



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

Audit Report

Management Controls over Defense Related High Risk Property

OAS-M-08-06

April 2008



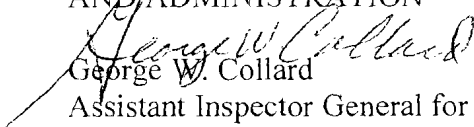
Department of Energy

Washington, DC 20585

April 24, 2008

MEMORANDUM FOR THE ASSOCIATE ADMINISTRATOR FOR MANAGEMENT AND ADMINISTRATION

FROM:


George W. Collard

Assistant Inspector General for NNSA and Energy Audits
Office of Inspector General

SUBJECT:

INFORMATION: Audit Report on "Management Controls
over Defense Related High Risk Property"

INTRODUCTION AND OBJECTIVE

The Department of Energy's National Nuclear Security Administration (NNSA) was established to maintain and enhance the safety, security, reliability, and performance of the nation's nuclear weapons stockpile. To help NNSA perform its mission, both Los Alamos National Laboratory (Los Alamos) and Sandia National Laboratories (Sandia) utilize and maintain firearms, firearm components, weapons, and protective force equipment to protect its operations and facilities. These items are considered defense related "high risk" property, according to the United States Munitions List, because their uncontrolled release could potentially impact public health and safety, the environment, and national security interests. Therefore, they are also subject to export controls.

Federal regulation *41 CFR 109 Department of Energy Property Management Regulations*, requires Departmental organizations and designated contractors to manage and control Government-owned high risk property over its lifecycle, in order to protect against misuse, theft, and misappropriation. Lifecycle accountability is continuous from the time of acquisition until final disposal. Federal regulations also require contractors to review high risk personal property prior to its reutilization or disposal in accordance with property management policies and procedures.

We initiated this audit to determine whether Los Alamos and Sandia were effectively managing defense related high risk property. Our review was limited to firearms, firearm components, and protective force equipment.

RESULTS OF AUDIT

Los Alamos and Sandia had effective administrative controls in place over the accountability of firearms, including formal inventories, adequate documentation, and proper segregation of duties. However, administrative controls over other defense related high risk property such as firearm barrels, body armor, and gas masks were not sufficient for providing accountability. Specifically, the laboratories did not always:

- maintain complete and accurate inventories of firearm barrels, body armor, and gas masks;



- document the disposal of these items, as required by both Federal regulations and internal policies; and,
- segregate duties over protective force equipment, such as body armor and gas masks to reduce the risk of error or fraud.

Although in some cases, the laboratories listed gas masks and body armor on informal logs and spreadsheets, we found these lists to be inaccurate. For example, we conducted a 100 percent inventory of Los Alamos' protective force body armor vests and discovered 33 vests that had not been recorded in the logs. We also found that a Los Alamos line organization had not documented the destruction of used gas masks prior to their disposal, and the Sandia protective force had not documented the destruction of used firearm barrels. Finally, both sites had individuals responsible for multiple tasks pertaining to the control over high risk property including receiving, controlling inventory and issuing protective force equipment. Thus, the internal control benefit of segregation of duties was lost.

Los Alamos and Sandia did not follow or require their subcontractors to follow Federal high risk property regulations for their defense related high risk property. Both sites asserted that a 1996 property waiver from the former Albuquerque Operations Office exempted them from lifecycle control of high risk property. However, the Albuquerque Operations Office had provided the waiver conditioned on the sites performing "tail-end" reviews of the high risk property's lifecycle to ensure that items such as firearm barrels, body armor and gas masks were not usable prior to disposal. Although Los Alamos and Sandia required such reviews and Sandia included the requirement in mandatory employee training, line organization staff, including protective force officials, were not always aware of the requirements. For example, Los Alamos staff who disposed of gas masks indicated that they were unaware that the Los Alamos property management organization should have been contacted before the gas masks were destroyed.

