved WERC's \$3.8 million budget proposal for 2001, although only \$2.5 million was provided to the project. This budget proposal also duplicated activities and overlapped the performance period of a proposal approved under the previous agreement. Without modified proposals, the project officer could not evaluate progress and was unable to determine what activities were to be completed or under which proposal the efforts were funded. In addition, since 2001 WERC did not execute approximately \$3.7 of the \$7.5 million that the Department had made available to the project.

ERD personnel could not explain which activities were sacrificed to allow accumulation of the surplus and had not required WERC to provide a plan to utilize those funds.

Expenditure Data

ERD did not ensure invoices were sufficiently detailed to determine whether WERC's costs were allowable and used in a manner consistent with annual budget proposals. Under the previous agreement, WERC did not provide any details of the amount requested for reimbursement. Under the current agreement, WERC is required to provide the dollars expended within eight general categories, such as personnel, subcontracts, and equipment. Although this was a step forward, this limited detail did not allow the actual costs to be compared to the budgeted amounts for each activity because the proposals did not align with the eight general categories.

In addition, NMSU did not provide the Department with additional support for WERC invoices despite numerous requests by the project officer. While at NMSU, we found that WERC had, in fact, established accounts to track funds and account for expenditures by activity similar to the way it categorized costs in its annual budget proposals. However, we were unable to obtain an explanation as to why NMSU did not provide this information to the Department. WERC personnel and NMSU's accounting personnel cited the lack of communication with the Department as the reason that the information was not supplied.

Other Project Control Weaknesses

During our review, we identified other issues that had an impact on ERD's project controls:

- Accomplishments were not consistently or clearly reported. For example, the milestone completion percentage stipulated in the annual summary reports did not always tie to the level of completion disclosed in the quarterly reports. Furthermore, WERC's Annual Report submitted to the Department disclosed achievements of all portions of the WERC project and did not specify the accomplishments funded by the Department. Therefore, determining whether WERC completed planned activities, the level of completion related to these activities, and the funding source of the activities was not possible; and

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- At the time of our visit, ERD had received only three of seven required quarterly reports from WERC, each of which were significantly overdue and, as a consequence, were not valuable for actively overseeing the project.

**PROJECT
ACCOMPLISHMENTS**

By not adequately managing its financial assistance, the Department could not ensure that WERC was meeting its stated goals and spending funds in accordance with its budget proposals. For example, the large funding surplus indicates that WERC had not executed its budget properly and, as a result, may not have fully achieved the intended goals of the project. On the other hand, WERC's claims of success may also indicate that the project has been provided with more funding than it needs to conduct its operations. While management has stated that the WERC Program has provided numerous benefits to the public, program officials lacked full details necessary to demonstrate that project provided benefits commensurate with the \$56 million in Departmental funding provided.

RECOMMENDATIONS

To ensure Federal funds are used to fully satisfy project objectives and to avoid questionable costs, we recommend that the Associate Administrator for Management and Administration, NNSA, strengthen the controls over the WERC cooperative agreement by:

1. Establishing clear roles and responsibilities for providing oversight and technical direction;
2. Ensuring that the invoice support aligns with the cost information set forth in budget proposals;
3. Tracking and evaluating deliverables to ensure that they measure against milestones set forth in the annual budget proposals; and,
4. Ensuring the annual budget proposals are sufficiently detailed to allow effective monitoring of the project.

**MANAGEMENT
REACTION**

Management concurred with the report and the corresponding recommendations and indicated that they are in the process of

implementing controls designed to address the issues highlighted in this report. Management stated that it would be discussing the dollar amounts questioned in the report with WERC and NMSU staff. Management pointed out that the level of awards made by WERC is dictated by the availability of qualified candidates, and indicated that in the future WERC will be required to identify other priority activities that available funds can be applied to upon approval.

AUDITOR COMMENTS

Management comments were responsive to our recommendations and are included in their entirety in Appendix 1. Based on the management's comments, we made several technical changes to the Report Memorandum and the body of the report.



