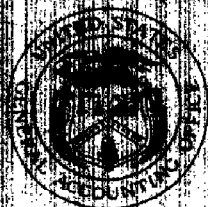


GAO

March 1994

DEPARTMENT OF
ENERGY

The Property
Management System at
the Rocky Flats Plant
Is Inadequate





United States
General Accounting Office
Washington, D.C. 20548

150902

**Resources, Community, and
Economic Development Division**

B-255689

March 1, 1994

The Honorable Mike Synar
Chairman, Environment, Energy,
and Natural Resources Subcommittee
Committee on Government Operations
House of Representatives

The Honorable David E. Skaggs
House of Representatives

The Honorable Ben Nighthorse Campbell
United States Senate

This report responds to your requests that we determine whether (1) property is missing at Rocky Flats, (2) the onsite contractor has an adequate property management system in place, and (3) the Department of Energy (DOE) has been providing effective oversight of the property management system. The plant is owned by DOE and is operated by EG&G-Rocky Flats, Inc.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of this report to appropriate congressional committees; the Secretary of Energy; and the Director, Office of Management and Budget. We will also make copies available to others upon request.

This work was performed under the direction of Victor S. Rezendes, Director, Energy and Science Issues, who may be reached at (202) 512-3841. Major contributors to this report are listed in appendix I.

Keith O. Fultz
Assistant Comptroller General

Executive Summary

Purpose

The poor management of government-owned property by the Department of Energy (DOE) has been a continuing problem. In an April 1990 report, GAO reviewed the property management system at DOE's Lawrence Livermore Laboratory and found that the onsite contractor could not account for over \$45 million in government-owned property in its custody.¹ In the 1990 report, GAO determined that one of the root causes for the problems identified was that DOE had not provided adequate oversight of the onsite contractor. Concerned that this lack of oversight over government-owned property could also be present in Rocky Flats' property management activities, Representative David E. Skaggs—joined later by the Chairman, Environment, Energy, and Natural Resources Subcommittee, House Committee on Government Operations, and Senator Ben Nighthorse Campbell—asked GAO to determine whether (1) property is missing at Rocky Flats, (2) the onsite contractor has an adequate property management system in place, and (3) DOE has been providing effective oversight of the property management system.

Background

DOE's Rocky Flats Plant is a government-owned, contractor-operated facility that was formerly dedicated to weapons-related activities but is now undergoing environmental restoration, cleanup, and waste management. The plant is currently operated by EG&G-Rocky Flats, Inc., (EG&G) which took over the plant's operations from Rockwell International, Inc., (Rockwell) on January 1, 1990. Government-owned property in the plant's property tracking data base totaled about \$600 million as of September 1993. Under a 1991 modification to the contract between DOE and EG&G, the Department can hold EG&G liable for costs of replacing lost or "missing" property upon finding that such a loss resulted from circumstances clearly within EG&G's exclusive control and that the contractor's exercise of reasonable care would have avoided the loss. Prior to this contract modification, a finding of willful misconduct or a lack of good faith by the contractor's managerial personnel was needed to hold the contractor liable for missing property.

Results in Brief

A substantial amount of government-owned property at the Rocky Flats Plant is missing. A 1991 EG&G inventory reported \$33.5 million in plant property was missing. Because of the amount, DOE directed EG&G to conduct another inventory. This inventory, completed in September 1993, showed that \$12.8 million in property was missing and that another

¹Nuclear Security: DOE Oversight of Livermore's Property Management System Is Inadequate (GAO/RCED-90-122, Apr. 18, 1990).

\$16.5 million in property could not be physically located but was not considered to be missing because EG&G said it had documentation explaining the property's disposition. GAO found, however, that the documentation for the \$16.5 million in property was incomplete and that EG&G may have to reclassify some of the items as missing. GAO also noted in its review that DOE has never conducted, contrary to departmental guidance, an investigation into the circumstances surrounding the missing property.

EG&G's property management system is inadequate. The plant's property tracking data base, set up by EG&G, is incomplete in that some property was never entered into the data base. Also, the data base contains inaccurate serial numbers for some property. There have been inappropriate changes made to certain data in the data base, including the deletion of entire records. Finally, there are inadequate controls over how property is retired at the plant. As a result, EG&G cannot accurately determine how much property actually is present at the plant or has been lost or stolen.

Regarding DOE's oversight role, GAO determined that the Department, contrary to its own regulations, has allowed EG&G to operate without written property management procedures and has not approved EG&G's property management system. In addition, DOE has not ensured timely correction of previously identified property management weaknesses. DOE officials cited the need to respond to unplanned requirements as a reason for not taking certain actions. However, by enabling EG&G to operate with an inadequate and informal property management system, DOE cannot be assured that government-owned property at the plant is properly accounted for.

Principal Findings

A Substantial Amount of Property at the Plant Is Reportedly Missing

Property inventories conducted in fiscal years 1989 and 1991 reported that \$2.8 million and \$33.5 million, respectively, in plant property were missing. A fiscal year 1993 inventory, which attempted to improve upon the results of the 1991 inventory, showed that \$12.8 million in property was missing. In addition, the inventory showed that EG&G was unable to physically locate \$16.5 million in property but did not classify this property as missing because EG&G said that it had documentation showing the

property's disposition (i.e., the sale of the property as scrap). GAO found that most of the documentation was incomplete and that EG&G may have to reclassify some of the \$16.5 million in property as missing.

The missing property from the latest inventory included thousands of pieces of computer-related equipment as well as numerous cameras, pagers, radios, typewriters, and even heavy equipment such as forklifts. DOE decided not to hold Rockwell liable for the \$2.8 million in missing property from the 1989 inventory, in part, because DOE Rocky Flats had not sufficiently funded property management activities at that time. Regarding the 1991 inventory, DOE believes that EG&G is not responsible for the missing property because there is some uncertainty associated with the amount of property actually on hand when plant operations transferred from Rockwell to EG&G in 1990. In regard to the 1993 inventory, DOE Rocky Flats told GAO that it does intend to determine contractor liability for the property missing. However, given DOE's past handling of contractor liability and its consideration of mitigating circumstances, GAO is concerned whether DOE will be able to hold EG&G accountable.

An Inadequate Property Management System Renders Property Vulnerable to Loss

EG&G's property management system cannot adequately account for government-owned property at the plant. To begin with, some property has never been entered into the property tracking data base. For example, certain items such as power hand tools have not been consistently entered into the data base. Other items in the data base contain inaccurate property data, which makes inventorying the items difficult. For example, for 121 computer keyboards, the data base contains records showing the same serial numbers as for other keyboards in the data base.

In addition, EG&G staff have made inappropriate deletions in and erroneous changes to the property tracking data base. For instance, EG&G during the past year has deleted over 500 items without maintaining any historical records, including trailers, computer-related equipment, cameras, typewriters, and overhead projectors—items that are valued at about \$1 million. GAO also found that EG&G had not adequately restricted employee access to the data base, which contributed to inappropriate changes to the data base. For instance, GAO found that EG&G staff, through human error, changed the acquisition cost of a welding tool from about \$137,000 to about \$547,000. Such changes to the data base can misrepresent the value and amount of government-owned property.

Finally, EG&G has retired property items from the tracking data base without adequate controls in place to ensure that these retirements were proper. GAO found, for example, that in 27 percent of the missing property retirement cases from October 1990 to January 1993, first-level supervisors apparently had not reviewed and approved the property retirements. Such supervisory reviews serve as a control to verify the appropriateness and validity of an item's retirement. Moreover, in 4 of 78 cases reviewed, property items were apparently inappropriately retired since documentation attached to the retirement packages indicated that the missing items had been transferred to other custodians or locations on the plant site.