The lack of accountability controls over firearms barrels, gas masks and body armor increased the risk that theft of these items could go undetected. Recently, at another Department site, barrels, rifle scopes, and body armor were stolen and sold for personal gain. This was the subject of an Office of Inspector General investigation. We concluded that increased attention to management and accountability controls at both Los Alamos and Sandia could minimize potential vulnerabilities to public safety and security.

During our review, the Sandia and Los Alamos Site Offices rescinded the laboratories' property waivers. In rescinding the waivers, the site offices pointed out that Sandia and Los Alamos are expected to fully comply with Federal high risk property regulations. While the rescission of these waivers is a positive step, we made recommendations to improve NNSA's and the laboratories' controls over high risk property.

MANAGEMENT REACTION AND AUDITOR COMMENTS

NNSA concurred with our recommendations to perform accurate inventories, document disposals and segregate duties. NNSA agreed that the lack of controls over firearm components and protective force equipment increased the potential of theft for personal gain. However, NNSA asserted that the lack of controls did not adversely impact national security interests, since the components and equipment could be easily acquired commercially by the general public.

Further, NNSA suggested that we recommend that NNSA's Senior Procurement Executive expedite the completion of the Business Operating Practices directives to ensure consistent application of high risk property controls throughout the NNSA complex.

Management's comments are responsive to our recommendations. However, we disagree with NNSA's statement that "the lack of controls over firearm components and protective force equipment could adversely impact national security interests, since the components and equipment could be easily acquired commercially by the general public." Federal regulation *41 CFR 109 Department of Energy Property Management Regulations*, specifically states that high risk property guidance is intended to ensure that the disposition of high risk personal property such as firearm components and protective force equipment, does not adversely affect the national security of the United States.

Attachment

cc: Acting Deputy Secretary
Administrator, National Nuclear Security Administration
Chief of Staff

REPORT ON MANAGEMENT CONTROLS OVER DEFENSE RELATED HIGH RISK PROPERTY

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Management of Defense Related High Risk Property

Los Alamos National Laboratory (Los Alamos) and Sandia National Laboratories (Sandia) had effective administrative controls in place over the accountability of firearms. These controls included formal inventories, adequate documentation, and proper segregation of duties. However, we found that administrative controls over other defense related high risk property such as firearm barrels, body armor, and gas masks were not sufficient for providing accountability. Specifically, we found that both Los Alamos and Sandia did not maintain complete and accurate inventories of firearm barrels, body armor, and gas masks. Although in some cases, the sites listed these items on hand written logs and spreadsheets, we found these lists to be inaccurate. Additionally, Los Alamos and Sandia did not always document the disposal of these items, as required by both federal regulations and internal policies. Furthermore, the sites did not always segregate duties for the acquisition, inventory, and issuance of protective force equipment such as body armor and gas masks.

Inventories

Neither Los Alamos nor Sandia maintained complete and accurate inventories of protective force high risk property. Although the sites tracked some protective force equipment on informal lists, we found these lists to be inaccurate. At Los Alamos, for example, the protective force armorer could not determine the total number of firearm barrels that had been acquired, issued, or were currently on-hand, since formal inventory records had not been maintained. Although Los Alamos' protective force logistics manager maintained a list of body armor vests, we found this inventory record to be inaccurate. We conducted a 100 percent inventory of Los Alamos' protective force body armor vests and discovered 33 fewer vests than were recorded on written logs. As a result of our review, the protective force logistics manager explained this discrepancy by stating that the protective force had not received these items purchased in 2003 and had been overcharged by the vendor. However, the manager did not provide any evidence to support this claim. During our inventory, we also noted other errors. For example, the listings:

- Contained incorrect serial numbers;

-
- Included duplicate entries for issued body armor, and;
 - Incorrectly excluded body armor physically located in the supply room and warehouse.

