



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

Audit Report

Management of Facility Contractors
Assigned to the Washington, D.C.
Area




Department of Energy

Washington, DC 20585

November 21, 2005

MEMORANDUM FOR THE SECRETARY

FROM:


Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Audit Report on "Management of Facility
Contractors Assigned to the Washington, D.C. Area"

BACKGROUND

The Department of Energy frequently assigns facility contractor employees to the Washington, D.C. area with the stated purpose of addressing technical and direct support needs of various Headquarters program offices. Congress has expressed concern about the magnitude and cost of this program and, as a consequence, the Department was directed to track, evaluate, and report the number and cost of such assignments each year. In response, the Department issued internal procedures which required that Headquarters program offices annually evaluate and justify each assignment. Such assignments are limited to one year in duration, unless considered critical and representing significant mutual benefit to the program sponsor and facility.

Because of the congressional concerns, the Fiscal Year 2005 House Appropriations Report included language requiring the Office of Inspector General to review the Department's report for 2004. We reviewed and reported on the accuracy of the Department's assignment tracking and reporting in our report on *The Department of Energy's Annual Report to Congress on Management and Operating Contractor Employees in the Washington, D.C. Area* (OAS-L-05-07, June 2005). While we noted several opportunities to improve the quality and accuracy of reporting, nothing came to our attention to indicate that the Department's report of 189 contractor employee assignments as of September 30, 2004, was materially incorrect. Based on economy and efficiency issues identified during that review, we initiated a separate audit to determine whether the Department was adequately managing the assignment of facility contractor employees to the Washington, D.C. area.

RESULTS OF AUDIT

Our audit disclosed several opportunities to improve the management of this program. Specifically:

- Although required by Departmental directive, justifications as to the need for and duration of assignments had not been prepared or were inadequate for the 30 employees included in our sample;
- Assignments were routinely extended beyond the one-year threshold. In fact, about 19 percent (36 of 189) of the contractor employees had been assigned to the D.C. area for ten years or longer, while about 80 percent exceeded one year; and,



- Moving and other temporary living allowances paid to assignees varied significantly from contractor to contractor and, in some cases, appeared excessive.

These problems occurred because the Department had not developed and implemented a process for determining whether assignment justifications: (1) were initially prepared; (2) supported the need to extend assignments; (3) adequately considered alternative means for fulfilling critical skill needs; and, (4) evaluated the reasonableness of cost. In addition, the Department had not promulgated standards for dislocation and other allowances for contractor employees assigned to the Washington, D.C. area. As a consequence, the Department lacked assurance that the cost of technical and program support provided by the facility contractor personnel assigned to the Washington, D.C. area was appropriate and necessary. In fact, annual employee costs averaged \$247,000, with costs as much as \$576,000 per year for a technical and program support contractor assignee, both fully burdened.

After being informed of our preliminary findings and in response to our previous report, management committed to changes needed to improve the quality and accuracy of reporting and initiated action to improve oversight and approval controls. While these actions are noteworthy, additional action is necessary to ensure that these assignments are accomplished in the most cost-effective manner available. Accordingly, we made several recommendations designed to help those administering the assignment program determine whether these types of assignments are adequately justified, reasonable in duration, and cost-effective.

MANAGEMENT REACTION

Management generally concurred with our recommendations and indicated that it had initiated corrective actions to address the recommendations. Management emphasized that on October 19, 2005, the Department issued DOE Notice 350.2, *Supplemental Requirements for the Use of Management and Operating or Other Facility Management Contractor Employees for Services to DOE in the Washington, D.C., Area*. If properly implemented, this directive should strengthen oversight and assignment controls. Management's comments are summarized in our report and are included in their entirety in Appendix 3.

