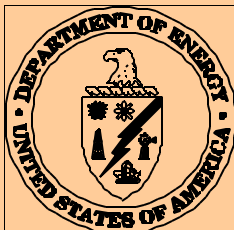


**INSPECTION  
REPORT**

**INSPECTION OF  
LAWRENCE LIVERMORE  
NATIONAL LABORATORY  
CREDIT CARD USAGE AND  
PROPERTY MANAGEMENT  
CONCERNS**



**U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF INSPECTIONS**

**FEBRUARY 2001**



February 20, 2001

MEMORANDUM FOR THE MANAGER, OAKLAND OPERATIONS OFFICE

FROM: Sandra L. Schneider /s/ John Vande Sand for  
Assistant Inspector General for Inspections  
Office of Inspector General

SUBJECT: INFORMATION: Report on "Inspection of Lawrence Livermore National  
Laboratory Credit Card Usage and Property Management Concerns"  
(INS-O-01-01)

BACKGROUND

The Lawrence Livermore National Laboratory (Livermore) conducts Federally-funded research and development in support of national defense programs and other areas of scientific inquiry in the national interest. To facilitate accomplishment of this work, Livermore spent about \$66 million in over 70,000 transactions in Fiscal Year 1999, for the purchase of supplies or services made via credit cards. Recognizing that credit card procurements represent a significant procurement method, the Office of Inspector General included Livermore's credit card procurement program as an area of interest regarding contract administration controls in the Fiscal Year 2000 Inspector General Annual Performance Plan.

RESULTS OF INSPECTION

Our review of nearly 13,000 credit card transactions made during Fiscal Year 1999 revealed that the vast majority of items purchased were for allowable goods or services that were procured in accordance with established procedures. However, our inspection found some weaknesses in the implementation of the Livermore credit card procurement program, and areas where improvements could be made both in the credit card and property management process.

Specifically, we found that in accordance with the Department of Energy Property Management Regulations, the DOE Oakland Operations Office has authorized Livermore to develop a list of personal property items which are considered to be sensitive, subjecting these items to property numbering requirements for control purposes. However, we found that this list could be more inclusive with regard to items frequently procured with credit cards. Current Livermore policy does not identify as sensitive nor require property number tracking for items such as microscopes, oscilloscopes and videocassette recorders. We also found that some credit card users in 8 out of 10 Livermore Directorates included in this inspection, were not identifying personal property items purchased with credit cards as U.S. Government property as required by contract. This could lead to confusion regarding property ownership, especially considering Livermore's Work For Others Programs and partnerships with private industry.

Additionally, it would be more difficult for security personnel to readily identify U.S. Government property in the event such property was improperly removed from the Laboratory premises. As a result, we conclude that Livermore's Fiscal Year 1999 property management self-assessment rating of "outstanding" needs to be reevaluated.

In addition, we found that an office equipment vendor manipulated General Services Administration (GSA) contract pricing near the end of Fiscal Year 1999 to expedite equipment sales. This had the effect of circumventing Livermore's credit card policy limiting the use of the credit card to \$5,000 per item. Specifically, in four instances the vendor adjusted the pricing for a copier and a document feeder to allow the individual transactions to fall under the \$5,000 limitation, while maintaining the same total sales price. We also found that a Livermore employee used a credit card to pay for over \$200,000 in training expenses to a single vendor in Fiscal Year 1999, having the effect of a sole source procurement and, in some instances, split orders. Additionally, we found that Livermore employees have used credit cards to procure many similar items such as computer monitors and tape back-up units from a variety of different sources that could have been competitively procured in a larger volume from fewer sources and at potentially lower cost. Since Livermore does not have a process in place to review credit card purchase histories, opportunities to reduce the cost to the Government through quantity discounts have not been evaluated.

We made several recommendations to address the issues identified in Livermore's credit card and property management processes. Specifically, we recommended that Livermore reevaluate the "Attractive" item policy, and consider adding other items to the "Attractive Property" listing. We recommended that Livermore ensure that all non-exempted personal property procured with Government funds be identified as Government property, and that controls over end-of-fiscal-year acquisitions using credit cards be improved. In addition, we recommended that Livermore review the use of credit card procurements for training, and establish procedures to encourage competition for training services. We also recommended that Livermore evaluate the potential for establishing a program where credit card procurement histories are analyzed in order to forecast the need for common and frequently purchased items so that competitive procurement actions for such items can take advantage of quantity discounts.