DOE Has Not Provided Effective Oversight of the Contractor's Property Management System

DOE's oversight of EG&G's property management system has been ineffective in three areas. First, DOE has allowed EG&G, contrary to departmental regulations, to operate without written procedures for its various property management activities, including its property tracking and retirement functions. Such procedures provide detailed guidance to contractor staff on how specific activities are to be conducted. Absent written procedures, problems—such as inappropriate property retirements—have developed regarding these activities.

Second, DOE has not approved EG&G's property management system. Although DOE was required by departmental regulations to review and approve/disapprove EG&G's property management system by the end of 1990, it still has not done so. A property management system is designed to accurately account for and control government-owned property. By not approving/disapproving the property management system, DOE has neither sanctioned the system nor told EG&G what aspects of the system need to be fixed.

Third, DOE has not ensured timely correction of property management weaknesses identified in previous DOE reviews. For instance, DOE has not ensured that EG&G adequately implemented corrective actions on 30 contractor deficiencies identified in a 1989 DOE review. In addition, DOE has not taken corrective action on 9 of 22 deficiencies in property management oversight cited in its Federal Managers' Financial Integrity Act reports for 1991 and 1992.

Recommendations

To improve property management at the Rocky Flats Plant, GAO recommends that the Secretary of Energy order an investigation, in

accordance with DOE guidance, of missing plant property from the 1989, 1991, and 1993 inventories and determine, among other things, what happened to the missing property. Such an investigation would then help DOE to determine whether the contractor could be deemed liable for the missing property in accordance with the terms of the plant contract. In addition, GAO is making a series of recommendations aimed at having EG&G correct GAO-identified weaknesses in its property management system. These include, among other things, ensuring that the property tracking data base is accurate and complete and that property retirements have been proper. Furthermore, GAO is making several recommendations for improving DOE oversight at the plant, including having EG&G develop written procedures for its property management system.

Agency Comments

GAO discussed the information in this report with DOE headquarters' Director, Office of Property Management, and Director, Office of Contractor Management and Administration; DOE Rocky Flats' Property Administrator and Property and Information Management Branch Chief; and EG&G-Rocky Flats' Assistant General Manager for Maintenance and Plant Support, Controller, and Director of Logistics. GAO has included their views where appropriate. In their comments, both DOE and EG&G officials stressed that considerable progress has been made in improving property management activities at Rocky Flats. These officials said, for instance, EG&G has established a property management organization, improved the receiving and tagging of property, and begun to implement other improvements. Specifically, EG&G in 1991 instituted a new property tracking data base and conducted a comprehensive property inventory. These officials also said that while EG&G still has much to accomplish in order to obtain an approved property management system, there is a commitment by EG&G to resolve property management problems in a constructive way and to actively support DOE's quality initiatives by continuing to improve performance. Although GAO recognizes that actions are under way to improve property management, several basic problems such as the lack of detailed property management procedures and inaccuracies in the plant property tracking data base, need to be resolved in order to have an effective property management system at the plant. As agreed with your offices, GAO did not obtain written agency comments on a draft of this report.

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Abbreviations

DOE	Department of Energy
EG&G	EG&G-Rocky Flats, Inc.
GAO	General Accounting Office
ROCKWELL	Rockwell International, Inc.

Introduction

The Department of Energy's (DOE) Rocky Flats Plant is a government-owned, contractor-operated facility formerly dedicated to weapons-related activities. Its mission today is focused on environmental restoration, cleanup, and waste management. As of September 30, 1993, government-owned property in the plant's property tracking data base had an acquisition cost of about \$600 million.¹ The property is located in about 300 buildings on an 11-square-mile site and nearby facilities in Jefferson County, Colorado. The plant is operated under contract by EG&G-Rocky Flats, Inc. (EG&G). Under the contract, EG&G is responsible for managing government-owned property at the plant, and DOE is responsible for overseeing and ensuring the effective management of such property.

EG&G took over the plant's operations from Rockwell International, Inc. (Rockwell) on January 1, 1990. Under the original contract between DOE and EG&G, it was difficult to hold the contractor liable. The contractor was liable for lost (e.g., missing property searched for and determined to be unlocatable), damaged, or destroyed property in its possession only if either of two conditions were present. These conditions were (1) willful misconduct or a lack of good faith on the part of the contractor's managerial personnel or (2) failure on the part of the contractor's managerial personnel to take all reasonable steps to comply with any appropriate written directive of DOE's contracting officer to safeguard such property.

DOE modified the contract in August 1991 to include an avoidable cost provision which, among other things, increased the contractor's accountability for its own acts or omissions. Under the avoidable cost provision, DOE holds the contractor liable for costs resulting from the loss, damage, or destruction of property (1) when the loss, damage, or destruction resulted from circumstances that were clearly within the contractor's sole and exclusive control and (2) when the exercise of reasonable care would have avoided the loss, damage, or destruction. In addition, under this provision, the contractor is liable for losses stemming from theft, embezzlement, or other unauthorized use by any contractor personnel. According to DOE regulations, the maximum amount for which

¹Government-owned property, as discussed in this report, refers to property of any kind or type that is government-owned or -rented or -leased in the custody of DOE or its contractors, excluding real property such as land or buildings, special source materials such as plutonium, precious metals, and spare parts.

a contractor could be held liable would be limited to its base fee and award fee for one 6-month rating period.²

DOE Property Management Regulations

The DOE Property Management Regulations (41 C.F.R. Chap. 109) set forth the responsibilities and general policies that DOE must follow in managing government-owned property. According to these regulations, the objectives of DOE's property management program are to provide (1) a system for effectively managing government property in the custody or possession of DOE organizations and DOE contractors and (2) uniform principles, policies, standards, and procedures for economical and efficient management of government property.

DOE headquarters and its field offices share responsibility for ensuring that these objectives are met. DOE headquarters is responsible for developing an effective and efficient property management program for the Department. This includes, among other things, (1) establishing Department-wide policies, standards, regulations, and procedures in accordance with applicable federal laws and regulations and sound management practice and (2) reviewing, evaluating, and improving property management functions and procedures. Heads of field offices are responsible for administering, within their organizations, a property management program that provides for effective management of government property consistent with DOE regulations. They are also responsible for ensuring that an adequate property management system is in place, whether property is DOE- or contractor-managed.

Subpart 109-1.51 of DOE's property management regulations provides guidance on DOE's standards and practices to be applied in the management of government-owned property. This subpart covers, among other things, the identification and marking of government property, the physical inventorying of property consistent with generally accepted accounting procedures, and the retirement of property. For example, the regulations require that the results of periodic physical inventories be reconciled with property records.

EG&G's Property Management System

DOE's property management regulations (subpart 109-1.52) prescribe policies and responsibilities for the establishment, maintenance, review,

²Under the contract between DOE and EG&G, EG&G is reimbursed for all allowable costs and is entitled to earn a fixed amount (called the base fee) and may receive an award fee based on its performance. If the date of the loss of property is known, then the loss is charged against the fee earned in that period. If the date of the loss is unknown, then the loss is charged against the fee earned in the period when the loss was reported.

and appraisal of a contractor's program and system for the management of government property. This regulation states that contractors shall establish, maintain, and administer a system for the effective management of government property consistent with the terms of the contract and directives from the contracting officer. Furthermore, this regulation states that contractors shall maintain their property management systems in writing on a current basis.

DOE regulations require that contractors' and any subcontractors' property management systems provide for, among other things, adequate records (e.g., property tracking data base), written procedures, and periodic physical inventories. The property management systems are also required to provide for a retirement work order procedure to account for property that is worn out, lost, stolen, destroyed, abandoned, or damaged beyond economical repair.

