

December 1997



Audit of the Department of Energy's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies

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Department of Energy

Washington, DC 20585

December 5, 1997

MEMORANDUM FOR THE SECRETARY

FROM:

John C. Layton
Inspector General

SUBJECT:

INFORMATION: Report on "Audit of the Department of Energy's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies"

BACKGROUND

In early 1995, the Secretary of Energy introduced the Department's Strategic Alignment Implementation Plan. This plan committed the Department to reducing its reliance on support service contracts by about \$90 million annually. In September 1995, the Secretary issued a memorandum reemphasizing the Department's commitment to the reduction and stated that the Department's management and operating contractors "should not be assigned at the Department's request to provide services that are tangential to their expertise and their missions in order to compensate for the reduction in support service contracting."

In July 1996, the Office of Inspector General (OIG) issued a report, *Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees*. This report identified weaknesses in the Department's monitoring of employees in Headquarters and recommended that the Department define activities that may be performed by laboratory employees; develop a system to monitor placement of laboratory employees within Department program offices; and evaluate the budgetary impacts of continuing support by laboratory employees. In response to the report, the Deputy Secretary issued a memorandum in August 1996 reiterating the Secretary's concerns and requesting a thorough review of the contractor employees at Headquarters to ensure that they were not being used inappropriately.

DISCUSSION

The Department did not effectively manage the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, the Department was unable to identify all contractor employees assigned to the Washington, DC area or determine the total cost of maintaining them. Some employees were providing routine support and administrative services rather than unique program expertise, and several of the Department's contractors have assigned their employees to work in other agencies without receiving full reimbursement for their services.

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In addition, the Department did not fully implement the corrective actions proposed as a result of the prior audit report. This occurred because the Department had not established a baseline of critical skills needed from the contractors, and procedures were not in place or were not followed for the review and approval of the assignment of each contractor employee to the Washington, DC area. Furthermore, contractors could assign their own employees to the Washington, DC area without the knowledge of the funding program, and program offices were augmenting their decreasing Federal and support service staff with field contractor employees.

Since the issuance of the Inspector General's initial draft report in August 1997, the Office of Procurement and Assistance Management (Procurement) received updated information from both the Headquarters program offices and the field on the field contractor employees in the Washington, DC area. These responses enabled Procurement to expand its database to include 690 field contractor employees in the Washington, DC area. After performing a reconciliation of its data and the data collected by the Inspector General, a total of 864 field contractor employees in the Washington, DC area as of March 31, 1997, were identified--57 more than we initially inventoried.

The issues raised were previously conveyed directly to the Deputy Secretary in a draft report. During the audit, the Deputy Secretary consistently expressed a determination to improve the Department's management of field contractor employee assignments. In her response to the draft report, the Deputy Secretary generally agreed with the recommendations and stated that management had initiated corrective action. The Office of Human Resources and Administration also cooperated with the OIG and assisted the Deputy Secretary in her response. We are also transmitting this final report to the Deputy Secretary. The recommendations are directed to her due to: (1) the need for involvement by both Headquarters program offices and field elements; (2) the interest in, and commitment to, resolution of these issues by the current Deputy Secretary and the former Deputy Secretary; and, (3) the ongoing nature of the concerns raised by this report and a prior audit report from July 1996.

Attachment

cc: Deputy Secretary
Under Secretary

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF THE DEPARTMENT OF ENERGY'S MANAGEMENT OF
FIELD CONTRACTOR EMPLOYEES ASSIGNED TO HEADQUARTERS
AND OTHER FEDERAL AGENCIES

Report Number: DOE/IG-0414
Date of Issue: December 5, 1997

Capital Regional Audit Office
Germantown, Maryland 20874



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**AUDIT OF THE DEPARTMENT OF ENERGY'S MANAGEMENT OF
FIELD CONTRACTOR EMPLOYEES ASSIGNED TO HEADQUARTERS
AND OTHER FEDERAL AGENCIES**

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U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

AUDIT OF THE DEPARTMENT OF ENERGY'S MANAGEMENT OF
FIELD CONTRACTOR EMPLOYEES ASSIGNED TO HEADQUARTERS
AND OTHER FEDERAL AGENCIES

Audit Report Number: DOE/IG-0414

SUMMARY

The Department of Energy (Department) has spent at least \$76 million annually for field contractor employee support in Headquarters and other Federal agencies. The employees were to provide technical expertise and experience critical to Department operations and programs. Overall, the audit was performed to determine if the Department was managing the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, it was to determine whether the Department reviews and evaluates the costs for the use of contractor employees, is reimbursed for contractors working at other Federal agencies, and had implemented corrective actions proposed as the result of a prior audit report on this subject.

The Department did not effectively manage the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, the Department was unable to identify all contractor employees assigned to the Washington, DC area or determine the total cost of maintaining them; some employees were providing routine support and administrative services rather than unique program expertise; and several of the Department's contractors had assigned their employees to work in other agencies without receiving full reimbursement for their services. In addition, the Department did not fully implement the corrective actions it agreed to in the prior audit report.