#### MANAGEMENT REACTION

Management agreed that improved identification of Government property purchased with credit cards is needed, that increased transaction reviews for end-of-fiscal-year credit card procurements will be performed, and that opportunities for competitively procuring future training will be sought. Management did not agree that the sensitive property list needed to be expanded, that credit cards procurement histories needed to be evaluated to forecast commonly purchased items for acquisition under competitive procurements and inclusion as shelf stock, or that Livermore's Fiscal Year 1999 property management self-assessment analysis should be reevaluated.

Attachment

cc: Under Secretary for Nuclear Security  
and Administrator, National Nuclear Security Administration  
Acting Director, Office of Management and Administration  
Leader, Audit Liaison Team, CR-2

# INSPECTION OF LAWRENCE LIVERMORE NATIONAL LABORATORY CREDIT CARD USAGE AND PROPERTY MANAGEMENT CONCERNS

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## Overview

### INTRODUCTION AND OBJECTIVES

The Lawrence Livermore National Laboratory (Livermore) is managed by the Regents of the University of California for the Department of Energy, and as such, conducts Federally-funded research and development in support of national defense programs and other areas of scientific inquiry in the national interest.

Livermore's Fiscal Year 1999 net cost of operations was \$822.4 million. Approximately \$66 million, or 8 percent, of this amount was spent for the purchase of supplies and services made by Livermore Technical Release Representatives (TRRs) via credit card procurement transactions.

Technical Release Representatives are granted authority from the Livermore Procurement and Material Department to issue "releases"<sup>1</sup> against existing Blanket Purchase Agreements (BPAs),<sup>2</sup> and to use Livermore credit cards to transact purchases for the programs they support. Since inception of the credit card program at Livermore in 1994, the use of credit card acquisitions has become increasingly more important as a procurement vehicle. As detailed in Figures 1 and 2, the number of transactions and dollars spent has nearly tripled since Fiscal Year 1996.

Recognizing that a significant new procurement program was created at Livermore, the Office of Inspector General included Livermore's credit card procurement program as an area of interest regarding contract administration controls in the Fiscal Year 2000 Inspector General Annual Performance Plan.

**Livermore Credit Card Transactions**

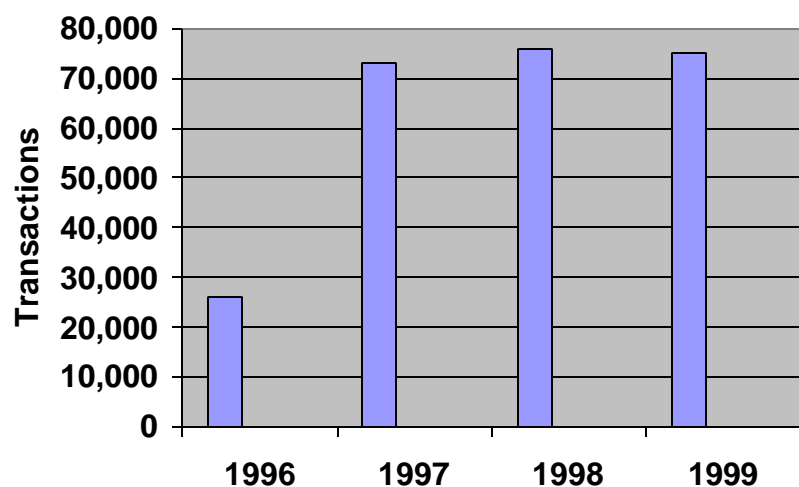


FIGURE 1

<sup>1</sup> "Releases" are contractual obligations created by a TRR when acquiring materials or supplies pursuant to a BPA.

<sup>2</sup> Blanket Purchase Agreements are agreements between Livermore and a supplier of services or materials, the cost of which has been previously negotiated by the Livermore Procurement and Material Department.

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### Livermore Credit Card Dollar Volume (millions)

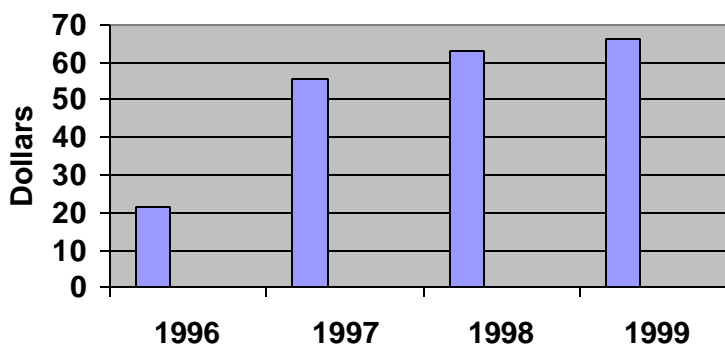


FIGURE 2

According to a Livermore procurement official, Livermore's TRRs are authorized procurement authority as a more efficient, decentralized alternative to the existing system of centralized buyers who process large quantities of requisitions. Initially, 25 TRRs were allowed to make procurement card purchases, and were limited to \$500 per transaction. However, this system has expanded to about 300 TRRs that are dispersed throughout the Laboratory. Livermore TRRs are now authorized by Laboratory management to spend up to \$5,000 per item, or \$10,000 for purchase of a service or commodity, but no more than \$10,000 per transaction. If the items are the subject of a BPA, there is a \$25,000 limit per transaction. Purchases that exceed these limits must be made by a more lengthy centralized requisition process.