EG&G, under its contract with DOE, is required to establish and maintain a property management system that completely and accurately accounts for and controls government property in its possession. Items are accounted for and controlled at the plant in the following manner. Upon its arrival at the plant, an item is supposed to be affixed with a property identification tag containing the item's assigned identification number. Information on the item is then supposed to be entered into EG&G's computerized property tracking data base. For each item, the data base should contain data such as the item's identification number, description, serial number, purchase order number, acquisition cost, location, and property custodian.³

Various EG&G offices and personnel play different roles in managing property at the plant. EG&G's property accounting office is responsible for determining which items are to be tracked and for entering newly acquired property and property retirements in the data base. The property management office is responsible for tagging property items, conducting and reconciling property inventories, tracking items as they move around the plant, and disposing of items approved for retirement. Property custodians are responsible for managing property items assigned to their custody and reporting any property transfers to the property management office. The security office gathers information regarding occurrences of lost or stolen property and reviews property retirement documents to determine whether a further inquiry is warranted.

³Property custodians are appointed by contractor management and are responsible for the physical control of government-owned property assigned to their custody.

Categories of Property

Government-owned property at the plant is placed in basically three categories—capital, sensitive, and administratively controlled equipment. These three categories of property are defined as follows:

- Capital equipment refers to property with an acquisition cost of \$5,000 or more and a useful life of 2 years or more. Examples of property in this category include lathes and vehicles.
- Sensitive equipment refers to property that, regardless of cost, is considered susceptible to being taken for personal use or can be readily converted to cash. Among the types of items considered sensitive are firearms, computer-related equipment, photographic equipment, binoculars, and calculators.
- Administratively controlled equipment refers to property with an acquisition cost of \$1,000 to \$4,999 that does not meet the definition of sensitive equipment.⁴ Examples of property in this category include pumps and safes.

EG&G is not required to track items under \$1,000 that do not meet the definition of sensitive property.

Objectives, Scope, and Methodology

In November 1992, Representative David Skaggs asked us to examine property management at the Rocky Flats Plant, including determining whether (1) property is missing at Rocky Flats, (2) the on-site contractor has an adequate property management system in place, and (3) DOE has been providing effective oversight of the property management system.⁵ Subsequently, the Chairman, Environment, Energy, and Natural Resources Subcommittee, House Committee on Government Operations, and Senator Ben Nighthorse Campbell joined as requesters.

We performed our work at DOE headquarters, the Albuquerque Operations Office, and the Rocky Flats Plant. As agreed with the requesters, we focused our review on three categories of government property: capital, sensitive, and administratively controlled equipment—the three categories of equipment maintained in the plant's property tracking data base. We did not include special source materials such as plutonium because of the

⁴DOE officials at Rocky Flats require EG&G to track property in the \$1,000 to \$4,999 range.

⁵In our report entitled *Nuclear Security: DOE Oversight of Livermore's Property Management System Is Inadequate*, (GAO/RCED-90-122, Apr. 13, 1990), we reviewed the property management system at DOE's Lawrence Livermore Laboratory and found that the onsite contractor could not account for over \$45 million in government-owned property in its custody. We determined that one of the root causes for the problems identified was that DOE had not provided adequate oversight of the onsite contractor.

unique requirements and accounting system associated with this material. In addition, we did not include precious metals in our review because (1) DOE was reviewing EG&G's management of this material and (2) a recent internal audit report determined that there were no significant problems in this area.

To determine if there is property missing at the plant, we reviewed, analyzed, and discussed with DOE, EG&G, and Rockwell officials the results of Rockwell's 1989 physical inventory and EG&G's fiscal years 1991 and 1993 physical inventories. Additionally, we obtained computer tapes of EG&G's property tracking data base at various points in time to (1) determine the completeness and accuracy of data base records and (2) identify and analyze changes made to the data base.

To assess the adequacy of the contractor's property management system, we reviewed, analyzed, and discussed with DOE, EG&G, and Rockwell officials (1) GAO standards for internal controls in the federal government,⁶ (2) DOE property management regulations, and (3) the current contract for management and operation of the plant. We also reviewed applicable DOE Inspector General reports and EG&G internal audit reports. In addition, we selected purchase orders and property disposal records to review for completeness, accuracy, and consistency with DOE and EG&G guidance.

To assess the adequacy of DOE's oversight of the plant's property management system, we interviewed DOE, EG&G, and Rockwell officials and examined DOE's 1989 property management review. In addition, we analyzed DOE's fiscal years 1991 and 1992 annual statements and reports required by the Federal Managers' Financial Integrity Act of 1982 and the status of DOE's corrective actions.

We discussed the facts presented in the report with DOE headquarters and Albuquerque officials and local DOE and EG&G Rocky Flats officials and incorporated their views where appropriate. However, as requested, we did not obtain written agency comments on a draft of this report from DOE or other parties. We conducted our review from November 1992 to December 1993 in accordance with generally accepted government auditing standards.

⁶Standards for Internal Controls in the Federal Government, U.S. General Accounting Office, (June 1983).

A Substantial Amount of Property at the Plant Is Reported Missing

A substantial amount of government-owned property at the Rocky Flats Plant is missing. The precise amount is unknown because inventories at the plant have shown different amounts of missing property. A 1989 inventory reported that \$2.8 million in property was missing. A 1991 inventory reported that \$33.5 million in property was missing. Because of the substantial amount of property missing from the 1991 inventory, among other reasons, DOE directed EG&G to conduct another inventory, which was completed in September 1993. This inventory showed \$12.8 million in missing property. Furthermore, EG&G was unable to physically locate an additional \$16.5 million in property but said that it had documentation indicating the property's disposition.¹

DOE has not pursued contractor liability for any missing property at Rocky Flats. For instance, DOE has decided, without conducting a detailed investigation, not to pursue holding Rockwell or EG&G liable for any portion of the missing property from the 1989 and the 1991 inventories. Such an investigation might have helped to determine root causes for the missing property as well as assign liability. Without such an investigation, DOE may not be able to hold anyone accountable for the missing property. While DOE officials said that the Department does intend to pursue holding EG&G liable for property that becomes missing subsequent to the 1991 inventory, we believe that, given its past handling of contractor liability and its consideration of mitigating circumstances, there is some uncertainty whether DOE will be able to hold EG&G accountable.

1989 and 1991 Plant Inventories Reported Millions of Dollars Worth of Missing Property

1989 Inventory

In 1989, Rockwell, the former operating contractor at Rocky Flats, conducted a property inventory before transferring plant management to EG&G. The inventory was conducted by Rockwell property custodians, who were given lists of property for which they were responsible and asked to verify that the property was at the plant. Custodians were also asked to

¹The missing properties from the various inventories are not additive since some of the missing property was carried over from one inventory to another.

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make a list of items that they found in their areas that were not on their property list. In addition, custodians were asked to report discrepancies between the items found and the items on their lists to the property accounting office which was responsible for reconciling and adjusting the property records.

At the conclusion of the 1989 inventory, Rockwell reported that it could not locate a total of 1,534 items, with an acquisition cost of over \$2.8 million. Table 2.1 summarizes these inventory results.

Table 2.1: Summary of Missing Property Reported in Rockwell's Fiscal Year 1989 Inventory

Dollars in millions				
Equipment category	Inventory		Missing Property	
	Number of Items	Acquisition cost	Number of items	Acquisition cost
Capital	15,787	\$325.6	88	\$0.6
Administratively controlled and sensitive ^a	25,223	34.6	1,446	2.2
Total	41,010	\$360.2	1,534	\$2.8

^aRockwell did not report administratively controlled and sensitive equipment separately.