Although Sandia did not have formal inventories, it did maintain listings of surplus barrels, body armor and gas masks. However, these listings were not always complete or accurate. Specifically, Sandia's inventory listings did not account for expired body armor vests that were stored in an equipment trailer. Since Sandia had not inventoried the body armor prior to its storage, it could not determine if any the body armor was lost or stolen. As a result of our review, protective force personnel inventoried the body armor. The protective force operations manager agreed that the lack of control and accountability could lead to potential theft or personal misuse of these property items.

We also conducted an inventory and compared our results to Sandia's informal listing of gas masks. Our inventory found that ten gas masks were missing. Sandia reduced its log by ten gas masks to agree with our physical count. However, Sandia could not ensure that the ten gas masks had not been subject to theft or diversion. As a result of our review, Sandia implemented additional controls, such as a property sign-out log to control the transfer of gas masks to and from the supply room.

Additionally, both federal regulations and internal policies at both sites require a documented high risk review to ensure compliance with national security controls prior to high risk property being reutilized or disposed. For example, defense related articles, such as firearm barrels, body armor and gas masks must be disposed of in accordance with the Department of Defense demilitarization requirements. Specifically, the Demilitarization Manual requires these items to be cut up or destroyed prior to their disposal, and that the destruction be verified and documented. However, we found that a Los Alamos line organization had not documented the destruction of used gas masks prior to their disposal. Similarly, Sandia protective force had not documented the destruction of used firearm barrels. Although both Los Alamos and Sandia asserted that high risk property had been destroyed in accordance with demilitarization

requirements, both sites fully acknowledged that all future destruction of high risk property must be coordinated with their respective property management organizations.

Segregation of Duties

Neither Los Alamos nor Sandia segregated duties to ensure defense related high risk property was properly controlled. Federal standards for internal controls state that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. However, Sandia and Los Alamos had individuals responsible for multiple tasks pertaining to the control over high risk property in the protective force equipment warehouse. At Los Alamos, for example, the warehouse manager was responsible for receiving, inventorying, and issuing protective force equipment. In fact, this same manager was concerned with the lack of segregation of duties. Similarly at Sandia, a protective force official was delegated the responsibility of purchasing, in addition to the functions of receiving, inventorying, and issuing protective force equipment. The protective force operations manager agreed that the potential risk for theft existed due to the lack of segregation of duties.

Implementation of Federal and Internal Guidelines

Both Los Alamos and Sandia stated that they were not required to maintain lifecycle control over defense related high risk property, such as firearm barrels, body armor, and gas masks, based on a 1996 property waiver from the former Albuquerque Operations Office. However, the Albuquerque Operations Office provided the waiver based on the sites performing "tail-end" reviews to ensure that high risk property was either unusable or made unusable prior to disposal. Although the laboratories' internal policies required tail-end reviews prior to the disposal of high risk property, we found that managers were not always aware of the requirements applicability to gas masks and

firearm barrels. For example, although Sandia provided training in high risk property disposal, a Sandia protective force official responsible for firearm barrels told us that he was unaware that that firearm barrels were considered "high risk property" and that federal and internal disposal requirements applied. Los Alamos staff who disposed of gas masks indicated that they were unaware that the Los Alamos property management organization should have been contacted for the review and destruction of gas masks.

During our review, the Sandia and Los Alamos Site Offices rescinded the laboratories' property waivers. In rescinding the waivers, the site offices pointed out that Sandia and Los Alamos are expected to fully comply with federal high risk property regulations, which includes lifecycle accountability of high risk property.

Accountability of High Risk Property

The lack of accountability controls over firearm barrels, gas masks, and body armor increased the risk that theft of these items could go undetected. Recently, at another Department site, barrels, rifle scopes, and body armor were stolen and sold for personal gain. Although no internal control measures can prevent incidences from an insider threat, increased management and accountability controls could minimize potential vulnerabilities and risks to public safety and security.

RECOMMENDATIONS

We recommend that the Managers, Los Alamos and Sandia Site Offices, direct Los Alamos and Sandia to ensure that line organization managers:

1. Perform accurate inventories of defense related high risk property;
2. Document the disposal of defense related high risk property consistent with federal requirements; and,
3. Segregate duties for the procurement, inventory, and issuance of protective force equipment.