We recommended that the Deputy Secretary require the program offices to develop and maintain a complete inventory of field contractor employees assigned to the Washington, DC area (including other Federal agencies); coordinate with the Office of Procurement and Assistance Management to continuously update and maintain the database of contractor employees; establish a baseline of critical skills needed from the field; discontinue use of contractor employees that do not provide these critical skills; establish policy and procedures that require the Department to evaluate the cost of and the need for field contractor employees before they are assigned to the Washington, DC area; and implement existing policies and procedures requiring approval of contractor employees prior to assignment.

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PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Department has spent at least \$76 million annually for field contractor employee support in Headquarters and other Federal agencies. The employees were to provide technical expertise and experience critical to Department operations and programs. Overall, the audit was performed to determine if the Department was managing the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, it was to determine whether the Department reviews and evaluates the costs for the use of contractor employees, is reimbursed for contractors working at other Federal agencies, and implemented corrective actions proposed as the result of a prior Office of Inspector General (OIG) audit report.

SCOPE AND METHODOLOGY

The audit was performed from January through July 1997 at the Department's Headquarters and its program offices. The OIG requested and obtained information from the Department's National Laboratories and its field sites to identify contractor employees provided to Headquarters and other Federal agencies. This information included the employee name, supporting program or agency, contractor name, estimated cost, dates assigned, and job performed as of March 31, 1997. The term "field contractor employee" is used in this report to mean any employee of a contractor that is responsible for the management of a Department-owned facility, such as a laboratory. This is defined to include a management and operating contract, an integrating contract, or a subcontract. Additional information was obtained through the Office of Human Resources and Administration's Office of Procurement and Assistance Management (Procurement); each of the Department's program offices; and previous audit work done by the OIG.

Although Procurement had attempted to gather information on contractor employees, similar to the information collected by the OIG, its information was not complete or accurate. Therefore, we did not rely extensively on this data to accomplish our audit objective, although we did attempt to reconcile the differences between Procurement's data and the OIG data (see page 12). This report includes a recommendation for actions to remedy the problems disclosed regarding the monitoring systems. In addition, the number of contractor employees assigned to the Washington, DC area (including other Federal agencies), and their estimated cost to the Department, may be understated because the Department was unable to provide assurance that all pertinent contractor employees were identified during our review.

The audit was performed in accordance with generally accepted Government auditing standards for performance audits. It included tests of internal controls and compliance with laws and regulations necessary to satisfy the audit objective. We assessed the significant internal controls to determine whether the Department's Headquarters had exercised adequate management control over the cost of field contractor employees in the Washington, DC area. The findings in Part II demonstrate the internal control problems found within the Department. Because our review was

limited, it would not necessarily have disclosed all internal control deficiencies that may have existed. We did not rely on computer-generated data.

We reviewed applicable laws and Departmental orders, related OIG and General Accounting Office reports, implementing procedures and practices, and field contractor employee records for employees in Headquarters as of March 31, 1997, from both the field installations and the Headquarters program offices. Several audit reports related to this topic were issued by the OIG. A listing of these related audit reports can be found in the Appendix.

Throughout the audit the OIG met with Procurement to share preliminary observations and audit data. The exit conference was held on November 12, 1997, for all Department program offices.

BACKGROUND

In early 1995, the Secretary of Energy introduced the Department's Strategic Alignment Implementation Plan. This plan committed the Department to reducing its reliance on support service contracts by about \$90 million annually. In September 1995, the Secretary issued a memorandum reemphasizing the Department's commitment to the reduction and stated that the Department's management and operating contractors "should not be assigned at the Department's request to provide services that are tangential to their expertise and their missions in order to compensate for the reductions in support service contracting."

In July 1996, the OIG issued a report, *Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees*. This report identified weaknesses in the Department's monitoring of employees in Headquarters related to their budgetary impact on the Department and the duties that they performed. Specifically, it identified 378 contractor employees assigned to Headquarters from several of the Department's laboratories, 220 of whom were providing administrative and technical support services directly to the program offices. This report recommended that the Department define activities that may be performed by laboratory employees; develop a system to monitor placement of laboratory employees within Department program offices; and evaluate the budgetary impacts of continuing support by laboratory employees.

In response to the OIG report, the Deputy Secretary issued a memorandum in August 1996 reiterating the Secretary's concerns and requesting a thorough review of the contractor employees at Headquarters to ensure that they were not being used inappropriately. Procurement has attempted to respond to these concerns. After the issuance of the July 1996 OIG audit report, Procurement agreed to create a database of field contractor employees to monitor their use. In January 1997, it had preliminarily identified over 200 contractor employees working for Headquarters program offices. By May 1997, Procurement had gathered a list of approximately 400 employees, with information for the database being supplied by the program offices. In March 1997, DOE Notice 350.3 was issued that prohibited the use of management and operating contractors for support service and administrative functions. While Procurement has made significant progress in carrying out recommendations of the OIG's prior report, more remains to be done.