Livermore credit card purchases are made for a wide variety of consumable materials such as office and janitorial supplies, biological specimens, petroleum products, and chemicals. They can also be used to procure non-consumable items such as laboratory equipment, tools, hardware, and office equipment. We note that Livermore's TRR Policy Manual states that "attractive" items (highly portable property that is easily converted to personal use, is susceptible to theft and has an acquisition cost greater than \$300) and controlled equipment (items which have a purchase or fabrication cost greater than \$5,000 that justifies maintaining records on it) cannot be purchased with Livermore credit cards. Additionally, Livermore has established a "controlled items/services list" which details several commodities such as

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hazardous chemicals, cameras, and computer printers (over \$300 in cost) that require a waiver to be purchased with a credit card.

Our inspection objectives were to determine if: (1) Livermore officials established appropriate management controls to implement the credit card system, by ensuring that only reasonable and allowable costs are incurred and charged to the Letter of Credit accounts; (2) credit card transactions followed Livermore's established management controls; and (3) appropriate property management practices are in place for Government property procured with credit cards.

## **OBSERVATIONS AND CONCLUSIONS**

Our review of nearly 13,000 credit card transactions made during Fiscal Year 1999 revealed that the vast majority of items purchased were for allowable goods or services that were procured in accordance with established procedures. However, our inspection found some weaknesses in the implementation of the Livermore credit card procurement program, and areas where improvements could be made. Specifically, we found that:

- In accordance with the DOE Property Management Regulations, the DOE Oakland Operations Office has authorized Livermore to develop a list of personal property considered to be sensitive, requiring property number tracking for control purposes. In developing this list, DOE Oakland/Livermore must consider item value, cost of administration, need for control, and other factors that management determines should apply. However, current Livermore policy does not require property number tracking for potentially sensitive items such as microscopes, oscilloscopes, and videocassette recorders.
- Livermore TRRs use credit cards for the purchase of items such as office and laboratory equipment that, because of cost or lack of susceptibility to pilferage, are not subject to property number tracking requirements. However, when these items are received, Livermore TRRs are required to identify such items as U.S. Government property. Some TRRs in 8 of 10 Livermore Directorates included in this inspection were not observing this property management requirement, and were not identifying such items as U.S. Government property.
- An office equipment vendor manipulated General Services Administration (GSA) contract pricing to circumvent Livermore's credit card cost limitation policies. Livermore's



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own credit card program, established at the request of the Oakland Operations Office, generally limits TRRs to \$5,000 per item for credit card purchases. However, in three instances, the vendor adjusted the pricing for a copier and a document feeder to allow the individual transactions to fall under the \$5,000 limitation, while maintaining the same total sales price. Specifically, the GSA contract price for the type of copier purchased was \$6,231.00, but the vendor adjusted the price of the copier down to \$4,981.00. In order to compensate for the reduction in the pricing for the copier, the vendor adjusted the price for a document feeder from the \$1,338.00 GSA contract price to an increased price of \$2,588.00. In a related instance, a similar condition was also found with a less expensive copier.

- Livermore credit cards were used to pay over \$200,000 in training expenses to a single vendor in Fiscal Year 1999, having the effect of a sole source procurement and, in some instances, split orders were used.
- Livermore TRRs have used credit cards to procure numerous common items such as computer monitors and tape back-up units under many small quantity purchases from a variety of different vendors. The analysis of credit card purchasing histories to identify commonly and frequently purchased items may be advantageous in securing better prices through quantity discounts under competitive procurements.
- Livermore's Fiscal Year 1999 "Property Management" self-assessment analysis resulted in an "outstanding" rating. However, the results of this self-assessment analysis may be overstated based on the findings addressed in this report.

## Details of Findings

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### **DOE Property Management Regulations Implementation**

The Livermore Technical Release Representative Policy Manual defines which items are required to be assigned a property number for control purposes. Currently, Livermore's policy does not require property number tracking for some potentially pilferable items, such as microscopes, oscilloscopes, and videocassette recorders.