These missing items included, among other things, about 150 computers, 140 printers and plotters, 120 personnel pagers, and various typewriters, calculators, cameras, radios, and bicycles. According to the terms of the agreement transferring property from Rockwell to EG&G, DOE authorized Rockwell to remove, or write off, the \$2.8 million worth of missing property from the inventory records before the property transfer. As of January 1993, neither Rockwell nor EG&G had written off about 45 percent of the missing items.²

1991 Inventory

The agreement transferring property from Rockwell to EG&G also required EG&G to conduct a complete inventory of property during the first 2 years of its contract. The inventory began in December 1990 and was performed by EG&G property custodians, who completed the results of their respective inventories by the end of September 1991. The inventory reconciliation, which involved matching inventory results with the accounting records and searching for missing items, began in late September 1991 and continued through March 1992.

²This estimate was derived by comparing a random sample of items reported missing with EG&G's property tracking data base.

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As a result of the inventory and reconciliation efforts, EG&G reported that it could not locate a total of 5,956 items, or 11 percent of the items in the inventory. This missing property had an acquisition cost of \$33.5 million.³ Table 2.2 summarizes these inventory results.

Table 2.2: Summary of Missing Property Reported in EG&G's Fiscal Year 1991 Inventory

Dollars in millions				
Equipment category	Inventory		Missing Property	
	Number of items	Acquisition cost	Number of items	Acquisition cost
Capital	8,042	\$380.4	572	\$18.0
Administratively controlled	18,127	82.4	2,605	12.1
Sensitive	28,612	39.2	2,779	3.4
Total	54,781	\$502.0	5,956	\$33.5

This missing equipment included about 1,400 items of computer-related equipment, 780 items of laboratory equipment, 710 items of process equipment such as hoists and furnaces, and 350 items of shop equipment such as lathes and drill presses. In addition, the list of missing equipment included forklifts, an air compressor, a photo copier, and a boat. Because of various reasons, including the substantial amount of missing property, the belief that more untagged equipment should have been located, the uneasiness with property custodians performing the inventory, and the need to update inaccurate and incomplete information in the data base, DOE directed EG&G to conduct another inventory.

Both DOE and EG&G officials said they believed that most of the missing property in the 1991 inventory was probably misplaced as a result of undocumented property transfers and expressed confidence that the new inventory would locate most of these items. However, during our review, several EG&G plant employees informed us that they were certain that some property at the plant had been stolen. As a result, we are conducting a separate review of the possibility of property thefts.⁴

³EG&G also found about \$3.2 million in property not previously listed in the property tracking data base.

⁴This review is scheduled to be completed in early 1994.

Results of 1993 Inventory Again Shows Millions of Dollars Worth of Missing Property

EG&G began the follow-on building-to-building inventory in July 1992, using inventory personnel from the plant's property management office to conduct the inventory instead of property custodians. The inventory was completed in May 1993, and the inventory reconciliation completed in September 1993. This latest inventory by EG&G reported that 4,827 items with an acquisition cost of \$12.8 million are missing.⁵ Additionally, the inventory shows EG&G officials could not physically locate \$16.5 million worth of property. EG&G said that it had documentation explaining the property's disposition, but the documentation had not yet been reviewed by DOE. We found that the documentation was incomplete and that EG&G may have to reclassify some of the property as missing.

Table 2.3: Summary of Missing Property Reported in EG&G's Fiscal Year 1993 Inventory

Dollars in millions				
Equipment category	Inventory		Missing property	
	Number of items	Acquisition cost	Number of items	Acquisition cost
Capital	8,460	\$416.7	267	\$5.3
Administratively controlled	21,457	99.2	1,641	4.4
Sensitive	46,655	60.0	2,919	3.1
Total	76,572	\$575.9	4,827	\$12.8^a

^aAccording to the inventory report the \$12.8 million represents \$8.9 million in property still missing from prior inventory and \$3.9 million that has become missing since the 1991 inventory was completed.

These 4,827 missing items spanned several different categories of equipment. The items included over 1,800 pieces of computer equipment such as monitors and keyboards. The items also included a wide variety of laboratory and shop equipment such as balances, hoists, lathes, and drill presses. Numerous cameras, pagers, radios, desks, and typewriters are also missing. Finally, some heavy equipment such as forklifts and a semi-trailer are missing. DOE plans to verify the inventory results, including the supporting documentation, by February 14, 1994.

The 1993 inventory also showed that EG&G could not physically locate 871 items with an acquisition cost of \$16.5 million. However, the inventory report indicates that documentation is available showing what happened to these items. Table 2.4 shows the disposition of the 871 items.

⁵EG&G also found about \$6.9 million in property not previously included in the property tracking data base.

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Table 2.4: Summary of Property Not Physically Located but Disposition Documented

Dollars in millions		
Disposition category	Number of items	Acquisition cost
Auction/public sale	91	\$1.3
Not available for inventory due to its location in radiologically hazardous part of the plant	61	4.4
Transferred to another facility	118	2.9
Cannibalized, scrapped, or disposed of as radioactive waste	234	3.6
Returned to vendor	44	3.6
Other (i.e., duplicative items or reported missing before inventory)	323	0.7
Total	871	\$16.5

Because of the substantial value of the equipment, we attempted to verify the supporting documentation. The EG&G official responsible for compiling the documentation told us that only 135 of the 871 items had completely documented dispositions—all the supporting documentation was available, and the documentation was reviewed and approved by EG&G.⁶ This EG&G official also said that documentation is still being gathered to support the disposition of many of the items. Furthermore, the official added that, once all the documentation is compiled, it must be approved first by EG&G and then DOE. The official believes that some of the documentation may not be accepted by DOE and, if so, the equipment may have to be reclassified as missing.

Liability for Lost Property

DOE's contracts with Rockwell and EG&G contain provisions for determining the contractors' liability for lost property at the Rocky Flats Plant. In this regard, before April 1, 1991, both contractors were liable for lost property only if either of two conditions were present. Those conditions were either willful misconduct or lack of good faith on the part of the contractor's managerial personnel, or the failure of the contractor's managerial personnel to take all reasonable steps to comply with written DOE directives. Under the avoidable cost rule incorporated in EG&G's contract in August 1991, but with an effective date of April 1, 1991, DOE could hold the contractor liable for costs stemming from property losses when the loss resulted from circumstances clearly within the contractor's

⁶In reviewing several of the items for which EG&G claimed to have completely documented dispositions, we found that only one EG&G person had attested to the items' final disposition. The DOE Rocky Flats property and information management branch chief told us that he would expect EG&G to also locate a DOE official who could corroborate the items' final disposition.

sole and exclusive control and when exercising reasonable care would have avoided the loss. This liability includes losses caused by theft by any contractor personnel.

Despite these provisions, DOE has not pursued contractor liability for any missing property. For instance, DOE decided, without conducting a comprehensive investigation, to write off and not pursue holding Rockwell liable for missing property associated with the 1989 inventory. Similarly, DOE has not attempted to hold EG&G liable for any missing property stemming from the 1991 inventory. Regarding the 1993 inventory, DOE plans to pursue contractor liability more closely.

Rockwell Liability for the 1989 Inventory

DOE authorized Rockwell to write off the \$2.8 million in property reported missing from the contractor's 1989 inventory but did not determine whether the missing property was indeed lost and, if so, who was responsible. DOE Rocky Flats officials offered us two rationales to explain the DOE action. First, DOE Rocky Flats officials said that, at that time, the plant's mission was focused on production, often at the expense of other plant activities, and, therefore, DOE did not warn Rockwell to correct property management weaknesses known to exist.⁷ Second, DOE Rocky Flats officials told us that because of the plant's emphasis on production and budgetary constraints, DOE may not have adequately funded or staffed the contractor's property management program.

