

23594
119711

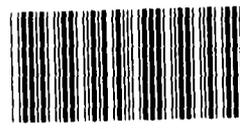
BY THE U.S. GENERAL ACCOUNTING OFFICE

**Report To The Chairman,
United States Synthetic Fuels Corporation**

**Evaluation Of Administrative
Procedures At The Synthetic
Fuels Corporation**

The Synthetic Fuels Corporation has improved its administrative procedures, but further actions are needed to strengthen contracting practices and internal financial controls. Pertinent recommendations are made in this report.

This report also discusses the evolution of the Corporation's current salary structure and the activities of the Office of the Inspector General.



119711



GAO/RCED-83-27
OCTOBER 18, 1982

023686

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

Resources,
COMMUNITY AND ECONOMIC
DEVELOPMENT DIVISION

B-201400

The Honorable Edward E. Noble
Chairman, United States
Synthetic Fuels Corporation

Dear Mr. Noble:

This report discusses the Corporation's progress in establishing effective contracting practices for professional support services. It examines Corporation controls over fund withdrawals from the Department of the Treasury and fund disbursement procedures. It also provides information on how the Corporation established its salary structure and summarizes the activities of the Office of Inspector General. The report contains recommendations to you on pages 16 and 24.

We are sending copies of this report to the Director, Office of Management and Budget; the Senate Committee on Natural Resources; the Senate Committee on Governmental Affairs; the House Committee on Energy and Commerce; and the House Committee on Government Operations. We would appreciate your advising the committees and us within 60 days of any action you have taken or plan to take on our recommendations.

Sincerely yours,

A handwritten signature in black ink that reads "F. Kevin Boland".

Handwritten initials "JDP" in black ink, positioned to the left of the typed name.

J. Dexter Peach
Director



REPORT BY THE
U.S. GENERAL ACCOUNTING
OFFICE TO THE CHAIRMAN,
UNITED STATES SYNTHETIC
FUELS CORPORATION

EVALUATION OF ADMINISTRATIVE
PROCEDURES AT THE SYNTHETIC
FUELS CORPORATION

D I G E S T

The U.S. Synthetic Fuels Corporation, established in 1980, provides financial assistance for synthetic fuels projects. As of June 30, 1982, its total expenditures were about \$13.7 million, primarily for administrative expenses such as compensation for Corporation personnel and office space. It does not plan to enter into any financial assistance agreements for synthetic fuels projects until about November 30, 1982.

We performed this review because of the congressional interest expressed in administrative matters relating to the Corporation's establishment. This report examines Corporation practices in administrative areas, such as (1) contracting practices for professional support services and (2) controls over fund withdrawals from the Department of the Treasury and fund disbursements. In addition, the report describes steps taken to establish a Corporation salary structure and the activities of the Office of the Inspector General.

CONTRACTING FOR
PROFESSIONAL SERVICES

The Corporation has been criticized for not awarding contracts on a competitive basis and not maintaining records on contract negotiations. GAO has identified some improvement in the contracting practices but noted that more needs to be done.

In its review of five contracts, GAO noted that the Corporation's Office of Administration played only a minor role in controlling contracting for professional services. Because of incomplete contract files, it was difficult to obtain documentation on the need for issuing several contracts, justification for solicitation procedures used and time allowed contractors to respond to

solicitations, and the individual responsible for preparing and approving contracts. (See pp. 9 to 13.)

In October 1981, the Corporation's Board of Directors approved a contracting policy which directs that procurements be made in accordance with the best commercial and Government practices. The same document contained a brief listing of basic procedures to be followed in administering contracts. However, as of June 1982, detailed guidelines on such matters as preparing and issuing Requests for Proposals and documenting contract negotiations had not been issued. (See p. 15.)

Because more action is needed to improve documentation and control over Corporation contracting practices, GAC believes the issuance of detailed guidelines to implement the Corporation's contracting policy is essential. (See p. 16.)

CONTROLS OVER FUND WITHDRAWALS AND DISBURSEMENTS

CAC's review of randomly selected check and cash disbursements indicated that they were made in accordance with interim accounting procedures developed by a public accounting firm. Disbursements were supported by invoices or claims for reimbursement approved by program office heads. (See pp. 21 to 23.)

Security over cash and blank checks maintained at the Corporation's Office of Accounting could be improved. During business hours, petty cash and blank checks were stored in an unlocked safe in an unrestricted area. GAC believes the Corporation should keep cash and blank checks in a locked safe at all times and, if possible, in an area restricted only to personnel with authorized access to the safe. (See pp. 23 and 24.)