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Chief of Staff
Director, Office of Management
Director, Office of Procurement and Assistance Management

REPORT ON THE MANAGEMENT OF FACILITY CONTRACTORS ASSIGNED TO THE WASHINGTON, D.C. AREA

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FACILITY CONTRACTORS IN THE WASHINGTON, D.C. AREA

Justification and Dislocation Allowance Costs

Although specifically required by existing policy, program officials from various Department of Energy (Department) organizations did not always adequately justify the need for initial or extended assignments of facility contractor employees to the Washington, D.C. area. Justifications were either not prepared or did not adequately consider alternatives, costs, or fully validate the need for long duration assignments. We also noted that dislocation allowances varied significantly between contractors and, in some cases, may be excessive.

Justifications for Initial or Extension of Assignments

Our testing revealed that justifications for the assignment of facility contractor employees to the Washington, D.C. area either had not been completed or were inadequate. As noted in DOE Order 350.2A, program officials are required to document their rationale for such assignments – to include a discussion of factors considered in determining whether the support is critical to the sponsoring offices' operation or program. However, even though most of the 30 individuals we selected for detailed testing had been providing local support for a number of years, we found that justifications had not been prepared for 14, and that the remaining 16 justifications were inadequate. Specifically, the existing justifications did not provide evidence that the elements required to demonstrate need were considered.

Justifications often did not describe the basis under which officials determined that the services requested were critical and whether alternatives, including the use of Federal employees, had been considered. Several justifications simply stated there were no other possible alternatives to the contractor assignment, but did not explain how other alternatives were explored. Several other justification documents simply described the employee's duties. While we noted that Program heads continued to certify the continuing need for these assignments each year, they did so without the benefit of justifying documentation.

We determined that cost analyses required by existing policy also had not been performed for any of the assignments we reviewed. While the justifications often included cost estimates, we found that, in many cases, there were no details supporting the estimates, such as the costs

of dislocation allowances and other benefits. Program officials told us that they frequently justified assignments based solely on the facility contractor employee's qualifications without regard to cost. In a number of instances, we observed that program officials were unaware of the detailed costs comprising the total cost of the assignment and told us that we would have to contact the facility contractors directly if we wished to reconstruct the total cost of the assignment.

Many of the justifications we reviewed also did not adequately address the need for long duration assignments – some of which have been extended to as long as 15 years. The Department requires that assignments be limited to one year unless considered critical; however, we observed that justifications were completed on a year-to-year basis, did not reflect that alternatives were re-evaluated, and in many instances, simply repeated the statement that there were no alternatives to using the contractor employee. The following table details the number of employees and the length of their assignments as of the end of Fiscal Year 2004:

Extended Assignments	
Length of Assignment	Number of Employees
Less than 1 year	36
1 year to less than 3 years	53
3 years to less than 5 years	25
5 years to less than 10 years	39
10 years to less than 15 years	28
Greater than 15 years	8
Total Employees as of September 30, 2004	189

Dislocation Allowance Costs

We also found that the costs associated with maintaining a contract employee in the Washington, D.C. area varied significantly depending on which contractor supplied the employee. Specifically, we identified appreciable differences in the amount and length of the temporary

living allowances provided, the amount allowed for shipment of household goods, and the provision for premium locality pay. These costs are generally called dislocation allowances.

The amounts paid to Y-12 employees for temporary living allowances were twice the amounts paid to employees from Argonne National Laboratory. Employees from Sandia National Laboratory also received per diem reimbursement for up to four years, while employees at Oak Ridge National Laboratory were restricted to two years. In addition, some contractors authorized up to 18,000 pounds for the shipment of household goods to the temporary duty assignment, while others limited it to just 1,000 pounds. Further, several contractors paid premiums or cost of living adjustments to work in Washington, D.C., while others did not.

