

**STATEMENT OF GREGORY H. FRIEDMAN
INSPECTOR GENERAL
U.S. DEPARTMENT OF ENERGY**

**BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON ENERGY AND COMMERCE
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS**

FOR RELEASE ON DELIVERY

Thursday, May 5, 2005

Good afternoon Mr. Chairman and members of the Subcommittee. I am pleased to be here to respond to your request to testify on the results of our work at the Los Alamos National Laboratory, one of the Department of Energy's most prominent facilities.

In February 2003, I testified before this Subcommittee on procurement and property management at Los Alamos. My testimony addressed weaknesses in controls over: property accountability; procurement authority, including purchase cards; and, security of computers.

At the Subcommittee's hearing in May 2003, I testified that the Laboratory had not given adequate attention to its business operations. Specifically, my testimony focused on financial management weaknesses at Los Alamos. I pointed out that the Office of Inspector General had questioned the allowability of certain costs that the Laboratory claimed between Fiscal Years 2000 and 2002, and that weak controls in Los Alamos' audit function; payroll and travel approval process; and, financial systems contributed to an environment where questionable costs could be incurred and claimed.

Since the 2003 hearings, the Office of Inspector General has continued to examine management practices at Los Alamos. In a series of reviews, some of which I will highlight today, we followed-up on a number of previously identified weaknesses. In some cases, the Laboratory had taken appropriate corrective actions. However, in other cases, our reports have shown that more work is needed to correct problem areas.

ENHANCEMENTS OF INTERNAL CONTROLS

In 2004, the Office of Inspector General performed a follow-up review to determine whether the Laboratory had conducted a thorough analysis of its purchase card program and had initiated corrective action to resolve previously reported weaknesses. In our report, *Los Alamos National Laboratory's Purchase Card Program Corrective Actions* (DOE/IG-0644, April 2004), we concluded that Los Alamos had made improvements in

the management of its purchase card program. Some positive steps that the Laboratory implemented included:

- Reducing the number of purchase cards in circulation from 800 to 550;
- Subjecting purchase card transactions to multiple reviews and electronically reconciling to supporting documents;
- Prohibiting cardholders from approving their own transactions; and,
- Making approving officials responsible for fewer cardholders, permitting them to provide additional scrutiny of transactions.

Although the Laboratory had clearly made progress, we identified certain opportunities to further reduce risk of card misuse. For example, we pointed out that Los Alamos could clarify guidance concerning unauthorized items, automate data analysis techniques, and enhance periodic reviews of cardholder activities.

AREAS REQUIRING ADDITIONAL IMPROVEMENT

Our recent work disclosed continuing problems in several key areas of Laboratory management. Specifically, we issued a series of reports that pointed to needed improvements in the areas of project management and security. Further, we identified continuing problems in the general area of contract administration, problems for which Los Alamos, the University of California and the Department have a shared responsibility.

Project Management

Construction and operating projects are essential to accomplishing the Department's missions. Numerous multi-million dollar projects support the scientific and technologically-complex work of the Department, and many of the projects are unique in the world. Prior reviews by my office and others revealed that many of these projects, including some at Los Alamos, have been adversely affected by cost overruns, schedule

slippages, and other management problems. Based on our recent reviews at Los Alamos, we concluded that improved project management discipline and structure are needed to effectively manage the costs, schedules, and scope of key initiatives.

Our audit report on *Dual Axis Radiographic Hydrodynamic Test Facility* (DOE/IG-0599, May 2003) found that Los Alamos and the National Nuclear Security Administration had not made full use of available project management tools to complete the facility. As a result, the Dual Axis Radiographic Hydrodynamic Test Facility (DARHT) would not be completed before June 2004, 15 months behind schedule. The DARHT facility at Los Alamos will be the nation's first test facility capable of providing three-dimensional x-ray photographic diagnostic information on the behavior of weapon parts and the effects aging has on a nuclear weapon. Absent underground testing, the facility will play a critical role in certifying that the weapons in the stockpile are safe and reliable. During the review, we found that the Laboratory had changed work scope, eliminated key elements, and shifted critical activities to other programs. Los Alamos had significantly underestimated the cost of various work elements of the project, as well as funds needed for contingency. The Laboratory's ability to complete the project on schedule and within budget was adversely affected, potentially impeding the Department's Stockpile Stewardship Program.