ESTABLISHING A CORPORATE SALARY STRUCTURE

The Energy Security Act allows the Corporation to establish a salary schedule, which may exceed the highest level of the Federal schedules--\$69,630 annually. The Corporation's initial Board of Directors used this flexibility to adopt a schedule which included many senior management positions

exceeding the \$100,000-a-year range. It stated that these levels were necessary in order to attract the quality of personnel needed to direct Corporation activities. (See p. 27 and app. I.)

The Board of Directors, at its February 16, 1982, meeting, approved a salary schedule for most Corporation employees. It included six salary ranges--three each for professional and clerical positions--with the highest range having a \$69,630 maximum. Thirteen positions, designated as senior executive, were not included in these ranges. (See pp. 32 and 33.)

The Board has since taken actions to establish the salaries for all but one senior executive position--the Chairman. The present Corporation Chairman has agreed to a \$1-per-year salary for his first 2 years. (See pp. 33 and 34.)

DELAYS IN FILLING
INSPECTOR GENERAL POSITION

The positions of Inspector General and Deputy Inspector General were not filled until May 11, 1982--over 19 months after the Corporation began operations. Awaiting this action, the Corporation's Board of Directors authorized a small staff of consultants to function as an Inspector General's Office. (See pp. 38 and 39.)

The Vice President for Administration had responsibility for approving contracts and contract renewals of these consultants. This practice could be construed to be inconsistent with the Energy Security Act provision which states the Inspector General is not to be under the control of any officer of the Corporation. (See pp. 39 and 40.)

The Inspector General stated that, within the confines of his statutorily defined budget and the salary structure established by the Board of Directors, he will have total control over all staffing decisions of his office. While he intends to rely on the services provided by the Office of Administration (i.e., contracting assistance and payroll), the Vice President for Administration no longer has approval power over the office's staffing decisions. (See p. 44.)

RECOMMENDATIONS

GAO recommends that the Chairman, Synthetic Fuels Corporation, improve contracting and cash management procedures by:

- Issuing guidelines for implementing the Corporation's policy and outlined procedures for administration of contracts to all offices. Such guidelines should include defining the roles and responsibilities of the Office of Administration and program offices to ensure that (1) the need for goods and services in each contract is adequately documented and (2) if competition is limited by such factors as short response time or unique service needs, written justification is provided for the limitation.
- Assuring that access to assets are permitted only in accordance with management's authorization by keeping cash and blank checks in a locked safe in a restricted area.

COOPERATION COMMENTS AND CAC'S EVALUATION

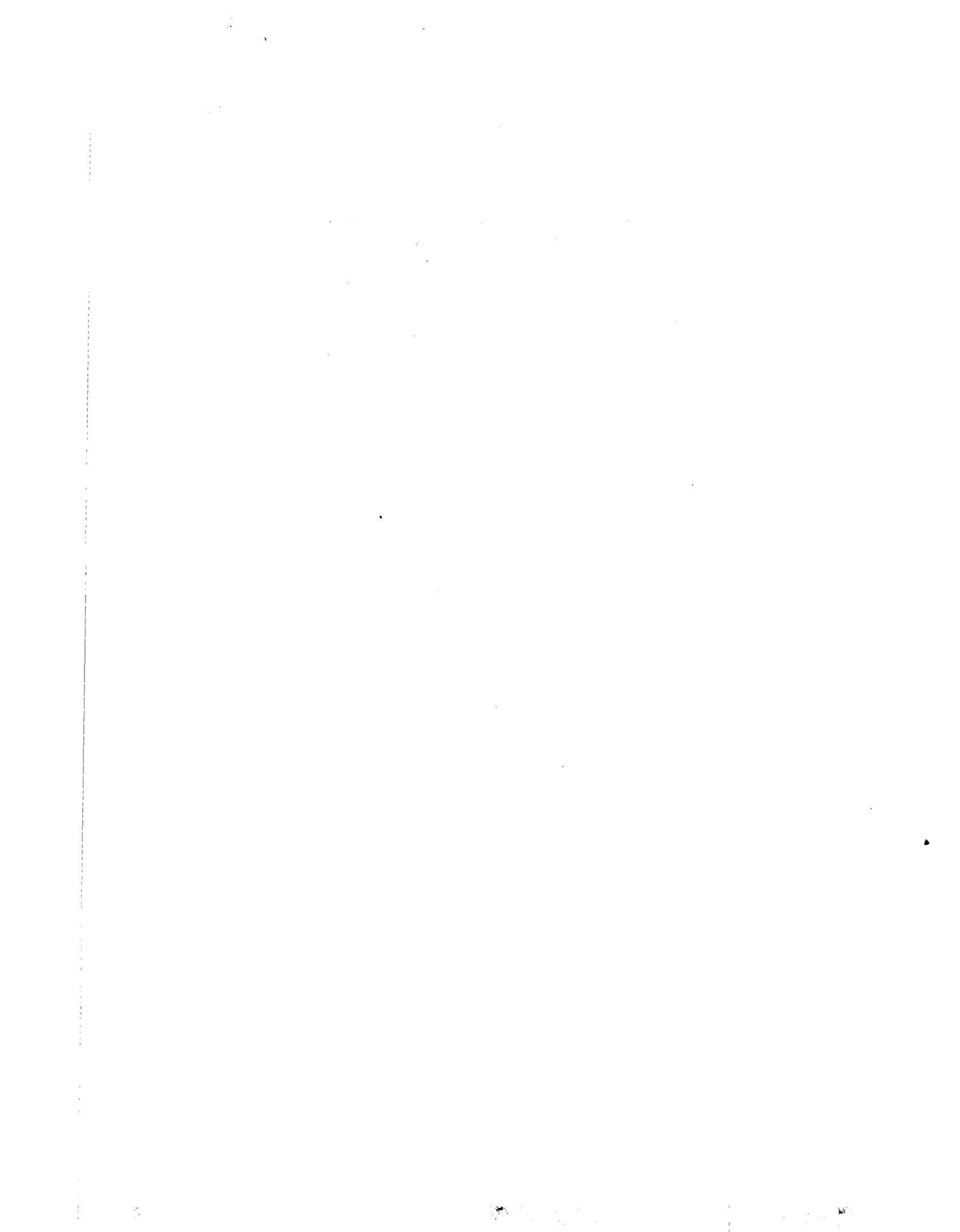
GAC provided draft copies of this report to the Synthetic Fuels Corporation for comment. CAC chose not to obtain comments from the Corporation on chapters 4 and 5 since they were strictly informational in nature.