The Department of Energy Property Management Regulations state that "sensitive" items are those items of personal property which are considered to be susceptible to being appropriated for personal use or which can be readily converted to cash, and must be numbered for control purposes. Examples of sensitive items include: firearms, portable photographic equipment, binoculars, portable tape recorders, portable calculators, portable power tools, portable computers, and portable communications equipment. Clause 6.12, "Property," of the DOE Management and Operating Contract with the Regents of the University of California, states that Livermore's property management system shall be maintained and administered in accordance with applicable Federal and Department of Energy Property Management Regulations.

The Livermore Technical Release Policy Manual states that "Attractive Property" items (also called sensitive items) are property items that have not exceeded their service life, are highly portable, are easily converted to personal use, are more susceptible to theft than other Laboratory property, and have an acquisition cost of \$300 or more. Livermore requires that "Attractive Property" items be identified with property numbers for accountability purposes. The DOE Property Management Regulations prescribes that "a list of personal property considered to be sensitive shall be developed and maintained by each DOE activity/site, taking into consideration value, cost of administration, need for control, and other factors that management determines should apply."

Livermore has established an "Attractive Item Committee" which reviews the "Attractive Property" item listing annually, and uses a risk-based process for developing and maintaining the site-specific list of personal property considered to be attractive. The Livermore Attractive Item Committee has defined "Attractive Property" by categories such as computer workstations, personal computers, firearms, computer printers, repositories (security containers), cameras (certain technical application cameras are excluded), two way radios, and video cameras. Items that do not fall into one of these categories are not considered to be "Attractive Property" by Livermore.

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However, we found that some items which might be considered sensitive (attractive) have been procured using Livermore credit cards, and that such items have not been identified with property numbers for accountability purposes. These items include two oscilloscopes (\$1,795 and \$1,295), two microscopes (\$4,780 each), three videocassette recorders (\$3,141 each), two fax machines (\$1,785 and \$1,985), and a computer scanner (\$2,005), among other equipment. We were told by Livermore TRRs that this situation has occurred due to the fact that the Livermore Technical Release Policy Manual narrowly defines what property is classified as “attractive.”

We conclude that the listing developed by the Livermore “Attractive Item Committee” could be more inclusive. Considering the fact that many items procured with Livermore credit cards are highly portable, are easily converted to personal use, are susceptible to theft and have an acquisition cost of \$300 or more, we conclude that the “Attractive Property” listing needs to be reevaluated. In this regard, we conclude that consideration needs to be given to adding items such as oscilloscopes, microscopes, videocassette recorders, fax machines, and computer scanners to the “Attractive Property” listing.

## **Recommendation**

We recommend that the Manager, Oakland Operations Office:

1. Direct the Livermore Business Services Department, in coordination with the Livermore Procurement and Material Department, to reevaluate the “Attractive” item policy consistent with the findings in this report at the next Attractive Item Committee Meeting, and consider adding items such as oscilloscopes, microscopes, videocassette recorders, fax machines, and computer scanners to the “Attractive Property” listing.

## **Management Comments**

The Manager, DOE Oakland Operations Office, did not concur with this finding, stating in part that “The current DOE-OAK [DOE Oakland Operations Office] approved LLNL [Livermore] Attractive/’Sensitive’ Item policy is in accordance with Department of Energy Property Management Regulations (DOE-PMR), and thereby complies with applicable contract provisions.” Management also stated that “Decisions of the committee are submitted to the DOE-OAK Organizational Property Management Officer for approval. This systematic and cost-benefit approach allows LLNL to focus resources on 20% of the property items which account for 80% of the value.”

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**Inspector  
Comments**

We conclude that items of Government property such as microscopes, oscilloscopes, videocassette recorders, and other similar property could fall within the intent of the requirement for sensitive property identification in accordance with the DOE Property Management Regulations. While it is true that the DOE Property Management Regulations state that “a list of personal property considered to be sensitive shall be developed and maintained by each DOE activity/site, taking into consideration value, cost of administration, need for control, and other factors that management determines should apply,” the exclusion of equipment that is easily converted to personal use calls into question the ability to control such property. In fact, the Livermore “Attractive Property” definition in the Technical Release Policy Manual states that an attractive item may cost as little as \$300.

We were told by Oakland Operations Office property management officials that the estimated annual cost for Livermore to maintain an attractive item with a property management number is \$30.00. Considering the previously stated procurement cost for equipment procured by Livermore, this appears to be a small amount to pay considering the useful life of the items. For example, if one of the \$4,780 microscopes was enrolled in the property number system, and was used for 10 years<sup>3</sup>, an inventory control cost of \$300<sup>4</sup> would be incurred, or about six percent of the procurement cost.