Conversely, DOE officials in Albuquerque, who were responsible prior to August 1991 for property management at Rocky Flats, offered a different view regarding contractor operations at the plant. Specifically, these officials disagreed that Rockwell's property management program may not have been adequately funded. The officials said that DOE contractors are given a block of funds to manage and achieve DOE's mission. In addition, according to the officials, if Rockwell chose not to adequately fund property management, it would have been an arbitrary decision on Rockwell's part to which the Albuquerque Field Office would not have agreed. Furthermore, these officials believed that Rockwell's property management activity had been adequately staffed.

In our view, DOE actions were contrary to departmental guidance. When a significant amount of property is missing, an investigation is to be conducted to determine the root causes. Such an investigation could then

⁷Under the terms of the contract, DOE must first warn the contractor of weaknesses and allow the contractor an opportunity to implement corrective action before imposing liability.

be used in attempting to establish liability. DOE admitted, however, that it did not investigate and determine that the missing property was indeed lost and, if so, who was responsible for the loss. Failure to make such a determination has impacted DOE's ability to evaluate Rockwell's potential liability.

Contractor Liability for the 1991 Inventory

Similarly, DOE did not pursue contractor liability for the \$33.5 million in property missing from the 1991 inventory. DOE Rocky Flats officials told us that Rockwell's liability effectively ended with the completion of its 1989 inventory, which DOE had accepted, and EG&G's liability did not commence until the completion of its baseline inventory in September 1991. Furthermore, DOE officials said that they had several problems with the 1991 inventory, including questions about whether the missing property was really lost or rather simply misplaced on the plant site. As a result, the officials decided to conduct another inventory.

In our view, however, a comprehensive DOE investigation, as required by DOE guidance, could have proven worthwhile. Before April 1991, DOE bore the risk for lost property unless it could show that an onsite contractor was liable under the limited standard of its contract. After April 1, 1991, under the avoidable cost provision, EG&G could be held liable for the costs of lost, damaged, or destroyed property if it could be determined that the loss, damage, or destruction resulted from EG&G's failure to exercise reasonable care under circumstances clearly within EG&G's exclusive control, or from employee theft.

Although it might not have been possible to prove contractor liability for the costs of lost property at Rocky Flats between 1989 and April 1991, an investigation could have helped to determine when and under what circumstances the property was lost and whether some of the missing property was stolen, as several people at the plant believe. At a minimum, because each contractor was responsible for the appropriate control and disposition of government-owned property at the plant during the terms of their contracts, information on how the contractors had carried out their responsibilities in the past could have been useful to DOE in future liability determinations.

EG&G Liability for the 1993 and Subsequent Inventories

DOE officials told us that they do intend to hold EG&G liable under the avoidable cost rule for missing property from the 1993 and subsequent inventories. Under this rule, DOE should determine whether EG&G could

have avoided these property losses. This determination will be based on DOE's evaluation of all factors that contributed to contractor liability, including poor internal controls and procedures, and if reasonable precautions were taken. The DOE contracts and services director also said, however, that DOE will consider some of the same mitigating circumstances that have precluded the Department from pursuing contractor liability in the past. Those circumstances included the adequacy of DOE funding for property management.

DOE Rocky Flats officials told us that this would be the first time that the avoidable cost provision had been applied to Rocky Flats property losses identified through an inventory. According to DOE regulations, the maximum amount for which EG&G could be held liable would be limited to the amount of its base fee and award fee for the 6-month rating period in which the loss occurred.⁸

Conclusions

Three recent inventories at Rocky Flats have reported that a substantial amount of government-owned property is missing. In 1989, \$2.8 million in property was reported missing, an amount that increased to \$33.5 million in 1991. The plant's most recent inventory indicates that \$12.8 million is missing, and an additional \$16.5 million could not be physically located. In our view, while it is clear that millions of dollars of equipment is missing, the precise amount has not yet been determined.

DOE has decided not to pursue holding either Rockwell or EG&G liable for the costs of missing property from the 1989 or the 1991 inventories, or to attempt to establish what led to the losses of property. Such DOE decisionmaking, in our view, is contrary to DOE regulations and good management practices.

More recently, DOE has indicated that it does intend to hold EG&G liable for the costs of missing property from the 1993 and subsequent inventories. However, given past DOE decisionmaking on contractor liability and its consideration of mitigating circumstances, we are concerned whether DOE will be able to hold the contractor accountable. In our view, DOE needs to take aggressive action to determine what happened to the missing property. We believe that this is critical because several people at the plant believe that some of the property may have been stolen.

⁸If the property loss occurred, for example, between October 1, 1992, to March 31, 1993, EG&G's maximum liability would be limited to its base fee of \$4.7 million, and its award fee of \$1.4 million.

Recommendation

To improve property management at the Rocky Flats Plant, we recommend that the Secretary of Energy order an investigation, in accordance with DOE guidance, of missing plant property and determine, among other things, what happened to the missing property. Such an investigation can then be used to determine whether the contractor could be deemed liable in accordance with the terms of the contract.

Inadequate Property Management System Renders Plant Property Vulnerable to Loss

EG&G's property management system has major management control weaknesses that have allowed government-owned property to become missing. First, EG&G has not entered complete and accurate property data into its tracking data base. Second, EG&G has inappropriately deleted and erroneously changed data in its tracking data base. Third, EG&G has retired property items from the tracking data base without adequate controls in place to ensure that these retirements have been proper. Taken together, these weaknesses preclude EG&G from accurately determining how much property exists at the plant or has been lost.

EG&G's Property Tracking Data Base Is Incomplete and Inaccurate

Our review found that EG&G's property tracking data base contains incomplete and inaccurate data. Certain property items were never entered into the data base. In addition, certain records in the data base contain data errors and omissions. As a result of these data base problems, EG&G cannot adequately account for the government-owned property on hand.

Certain Property Items Were Never Entered Into the Tracking Data Base

EG&G has not entered all the property into its data base that DOE requires it to track. We found that property was not entered into the data base because EG&G property accounting staff (1) relied on inaccurate information from other EG&G employees about items' useful lives, (2) erroneously assumed that other systems existed at the plant to track property, and (3) unilaterally made exceptions to the DOE dollar thresholds for items to be tracked. By not entering all property required for tracking into its data base, EG&G understates the amount and value of property that it is responsible for.

First, EG&G property accounting staff did not track certain property items because they received inaccurate information from other EG&G employees regarding the items' useful lives. As discussed in chapter 1, DOE requires that capital property at the Rocky Flats Plant be tracked if it is valued at \$5,000 or more with a useful life of at least 2 years. We identified, however, items that met DOE tracking criteria but were not in the tracking data base. This included, for example, germanium detectors¹ purchased for between

¹A germanium detector is a component of a device that measures radioactivity.

\$7,600 and \$56,500 and borescopes² purchased for between \$5,400 and \$31,200.³

For these and other examples, EG&G property accounting staff explained that they did not know what the items were and relied on other EG&G employees who told them the items' useful lives did not exceed 2 years. When we contacted the users of these items, however, we found that the items' useful lives did in fact exceed 2 years. For example, we identified several examples where germanium detectors and borescopes have been in active use for between 2 to 7 years. EG&G's financial accounting manager told us he was unaware of this condition and said that EG&G needed to correct this problem.

Second, EG&G property accounting staff did not enter certain property items into the property tracking data base because the EG&G staff erroneously believed that other systems existed at the plant to adequately track and account for the property. Specifically, EG&G property accounting officials did not track certain sensitive items such as power hand tools based on their belief that these tools were tracked within individual EG&G departments. However, we discovered that power hand tools were not being effectively tracked at the plant. For example, one EG&G department official told us that although power hand tools were locked in a tool crib in his department, there was no system in place for tracking the tools. This EG&G official indicated that everyone in the work group had a key to the tool crib and that there were no sign-out procedures for the tools.

