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STATEMENT OF  
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BEFORE THE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS  
COMMITTEE ON GOVERNMENTAL AFFAIRS  
UNITED STATES SENATE  
CONCERNING INTERNAL CONTROLS OVER SELECTED FUNCTIONS OF  
DEPARTMENT OF ENERGY RESEARCH LABORATORIES

Mr. Chairman and Members of the Subcommittee:

We are here today to discuss the results of our review of the internal controls over selected functions of the Department of Energy's research facilities. This review was performed at your request and covered five Government-owned, contractor-operated multipurpose research laboratories (Sandia, Hanford, Argonne, Brookhaven, and Oak Ridge), one single purpose research laboratory (Fermi), and four Government operated energy technology centers (Bartlesville, Laramie, Morgantown, and Pittsburgh). Over \$3 billion were budgeted for these facilities in fiscal 1981.

Mr. Chairman, since we have furnished you a statement of facts which provides detailed results of our audits at these



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facilities, I would like to take this opportunity to just highlight our major findings.

At both the contractor-operated laboratories and the energy technology centers we found numerous weaknesses in internal controls. In some cases, the control weaknesses have resulted in waste and misuse of Federal funds and property, while in other cases, the potential for waste and misuse exists. We found that most of the control problems were in the procurement and property management functions. To a lesser extent, we found control weaknesses in certain payroll related and foreign travel activities.

In the procurement area, we found a number of weaknesses in subcontracting for consultants and other professionals at the contractor-operated laboratories. These involved

- unwarranted sole source procurements,
- the improper use of subcontractors to hire employees,
- retroactive execution of contractual agreements,
- lax controls over payments for services, and
- questionable hiring of former employees as consultants.

Many of these problems are often aggravated, and sometimes caused, by DOE's practice of directing the laboratories to award contracts to firms selected by the Department.

At many of the laboratories visited, we found that controls over personal property need to be strengthened. Specifically, our review disclosed that inventory procedures are inadequate, many property items were not marked and controlled properly, and many excess and unneeded items appeared to be on hand. For example:

- Instead of having an independent party conduct physical inventories, laboratories only require custodians who are responsible and accountable for property to verify that they still have the property entrusted to them.
- Many items which should be controlled as sensitive items are not, especially at Argonne and Brookhaven where lab management decided unilaterally and contrary to Department of Energy regulations to exclude all items over \$500 irrespective of their susceptibility to theft.
- At several labs, items are not always marked as sensitive and are not properly secured. Moreover, frequently accountability for theft-prone items is lacking since the custodians often do not know where the items are.
- Some laboratories apparently have more items on hand than are actually needed. We found many items that were not being used such as cameras, microscopes, and calculators.

The significance of good controls over property is perhaps best demonstrated by the results of an independent wall to wall physical inventory at Sandia Laboratory in fiscal 1981. Over \$1.9 million in shortages and \$3 million in overages were found after comparing inventory counts to inventory records.

At the energy technology centers, we found that internal controls over property and small purchases were inadequate.

None of the centers we visited had a complete, up-to-date set of procurement procedures or guidelines. Two centers had inadequate purchasing approval authority, and two had ineffective controls to assure that requisitions were completed and processed before purchases were made. Regarding property controls, we found ineffective inventory procedures, inaccurate property listings, unreported missing property, and poor controls over property at off-site contractors.

Although the Government-owned, contractor-operated facilities and energy technology centers represent a significant portion (over 30 percent) of DOE's budget, they have received little audit coverage from the Inspector General (IG). Because of limited staff, the Inspector General has chosen to provide only minimal audit coverage of these facilities since extensive coverage is provided by auditors assigned to DOE's field operations offices. However, because these auditors report to the managers of these field offices and not to DOE top management, their audit independence is not assured, audit results are not routinely brought to the attention of DOE top management, and in some cases little or no corrective action is taken on audit findings and recommendations.

Until January 1982, there were only 12 IG auditors in the field and approximately 40 in the Washington, D.C. metropolitan area in comparison to 125 auditors assigned to the field operations offices. In January 1982, 46 operations office auditors were transferred to the IG.

In 1979, we recommended that the DOE IG should have control of all auditors who report to the managers of field operations offices. 1/ That report stated that "this arrangement does not insure maximum independence in selecting activities for review of operations offices' effectiveness." Further, the report showed that field auditors cannot be independent since the activities they audit are the responsibility of the operations office managers to whom they report.

In summary I want to point out that both the Department of Energy and several contractors are very concerned about these problems. In fact, both the Department and several contractors have already taken or have promised to take action on many of these problems.

This concludes my prepared statement, Mr. Chairman. I would be pleased to answer any questions you or any other Member of the Subcommittee may have.

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1/"Evaluation of the Department of Energy's Office of Inspector General," EMD-80-29