As a result of management comments, we have modified our original recommendation by eliminating our reference to conformance with the management and operating contract and the DOE Property Management Regulations, and have focused on a reevaluation of the “Attractive Property” listing at the next Attractive Item Committee Meeting.

**DOE Property  
Management  
Regulations and DOE  
Management and  
Operating Contract  
Property Marking  
Requirements Are  
Not Consistently  
Implemented**

In addition to the property numbers required for “sensitive” property, the DOE Property Management Regulations state that personal property<sup>5</sup> shall be marked as “U.S. Government Property” or alternatively “U.S. DOE.” Personal property is defined as property of any kind, except real estate and Government owned permanent fixtures. The DOE management and operating contract with the Regents of the University of California for managing Livermore, states that the contractor shall identify Government property coming into the contractor’s

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<sup>3</sup> [The useful life of laboratory equipment per the DOE Chief Financial Officer’s Accounting Handbook.](#)

<sup>4</sup> [In Fiscal Year 2001 dollars.](#)

<sup>5</sup> Personal property which by its nature cannot be marked, such as stores items, metal stock, etc. is exempted from this requirement.

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possession or custody by marking and segregating in such a way, satisfactory to the Contracting Officer, as shall indicate its ownership by the Government. We were told that in accordance with the Livermore Technical Release Policy Manual, it is the responsibility of the TRR to place LLNL/U.S. Government identification labels on personal property items purchased with Livermore credit cards.

However, during interviews with TRRs from 8 of the 10 Livermore Directorates included as part of this inspection, it was noted that many equipment items in their office areas were not properly identified as LLNL/U.S. Government property. Specifically, we interviewed 11 TRRs from 8 different Livermore Directorates who did not have equipment items in their office areas properly identified. Some examples of equipment not properly identified include computer monitors, fax machines, copiers, an electronic calculator, a paper shredder, a slide projector, and tools. These employees said it was an oversight that these items were not properly identified as U.S. Government property. There was, however, one TRR we interviewed that had the proper U.S. Government markings on all office equipment, and the employee in this office area appeared to be properly identifying all property procured.

The marking of property items in the possession of Livermore, aside from being a contract requirement, serves to distinguish Department of Energy property from that supplied by other U.S. Government agencies, the University of California or private industry partners. The marking of property items also aids security personnel in identifying U.S. Government property in the event such property is improperly removed from the Laboratory premises.

Taken as a whole, we conclude that items of Government property purchased by Livermore officials with credit cards are inconsistently identified as Government property. As a result, appropriate property protection measures in accordance with contract requirements are not always followed. This situation is particularly troubling considering the volume and dollar amount of property purchased by TRRs, the fact that TRRs are specifically charged with the responsibility of labeling Government property that they purchase, and the fact that TRRs from 8 of 10 Livermore directorates displayed similar weaknesses in their identification of Government property.

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**Recommendation**

We recommend that the Manager, Oakland Operations Office:

2. Direct the Livermore Business Services Department in coordination with the Livermore Procurement and Material Department to ensure that: (1) all non-exempted personal property procured with U.S. Government funds is identified as Government property; and (2) internal controls are in place to ensure conformance with this policy.

**Management Comments**

Management concurred with this finding, stating that “DOE-OAK will advise LLNL Property Management to work with Procurement and Material Department personnel in order to ensure the labeling of all non-consumable assets as Government property.” Management stated that “DOE-OAK will advise LLNL Property Management to establish a review of this process during their annual self-assessment program,” and that “DOE-OAK will monitor and ensure implementation through operational awareness activities.”

**Inspector Comments**

Management’s proposed action is responsive to this finding. As a result of management comments, the recommendation was modified to include the Livermore Business Services Department in the recommended action.

**Vendor Price Manipulation**

We found four instances where end of fiscal year funding situations in August and September 1999 led to credit card procurements that were only made possible by vendor price manipulation of the GSA Contract price. This situation occurred where a sales representative of a copier vendor adjusted the sales price of four different copiers downward, while adjusting the cost of copier document feeders sold in the same transaction upwards, with the total sales price remaining the same.

As previously stated in this report, TRRs are limited to credit card purchases of \$5,000 per item, or \$10,000 per transaction. However, at the end of Fiscal Year 1999, four copiers were purchased by Livermore employees in four separate transactions where the \$5,000 per line item limit was not exceeded as a result of the vendor price manipulation.