PART II

FINDING AND RECOMMENDATIONS

Management of the Use of Field Contractor Employees in Headquarters and Other Federal Agencies

FINDING

The Department established controls to manage the number, cost, and use of field contractor employees assigned to Headquarters and other Federal agencies. However, the Department was unable to identify all contractor employees assigned to the Washington, DC area or determine the total cost of maintaining them. In addition, the Department did not fully implement the corrective actions proposed as a result of the prior audit report. This occurred because the Department had not established a baseline of critical skills needed from the contractors, and procedures were not in place or were not followed for the review and approval of the assignment of each contractor employee to Washington. Furthermore, contractors could assign their own employees to the Washington, DC area without the knowledge of the funding program. Also, program offices were augmenting their decreasing Federal and support service staff with field contractor employees. As a result, the Department spent over \$76 million a year to maintain a Washington, DC-based contractor workforce without adequate assurance that: (1) only essential program expertise was provided to Headquarters; and (2) Departmental funds were used efficiently and effectively.

RECOMMENDATIONS

We recommend that the Deputy Secretary direct each program office to:

1. a. Develop an inventory that lists all field contractor and subcontractor employees assigned to the Washington, DC area, including those assigned to other Federal agencies; and
b. Submit the completed inventory, along with changes as they occur, to the Office of Procurement and Assistance Management to maintain the Department's database;
2. Establish a baseline of critical skills needed from the field contractors;
3. Discontinue the use of all inventoried Washington, DC-based field contractor and subcontractor employees that have not demonstrated a skill critical to Department operations or programs;
4. Establish policy and procedures that require a cost analysis prior to the assignment detailing the total cost to the Department to maintain the employee in the Washington, DC area for the full extent of the assignment, or a reimbursement schedule showing the total cost that will be reimbursed to the Department for services provided to another agency;

5. Implement and enforce current policies and procedures that require employees with skills critical to the Department to obtain approval of the Assistant Secretary for Human Resources and Administration prior to their assignment; and
6. Review and evaluate, semiannually, with the assistance of the Department's Procurement Executive, whether assignments of field contractor employees at Headquarters or other Federal agencies are being appropriately utilized in accordance with Departmental requirements.

MANAGEMENT REACTION

Management agreed with the findings and generally concurred with the recommendations, stating that the Department has been working for some time to improve management controls in this area and intends to strengthen this initiative further. Detailed management and auditor comments can be found in Part III.

DETAILS OF FINDING

CONTROLS OVER THE USE OF FIELD CONTRACTOR EMPLOYEES

Since 1995, the Office of the Secretary has been concerned about the Department's reliance on its support service and management and operating contractors. In September 1995, the Secretary issued a memorandum directing that the Department's management and operating contractors not be assigned to provide services that are tangential to their expertise or missions in order to compensate for the reductions in support service contracting. The Secretary also stated that the contractors should not provide administrative or management support services that should be performed either by Federal employees or by a contractor engaged for the specific purpose of providing such services. In August 1996 and March 1997, the Deputy Secretary reiterated the Secretary's concerns and directed that all Heads of Departmental Elements conduct a thorough review of the contractor employees at Headquarters to ensure that they were not being used inappropriately.

The Department's Acquisition Guide, issued to assist the program offices and the field in implementing Departmental procurement principles, and a March 1997 formal policy notice, emphasized that contractor personnel should not perform personal services or support functions outside their primary mission. In addition, both documents stated that assignments should only be for the purpose of providing technical expertise and not to compensate for reductions in support service contracting or to provide administrative or management support services. The notice also required each Departmental program office to maintain a current inventory that lists each of these employees and provides the contractor employee's name, the gaining and contributing organizations, and the assigned task description.

Departmental policy on field contractor personnel performing work in the Washington, DC area sets forth requirements for the assignment of employees to other Federal agencies. This policy requires the appropriate Headquarters element be involved in the review process and maintain a project summary listing that includes the total estimated costs of the project. The policy also encourages that core competencies at Departmental facilities be maintained and that proposed work be consistent with or complementary to Departmental missions and not adversely impact execution of Departmental programs.

CONTRACTOR EMPLOYEES ASSIGNED TO THE WASHINGTON, DC AREA

Despite these requirements, the Department was unable to identify all contractor employees assigned to the Washington, DC area or determine the total cost of maintaining them. Some employees were providing routine support and administrative services rather than unique program expertise, and several of the Department's contractors have assigned their employees to work in other agencies without receiving full reimbursement for their services. In addition, the Department did not fully implement the corrective actions proposed as a result of the prior audit report.