The audit report on *Stabilization of Nuclear Materials at Los Alamos National Laboratory* (DOE/IG-0659, August 2004) showed that, although the Laboratory had made some progress in stabilizing the most hazardous fissionable materials, it had not accelerated stabilization to the level anticipated. We found that the Laboratory would not stabilize materials until 2010, well beyond the original projected completion date of 2002. In fact, Los Alamos missed interim milestones and project tasks, which could delay stabilization beyond 2010. We found that, among other things, the Laboratory had not made full use of available tools to effectively manage the project. For example, many of Los Alamos' work packages, which were intended to provide the detailed guidance for project completion, often lacked milestones and clearly defined statements of work. Managers, therefore, lacked an objective basis to assess and report on the project's status.

By extending the schedule until 2010, the Department will incur an estimated \$78 million in added costs. Additionally, radioactive materials may continue to deteriorate and negatively impact the safety and health of workers.

Our audit report on *Transuranic Waste Management at Los Alamos National Laboratory*, (DOE/IG-0673, February 2005) noted that the Department will not meet its commitment for removing transuranic waste from Los Alamos and shipping it to the Waste Isolation Pilot Plant. For example, based on projections at the time of our review, the Department was unlikely to complete removal of the legacy transuranic waste before 2014—four years beyond the commitment date. We concluded that Los Alamos' rapid scale-up of waste operations resulted in operational breakdowns. Specifically, operating procedures failed when the Laboratory attempted to increase its volume of shipments to the Waste Isolation Pilot Plant. As a result, the Laboratory had to revise its procedures and retrain personnel on waste processing. The lack of progress in disposing of the waste prevented Los Alamos from expeditiously reducing the health and safety risk posed by the continued above-ground storage of transuranic waste. In addition, the total cost of completing the waste disposition project could increase by over \$70 million.

Security

One of the Department's national security objectives is ensuring that nuclear weapons, materials, facilities, and information are secure through effective safeguards and security policy, implementation, and oversight. Since the events of September 11, 2001, this objective has taken on added importance and required the Department and its nuclear weapons laboratories to reassess and strengthen their security posture. However, our recent reviews at Los Alamos, one of the Department's most sensitive sites, disclosed that weaknesses exist in the protection of the Department's critical resources and infrastructure. For example:

An inspection on *Security and Other Issues Related to Out-Processing of Employees at Los Alamos National Laboratory* (DOE/IG-0677, February 2005) concluded that the

Laboratory's process did not provide assurance that terminating employees: (1) turned in security badges; (2) completed the required Security Termination Statement; or (3) had their security clearances and access authorizations to classified matter and/or special nuclear material terminated in a timely manner. We found that Laboratory out-processing procedures were not followed for more than 40 percent of the 305 cleared and unclassified terminating employees included in our judgmental sample. We identified 21 employees who retained their security clearances in the Department's data base after terminating employment at the Laboratory, 3 of which remained active in the data base for over a year. By not following the Laboratory's out-processing procedures, there was no assurance that terminating employees fulfilled their responsibilities to, among other things, account for classified holdings. Subsequent to completion of our fieldwork, the Laboratory revised its out-processing procedures to address concerns we raised during our inspection.

In 2004, we completed an inspection on *Internal Controls over Personal Computers at Los Alamos National Laboratory*, (DOE/IG-0656, August 2004), which identified continuing weaknesses over classified and unclassified computers at the Laboratory. Specifically, we found that the Laboratory's listing of Sensitive Compartmented Information Facility classified desktop and laptop computers was not accurate. We also found that a number of classified desktop computers were not entered into the property inventory, and some computers were not assigned property numbers. Finally, we determined that the Laboratory's Office of Security Inquiries had not been notified about a missing component of a computer system accredited for classified use. While there was no evidence that the missing component contained classified information, a security inquiry had not been conducted because personnel did not follow Laboratory policy requiring such notification. These weaknesses undermined confidence in the Laboratory's ability to assure that computers were controlled in accordance with existing property management and security requirements and were adequately safeguarded from loss or theft.