We also identified instances where dislocation costs appeared to be excessive. For example, Lawrence Livermore National Laboratory (Livermore) allowed an employee to temporarily move to Washington, D.C. with another family member. This employee was paid a dislocation allowance of nearly \$140,000 for the one year assignment. However, the full per diem allowed by federal regulations is equivalent to around \$70,000, about half the amount paid. In a similar example, an individual from Livermore was paid about \$165,000 in dislocation allowances for a one year assignment and continued to receive a wide range of dislocation benefits when the assignment was extended for a second year.

Controls Over Facility Contractors

Problems with contractor employee assignments to the Washington, D.C. area occurred because Departmental controls over such assignments did not include verification of compliance with existing requirements or standards regarding consistency or reasonableness of allowances. The Department does not have an active oversight process to ensure that the sponsoring program elements comply with existing requirements. For example, a process does not exist for evaluating whether justifications proposed by program officials are complete, establish the full duration of assignments, adequately consider alternative means for fulfilling critical skill needs, and evaluate the reasonableness of costs.

Office of Procurement and Assistance Management (Procurement) officials – the organization responsible for tracking employee assignments and reporting to Congress – told us that they are not required to and do not review justifications. In addition, they disagreed with our conclusion that there was not an active oversight process. They added that they do not have the needed technical expertise to assess justifications on a program mission or technical capability basis. Accordingly, they believed the program official's certification that they considered all pertinent items was sufficient.

In addition, the Department had not promulgated standards for allowances for employees assigned to the Washington, D.C. area. For example, the Order does not provide guidance on how to evaluate and review costs prior to assignment, nor does it provide parameters or limits on dislocation allowances. Procurement officials stated that standardizing dislocation costs across all contracts may be difficult due to varying contract terms and conditions among the various facility management contracts. However, Department Manual 321.1-1 on Intergovernmental Personnel Act Assignments, which addresses assignments similar to those discussed in this report, requires that contractors prepare formal cost comparisons and normalization of allowance costs.

Our audit also identified actions that had been taken by one major contractor that, if applied at other sites, could significantly reduce the costs for long-duration assignments. Specifically, in response to an Oak Ridge Operations Office concern that temporary assignment costs were high, UT-Battelle, LLC, the managing contractor of the Oak Ridge National Laboratory, performed a benchmark study that looked at the allowances paid by 12 of the Department's facility contractors. Based on this study, the Oak Ridge National Laboratory was able to reduce its allowances for contractor assignments and now pays employees a reduced per diem for two years then nothing thereafter.

Opportunities for Improvement

While we do not dispute the idea that, in many cases, the Department needs technical and program support from facility contractor personnel, it is likely that the Department is paying more than necessary to accomplish the required duties. Unless all the alternatives are fully considered prior

to assigning facility contractor employees to the Washington, D.C. area, the risk that the Department is placing too much reliance on non-Federal employees will continue to exist.

Increasing the use of support service contractors or Federal employees already assigned to the Washington, D.C. area, when appropriate, could result in significant savings, particularly related to dislocation costs. Normalizing allowances between contractors could also provide additional savings. As previously noted, the Oak Ridge National Laboratory has adopted a program that will effectively reduce the cost of allowances for long term assignments by as much as 30 percent. Such resources could be applied to other pressing mission needs.

Positive Action

To its credit, after our preliminary findings were discussed with Procurement officials, the Department initiated actions to improve the Department's policies and procedures. DOE Notice 350.2, *Supplemental Requirements for the Use of Management and Operating or Other Facility Management Contractor Employees for Services to DOE in the Washington, D.C. Area*, was issued on October 19, 2005, after obtaining concurrences from the various organizations sponsoring facility contractor assignments. The new requirements include standardizing information requirements, establishing additional assignment cost and duration controls, and increasing senior management involvement in the review and approval of contractor assignments.