The Corporation stated that although detailed procurement regulations have not been issued, several memoranda have recently been issued to strengthen contracting practices. These memoranda require documenting the need for contracts as well as the method of soliciting contractors for proposals. Responsibilities for monitoring contractor performance have also been further defined.

The memoranda issued by the Corporation have addressed GAC's major concerns with the Corporation's contracting practices. However, when competition for a corporation contract is limited, a justification for such actions should be required, just as a justification is required for non-competitive awards. The Corporation Chairman agreed that greater emphasis should be placed on contract justifications. The Chairman also stated that

its contracting policies should be consolidated into a single document.

In response to our recommendation to increase the security over blank checks and cash, the Corporation indicated that (1) the safe would be locked at all times and (2) an electronic system is being installed which will limit access to the accounting area where the safe is located. Subsequent spot checks of the safe found it to be locked. The electronic access system became operational on August 6, 1982. Its effectiveness was impaired since certain defects in the system were unresolved as of August 31, 1982.



C o n t e n t s

		<u>Page</u>
DIGEST		i
CHAPTER		
1	INTRODUCTION	1
	Corporation action to date	1
	Objectives, scope, and methodology	5
2	CONTRACTING FOR PROFESSIONAL SERVICES	7
	Summary of previous reports on	
	Corporation contracting practices	7
	Poor documentation on Corporation	
	contracting practices	9
	Efforts to establish uniform	
	contracting practices	14
	Conclusions	16
	Recommendation	16
	Corporation comments and our	
	evaluation	16
3	CONTROLS OVER FUND WITHDRAWALS AND	
	DISBURSEMENTS	18
	Drawing treasury funds for	
	Corporation activities	19
	Accounting system controls over	
	disbursements	20
	Conclusions	23
	Recommendation	24
	Corporation comments and our	
	evaluation	24
4	ESTABLISHING A CORPORATION SALARY	
	STRUCTURE	25
	Legislation	25
	The initial consultant study	26
	Presidential action	27
	The Hay Associates' salaries	
	study	29
	Other benefits	34
	Conclusions	36
5	DELAYS IN FILLING INSPECTOR GENERAL	
	POSITION	38
	Legislation	38
	Consultants functioning as an Office	
	of the Inspector General	39
	Fast accomplishments	41
	Conclusions	44

APPENDIX

Page

I	Tower, Perrin, Forster, and Crosby's recommendation for the U.S. Synthetic Fuels Corporation 1981 salary ranges for executive, managerial, professional, administrative/technical, clerical, and secretarial staff	45
II	Hay Associates' recommendation for U.S. Synthetic Fuels salary schedules	47
III	Agency comments	51

ABBREVIATIONS

ADP	Automatic Data Processing
AICPA	American Institute of Certified Public Accountants
Btu	British thermal unit
GAO	General Accounting Office
NS&T	National Savings and Trust
FMM&Co.	Feat, Marwick, Mitchell, & Co.
RFPs	Requests for Proposals
TFF&C	Towers, Perrin, Forster, and Crosby, Inc.