We also recommend that the NNSA Procurement Executive expedite completion of the Business Operating Practices directive to achieve consistent application of high risk property controls throughout the NNSA complex.

**MANAGEMENT AND
AUDITOR COMMENTS**

NNSA provided comments to the draft report and concurred with our recommendations to perform accurate inventories, document disposals and to segregate duties. NNSA agreed that the lack of controls over firearm components and protective force equipment increased the potential of theft for personal gain. However, NNSA did not agree that the lack of controls could adversely impact national security interests, since the components and equipment could be easily acquired commercially by the general public.

Further, NNSA suggested that we recommend that the NNSA Senior Procurement Executive expedite completion of the Business Operating Practices directives that focus on High Risk Property in totality.

Management's comments are responsive to our recommendations. However, we disagree with NNSA's statement that "the lack of controls over firearm components and Protective Force equipment could adversely impact national security interests, since the components and equipment could be easily acquired commercially by the general public." Federal regulation *41 CFR 109 Department of Energy Property Management Regulations*, specifically states that high risk property guidance is intended to ensure that the disposition of high risk personal property such as firearm components and protective force equipment, does not adversely affect the national security of the United States.

OBJECTIVE

The objective of our audit was to determine whether management controls exist over defense related high risk property. Our review was limited to firearms, firearm components, and protective force equipment.

SCOPE

The audit work was performed from February 2007 through February 2008, and included defense related high risk property, purchased, issued, disposed of, and on-hand from 2005 through 2007, at Sandia National Laboratories (Sandia), Albuquerque, NM; and Los Alamos National Laboratory (Los Alamos), Los Alamos, NM.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed applicable federal laws and internal policies and procedures relevant to the management of high risk property;
- Reviewed prior audits, inspections, and assessments;
- Obtained and reviewed Sandia's Fiscal Year (FY) 2005 and FY 2006 Performance Evaluation Reports;
- Held discussions with Los Alamos, Sandia, and Department officials regarding their management and oversight of defense related high risk property;
- Selected and tested a statistical sample of firearms from the available inventory systems at Los Alamos and Sandia using the U.S. Army Audit Agency Statistical Sampling System; and,
- Inventoried selected protective force high risk property at both Los Alamos and Sandia.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and

conclusions based on our audit objectives. The audit 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. Also, we evaluated the Department's implementation of the Government Performance and Results Act of 1993 as related to the audit objective. Our review did not identify any performance measures directly relating to the accountability of defense related high risk property. Finally, since we did not rely upon automated data processing information to accomplish our audit objective, we did not conduct an assessment of the reliability of computer processed data. Management waived an exit conference on April 17, 2008.

PRIOR REPORTS

The Office of Inspector General (OIG) has previously reported on controls over high risk property.