In the first three instances, the vendor adjusted the GSA Contract copier price from \$6,231 down to \$4,981, and increased the GSA contract price for copier document feeders from \$1,338 to \$2,588,

while maintaining the same total sales price. In a related fourth instance, the same vendor manipulated the price of a less expensive copier in a similar manner. Specifically:

Purchased by Directorate	Purchase Date	Item	GSA Contract Price	Actual Credit Card Transaction
NAI	8/26/99	Copier	\$6,231	\$4,981
		Document Feeder	<u>\$1,338</u>	<u>\$2,588</u>
		Total:	\$7,569	\$7,569
Engineering	9/15/99	Copier	\$6,231	\$4,981
		Document Feeder	<u>\$1,338</u>	<u>\$2,588</u>
		Total:	\$7,569	\$7,569
Defense & Nuclear Tech.	9/20/99	Copier	\$6,231	\$4,981
		Document Feeder	<u>\$1,338</u>	<u>\$2,588</u>
		Total:	\$7,569	\$7,569
Engineering	9/14/99	Copier	\$5,122	\$4,987
		Document Feeder	<u>\$1,338</u>	<u>\$1,473</u>
		Total:	\$6,460	\$6,460

The Livermore TRRs who made these purchases said they were unaware of the GSA line item pricing for the copiers they purchased, and that they were unaware that the copier pricing had been adjusted. They said they contacted the copier vendor who recommended a specific model of copier to them that would meet their needs, and they told the vendor that their purchases would be by Livermore credit card. They also said that, due to end of fiscal year funding availability and time constraints, there was some urgency to complete the copier purchases prior to September 30, 1999, and that credit card procurement assured the transactions would be completed in the required timeframe.

During an interview with the office supply company salesperson who sold the copiers to the Livermore TRRs, the salesperson said that she was aware that the TRRs had a \$5,000 per line item and \$10,000 per transaction cost limitation. She said she understood some customers at Livermore desired to buy copiers with end of year funding, that completing the procurement actions in a timely manner was an issue to concluding the sales, and resultantly, she unilaterally adjusted the GSA pricing. She said that it was a regrettable action on her part and would not happen again. She said that revised sales invoices would be sent to the affected TRRs. Despite the manipulations by the salesperson and the apparent lack of involvement by the TRRs in this case, it should be noted that Livermore TRRs are ultimately responsible for knowing the price of GSA line items to avoid vendor price manipulation.

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In addition, an inspection of each of these copiers revealed that none of them had the required “U.S. Government” property number identification label on them, and that two of the four did not even have an LLNL/U.S. Government property label attached.

**Recommendation**

We recommend that the Manager, Oakland Operations Office:

3. Direct Livermore Procurement and Material Department officials to establish improved controls over end-of-fiscal-year acquisitions to preclude the use of credit cards for purchases of equipment or services that exceed the credit card cost limitations for individual items or transactions.

**Management Comments**

Management concurred with this finding, stating that “DOE-OAK will advise LLNL Procurement and Material Department officials to increase the frequency of credit card transaction reviews during the last month of the fiscal year to ensure all purchasing activity is appropriate and in accordance with applicable policies and procedures.”

**Inspector Comments**

Management’s proposed action is responsive to this finding.

**Credit Card Payments for Training**

We found that a Livermore computer training office, under the Computations Directorate, has made a practice of using a credit card as the vehicle for payment for training courses. This has had the effect of a sole source procurement action with an aggregate value of \$228,800, and in some instances, split orders. Specifically, a review of 25 Fiscal Year 1999 transactions for computer training classes found that these transactions were all made to the same vendor name. Training classes provided by the vendor included among others, Introduction to Excel, Intermediate/Advanced Powerpoint, Windows 95/NT End User, and Introduction to Adobe Photoshop.

**Sole Source Procurement of Training**

We were told by a Livermore TRR that these training transactions were not part of a BPA, or any other competitive procurement action. The TRR said that a BPA had been established with the vendor from 1993 through 1997. However, the contractual timeframe for the BPA had expired in September 1997, and the credit card payment method has been used with the same vendor since that timeframe as a matter of convenience. The TRR said that no competitive bids have been solicited from other training companies. However, the TRR said the training office



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continues to review computer training catalogues supplied by potential vendors. We understand that sole source procurements are appropriate in certain circumstances, but Livermore's process, in these instances, did not ensure that the most competitive training was obtained.