Third, EG&G property accounting staff did not enter certain property items into the property tracking data base because the staff unilaterally established a higher dollar threshold for these items than required by DOE regulations. For example, EG&G staff does not track computer operating software under \$10,000 even though DOE regulations require all computer operating software over \$5,000 to be tracked. Neither EG&G nor DOE officials could explain EG&G's deviations from DOE regulations.

After we brought these examples of property not entered into the data base to DOE's attention, DOE officials responded that they would require EG&G to take corrective actions in this area. Specifically, DOE officials said that they would direct EG&G to develop written procedures for entering items into the property tracking data base consistent with DOE

²A borescope is a device with a prism or mirror used to inspect a cavity.

³Plant payment records since 1986 for selected manufacturers indicate that 15 borescopes and 42 germanium detectors valued at \$1.2 million had been purchased but not entered into the property tracking data base.

requirements and subject to DOE's review and approval. DOE officials also said that they would require EG&G to both improve the security of its tool cribs and enforce sign-out procedures for power hand tools. Furthermore, DOE officials said that, in the future, EG&G will be requested to integrate the property tracking data base with other plant systems. However, we believe that DOE should go further. Specifically, DOE needs to be more prescriptive so that EG&G tracks power hand tools and other sensitive equipment, because of their susceptibility to theft, and that EG&G also enters all other items valued over \$1,000 into its property tracking data base unless specifically exempted by DOE. In addition, we believe that DOE needs to see to it that EG&G, to the extent practical, reconciles the data already existing in its tracking data base with other plant information, such as purchase order records, to ensure that the data base is complete.

Certain Data in the Tracking Data Base Are Inaccurate

EG&G's property tracking data base also contains inaccurate data. Certain items in the data base contain no serial numbers, while other items have identical serial numbers. Without accurate data in the data base, EG&G cannot accurately identify and, thereby, account for government-owned property at the plant.

EG&G's data base contains certain items with no serial numbers. For example, we noted that 3,682 items (8.4 percent) of computer and computer-related equipment and 173 vehicles and heavy equipment (35.5 percent) lacked serial numbers. This can create problems when attempting to identify the property and the custodian to whom the property had been assigned. For instance, if EG&G located an item of property that had been left abandoned on the plantsite with its identification tag missing and no serial number on the item in the data base, EG&G would have difficulty determining accountability.

DOE officials told us that this problem was a result of inadequate EG&G staff training as well as a history of poor data base management at the plant. EG&G officials explained that these missing serial numbers were the result of staff errors. Additionally, we identified another cause: the lack of system-level edits to preclude items from being entered into the data base without serial numbers. Such edits highlight for data entry personnel that an omission exists in a data field, invalidating any attempt to enter that item into the data base.

In addition, the data base contains similar items having identical serial numbers. For example, the data base contains records for 121 computer

keyboards that have the same serial number as other keyboards in the data base. Identical serial numbers also existed for 34 personal computers, 58 pagers, and 71 printers and plotters.⁴ Without properly entered serial numbers, EG&G cannot accurately distinguish between similar items of untagged property for accountability purposes.

In identifying causes for this problem, DOE officials again cited lack of EG&G staff training and years of poor data base management. EG&G officials told us that they assume that these duplicated serial numbers were the result of items being duplicatively tagged and entered into the data base by mistake. We noted again, however, that the lack of system-level edits in the system to screen for duplicate serial number entries was a contributing factor.

After we brought these matters to DOE's attention, DOE officials said that these matters have been longstanding problems at the plant and that they require further EG&G attention. Therefore, DOE officials have directed EG&G to provide more training for its staff and develop a plan to implement system-level edits for all essential data fields in the property tracking data base. DOE officials said that they would wait until the completion of EG&G's 1993 inventory to evaluate the extent of the missing and duplicate serial numbers before deciding what action to require EG&G to take. In our view, sufficient information exists attesting to the inaccuracy of data in the property tracking data base.

EG&G Has Made Inappropriate Changes to the Property Tracking Database

EG&G has inappropriately changed data in the property tracking data base. Specifically, we found that entire property records have been deleted from the data base and that inappropriate changes have been made to serial numbers, acquisition costs, and the number of items included in the 1993 inventory. As a result of these changes, EG&G has further compromised the accuracy and completeness of the data base.

Property Records Were Deleted From the Tracking Data Base

EG&G officials deleted entire property records from the property tracking data base. According to GAO's Standards for Internal Controls in the Federal Government,⁵ under no circumstances should items be deleted from the data base—that is, erased without preserving a historical record

⁴For these examples, we counted only items that originated from the same manufacturer, since these items would have been assigned unique serial numbers.

⁵Standards for Internal Controls in the Federal Government, U.S. General Accounting Office, (June 1983).

of the item. By not preserving a historical record of these items, EG&G cannot account for each and every property item it has purchased for DOE.

During our review, we discovered that EG&G had deleted property items over the history of the property tracking data base. One EG&G property accounting official said that he had been routinely deleting duplicate property items from the data base—that is, items inadvertently tagged with two property numbers. We noted, however, one instance where this EG&G official erroneously assumed that the two items in the data base were duplicate items when, in fact, one was actually a television monitor and the other was a computer printer. Without any further research or inquiry, this EG&G official deleted the television monitor from the data base.

Initially, EG&G officials told us that they did not consider making deletions a problem and defended their use as a routine transaction for eliminating certain property items from the data base. Subsequently, however, they decided to stop the staff practice of deleting items from the data base and instead require them to retire the items to a historical retirement file. These EG&G officials estimated that they had deleted 529 items, including trailers, computer-related equipment, cameras, typewriters, and overhead projectors between July 1992 and October 1993. These items are valued at about \$1 million.⁶

Other Inappropriate Changes Have Been Made

A good data base will contain system controls to provide reasonable assurance that all information in the data base is complete, valid, and reliable. These controls usually include procedures that apply to the overall data base, such as restrictions on access, to reduce the risk of unauthorized and inappropriate data base modification.

We found, however, that EG&G's property tracking data base had few system controls in place. For instance, we found that EG&G had not adequately restricted employee access to its property tracking data base, thereby creating a situation where as many as 46 staff had the capability to edit and even delete property records.⁷ As a result, we noted that inappropriate changes occurred to serial numbers, acquisition costs, and the number of items in EG&G's 1993 baseline inventory.

⁶We could not estimate the precise extent of property deletions because EG&G did not preserve copies of the data base files before September 1992.

⁷After we raised this issue with EG&G officials, they have somewhat limited edit access to the data base.

First, we found that EG&G staff inappropriately changed the serial numbers of certain items in the data base. For example, we noted that 42 items that had serial numbers in September 1992 no longer had them in September 1993. EG&G's property management manager explained to us that perhaps inventory personnel removed these serial numbers because they recognized them as model numbers but could not locate the serial numbers on the property. Additionally, we found that 118 items that were not located during the 1993 inventory had their serial numbers changed during the course of the inventory. Without physically locating these items, EG&G could not verify the accuracy of these changes.

Second, we found that EG&G staff made various changes to items' acquisition costs. For example, two Bernoulli boxes with identical descriptions that previously lacked acquisition costs were assigned costs of \$12,015 and \$2,015, respectively.⁸ In addition, several items described as "IBM keyboards" lacking acquisition costs were assigned different costs ranging from \$75 to \$1,200. When we discussed these examples with EG&G property accounting officials, they told us that these examples appeared to be the result of erroneous entries. We also noted that the acquisition cost of a welder increased from \$137,442 to \$547,311. We discussed this condition with the item's property custodian, who told us that he was unaware of any recent improvements that had been made to the welder that would justify such an increase. In fact, he said that the welder had not even been in use since October 1989 when production activities ceased at the plant.