- *Controls Over Military-Type Equipment Within the Office of Secure Transportation* (DOE/IG-INS-L-07-10, August 2007). An inspection was conducted to determine the adequacy of the Office of Secure Transportation's (OST) property management system internal controls and accountability for military-type equipment. The OIG found that internal controls and accountability for military-type equipment within OST's property management system were inadequate. Specifically, OST had not adequately identified export controlled equipment, as designated on the U.S. Munitions List, as high risk equipment, nor had it provided for effective control and property management throughout its lifecycle.
- *The National Nuclear Security Administration's Management of Classified Weapons Parts* (DOE/IG-0772, July 2007). An audit was conducted on selected sites from the Department of Energy's (Department's) National Nuclear Security Administration (NNSA) to determine whether the sites had adequate accountability controls over classified weapons parts. Two of the three sites reviewed had not implemented adequate lifecycle controls and did not track many classified non-nuclear weapons parts in their custody. Furthermore, during the audit, two sites could not readily account for or locate some items.
- *Protective Force Property Management at Lawrence Livermore National Laboratory* (DOE/IG-0742, October 2006). An inspection was conducted to review the adequacy of internal controls associated with the Lawrence Livermore National Laboratory (Livermore) protective force supply room. The OIG found that the Livermore protective force supply room was inadequate to protect its sensitive property from loss or theft. The OIG recommended that Livermore protective force establish a system of stock records for Security Police Officer equipment that accounts for inventories on hand, on order, received, issued, and disposed of; and, establish improved access controls for the supply room to minimize the number of non-supply room personnel obtaining unescorted access.
- *Inspection of Firearms Internal Controls at Los Alamos National Laboratory* (DOE/IG-0587, February 2003). An inspection was conducted to determine if internal controls over firearms at Los Alamos National Laboratory (Los Alamos) were adequate and whether the firearms inventory was administered appropriately. The OIG found that significant internal control weaknesses existed in the receiving process and the administration of the firearms inventory. Specifically, Los Alamos officials were unable to provide an accurate firearms inventory list; some firearms were not entered into the inventory (including 12 shotguns received in 1999); and, all firearms were not processed through a central receiving point resulting in delays in entering firearms into the property inventory.

- *Firearms Internal Controls at the Lawrence Livermore National Laboratory* (DOE/IG-0621, September 2003). An inspection was conducted to determine if internal controls over firearms at Livermore were adequate and whether the firearms inventory was administered appropriately. The OIG found that internal controls over Livermore's administration of the firearms inventory were unsatisfactory. Specifically, five firearms that had been purchased over ten years ago did not have property control numbers and were not listed in the property inventory; and, Livermore was not conducting monthly inventories of firearms issued to protective force personnel as required by Department policy.

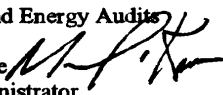


Department of Energy
National Nuclear Security Administration
Washington, DC 20585



April 8, 2008

MEMORANDUM FOR : George W. Collard
Assistant Inspector General
For NNSA and Energy Audits

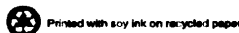
FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

SUBJECT: Comments to High Risk Property Draft
Report; A07AL005; IDRMS No. 2007-
00430

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review the Inspector General's (IG) draft report, "Management Controls over Defense Related High Risk Property." We understand that because Federal regulations require contractors to review high risk personal property prior to its reutilization or disposal, the IG wanted to determine if Los Alamos and Sandia were effectively managing defense related high risk property.

Given the scope of this audit, NNSA agrees that lack of controls over firearm components and Protective Force equipment does increase the potential for theft for personal gain. However, we do not agree that there is an adverse impact to national security interests since the components and equipment can be easily acquired commercially by the general public.

NNSA does agree with the recommendations to perform accurate inventories, document disposal and to segregate duties. While the audit focused on Sandia and Los Alamos—they each are already implementing differing approaches to meeting the intent of the recommendations, we will have the NNSA functional manager for high risk property ensure that the conduct of inventories, the documentation of disposal and the segregation of duties among procurement, inventory and the issuance of equipment is consistent through out the NNSA complex. To achieve that goal, we recommend to the IG that an additional recommendation be added to the report. The new recommendation should be directed towards the NNSA's Senior Procurement Executive to expedite the completion of the Business Operating Practices directives that focus on High Risk Property in totality. Additionally, NNSA's Objectives Matrix assessment



program will be integrated with the assessment methodology for High Risk Property as part of the review of the contractors' management control systems.

As previously stated, both Los Alamos and Sandia are well on their way to correcting the specific problem areas that were identified in the draft report. We believe that the Site's specific comments are significant enough for us to transmit them to you under separate cover.

Should you have any questions about this response, please contact Richard Speidel, Director, Policy and Internal Controls Management.

cc: David Boyd, Senior Procurement Executive
Donald Winchell, Revitalization Manager, Los Alamos Site Office
Patty Wagner, Manager, Sandia Site Office

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