CHAPTER 1

INTRODUCTION

The U.S. Synthetic Fuels Corporation was established by the Energy Security Act (P.L. 96-294) of June 30, 1980. The act was intended to reduce the threat of economic disruption from oil supply interruptions, increase the Nation's security by reducing its dependence upon imported oil, and improve the Nation's balance of payments. To assist in reaching these objectives, the act authorized the Corporation's creation to provide financial assistance to undertake synthetic fuels projects. The act has set 500,000 barrels of crude oil equivalent per day as the national production goal for 1987 and 2 million barrels per day as the goal for 1992.

The Congress appropriated \$17.5 billion which can be obligated for commercial synthetic fuels projects. Of these funds, the Congress directed that \$6 billion be available to the Corporation in July 1980 and an additional \$6.2 billion become available June 30, 1982. The remaining \$5.3 billion (\$300 million was rescinded in June 1981) was appropriated to the Department of Energy to finance an interim alternative fuels program. Under this program, the Department awarded a \$2.02-billion loan guarantee for a high-Btu (British thermal unit) coal gasification project, a \$400-million price guarantee, and a \$1.2-billion loan guarantee for two oil shale projects.

The remaining unobligated funds and monitoring responsibility for the two oil shale projects were transferred to the Corporation when it was declared operational by the President on February 9, 1982. ^{1/} The gasification project will remain under the Department's purview.

In 1984, the Corporation will be required to submit to the Congress a comprehensive strategy to achieve the production goals stipulated in the act. If the Congress approves the plan, the Corporation may then request additional appropriations for synthetic fuels development. The act also provides for the Corporation to be terminated between September 30, 1992, and September 30, 1997.

CORPORATION ACTION TO DATE

The Corporation has not yet entered into any financial assistance agreements for synthetic fuels projects. From its inception in October 1980 through June 30, 1982, the Corporation's total expenditures were about \$13.7 million, primarily for administrative expenses. These expenses include compensation for Corporation personnel and outside professional

^{1/}The termination of one of these oil shale projects was announced on May 2, 1982.

consultants, payments for computer usage, employee recruitment, office space, and travel.

According to section 120 of the Energy Security Act, the Corporation was authorized to spend up to \$35 million during fiscal year 1980 for administrative expenses, including those of the Inspector General. For each subsequent fiscal year, this amount is to be adjusted for inflation. Thus, allowable administrative expenses for fiscal year 1981 were \$38.2 million and are expected to rise to about \$41.6 million and \$44.9 million in fiscal years 1982 and 1983, respectively. The Corporation has not and does not plan to approach these levels, however. In fiscal year 1981, a startup period, the Corporation spent \$6.7 million for administrative expenses. Estimated expenditures for fiscal years 1982 and 1983 are \$20.5 million and \$28.3 million, respectively.

The Corporation has experienced three distinct periods of management. The first period began in October 1980, when President Carter used his recess appointment power to give the Corporation an interim Board of Directors. 1/ This Board began immediately to hire officers and staff to run the Corporation, and it issued the Corporation's first solicitation for proposals for assistance for synthetic fuel projects on November 21, 1980. Following the 1980 election and subsequent change in administrations, these Directors resigned on January 30, 1981.

Before resigning, then-chairman John Sawhill designated the Corporation's Senior Vice President and General Counsel, John McAtee, as Acting Chairman. Mr. McAtee presided over the Corporation until mid-May 1981. During this period, the staffing level increased from 64 to 90, and the Corporation's first solicitation closed with the receipt of 63 project proposals. In addition, the Corporation began developing and implementing various administrative procedures and guidelines necessary to operate the Corporation.

On May 14, 1981, Edward E. Noble was confirmed by the Senate as Chairman of the Corporation and sworn into office on May 26, 1981. Four members of the Board of Directors were sworn in on October 28, 1981, just prior to the Board's initial meeting. 2/ For the first time since the resignation of the previous Board in January, the Corporation was once again guided by Board decisions.

Among the many resolutions considered and decisions taken by the Board of Directors at its October 28 meeting were the following: to approve a policy on public access to meetings of