Third, we found that EG&G staff inappropriately changed the universe of items it was attempting to locate during the 1993 inventory. At the beginning of the inventory, EG&G designated 76,572 items as being in the inventory. During the inventory process, however, EG&G staff for no known reason eliminated 148 items with an acquisition cost of \$1.2 million as being eligible for inventory. Although EG&G attempted to correct this inappropriate change, it could not completely do so because it had not maintained a copy of the data base record at the beginning of the inventory.

After we alerted DOE officials to these problems, they said that they would specifically look into these items to determine why these erroneous changes occurred. In addition, DOE officials said that they would start performing an independent verification of EG&G's inventory results which they hoped would be completed by February 14, 1994.

⁸A Bernoulli box is an external computer component with a removable hard drive.

EG&G Has Inadequate Controls Over Property Retirements

Our review also showed that EG&G lacks adequate controls over property retirements. For instance, first-level supervisors did not always sign retirement work orders for property items, which indicates that these supervisors may not have reviewed the appropriateness of the retirements. Furthermore, no EG&G office is reviewing the overall completeness and accuracy of the retirement work order package before the items are retired. As a result, EG&G cannot be assured that retirements of government-owned property are appropriately conducted.

According to EG&G policy, when an item is determined to be missing, the property custodian is to immediately report this to his or her first-line supervisor and to the security office. Then, the custodian is to look for the property and to prepare a retirement work order if the item is not located. In accordance with DOE regulations, the work order is to be signed by the first-line supervisor. The first-level supervisory review serves as a control to verify the appropriateness and validity of the item's retirement. The work order, in accordance with plant policy, is then routed through the security office and the property management office. The security office is to review the work order to determine if further inquiry is warranted (e.g., if theft is suspected, the matter is supposed to be referred to DOE's security office which, in turn, is supposed to report it to both the DOE Inspector General's office and the Federal Bureau of Investigation). After having circulated through the different offices, the final retirement work order package is to be forwarded to the property accounting office, which transfers the item's record from the data base's active file to the retirement file.

To determine the extent of first-level supervisory review over property retirements, we reviewed the retirement work orders for all 78 property items that were retired under the missing category between October 1990 (the beginning of the current property tracking data base) and January 1993.⁹ Of the 78 retirement work orders, 21 (27 percent) did not have first-level supervisory signatures as required by DOE regulations. EG&G's Controller said that this problem may have resulted from a lack of attention on the part of these custodians and their supervisors to property management activities.

Not only was the first-level supervisory review over property retirement work orders not always occurring, but we also noted that no EG&G office performs an overall review of the accuracy and completeness of each

⁹These 78 missing items were already known to be missing and do not include items reported missing during the 1991 and the 1993 inventories.

retirement work order package before an item is retired. This overall review is important because as the retirement work order package circulates through the different offices (property management, security, and property accounting), new information on the item's whereabouts may be added to the work order package that could change the item's retirement status.

For example, we identified four specific cases in which property items appeared to have been inappropriately retired due to the lack of an overall review of the items' retirement work order packages. In all four cases, the property items were retired, even though documentation attached to the retirement packages indicated that the missing items had been transferred to other custodians or locations. In none of the four cases was there any documentation indicating that someone had checked to verify whether or not the property had indeed been transferred as stated. By performing overall reviews of items' retirement documentation packages, EG&G can potentially prevent items from being inappropriately retired.

One reason why this overall review is not being performed is because EG&G lacks detailed written procedures outlining the responsibility of different departments. As a result, confusion exists among these different departments over which office is responsible for performing this review. Property accounting officials said that as long as the retirement package contains a security official's signature, they do not review it for completeness or accuracy; they assume that the security office has done so. Security officials, however, said that they have never reviewed retirement packages for completeness or accuracy; rather, they see their review role as determining whether the circumstances seem suspicious and thus warrant their in-depth investigation. Property management officials told us that they were not performing this review either and were unaware that this overall review was not being performed. Both DOE and EG&G officials agreed with us that another cause was the lack of written procedures clearly outlining the responsibilities of the different offices involved in the property retirement process.

Conclusions

Overall, EG&G has improved property management activities at Rocky Flats but its lack of system controls prevents EG&G from adequately accounting for government-owned property at the plant. Some items are never entered into the plant's property management data base. Some data in the data base are inaccurate. Furthermore, items have been deleted from the data base and other data have been inappropriately changed. Finally, confusion

exists among plant personnel regarding their responsibilities in retiring property. Taken together, these control weaknesses have rendered government-owned property at the plant vulnerable to loss.

To correct these problems, DOE needs to see to it that EG&G takes action in several areas. First, EG&G must ensure that all sensitive items, and those costing more than \$1,000, purchased for the government at the plant are included in the plant data base. To accomplish this, EG&G will likely have to go back several years through the plant's historical records (e.g., purchase orders) to determine which items were not entered into the data base and then enter them. Additionally, DOE needs to revise its criteria at the plant regarding what should be in the data base. For example, power hand tools and other sensitive equipment should be included in the data base. Furthermore, uncertainties over any equipment's 2-year useful life should be resolved by including any equipment costing more than \$1,000 in the data base. Second, EG&G must correct the inaccurate data in the data base. This will probably necessitate a detailed review of all data in the system to ensure that it is accurate.

Third, EG&G needs to institute system-level edits into the system to prevent deletions and/or inappropriate changes to the data base. Such checks and edits within the system would limit access as well as prevent certain keypunch errors. In our view, such internal controls are critical to safeguarding the data in the system. Finally, EG&G needs to correct the confusion among plant personnel regarding their role in retiring property. In doing so, the roles and responsibilities should be clearly delineated and understood by EG&G staff.

Recommendations

To improve EG&G's property management system and ensure that the plant's data base accurately reflects the government-owned property at the plant, we recommend that the Secretary of Energy require EG&G to:

- Undertake, to the extent practical, a study of historical records at the plant to identify and include all appropriate property into the plant's property data base, and correct data base inaccuracies as necessary.
- Revise, with DOE guidance, the criteria at the plant for what should be in the data base so that all sensitive equipment is included in the data base. Furthermore, the 2-year useful life criteria that exempts certain equipment should be dropped except in special cases.

Chapter 3
Inadequate Property Management System
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- Institute system-level edits into the system to limit and prevent unauthorized access. Such edits would also help prevent errors from entering the system.
 - Develop guidance specifying the roles and responsibilities of property management staff in retiring property.

DOE Has Not Provided Adequate Oversight of the Contractor's Property Management System

DOE's oversight of EG&G's property management system has been ineffective in three areas reflecting the low priority that DOE has assigned to property management at Rocky Flats. First, DOE has allowed EG&G, contrary to departmental regulations, to operate without detailed written procedures for its different property management activities, including its property tracking, inventory, and retirement functions. Second, DOE has not reviewed EG&G's property management system within the first year of the contract, as specified in departmental regulations. Third, DOE has not ensured timely correction of property management weaknesses identified in previous DOE reviews. This lack of oversight which enables EG&G to operate with an inadequate and informal property management system precludes DOE from ensuring that government-owned property at the plant is properly accounted for.

DOE Has Allowed EG&G to Operate Without Detailed Written Property Management Procedures

DOE regulations require that a contractor develop written procedures as an essential component of its property management system. The written procedures provide detailed guidance to contractor staff on how specific activities, such as property tracking, inventorying, and retirement, are to be conducted. The procedures also provide both the contractor and DOE a means of ensuring that all property items are completely, accurately, and consistently accounted for—from their acquisition to their retirement. According to a DOE official, such procedures should be developed within the first several months after a contract is initiated. However, DOE has allowed EG&G to proceed with property management operations at Rocky Flats for nearly 4 years without detailed written procedures in place.