Identifying Contractor Employees

The Department was unable to identify the number of contractor employees assigned to the Washington, DC area. At the direction of the Secretary, Procurement began collecting information in October 1995 from each program office that used field contractor employees in the Washington, DC area. However, most program offices were unable to provide complete information. This was evidenced by differences in the number of employees we were able to identify and the number provided to Procurement. We identified over 800 field contractor employees working in the Washington, DC area as of March 31, 1997, while Procurement's database had slightly more than 400 field contractor employees listed. The table below compares the number of contractor employees submitted by each program office to Procurement as of May 1997, to the number of employees tabulated by the OIG during the course of the audit.

COMPARISON OF DATA COLLECTION RESULTS

<u>Program Office (1)</u>	<u>Provided to Procurement</u>	<u>Identified by Inspector General</u>	<u>Difference</u>
Environmental Management	54	216	162
Defense Programs	58	123	65
Energy Efficiency	75	116	41
Nonproliferation and National Security	57	94	37
Nuclear Energy	19	46	27
Policy and International Affairs	8	24	16
Environment, Safety, and Health	28	43	15
Energy Research	38	45	7
Fossil Energy	16	17	1
Human Resources and Administration	11	11	0
Fissile Materials Disposition	6	6	0
Adjustment (2)	34	66	32
TOTAL	404	807	403

(1) Not all program offices have been included.

(2) The adjustment was made because smaller program offices and other agencies are not shown and some contractor employees work for more than one program.

Most program offices reported a lower number of contractor employees to Procurement than identified during our review. For example, Environmental Management (EM) reported only 54 contractor employees to Procurement, while we identified 216. EM did a more comprehensive

compilation at our request and provided a listing of approximately 180 employees working for its program. On the other hand, some of the smaller offices, specifically Human Resources and Administration and Fissile Materials Disposition, were able to track all of the employees in the area supporting their program. We also selected a sample of 76 contractor employees from various program offices to get more in-depth information concerning the specific uses of the contractor employees. Based on discussions with program officials, 13 were unknown to the program or were not attached to a particular task in Headquarters.

Cost of Maintaining a Washington, DC-Based Contractor Workforce

The program offices could not evaluate the costs associated with maintaining a Washington, DC-based contractor workforce because the contractor employees were not funded through Headquarters accounts. The Department had no way of knowing the true total cost since the majority of the funding associated with keeping contractor employees in Washington was from individual contractor funding sources even though these costs were reimbursed by the Department. Based on information obtained from the field sites, we estimated that maintaining a workforce of over 800 employees in Washington costs at least \$76 million annually. This estimate was calculated using cost information submitted on each individual contractor employee by the Department's field sites. The actual cost could be significantly higher because many of the employees' costs could not be identified.

Many of the contractor employees received relocation reimbursements, cost-of-living adjustments, housing allowances and/or per diem in addition to their regular salaries and benefits. For example, 45 of the 55 contractor employees from one laboratory received temporary housing allowances in addition to a reimbursement for relocating to the Washington, DC area; 31 of these allowances were for \$50,000 or more (one was \$100,000). Employees from several other laboratories also received housing allowances or per diem for an extended period in addition to reimbursement for relocating to Washington, DC.

Headquarters program offices have, since the inception of the Department, relied on contractors for specific expertise when necessary. This reliance has become so pervasive over the years that, in most cases, the procedure of evaluating the benefit of the expertise against the cost has been eliminated. Furthermore, costs charged to the Department for bringing a contractor employee to Headquarters are determined by the contractor. Based on interviews with program managers, we concluded that if a perceived need exists, most program offices will bring the employee to Headquarters regardless of cost to the Department. We did, however, find some instances of proactive cost management. For example, the Technical Director of the Office of Fissile Materials Disposition (MD) has informed one laboratory that MD will no longer approve the funding for the per diem cost of contractor employees in Headquarters.

We concluded that the length of stay for contractor employees in the Washington, DC area was an indicator of the reasonableness of cost and the validity of the program offices' purpose for maintaining the contractor workforces. Our analysis showed that most of the employees had been in Washington for more than a year and over 100 had been in the area for more than 5 years. The following table shows the number of contractor employees working in Headquarters and the number of years each has remained in this role as of July 1997.

DURATION OF ASSIGNMENT

Years in the Washington, DC Area	Number of Employees
Less than 1	129
1-3 years	277
3-5 years	120
5-7 years	51
7-10 years	38
10-15 years	20
15+ years	8
Unknown	164
TOTAL	807

While it is recognized that some projects can last for an extended period, the continued presence of the contractor employees conveys the appearance, if not the reality, that program offices were augmenting Federal staff rather than filling short-term needs for unique expertise.

Field Contractor Employees Performing Support Service and Administrative Functions

Although Departmental policy prohibits the use of field contractor employees as support service and administrative support, many employees were providing support and administrative services rather than unique program expertise. The review identified at least 130 employees performing either administrative or support service-type functions. During the review, the field employee universe was divided into 10 "job classifications" derived from job descriptions provided by the program and field offices. Sixty-five contractor employees were classified as administrative, with duties ranging from secretarial and clerical support to meeting planning and logistical support. Seventy-one others were designated as "support" personnel. These classifications and employees within the classifications are shown below.