Department of Energy
National Nuclear Security Administration
Washington, DC 20585



APR 29 2004

MEMORANDUM FOR Rickey R. Hass, Director
Science, Energy, Technology,
and Financial Audits
Office of Audit Services

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

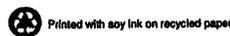
SUBJECT: Comments on Administration of the WERC Project
Draft Report

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review and comment on the Inspector General's (IG) draft report, "Management Controls Over Administration of the WERC Project." The project, funded through the Department at the direction of Congress, is the Consortium for Environmental Education and Technology Development. We understand that the IG conducted this audit to determine whether the Department was adequately managing its financial assistance to the project.

The NNSA and Environmental Management employees located at Albuquerque have reviewed this draft and agree with the report and the corresponding recommendations. There are technical corrections to the report that are being provided separately. While the report and recommendations are addressed to NNSA, the WERC Project is an Environmental Management funded program. Therefore, we are coordinating this response with that program office. The federal officials overseeing this project are Environmental Management employees, funded by Environmental Management but, they are located within NNSA's Service Center and are ultimately supervised by NNSA officials. Additionally, the contracting officer for this project is an NNSA official. NNSA provides the contracting service only while programmatic direction is provided by Environmental Management.

Regarding the recommendations, NNSA and/or Environmental Management will, as appropriate:

Recommendation 1 – related to roles and responsibilities



The cooperative agreement sets forth the requirement for substantial involvement by the Project Officer in oversight and technical direction. Formal protocols are under development to identify the involvement of the "integrated project team" that oversees the WERC Project. Each organization's responsibilities and authorities will be documented to ensure accountability and responsibility. These actions will be accomplished by the end of the 3rd Quarter, Fiscal Year 2004.

Recommendation 2 – related to invoice support aligning with cost information

On November 7, 2003, the project officer provided WERC detailed comments to the Fiscal Year 2004 annual budget proposal, addressing the specific needs of monthly invoices that would require supplemental cost information set forth in the budget proposal. The consortium members are required to provide the data at the same level of specificity to ensure compliance with the requirements contained within the cooperative agreement. These actions will be accomplished by the end of the 3rd Quarter, Fiscal Year 2004.

Recommendation 3 – related to tracking and evaluating deliverables

The project officer is currently developing a tracking system that will identify the deliverables, milestones and schedule in accordance with the approved annual budget proposal. These actions will be accomplished by the end of April 2004.

Recommendation 4 – related to ensuring budget proposals are sufficiently detailed

The budget proposal for Fiscal Year 2004 was approved after a comment and resolution period that involved discussions about what is the appropriate and required data elements to monitor the project. The project officer will evaluate the performance and monitor the expenditures as agreed to in the approved annual proposal. These actions will be accomplished by the end of the 3rd Quarter, Fiscal Year 2004.

As stated, additional comments of a technical nature are being provided separately. Should you have any questions, please contact Richard Speidel, Director, Policy and Internal Controls Management at 202-586-5009.

cc: Jessie H. Roberson, Assistant Secretary
for Environmental Management
Karen Boardman, Director, Service Center
Robert Braden, Senior Procurement Executive, NA-63

Appendix 2

OBJECTIVE

To determine whether the Department was adequately managing its financial assistance to the WERC project.

SCOPE

The audit was performed from August 2003 through March 2004, at Headquarters in Washington, DC and Germantown, Maryland, the National Nuclear Security Administration Service Center in Albuquerque, New Mexico, and New Mexico State University (NMSU) in Las Cruces, New Mexico.

We limited our scope to include a review of NMSU's invoices for the WERC project, dated February 2000 through April 2003. Of the 40 invoices comprising this universe, totaling \$7,640,095, we chose to sample 9 invoices, totaling \$2,960,383 (39 percent). We further limited our review by excluding \$1,107,112 of the costs claimed by other consortium members that were embedded in our selected sample (the University of New Mexico, New Mexico Institute of Mining and Technology, and Dine Community College).