RECOMMENDATIONS

To further strengthen controls over facility contractor assignments to the Washington, D.C. area, we recommend that the Director, Office of Procurement and Assistance Management, in conjunction with the National Nuclear Security Administration and cognizant program secretarial officers:

1. Develop and implement an oversight plan to ensure that requirements of the revised Order are followed. In particular, ensure that sponsoring organizations have:

-
- a. Prepared thorough justifications that define, to the extent possible, the entire period the critical skill is needed and clearly demonstrates that alternatives were considered for meeting that need; and,
 - b. Evaluated the reasonableness of cost, such as dislocation allowance and other benefits.
2. Establish guidelines for evaluating the reasonableness of cost, including parameters for limiting or reducing the cost of assignments.

**MANAGEMENT
REACTION**

Management generally concurred with our recommendations and, as discussed earlier, issued DOE Notice 350.2 to fully implement the report findings and recommendations. The Notice represents the oversight plan to place additional responsibilities on senior Departmental management. Procurement officials commented that compliance with Departmental policy, procedures and controls is the responsibility of the organization sponsoring contractor assignments and, accordingly, they will be required to establish internal review and approval procedures to ensure compliance. Additionally, the Notice revises standards and adds new requirements to ensure that assignment determinations and approvals are based on sufficient information and to control the costs and duration of these assignments.

In responding to a draft of this report, Management also noted a few areas requiring clarification that were discussed and incorporated into the report where appropriate.

AUDITOR COMMENTS

Management's comments and actions are responsive to our recommendations. With the issuance of the Notice, the Department faces the challenge of re-evaluating its current assignments and ensuring new assignments are appropriately justified and costs are reasonable.

Management comments are included in their entirety in Appendix 3.

Appendix 1

OBJECTIVE	The objective of this audit was to determine whether the Department was adequately managing the assignment of facility contractor employees to the Washington, D.C. area.
SCOPE	The audit was performed between June 2005 and September 2005 at Department Headquarters and included selected Department sites. We performed a review of selected contractor's current assignments to the Washington, D.C. area and also reviewed selected employees' assignment justifications and cost analyses.
METHODOLOGY	<p>To accomplish our audit objective, we:</p> <ul style="list-style-type: none">• Reviewed applicable laws and regulations pertaining to facility contractor assignments to the Washington, D.C. area;• Reviewed prior audits pertaining to facility contractor assignments to the Washington, D.C. area;• Reviewed program staffing plans and discussed the staffing plans with program offices;• Obtained listings of current assignments to the Washington, D.C. area from eight of the Department's major contractors and compared those listings to the Facility Contractor Database;• Obtained and reviewed assignment justifications and cost analyses for 30 technical employees;• Discussed processes for assigning facility contractors to the Washington, D.C. area with program officials and contractors; and,• Reviewed the Fiscal Year 2004 Report to Congress on the number of facility contractors in the Washington, D.C. area.

Appendix 1 (continued)

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. 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 identify any performance measures or goals required by the *Government Performance and Results Act* applicable to facility contractor assignments to the Washington, D.C. area. We relied on limited computer processed data to accomplish the audit objective. When appropriate, we performed limited test work of data reliability during the audit. When the test work identified weaknesses in data reliability, we performed alternate steps to accomplish the audit objective.

We held an exit conference with management on November 3, 2005.