NUMBER OF EMPLOYEES BY JOB CLASSIFICATION

Administrative	65	Development	16
Support	71	Researcher	15
Technical	308	Liaison	14
Manager	22	Other	57
Analyst	39	Undetermined	200

Over 130 contractor employees were identified as being responsible for administrative or support functions. However, it appeared that other job categories contained employees performing similar duties. For instance, although 308 of the employees were classified as "Technical," indicating a certain level of specialized expertise, the audit disclosed that this was not an appropriate designation in some cases. For example, two employees providing "technical support" were doing work related to budgeting. This work did not require special expertise and could have been done by Federal employees or by a support service contractor. Within the "Other" classification there were several employees that appeared to be performing support service-type functions. One such employee's primary duties were to create matrices for presentations and install off-the-shelf computer programs. Another employee's primary task was to make foreign travel arrangements for fellow laboratory employees. In addition, the category classification entitled "Liaison" contained employees that maintain the relationship between the Department and the laboratory or field facility. This activity did not appear to require special or unique expertise, but rather experience in performing this service.

We were unable to determine the job classifications of 200 contractor employees (categorized as "Undetermined"), or about 25 percent of the total. Information that would have allowed such a determination was not provided by the cognizant field site or the program office. This was indicative of the overall difficulty we faced in obtaining information in regard to these employees. Although we could not verify the actual tasks of all 807 employees, there was sufficient evidence to indicate that many of the remaining field employees were not performing functions that require specialized expertise.

Field Contractor Employees Working in Other Agencies

The Department's contractors had assigned at least 143 of their employees to work in other agencies. These employees were working for a variety of agencies, such as the Nuclear Regulatory Commission and the Environmental Protection Agency. They were providing services in areas such as technical support, advice, and analysis. The Department paid between 10 and 100 percent for services provided by 40 of these employees. We were unable to assess the qualitative benefit to the Department for the work done at the other agencies.

Implementation of Corrective Actions from Prior Report

Although the Office of Procurement and Assistance Management has made some progress in responding to the recommendations made in the OIG's report, *Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees*, necessary actions were not complete. The prior report identified weaknesses in the Department's monitoring of employees in Headquarters related to their budgetary impact on the Department and the duties that they performed. It concluded that many of the laboratory employees assigned to the Washington, DC area were providing administrative and technical support services directly for program offices. In addition, the employees worked on projects which had the potential to impact their laboratory employers. We recommended that the Department define activities that may be performed by laboratory employees; develop a system to monitor placement of laboratory employees within Department program offices; and evaluate the budgetary impacts of continuing support by laboratory employees. However, the database appeared to be substantially incomplete, DOE Notices and Guidance were not being

complied with, and management had not adequately addressed the budgetary impacts of continuing support by laboratory employees.

REASONS FOR CURRENT LEVELS OF CONTRACTOR EMPLOYEES

The Department was not effectively managing its use of field contractor employees because it had not established a baseline of critical skills needed from the contractors. Further, procedures were not in place or were not followed for the review and approval of the assignment of contractor employees to Washington. We also found that contractors could assign their own employees to the Washington, DC area without the knowledge of the funding program, and program offices were augmenting their decreasing Federal and support service staff with field contractor employees.

Establishing a Baseline of Critical Skills Needed

To carry out their missions, the Department's program offices have enlisted the services of individual contract employees located in or detailed to the Washington, DC area. However, the Department had not developed a baseline of critical skills needed in the Washington, DC area from the contractors. Although the program offices had relied on the services of the contractor employees for many years for various tasks, they had not established what specific expertise they needed from the contractors. In addition, the program offices had not taken the initiative to evaluate each request for "expertise" against the cost of having such an individual in the Washington, DC area. Establishing a baseline would provide a standard by which the need for costly contractor employees could be measured prior to their assignment.

Management informed us that it requested information on the number and usage of management and operating (M&O) contractor employees at Departmental Headquarters to establish a "baseline of usage." It stated that fluctuations in usage against the baseline would be used as an indication of potential misuse of such assignments, e.g., using the employees to offset support service contract reductions. However, establishing a baseline of usage is useful only if the baseline contains exclusively those individuals that are critical to the Department's mission. A baseline cannot be created solely based on the number of people in Headquarters at a given time and evaluated based on the "fluctuations". If the number of employees in Headquarters at the time of the initial identification was not appropriate, then the evaluations of the fluctuations would not necessarily help the Department to identify problems.

Review and Approval of Employee Assignment

In March 1997 the Deputy Secretary directed that all assignments to Headquarters offices require the written approval of the Assistant Secretary for Human Resources (HR). In May 1997, HR developed a procedure that formalized this direction and required that an application be submitted to HR for approval of field contractor employees prior to their assignment to the Washington, DC area or for all assignment renewals. However, many program offices had not implemented the procedure at the time of our review. Prior to May 1997 there were few, if any, formal procedures for requesting a field contractor employee to work in Headquarters. Some program offices, such as Defense Programs, had developed their own standard operating procedures for such an acquisition, but these were not always followed by managers in the program.