**Some Training Payments Could Be Split Orders**

Of the 25 transactions during Fiscal Year 1999, \$18,195 was paid on February 25, 1999, in two transactions to the computer training vendor. In this instance, the sums of \$9,490 and \$8,705 were paid for computer training. Similarly, on April 30, 1999, the sum of \$25,735 was paid in three transactions to the same vendor on the same day. The TRR said she is limited to \$10,000 per transaction, and that she tries to combine her payments for different classes to equal as close to \$10,000 as possible to minimize the number of transactions. However, the Livermore TRR policy manual states that multiple awards of similar items, issued within relative short intervals, under the same account number, and the same requestor and project application, is an example of a split order.

**Recommendation**

We recommend that the Manager, Oakland Operations Office:

4. Direct Livermore Procurement and Material Department officials to review the circumstances regarding the credit card procurement of \$228,800 in training from the same vendor, and evaluate the potential for competitively procuring training services and avoiding sole source acquisitions or the splitting of orders for such services.

**Management Comments**

Management concurred with this finding, stating that "DOE-OAK will advise LLNL Procurement and Material Department officials to seek opportunities to competitively procure future training requirements, as appropriate."

**Inspector Comments**

Management's proposed action is responsive to this finding.

**Acquisition Planning Opportunities**

Livermore TRRs purchased many common, non-consumable, components from a variety of different vendors in Fiscal Year 1999. These components included items such as computer disk drives, software, zip cartridges, modems, tape back-up units, and recordable compact discs. For example, Livermore TRRs used credit cards to procure 117 computer monitors in many small quantity purchases from a variety of different vendors. Given that our sample size was less than 20 percent of the total credit card transactions processed in Fiscal Year 1999, more than 500

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computer monitors could have been purchased in this timeframe. During an interview with a Livermore procurement official, the official said that there is no process in place to review commodities purchased by credit card for inclusion as local stock items. The official also said that, in the past, DOE had criticized Livermore for having an excessive inventory with low stock turnover. The official said that this has led Livermore to take action to reduce inventory levels.

While the inclusion of items such as computer monitors as local stock may not be desirable, the analysis of credit card purchasing patterns to identify commonly purchased items may be advantageous to secure better prices through quantity discounts under competitive procurements.

**Recommendation**

We recommend that the Manager, Oakland Operations Office:

5. Direct Livermore Procurement and Material Department officials to evaluate the potential for establishing a program where credit card procurement histories will be analyzed in order to forecast future need for common and frequently purchased items so that competitive procurement actions for such items can take advantage of quantity discounts.

**Management Comments**

Management did not concur with this finding, stating that “[Livermore] Procurement and Material manages an extensive Shop Stock program at LLNL via some 120 satellite locations. These miniature stock areas contain a variety of high-usage general commodity items, including office supplies, general hardware, and electrical materials. . . . Shop Stock provides Laboratory personnel with easy access to value-priced common use materials, eliminating potentially thousands of credit card transactions annually. There are currently more than 100 blanket purchase agreements in place at LLNL covering a wide variety of commodities including computers, monitors, and peripherals. LLNL has adopted commercial purchasing practices. The practice of maintaining on-hand inventories of computers or monitors and other like equipment is cost prohibitive and inefficient.”

**Inspector Comments**

We understand management’s reluctance to stock items such as computer monitors. However, the intent of raising this issue was to focus on the use of credit card procurement histories to forecast future need of common and frequently purchased items so that reduced cost through quantity discounts can be achieved. We conclude that through a process of analyzing procurement histories and planning for the acquisition of these types of items, improved

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commodity pricing which is more advantageous to the Government<sup>6</sup> may be realized.

As a result of management comments, we have modified our original recommendation by eliminating our reference to shelf stock, and refocused the recommendation to emphasize the potential for taking advantage of quantity discounts through competitive procurements.

## **Livermore Annual Performance Appraisal**

The Lawrence Livermore National Laboratory conducts an annual self-assessment of the attainment of performance objectives which result from Laboratory operations. This self-assessment serves as the principal means of providing input to the Laboratory performance appraisal process. It is through the self-assessment process that Livermore's compliance with the performance objectives identified in their Management and Operating Contract under Section B, Appendix F, "Performance Objectives, Criteria, and Measures For Operations & Administration," are evaluated. One of the elements of the self-assessment is Property Management.

The overall Fiscal Year 1999 Livermore Property Management self-assessment rating was "outstanding." The narrative accompanying this rating indicated that outstanding performance was achieved in organizational stewardship and personal accountability, coupled with physical inventory results that are "best-in-class."

Specifically, Property Management Performance Objective 4, "Information to Improve/Maintain Processes (Systems Evaluation)" states that "The Laboratory ensures that Property Management programs are consistent with policies and procedures approved by DOE." The Performance Narrative for this objective states that "All points were achieved in the assessment areas of Property Management and Precious Metals Management."