METHODOLOGY

We held discussions with Headquarters officials from the Office of Environmental Management and the Office of Management, Budget and Evaluation/Chief Financial Officer to gain an understanding of the funding process involved with congressionally directed projects and to gain knowledge regarding the WERC project. In particular, we:

- Held discussions with ERD officials to determine their role in the management and administration of the WERC project and to determine if any areas of concern existed;
- Held discussions with NMSU personnel to determine the university's role in the management and administration of the project, as well as to determine what controls the university has over the project; and,
- Reviewed judgmentally selected NMSU WERC invoices dated from February 2000 through April 2003 to determine if the funds were being used for their intended purpose(s).

This 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.

Appendix 2

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. Since computer processed data was not the primary support used to meet our audit objective, we performed a limited assessment of data reliability. We assessed the Department's compliance with the Government Performance and Results Act of 1993. However, the Department's Annual Performance Plan for Fiscal Year 2003 did not include specific performance data pertaining to congressionally directed projects nor, more specifically, to the WERC project.

Management waived the exit conference.

PRIOR REPORTS

- *The McNeil Biomass Project* (DOE/IG-0630, December 2003). The Department was congressionally directed to award, through a cooperative agreement, financial assistance to the McNeil Biomass Project to help it achieve its goal of demonstrating commercial-scale biomass gasification. In Fiscal Year (FY) 2002, the Department dedicated \$3 million to the project to aid the recipient in accomplishing several objectives related to improving the gasification process. This audit revealed that the Department continued to provide funds to the McNeil Biomass Project even though there was little or no progress toward meeting FY 2002 objectives. This occurred because the Department did not devote adequate attention to establishing project objectives and did not closely monitor the project. As a result, the Department had little to no assurance that the \$2 million spent on the project in FY 2002 was of any benefit to the Department or to the scientific community at large.
- *Grant Administration at the Oakland Operations Office* (WR-B-02-02, January 2002). The Department issues science and technology (S&T) grants to advance scientific research in fields important to the Department. Grantees are to document the scientific and technical information that results from their work in technical reports, and provide the reports to the Department for dissemination to the scientific community and the general public by the Office of Scientific and Technical Information (OSTI). During FYs 1998 through 2000, Oakland administered about 1,953 S&T grants totaling approximately \$1.84 billion which required S&T reports. We estimated that some of the technical reports for about 1,237 of these grants were not sent to OSTI. This occurred because Oakland lacked procedures for tracking the collection of reports and forwarding the reports to OSTI.
- *Albuquerque Operations Office's Grant Administration* (DOE/IG-0524, September 2001). The Albuquerque Operations Office administered grants with a total value of \$509 million. A Federal Assistance Reporting Checklist, which identifies the reporting requirement and frequency of required reports for each project, is included as part of each grant. The review by the Department of these deliverables is an important and necessary part of the grant administration process. This audit disclosed that Albuquerque was not receiving many of the deliverables specified in its grants. As of May 2001, Albuquerque had not received final deliverables for 11 of the 28 completed grants included in our review. Albuquerque had no formal procedures to identify when deliverables were due, thus negatively affecting its ability to initiate follow-up actions.

Appendix 3

- *Financial Assistance for Biomass-to-Ethanol Projects* (DOE/IG-0513, July 2001). The Department was required to award, through congressional direction, financial assistance to two firms whose goal was to construct a full-scale biomass production facility by the year 2000. This audit revealed that the Department had not met its programmatic goal of having a full-scale commercial biomass production facility built by 2000. In fact, construction of the two facilities had not even started as of the completion of this audit. Despite assertions by the two recipients that their technologies were proven and ready for commercial application, both companies had not fulfilled the representations contained in their proposals or the terms of their financial assistance agreements. As of the date of this audit, the Department had spent nearly \$15 million on these projects and there was no biomass facility on the horizon. Management asserted that because of the congressional "earmark" it could not apply certain project management principles to these projects. Management further asserted that, because of the appropriations action, its latitude in managing these projects was severely limited.

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3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
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