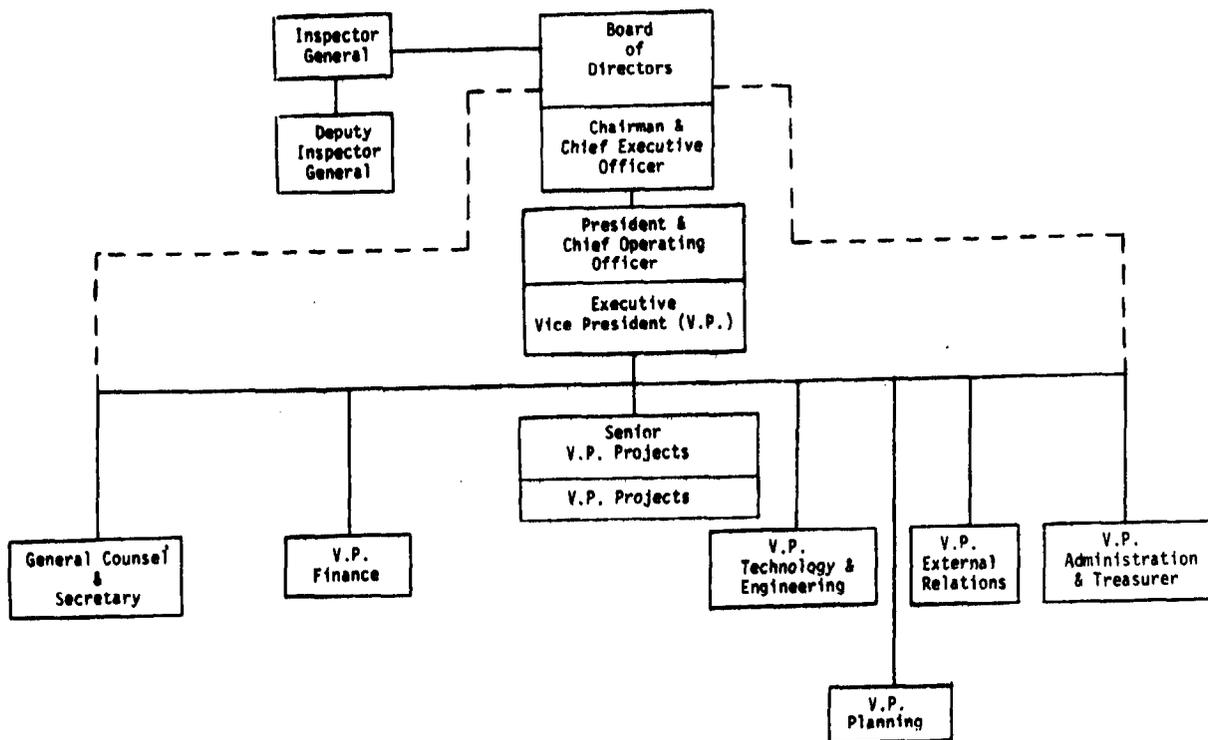
1/The Congress recessed during this time period.

2/The two remaining members of the Board of Directors were sworn in on August 18 and 19, 1982.

the Board of Directors; to supplement the initial project solicitation by including, among other things, basic guidelines on how projects would be evaluated, and to issue a second solicitation; to adopt, for the first time, formal competitive procedures for contracting and for the use of consultants; to approve final guidelines on handling public requests for information; to lease office space adequate to locate all Washington, D.C., Corporation offices within a single building ^{1/}; to adopt revised bylaws and an organization plan; and to designate the Corporation officers. The current organization of the key offices of the Corporation, which includes revisions made at the August 19, 1982, Board meeting follows.

Organization Chart
of Key Corporation Offices

Corporation Organization Chart



^{1/}The Corporation offices have been located in as many as five separate physical locations in Washington, D.C.

The Corporation officers 1/ designated by the Board of Directors at the October 28, 1981, meeting were the Chairman and Chief Executive Officer; President and Chief Operating Officer; General Counsel and Secretary; Inspector General; Deputy Inspector General; Senior Vice President for Projects; Vice President for Administration and Treasurer; and the Vice Presidents for Projects, Technology and Engineering, Finance, and External Relations. The Board gave officer status to the Vice President for Planning at its June 17, 1982, meeting and created the Executive Vice President position at the August 19, 1982, meeting. According to the Corporation bylaws, the Chairman, who is also the Corporation's Chief Executive Officer, presides over Board meetings and is responsible for the management and direction of the Corporation. 2/ The President, who is also the Chief Operating Officer, is responsible for the management of the internal operations of the Corporation, and acts as the Chairman during his absence. The Executive Vice President oversees the day-to-day operations and is responsible for coordinating and allocating responsibilities. The General Counsel is the chief legal officer of the Corporation and acts as its Secretary, keeping minutes of all Board meetings. The Inspector General and Deputy Inspector General are responsible for audits, investigations, and inspections of the Corporation's activities.