However, as previously stated in this report, we found there is inconsistent identification of Government property purchased by Laboratory officials. As a result, many items (copiers, calculators, labeling machines, computer monitors, etc.) were not properly identified as Government property. As such, many property items procured by the Department of Energy are not readily distinguishable from those that could have been procured by other

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<sup>6</sup> [Federal Acquisition Regulation, Part 7.2 "Planning for the Purchase of Supplies in Economic Quantities"](#) refers to this type of process.

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Government agencies, the University of California or even private industry partners. In addition, security personnel are at a disadvantage in identifying U.S. Government property in the event that such property is improperly removed from the Laboratory premises.

We could find no evidence that a system of internal controls exists to ensure that items procured with Department of Energy funds are properly identified as U. S. Government property. We conclude that Livermore's self-assessment of Objective 4.0 where a rating of 90 percent or outstanding for this performance objective was scored, requires reevaluation.

**Recommendation**

We recommend that the Manager, Oakland Operations Office:

6. Direct the Livermore Business Services Department to reevaluate the property management self-assessment performance rating of "outstanding" for Fiscal Year 1999 consistent with the findings in this report, and ensure that the issues identified in this report are addressed in any future self-assessments.

**Management Comments**

Management did not concur with this finding, stating that "This office does not agree with the recommendation that the results of the FY99 Self-Assessment of Property Management be reevaluated." Management stated that "The FY99 LLNL Property Management self-assessment results are in accordance with the FY99 Appendix F, Objective Standards of Performance established for the Property Management functional area." Management stated that "The recommendation is based on the premise that the Livermore attractive item determination is not broad enough so therefore the results of the self-assessment are not accurate." Management stated that "This office does not agree with this premise in that the DOE-OAK approved LLNL Attractive Item definition is in accordance with Departmental guidelines and contract requirements." Management also states that "Objective 4 assesses performance consistent with the DOE approved LLNL Attractive Item List."

**Inspector Comment**

The management comments for this finding do not address the fact that the DOE Property Management Regulations, as well as the DOE Management and Operating Contract, require Livermore to identify personal property coming into the contractor's possession as "U.S. Government Property." While it is true that we have concerns regarding the need to expand the types of items on the

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“Attractive” item listing, this issue was not the premise for the recommendation. The premise for the recommendation was the fact that Livermore rated itself as “outstanding” in the Property Management area while 8 of 10 Livermore Directorates were failing to consistently identify personal property as “U.S. Government Property” as required by contract and the DOE Property Management Regulations. We conclude that this requirement is so fundamental to a quality property management program, that non-compliance to the extent identified during this inspection challenges the “outstanding” label.

As a result of management comments, the recommendation was modified to include the Livermore Business Services Department in the recommended action. In addition, we have modified our original recommendation by eliminating references to the “Salary Increase Authorization Multiplier” and the potential recovery of funds.

## Appendix A

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### Scope and Methodology

We conducted a limited review of the policies and practices used by the Lawrence Livermore National Laboratory in managing, administering, and funding the Livermore Credit Card Procurement Program. In reviewing this program, we evaluated:

1. The DOE Management and Operating Contract with the Regents of the University of California for the management of the Lawrence Livermore National Laboratory, Contract No. W-7405-ENG-48, effective October 1, 1997.
2. The Department of Energy Property Management Regulations, 41 Code of Federal Regulations, Chapter 109.
3. The Lawrence Livermore National Laboratory Technical Release Representative Policy Manual, dated June 1999.
4. Fiscal Year 1999 Lawrence Livermore National Laboratory credit card monthly review summaries, self-assessment reviews, commercial procurement procedures, and Internal Audit Reports.

As part of our inspection, we evaluated a sample of 12,847 credit card transactions that were completed by Livermore TRRs in Fiscal Year 1999. The sample was constructed of two different components, where the first sample component that we evaluated was comprised of the top 1 percent of Fiscal Year 1999 transactions sorted by transaction cost (3,644 entries). The second sample component we evaluated was comprised of all credit card transactions made by the largest individual user of procurement cards in each of five Livermore directorates (Biology and Biotechnology Research, Chemistry and Materials Science, Earth and Environmental Science, Lasers, and Physics and Space Technology). A total of 9,203 transactions were included in the second sample.

As part of our review, the Office of Inspections obtained information at the Lawrence Livermore National Laboratory during March and April 2000.

This inspection was conducted in accordance with the “Quality Standards for Inspections” issued by the President’s Council on Integrity and Efficiency.

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