PRIOR AUDIT REPORTS

- *Facility Contractor Employee Assignments by Energy Efficiency and Renewable Energy* (OAS-L-04-07, December 2003). This review disclosed that the Office of Energy Efficiency and Renewable Energy (EERE) and the National Renewable Energy Laboratory (NREL) had not followed requirements for assigning facility contractor employees to the Washington, D.C. area. Specifically, EERE assigned seven facility contractor employees to Headquarters, but did not notify the Department or include them in the facility contractor database. Despite strict prohibitions to the contrary, NREL procured the technical services of a facility contractor employee on EERE's behalf and assigned that individual to Washington, D.C. By not ensuring that the Department was fully informed about the number of contractor employees assigned to Headquarters, EERE placed the Department at risk of exceeding the Congressional ceiling on the assignment of such employees.
- *Follow-Up Audit on the Department's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies* (OAS-L-03-03, December 2002). This audit found that overall, the Department had improved its management and use of field contractors assigned to Headquarters and has taken corrective actions that satisfy the intent of the recommendations outlined in the prior audit reports. However, this audit did find that enhancements could be made to the Department's Facility Contractor Employee Database to make it more valuable to Headquarters Program elements. Specifically, the database lacked the data needed to ascertain total program funding requirements. For example, the database could not identify funding levels for employees that were funded by multiple programs; instead, multi-funded employees were recorded under only one sponsor.
- *Audit of the Department of Energy's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies* (DOE/IG-0414, December 1997). This audit found that the Department did not effectively manage the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, the Department was unable to identify all contractor employees assigned to the Washington, D.C. area or determine the total cost of maintaining them; some employees were providing routine support and administrative services rather than unique program expertise; and several of the Department's contractors had assigned their employees to work in other agencies without receiving full reimbursement for their services. This audit identified over 800 field contractor employees working in the Washington, D.C. area, while Procurement's database had slightly more than 400. In addition, the Department did not fully implement the corrective actions it agreed to in the prior audit report.

Appendix 2 (continued)

- *The Department of Energy Program Offices' Use of Management and Operating Contractor Employees* (DOE/IG-0392, July 1996). This audit found that 378 laboratory employees were assigned to the Washington, D.C. area for periods of six months or longer, at least 220 of whom provided a wide range of administrative and technical support services directly to the program offices. In addition, these employees worked on projects which have the potential to impact their laboratory employers. These conditions occurred because the Department had not clearly defined the proper use of laboratory employees and had not established a system to periodically review their proper usage. Further, the Department was not fully aware of the magnitude of reliance on laboratory employee support or the associated cost implications. As a result, laboratory contract employees were involved in programmatic and policy arenas in which real or perceived conflicts may exist between their official duties and the tasks they assume when serving the Department program offices and the Department may be augmenting its federal workforce in a way that might not be cost-effective and consistent with its staffing objectives.



Department of Energy
Washington, DC 20585

OCT 14 2005

MEMORANDUM FOR RICKEY R. HASS
ASSISTANT INSPECTOR GENERAL
FOR FINANCIAL, TECHNOLOGY, AND CORPORATE AUDITS

FROM: BRUCE M. CARPES *BMC*
DIRECTOR
OFFICE OF MANAGEMENT

SUBJECT: DOE comments to Draft Report on "Management of Facility
Contractors Assigned to the Washington D.C. Area"
(A05SC043)

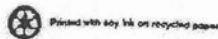
We have reviewed the draft Office of Inspector General (OIG) Report entitled, "Management of Facility Contractors Assigned to the Washington D.C. Area." We appreciate the opportunity to review prior informal drafts of the report to eliminate any inaccuracies. The current report has incorporated many of our comments and we appreciate the very professional manner in which the OIG worked with our staff on this audit. The report has provided valuable insight into areas for improvement and has resulted in DOE taking steps, prior to the release of the final audit report, to address the DOE IG findings and recommendations.

On September 29, 2005, draft DOE Notice 350.2, "Supplemental Requirements for the Use of Management and Operating of Other Facility Management Contractor Employees for Services to DOE in the Washington D.C., Area," was forwarded to the Deputy Secretary for approval. The notice represents DOE's "action plan" recommended by the audit report and places additional oversight and approval responsibilities on senior DOE management. In addition, the Notice revises standards and implements new requirements (developed to address the audit report findings and recommendations) to ensure that DOE has sufficient information on which to base assignment determinations and approvals and control the costs and duration of these assignments.

We have attached some comments on the draft report which we believe clarify and improve the accuracy of a few areas of the report. If you have any questions, regarding this matter, please contact A. Scott Geary at 202 287-1507.

Attachment

cc: Spedel, Richard M., NA-66
John Alleva A., SC-3



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