The Corporation bylaws also describe the responsibilities of the Senior Vice President for Projects and the six Vice Presidents. The Senior Vice President for Projects has overall responsibility for all projects in the Corporation, including solicitation and assessment of proposals, the negotiations of financial assistance, and project monitoring during construction and operation. The Vice President for Projects serves as the deputy to the Senior Vice President for Projects. The Vice President for Technology and Engineering is responsible for evaluating all project engineering programs, proposed technologies, and related management capabilities. The Vice President for Finance is responsible for the financial aspects of all projects. The Vice President for Administration serves as the Corporation's Treasurer and is responsible for the development, implementation, and supervision of all management systems necessary for the effective and efficient administration of the Corporation, the Corporation's funds and securities, and the preparation and control of the budget. The Vice President for External Relations is the Corporation's official liaison to the Congress; other Federal, State, and local entities; industry organizations; the communications media; and the general public.

1/The act requires that the Corporation officers shall, at a minimum, consist of a Chairman, a General Counsel, a Treasurer, an Inspector General, and a Deputy Inspector General. In addition to these positions, the Board of Directors is empowered to appoint other officers.

2/This follows section 117(a) of the Energy Security Act.

The Vice President for Planning is responsible for developing and recommending comprehensive long-term plans with particular emphasis on the long-range strategy for achieving synthetic fuels production goals required to be submitted to the Congress in 1984.

The Board held additional meetings on December 11, 1981; January 18, 1982; February 16, 1982; March 26, 1982; June 17, 1982; July 15, 1982; and August 19, 1982. In addition to policy and administrative matters, these meetings have focused on narrowing the projects most eligible for financial assistance from the initial 63 proposed projects to 2. In addition, at the February meeting, the Board adopted a salary schedule for all Corporation employee positions, except for those of 13 senior executives. A salary and benefits package for all but one of the senior executive positions--the Chairman--has now been resolved. The Chairman has agreed to a \$1-a-year salary for 2 years.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our review of the Corporation covered the period August 23, 1981, to June 30, 1982. The objectives of this review were to examine the contracting practices for professional support services, controls over fund withdrawals and disbursements, the salary structure, and the Office of the Inspector General.

As part of our evaluation of the Corporation's contracting practices for professional services, we reviewed the Corporation's contracting policy which was approved by the Board of Directors at their October 28, 1981, meeting. We also reviewed various preliminary contracting and procurement procedures prepared for the Corporation by (1) a public accounting firm--Price, Waterhouse and Company; (2) the former Vice President for Administration; and (3) a former procurement officer.

To determine actual Corporation contracting practices, we reviewed the contract documentation files maintained by the Corporation's procurement officer for five professional service contracts awarded between August and December 1981. Although Office of Administration records showed a total of 11 professional service contracts in effect during the period, the procurement officer, during that period, had files on only 5. Professional service contracts reviewed covered: the procurement of micro-filming services, the development of financial and economic models for evaluating proposed projects, a personnel compensation study, and data processing support services. These contracts had a total potential value of about \$850,000, with the data processing support services contract, alone, evaluated at a maximum of \$750,000. In addition to reviewing the contract files, we held discussions with the Corporation's Vice President for Administration, the Assistant Vice President for Administration, the contracts manager, the procurement officer, representatives of Corporation program offices, and officials in private corporations who had received requests for proposals for Corporation contracts.

To evaluate the Corporation's controls over fund drawdowns and disbursements, we held discussions with the Assistant Vice President for Administration, the chief accountant, other Corporation accounting office staff, and the Corporation's public accountants--Peat, Marwick, Mitchell, & Co. We met with officials from the Department of the Treasury and the Corporation's commercial bank, National Savings and Trust Co., to discuss the funding of Corporation activities through the letter of credit system. We reviewed the interim accounting and disbursement procedures developed for the Corporation by Price, Waterhouse and Company. We reviewed records maintained by the accounting staff on disbursements and analyzed 152 check disbursements randomly selected from about 550 disbursements made in January 1982 and February 1982 to determine if the accounting systems controls were being utilized. We also reviewed the procedures and controls exercised by the Corporation in making all disbursements from the petty cash fund located at the L Street, Washington, D.C., location during the month of February 1982.

To review the Corporation's salary structure, we analyzed the legislative history dealing with the subject; consultant studies and legal opinions prepared for the Corporation; the Board's Compensation Committee reports; and the House Committee on Government Operations May 1981 report, "Oversight of the Energy Security Act: Implementation of the Synthetic Fuels Corporation." We also held discussions with the Corporation's Vice President for Administration, the Director of Personnel, and the Compensation and Benefits Manager.

To gather information on the Corporation's Office of the Inspector General, we examined the legislation establishing the office and held discussions with the Inspector General, Deputy Inspector General, and consultant staff. We also reviewed the office's "Proposed Operating Principles" and the nine reports it has issued.

This review was done in accordance with generally acceptable Government auditing standards.