We interviewed program officials from every major program office in Headquarters to discuss the implementation of the revised procedures issued by HR. Several of these officials had not even heard of the new procedures issued by HR, some believed these should not apply to them, and others chose not to use them. For example, within the Office of Nuclear Energy a few program managers did not know about the new requirement and, therefore, did not obtain approval from HR for the contract employees supporting their program. In the Office of Nonproliferation and National Security, several program managers did not believe that the new procedures should apply to their contract employees and one was trying to be exempted from the process. In Defense Programs (DP), one program manager determined that the requirements did not have to be followed and brought three new field employees into Headquarters, circumventing both HR and DP direction.

On July 23, 1997, the Deputy Secretary requested that the OIG aid HR in developing a corporate method and format for identifying and reporting M&O contract employees who work in Headquarters positions or at M&O Washington, DC area offices. During a subsequent meeting, the OIG offered copies of the list of contractor employees generated during the audit and expressed concern that soliciting another round of "updates" from the program offices, this being at least the third attempt by HR, would not necessarily answer the Deputy Secretary's request. An accurate system for collecting and maintaining an information database is needed.

On August 28, 1997, two days following the issuance of our initial draft report, HR again issued a request to Headquarters program offices and field managers to update the "matrix of M&O contractor employees" using a specific format including annotations to note any differences between the data collected by the OIG and that collected by HR. Management stated that this initiative will provide the Department with a comprehensive listing in a common format to facilitate identifying and assessing contractor assignments by Headquarters and field officials. On October 30, 1997, HR provided the OIG with a copy of the "comprehensive listing" received in response to the August 28 memorandum. This listing identified 690 field contractor employees in the Washington, DC area. A reconciliation of HR's list with the OIG's list of 807 employees resulted in the identification of employees not previously reported to the OIG (additions) and employees that had arrived after or left before the March 31, 1997, cutoff (subtractions). At the conclusion of the reconciliation, a total of 864 field contractor employees were identified as performing work in the Washington, DC area on March 31, 1997. This was 57 more than contained in the original OIG list.

Self-Assignment by Contractors

Many of the Department's contractors, especially the laboratories, assigned their employees to the Washington, DC area without the prior knowledge of the program offices. Most of these contractors maintained leased facilities in the Washington, DC area and had both permanent and temporary employees staffing these facilities. The arrival of a contractor employee may or may not be previously acknowledged by a Headquarters program office despite the fact that the cost of that employee was paid for out of program funds. For instance, both Argonne National Laboratory and Pacific Northwest National Laboratory have leased facilities totaling over 20,000 and 45,000 square feet, respectively, to provide for approximately 240 employees. Most of these employees were funded either directly by the laboratories' program funds or indirectly through their overhead accounts. A few were funded by the contractors' corporate headquarters and were not usually reimbursed by the

Department under contractual agreements. Since the Headquarters program offices were, in many cases, unaware of the presence of these employees, there was no record or way of determining if the tasks performed justify the cost of maintaining them in the Washington, DC area.

Augmenting Federal Staff

The combination of strategic realignment and downsizing, along with funding restraints and procurement requirements, has put significant pressure on program offices that have not, in their view, had a decrease in responsibility. This situation caused the program offices to take action for expediency purposes. For example, a Departmental official stated that one of the Department's prime contractors had awarded subcontracts to former support service contractor employees as "a courtesy" to the program offices. These subcontractor employees performed many of the same duties as they did earlier as support service contractors. However, they were paid through the prime contractor with "Program" funds rather than "Program Direction" funds. The use of subcontractors as replacement for support service contractors circumvents the Department's initiative to reduce the reliance on support service contracts and adds an additional layer of overhead to the Department's cost structure.

The source and amount of funding for contractor employees and support contract services has been of continuing concern to the Congress. The House Appropriations Committee Report on the FY 1998 Energy and Water Development Appropriations Bill emphasized that despite continuing congressional interest in reducing the funds spent on augmenting Federal staff at the Department of Energy, funding for such contracts appears to remain excessive or even has increased in certain program areas. An additional concern relates to individual or support service employees in the Washington, DC area. These individuals, hired by the Department's management and operating contractors and field offices to provide direct administrative and technical support for Headquarters program organizations, were not showing up as support service contractors in the budget request because they were not funded through Headquarters accounts.