Soon after EG&G's contract began, DOE required EG&G to develop written property management procedures, and EG&G agreed to do so no later than September 1990. However, DOE Rocky Flats officials told us that over the course of EG&G's contract period, DOE has requested but not insisted that EG&G complete the procedures. DOE's reasoning has been that EG&G lacked sufficient staff resources to both develop these procedures and complete other higher-priority activities such as property inventories. Furthermore, DOE Rocky Flats officials told us that they did not ask EG&G to increase its property management staff to write procedures because plant priorities emphasized increasing funds for other programs, such as environmental health and safety activities, while reducing costs in administrative activities, including property management.

Because DOE has allowed EG&G to continue property management operations without written procedures in place, problems have developed.

For instance, as previously discussed, no one at EG&G performs an overall review of the accuracy and completeness of retirement work order packages before items are retired. Without performing these overall reviews, EG&G cannot ensure that items' retirements are appropriate and justified. The lack of written procedures which clearly delineates responsibilities among plant personnel was a contributing cause to this condition.

DOE Has Not Reviewed EG&G's Property Management System

DOE regulations also require DOE to review the contractor's property management system within 1 year of the beginning of the contract. The purpose of this review is to determine whether this system adequately protects, maintains, utilizes, and disposes of government-owned property in accordance with federal regulations and DOE directives. Following this review, if DOE does not approve the contractor's property management system, then DOE is required to advise the contractor in writing of deficiencies and to establish a time schedule for completing corrective actions.

DOE Rocky Flats had reviewed Rockwell's property management system as late as 1989 but had not begun performing a similar review of EG&G's system until February 1993, more than 2 years after it was required to have completed it. According to the DOE Rocky Flats property and information management branch chief, DOE had planned to but did not review EG&G's property management system earlier for several reasons, including a lack of DOE staff. This official said that DOE Rocky Flats requested staff assistance as early as December 1990 but did not get any additional staff resources until late 1992. As a result, DOE Rocky Flats began the review in February 1993 and expects to complete it in March 1994.

Because DOE's review of EG&G's property management system has not yet been completed, the Department cannot be certain that it is fully aware of the weaknesses associated with that system. If DOE had performed this review earlier, it could have identified sooner the property management areas needing improvement. In addition, performing a review of the property management system earlier would have demonstrated to EG&G that DOE was concerned about adequate property management at the plant.

Corrective Actions to Improve Property Management Have Not Been Timely

DOE has not ensured the timely correction of property management weaknesses identified in previous DOE reviews. First, DOE has not ensured that EG&G correct weaknesses identified in DOE's 1989 property management system review. Second, DOE has not corrected its own property management oversight weaknesses identified in its Federal Managers' Financial Integrity Act (FMFIA) reports. As a result, longstanding property management deficiencies at Rocky Flats have continued.

Contractor Deficiencies Have Gone Uncorrected

DOE has not ensured that EG&G adequately implemented the corrective actions required in response to DOE's 1989 property management review of Rockwell, the previous onsite contractor. In the 1989 review, DOE made 30 recommendations related to property management weaknesses and required EG&G to implement the related corrective actions after it assumed operation of the plant. These recommendations spanned numerous aspects of property management operations, such as the tagging of government property, physical inventories, and property tracking practices. EG&G initially expected to implement these recommendations in 1990.

Since 1990, EG&G reported to DOE that it implemented 20 of the 30 recommendations, with 10 recommendations still in process.¹ The in-process recommendations include implementing a system for tracking property deliveries from the warehouse to the recipient and ensuring that all employees were aware of their responsibilities for the care of government-owned property. As of November 1993, DOE Rocky Flats has not established any deadline for completing these open recommendations but rather intends to repeat the open recommendations in interim reports as it completes the on-going property management system review. According to the DOE Rocky Flats property and information management branch chief, DOE did not insist that EG&G complete the open recommendations earlier because EG&G did not have sufficient staff to address both the open recommendations and other higher-priority property management activities such as conducting the 1993 inventory.

In reviewing the recommendations that EG&G claimed to have implemented, we found that some of these were not adequately completed. For example, responding to DOE's recommendations, EG&G claimed to have (1) implemented appropriate system-level checks and

¹One of the 10 in-process recommendations requires EG&G to retire items not located in the 1991 inventory. However, DOE subsequently directed EG&G not to retire this category of missing property until the end of the 1993 inventory cycle.

edits in its property tracking data base to prevent erroneous entries; (2) ensured that all equipment requiring tracking was tagged, with their serial numbers recorded in the property data base; and (3) ensured that all property management, accounting, and other personnel directly involved in property management-related activities were properly trained. As discussed in chapter 3, serious deficiencies continue to exist in these areas.

DOE officials told us that they have become aware, either through our review or their own initiative, that some recommendations have not been adequately completed. For that reason, DOE plans to require in its interim reports that EG&G develop corrective actions and timetables for completing those actions.

DOE Deficiencies Have Gone Uncorrected

DOE also has not taken adequate corrective action on deficiencies cited in its FMFIA reports for 1991 and 1992. These reports documented DOE's own assessment of whether its system of internal and administrative controls complied with standards prescribed by us. In each of these reports, DOE noted material internal control weaknesses in its property management oversight activities at the Rocky Flats Plant. Cumulatively, in its 1991 and 1992 FMFIA reports, DOE identified 22 corrective actions needed to improve its oversight of property management activities. These included, for example, hiring additional DOE staff to ensure adequate oversight and conducting follow-up DOE reviews to verify the completion of contractor corrective actions.

As of November 1993, DOE reported that 13 of these corrective actions had been completed and cited a lack of DOE staff resources as its primary reason for not completing the remaining 9. DOE has slipped its target completion dates for some corrective actions four times; it estimates that it will complete the remaining nine corrective actions by June 1994. These remaining corrective actions include completing follow-up activities to its 1989 property management review and developing and implementing a system for tracking all open audit recommendations to resolution. Some of these corrective actions, had they been completed on time, would have helped DOE detect the many property management problems at the plant and oversee EG&G's progress in resolving them.

Conclusions

DOE has made progress in improving the Rocky Flats Plant's property management system, but the Department still has not provided adequate

oversight of that system. Not only has DOE allowed EG&G to operate for nearly 4 years without detailed written procedures and an approved property management system, but it has also not ensured timely corrective action on previously identified property management weaknesses. As a result, longstanding property management deficiencies at the plant have continued, thereby fostering an environment where government-owned property cannot be adequately accounted for.

In order to improve DOE's oversight of property management at the plant, DOE must give higher priority to resolving the property management problems at the plant. DOE officials told us that one of the primary reasons for these problems has been a lack of EG&G staff and that staff increases were not feasible because of higher DOE commitments to environmental health and safety issues over administrative activities. In our view, the underlying problem is not necessarily a lack of EG&G staff. A lack of commitment from DOE to properly oversee property management appears to be the more fundamental problem. DOE, in our view, could have exercised greater oversight. For instance, DOE could have directed EG&G to focus its attention on fixing those problems that were less staff intensive such as developing written procedures. Furthermore, DOE could have required EG&G to have sufficient inventory procedures in place before conducting property inventories. Finally, DOE could have set milestones for EG&G to complete corrective actions. Without a strong commitment by DOE to establish an effective property management system, problems such as those in this report are likely to continue.

Recommendations

To improve DOE's oversight of property management at the Rocky Flats Plant, we recommend that the Secretary of Energy direct DOE Rocky Flats management to

- place a higher priority on overseeing property management activities at the plant. This may necessitate adjusting DOE staff levels at the plant as well as setting milestones for improving DOE's oversight and
- require EG&G to (1) immediately develop written procedures for its property management system, (2) submit its property management system to DOE for review and approval, and (3) complete corrective action on previously identified contractor property management deficiencies.

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