CHAPTER 2

CONTRACTING FOR PROFESSIONAL SERVICES

Since April 1981, reports by the Corporation's Assistant to the Chairman for Inspections and Internal Audit (temporarily performed functions similar to an Inspector General) and the House Committee on Government Operations have criticized the Corporation for inadequate contracting practices. According to the reports, the Corporation did not award professional service contracts 1/ on a competitive basis and did not maintain records on contract negotiations. During the period of our review, we identified some changes made in Corporation contracting practices subsequent to these reports, but found that more remained to be done.

SUMMARY OF PREVIOUS REPORTS ON CORPORATION CONTRACTING PRACTICES

On April 27, 1981, the Corporation's Assistant to the Chairman for Inspections and Internal Audit issued a memorandum to the Corporation's Acting Chairman citing little uniformity in the Corporation's contract management and advising him that the Corporation's interim procedures for assuring the awarding of contracts on a competitive basis were inadequate. The memorandum also indicated that the contract files did not provide the basis for or support the need for the contract or the selection process used. Furthermore, no information was provided on the history of negotiations with bidders or on the work performed by the contractor--including whether or not the services contracted for were completed.

The Assistant to the Chairman for Inspections and Internal Audit recommended that the Corporation appoint a contract officer, develop files reflecting the history of each Corporation contract, and develop procedures detailing systems for soliciting and negotiating contracts. The Corporation's Vice President for Administration responded to the memorandum stating that only a firm policy enunciated by top management could require uniformity in Corporation contracting procedures. Furthermore, he was not convinced of an overriding need to fit each contractual undertaking into a common mold, although he agreed that some degree of uniformity could be helpful. Thus, based on this response, the initial indications were that the Corporation did not intend to restrict the flexibility maintained by the program officers by requiring some uniform standards in its contracting procedures.

In May 1981, the House Committee on Government Operations issued a report titled "Oversight of the Energy Security Act: Implementation of the Synthetic Fuels Corporation," which covered selected activities of the Corporation, including the awarding

1/Professional service contracts refer to the acquisition of the expertise or services of companies or individuals.

of professional service contracts. The report indicated that many of the Corporation's contracts for legal services were not being issued on a competitive basis and that the Corporation was contracting out legal work, such as preparing congressional testimony and interpreting laws, which the Committee believed should have been performed by Corporation staff.

In August 1981, the Assistant to the Chairman for Inspections and Internal Audit issued a report to the Congress and the Corporation on the Corporation's administrative practices. This report indicated that the Corporation's basic problem in contracting was a reluctance to prepare Requests for Proposals (RFPs) outlining Corporation needs and to secure competitive bids for contracts. On September 18, 1981, the Acting Vice President for Administration, in a response to this report, indicated that solicitation and contracting procedures had been prepared and were in the process of being reviewed by the Office of the General Counsel and the Corporation's Chairman prior to their release. On October 28, 1981, the Board of Directors approved a Policy and Procedure for the Administration of Contractual Arrangements. The procedures called for competition for contracts, whenever practical, and in broad terms, defined program and procurement office responsibilities, provided guidelines for planning contracts, and listed methods for evaluating proposals. However, as of June 1982, detailed guidelines for implementing the approved procedures still had not been issued.

Within this background of reports and a memorandum indicating the need for sound, consistent, contract procedures, we initiated a review to determine what actions had been taken between August 1981 and June 1982 to improve the Corporation's contracting for professional services. We reviewed available documentation in the Office of Administration on 5 of 11 professional service contracts awarded between August and December 1981. Our review was limited to these five contracts because, at the time of our review, the Office of Administration's procurement officer did not have files on the remaining six. ^{1/} Documentation, to the extent it existed, was scattered among the users' offices. The five contracts we reviewed ranged in value from \$10,000 to \$750,000 and listed a total potential value in excess of \$850,000.

^{1/}The six contracts for which the Office of Administration did not have documentation covered accounting services, assistance in acquiring and arranging office furnishings, two contracts for services to provide automated access to corporate financial data, and two contracts with Federal agencies for administrative support services. The total value of these six contracts was about \$200,000.

POOR DOCUMENTATION ON CORPORATION
CONTRACTING PRACTICES

Section 175(a) and (g) of the Energy Security Act essentially exempts the Corporation from statutes governing Federal departments and agencies. Thus, the Corporation's activities are not subject to statutes relating to Federal agencies' or departments' procurement of goods and services. However, the Corporation's Policy and Procedures for Administration of Contractual Arrangements, approved by the Board of Directors on October 28, 1981, directs procurements to be made from the highest quality sources at the lowest reasonable costs and in accordance with the best commercial and Government practices. While the Board approved an overall contracting policy, it had not provided specific guidelines for implementing the policy as of June 1982.