Officials from Nonproliferation and National Security; Environment, Safety and Health; and Environmental Management advised us that many of the duties performed by field contractor employees could be done by Federal staff or support service contractors. Some of these officials indicated that subcontractor employees, for the most part, are more expensive than an equivalent support service contractor, but the two types of employees could be paid from different funding accounts. Support service contracts were paid from a fund designated "Program Direction," while subcontracts were paid through the prime contractor with "Program" funds. With the recent congressionally directed decrease in appropriations for "Program Direction", program offices have used more readily available "Program" money to obtain the services of contractor employees through the field. We were also advised that the use of program funds expedited the procurement process, since support service contracts must be awarded through the Department's procurement office. The time it takes to obtain the services of an individual through a support service contract is much longer than the time it takes to get an individual through the existing field contract.

IMPACT OF CURRENT ASSIGNMENT POLICIES

The Department has spent over \$76 million annually to maintain a Washington, DC-based contractor workforce without adequate assurance that it provided only essential program expertise to

Headquarters, enhanced the Department's ability to accomplish its missions, and was an efficient and effective use of Departmental funds. In addition, this level of support raised serious doubts about the Department's commitment to its own Strategic Alignment Implementation Plan and congressional attempts to reduce contractor and support service expenditures.

While the total cost of the contractor employees performing administrative and support service functions could not be determined with specificity, almost \$9.8 million was spent annually for employees categorized as strictly administrative or support. The use of field contractor employees for such functions is expressly prohibited. We identified 11 administrative employees and 30 support employees that each cost the Department over \$100,000 per year. For example, one of these administrative employees received over \$73,800 a year in salary and benefits, \$34,000 in temporary housing allowances, and \$38,000 for a relocation reimbursement. Another administrative employee received \$126,350 a year in salary and benefits and \$50,000 for a housing allowance. An individual providing support in computer networking received over \$95,000 a year in salary and benefits and over \$71,000 in per diem and other allowances.

The Department also funds all or part of the cost of 40 employees working in other agencies in the Washington, DC area at a cost of about \$4.6 million. This included 5 working for the Office of Science and Technology Policy in the White House and 3 employees on detail to the Congress, one of whom cost the Department over \$300,000 per year. While we could not evaluate whether the Department benefited from such arrangements on an individual basis, these employees, and an additional 103 employees funded directly by other agencies, were spending their time providing their services to agencies other than the Department of Energy.

PART III

MANAGEMENT AND AUDITOR COMMENTS

By letter dated October 16, 1997, the Deputy Secretary agreed with the findings and concurred with the recommendations. The Deputy Secretary stated that she places a high priority on addressing the issues cited in the report and had directed the Assistant Secretary for Human Resources and Administration to coordinate a comprehensive review of contractor employees. The Deputy Secretary also stated that she intends to strengthen this initiative by reviewing its results and taking the steps necessary to ensure that contractor employees working at Headquarters have critical skills and that their assignments are cost-effective.

Subsequently, on November 12, 1997, the OIG met with Procurement and representatives from several Department program offices to discuss the specific report recommendations and proposed actions. The Department's proposed actions and our responses are discussed below.

RECOMMENDATIONS

We recommend that the Deputy Secretary direct each program office to:

1. **a. Develop an inventory that lists all field contractor and subcontractor employees assigned to the Washington, DC area, including those assigned to other Federal agencies;**

Management Comments. Management concurred in part with this recommendation, and stated that the Assistant Secretary for Human Resources and Administration requested that the Secretarial Officers and Field Managers provide updated inventories of all Washington, DC-located employees of M&O, laboratory, management and integration, and environmental restoration management contracts, as well as employees of any tier subcontractor, for whom the Department is paying as an element of reimbursable contract cost. The inventories have been received and are being compiled into a single, final product. Consistent with the Department's original and current interest in this matter, the names of the contractor employees assigned to other Federal agencies are being collected only if their cost represents an element of DOE reimbursable contract cost.

Auditor Comments. The Department's proposed actions are responsive to the recommendation. However, it should be recognized that "a single, final product" should be a starting point to track the use of contractor employees in a dynamic database as envisioned in Recommendation 1b.

1. **b. Submit the completed inventory, along with changes as they occur, to the Office of Procurement and Assistance Management to maintain the Department's database;**

Management Comments. Management concurred and stated that the inventories that are submitted by the various Departmental elements will be compiled by the Office of Procurement and

Assistance Management into a master inventory database. The database will be updated by the Office of Human Resources and Administration as changes occur.

Auditor Comments. The Department's proposed actions are responsive to the recommendation. It should be noted that the use of contractor employees with special expertise represents a dynamic situation. Therefore, the inventory must be updated accordingly. Furthermore, it should be emphasized that submitting the information to update the system is the responsibility of the program offices and, therefore, part of the process.

2. Establish a baseline of critical skills needed from the field contractors;

Management Comments. Management concurred, in part, with this recommendation and stated that the Office of Human Resources and Administration and the Office of the Chief Financial Officer will work together to develop a process which addresses the intent of this recommendation. Management added, however, that it is not practical for the Department to develop a listing of all the critical skills that may be required in the future by every program office or to anticipate new problems that will require critical skills.