Contract Administration

We have also identified contract administration problems on the part of both Los Alamos and the Department. Appropriate contract administration is needed to ensure that contractor operations are effective and efficient, and that contractors' expenses are allowable. Recent reviews by my office have identified areas where Los Alamos and the Department have not provided effective administration over subcontractor costs, business controls, and home office expenses paid to the University of California to support the Laboratory.

Our audit on *Management Controls over Subcontract Administration at the National Security Laboratories*, (OAS-M-04-06, August 2004) noted that during Fiscal Years 2001 and 2002, Los Alamos, as well as Lawrence Livermore and Sandia National Laboratories, did not always effectively manage certain aspects of the subcontracting process. Los Alamos and its counterparts are expected to ensure that Federal funds entrusted to their care are expended appropriately, that questioned costs are resolved in a timely manner, and that subcontracts are closed when all actions are complete. During the subject audit, we found that Los Alamos had not provided adequate audit coverage to determine whether costs were allowable for 93 active subcontracts with an aggregate value of \$1.3 billion. Furthermore, 11 completed subcontracts, valued at \$68 million, had not been subjected to close-out audits at the time of our review. We also noted that action to determine the allowability of over \$9 million in questioned subcontract costs remained incomplete. Adequate audit coverage was lacking because the Laboratory had not provided sufficient resources to the audit function and had not established formal procedures and training regarding cost resolution. My office is currently reviewing the Laboratory's actions to improve audit coverage of subcontractor costs.

Regarding Los Alamos' administration of business controls, in a case that had much public and Congressional interest, we completed a joint investigation with the Federal Bureau of Investigation and determined that two former Los Alamos National Laboratory employees used Government funds to purchase items for their personal use, including

television sets, automobile parts, and barbeque grills. A Federal grand jury returned a 28-count indictment for fraud, conspiracy, theft of property, and making false statements to investigators. One subject of the investigation was sentenced to over a year of confinement and 2 years probation. The second subject was sentenced to 6 months confinement, 6 months of electronically monitored home detention, 2 years and six months probation, and a \$30,000 fine. The former employees were also ordered to pay nearly \$40,000 in restitution.

In addition, we determined that improvements were needed in the Department's administration of its contract with the University of California, which operates Los Alamos, Lawrence Livermore and Lawrence Berkeley National Laboratories. Under its contractual arrangements with the University, the Department committed to pay the University for certain corporate activities performed in support of the laboratories. Our audit, *Department of Energy Contractor Home Office Expenses* (DOE/IG-0676, February 2005), revealed that the Department: (1) will incur about \$21 million in unnecessary expenses over the 5-year life of the contracts with the University because it used an incorrect allocation base to calculate the fixed payments for home office expenses; (2) inappropriately agreed to provide about \$8 million for a percentage of the University's operational costs that did not benefit Government-funded activities; and, (3) reimbursed about \$880,000 for erroneously claimed expenses and for unallowable expenses such as costs for student recruitment.

CONCLUSION

Although the Los Alamos National Laboratory has acted to improve controls in a number of areas, our recent work indicates that continued emphasis is needed on improving key management processes.

As you are aware, the Department initiated procurement actions to re-compete the contract to operate Los Alamos. Regardless of the eventual outcome, the Department needs to strengthen its overall contract administration strategies and methodologies at

Los Alamos. While this must be a multi-faceted effort, there are six integral principles which we believe are most important. The Department and the National Nuclear Security Administration should:

- Ensure that its contractors establish robust, effective, and reliable business systems;
- Promote contractor governance models that adequately protect the Department's interests;
- Foster a culture where contractors fully understand and honor the special responsibility associated with managing taxpayer-funded Federal facilities;
- Promote an environment where both Federal and contractor employee concerns can be raised and addressed without fear of retaliation;
- Develop quantifiable, outcome-oriented metrics and maintain a system to track critical aspects of contractor performance; and,
- Rate and reward contractors commensurate with their accomplishments.

To assist the Department in addressing the weaknesses discussed today and measure progress towards correcting them, my office will continue to aggressively review the situation at the Los Alamos National Laboratory and other contractor-operated facilities.

Mr. Chairman and Members of the Subcommittee, this concludes my statement. I will be pleased to answer any questions.