Auditor Comments. Creating a baseline of critical skills needed is vitally important to any efforts to effectively manage field contractor employee assignments. The OIG anticipates, as does management, that the list of critical skills needed will change frequently. We do not expect the Department to identify all future needs or problems. Rather, program offices should be required to individually develop lists of critical skills needed currently. As future needs are identified, they can be incorporated into revised lists. Over time, the needs of the programs will change, but with a baseline in place the Department can match needs with limited available resources. Without this baseline, corrective actions in regard to the other recommendations would be extremely difficult. If program offices cannot identify short term future needs, there is a question as to whether there is a valid need for technical expertise. In our view, without a common understanding on the critical skills needed and their associated cost, the Department cannot be assured that the individuals to be assigned are appropriate, necessary, and cost-effective.

3. Discontinue the use of all inventoried Washington, DC-based field contractor and subcontractor employees that have not demonstrated a skill critical to Department operations or programs;

Management Comments. Management concurred with the recommendation and stated that it has already directed the discontinuation of any current assignment contrary to Departmental policy. In addition, DOE Notice 350.3 contemplates the case-by-case consideration of the critical skill or field of expertise of each employee assignment. Further, as directed by the Deputy Secretary in his memorandum dated March 21, 1997, all further assignments, new and renewed, of M&O contractor and subcontractor employees to Headquarters first must be authorized by the Assistant Secretary for Human Resources and Administration.

Auditor Comments. Although management concurred with the recommendation and had several policies and directives in place that emphasize the Department's position on this topic, program and field offices are not following the policy or have not been held accountable for ignoring the

Deputy Secretary's directions. Our report identified at least 130 contractor employees in the Washington, DC area that were performing support or administrative functions. In addition, as previously pointed out, at least 3 individuals were brought to Headquarters after March 21, 1997, without the approval of the Assistant Secretary for HR.

4. **Establish policy and procedures that require a cost analysis prior to the assignment detailing the total cost to the Department to maintain the employee in the Washington, DC area for the full extent of the assignment, or a reimbursement schedule showing the total cost that will be reimbursed to the Department for services provided to another agency;**

Management Comments. Management concurred with the recommendation and stated that the review and approval process established by the mechanisms described in the response to Recommendation 3 requires that the nature and magnitude of the cost associated with each contractor employee be assessed, understood, and determined to be cost-effective by the heads of the Departmental elements. In addition, as a part of the backup documentation to be submitted to the Assistant Secretary for Human Resources and Administration requesting approval of each new and renewed contractor employee in the Washington, DC area, the heads of the Departmental elements must make the determination that an assignment is cost-effective. Management also noted that the Department's policies in this regard do not affect contractor assignments under Work-for-Others type programs. Such activities are controlled by other Departmental policies and directives.

Auditor Comments. Assuming the Department develops the baseline of critical skills contemplated in Recommendation 2 and applies the baseline to approval decisions, the Department's proposed actions will be responsive to the recommendation. In addition, although the use of contractor employees in other agencies is not specifically covered in DOE Notice 350.3, other DOE policy and good business practice dictate that any costs incurred by the Department, including Work-for-Others programs, should be monitored.

5. **Implement and enforce current policies and procedures that require employees with skills critical to the Department to obtain approval of the Assistant Secretary for Human Resources and Administration prior to their assignment;**

Management Comments. Management concurred and stated that Departmental elements have been directed by the Office of the Deputy Secretary to obtain prior approval for all new and renewed assignments of M&O contractor and subcontractor employees to Headquarters. The assignments will require that heads of Headquarters components periodically remind their managers of this requirement. Additionally, senior officials will reemphasize to Heads of field elements that no new contractor assignments may be made absent approval.

Auditor Comments. Management's comments are responsive to the recommendation.

6. **Review and evaluate, semiannually, with the assistance of the Department's Procurement executive, whether assignments of field contractor employees at Headquarters or other Federal agencies are being appropriately utilized in accordance with Departmental requirements.**

Management Comments. Management concurred and added that the Assistant Secretary for Human Resources and Administration will provide for an annual assessment of whether contractor employees are being appropriately used consistent with established policy.

Auditor Comments. Assuming the Department develops the baseline of critical skills contemplated in Recommendation 2, management's proposed annual assessment of the use of field contractor employees is responsive to the recommendation.

APPENDIX

Related Reports Issued by the Office of Inspector General

<u>Report Number</u>	<u>Report Title</u>
IG-0402	Audit of the Management of the Department of Energy's Leased Administrative Facilities
IG-0392	Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees
IG-0330	Audit of Management and Operating Contractors' Subcontract Administration
IG-0297	Audit of the Cost Effectiveness of Contracting for Headquarters Support Services
CR-B-95-06	Audit of Department of Energy Support Service Contracting
CR-B-95-04	Audit of Management and Operating Contractor Relocation Costs
CR-BC-91-01	Review of Headquarters Use of Cost-Reimbursement Contracts

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