The failure to issue guidelines to program offices contributed to the difficulty experienced by the procurement officer in obtaining standardized documentation and information on Corporation contracts. He stated that information filtered into the Office of Administration on a piecemeal basis, which was evidenced by the lack of documentation by the Corporation's procurement officer on 6 of the 11 professional service contracts in effect during the August through December 1981 time period.

The Office of Administration drafted detailed guidelines to implement administrative contracting procedures in September 1981 using Federal procurement regulations and the United States Railway Association's procurement regulations as a basis. However, as of June 1982, the detailed guidelines had not been provided to the program offices.

In each of the five contracts files reviewed, information on one or more of the following items was missing: justification on the need for the contract; justification for the solicitation procedures used; justification for the time allowed contractors to respond to solicitations; and the identity of those who prepared and approved the contracts. Only one of the five solicitations was publicly announced, and that solicitation limited competition by allowing, at most, 13 days to respond to detailed requirements. The other four solicitations limited the number of firms requested to bid and/or the response time without providing adequate justification of the need for these restrictions. Details concerning each of the five contracts follows.

Contract for automatic data
processing services

On September 25 and 28, 1981, the Corporation solicited proposals by an announcement in the Washington Post newspaper requesting automatic data processing (ADP) services consisting of hardware, software, communications, analyst, and teleprocessing services. The value of the contract was not to exceed \$750,000. The same announcement appeared in the Federal-Register on

September 29, 1981. Firms interested in responding to this announcement were requested to write to the Corporation for a copy of the RFP. The published closing date for submitting responses was October 7, 1981, or 13 days from when the notice first appeared in the Washington Post and 9 days from the date listed in the Federal-Register. ^{1/} Seventy-two firms obtained copies of the RFP, several sending messengers to pick up a copy rather than to lose the time required to obtain a copy through the mail.

The short time allowed vendors to submit bids appears to have limited the competition for this contract. Only 5 of the 75 firms responded to the Corporation with formal bids. Two of the firms submitting bids had participated in informal discussions with the Corporation in May 1981, the purpose of which was to define the Corporation's short-term and long-term data processing needs. Of the five bids received, only one, from ADP Network Services, Inc., one of the two companies participating in the May discussions, was judged outstanding by the Corporation's two-member Technical Review Panel. This rating was based on the proposal's completeness, responsiveness to the mandatory functional requirements, and understanding of Corporation objectives. The District Manager for ADP Network, Inc., informed us that when the RFP was released, his company was in the fortunate position of having sufficient resources available to concentrate on responding to the Corporation RFP. The other four bids were judged unsatisfactory for such reasons as insufficient onstock hardware and software packages or lack of experience to satisfy the requirements set forth in the RFP. On November 18, 1981, the Corporation executed a contract with ADP Network Services, Inc., to provide data processing services.

The contract file contained no information to justify rushing the solicitation and awarding of the ADP contract. According to the Assistant Vice President for Administration, the Corporation intended to minimize competition because of limited staff available to review proposals. Also, the Corporation wanted to select a contractor which could respond to the Corporation's needs on short notice. He believed that giving contractors less than 2 weeks to respond to the RFP would be one method of measuring potential response time. We believe that neither reason for intentionally minimizing competition is consistent with good contracting practices. Furthermore, we question whether the ability to respond to an RFP in a 2-week time period is a criterion which is necessarily consistent with the Board of Director's contract policy.

Customarily, the Federal Government allows at least 30 to 60 days for an ADP solicitation of this type. Two companies interested in the ADP services contract indicated to us they

^{1/}A 36-hour extension was subsequently granted because the original due date was a religious holiday.

would have submitted proposals for the contract had sufficient time been allowed to obtain subcontractors to handle some requirements listed in the RFP. In fact, four companies that received copies of the RFP but failed to submit proposals informed us that the time given by the Corporation was too short for preparing an adequate response to the RFP. Furthermore, the specific hardware and configuration requirements led several companies to believe competition for the contract was less than "open."

The RFP provided detailed hardware and software specifications without a commensurate amount of detail on the Corporation's information needs. For example, the RFP requested that the vendor's Central Processing Unit be capable of being expanded to hold 2 million characters of memory when, at the same time, the RFP states that the needs of each office could not be specified. The type of detailed hardware/software specifications outlined in the Corporation's RFP were not appropriate until the requirements definition and system design were completed.

This further calls into question the appropriateness of rushing into such a contract and limiting competition when the Corporation could not adequately specify its needs. In addition, there is a potential for over-design and waste. Without knowing the system requirements, the detailed hardware and software specifications may have been excessive, and companies able to supply smaller, less expensive, but potentially sufficient hardware may not have submitted bids because they could not meet the requirements listed in the RFP.

Contract for compensation and relocation reimbursement study

On October 16, 1981, the Corporation's Director of Personnel, with the approval of the Corporation's Acting Vice President for Administration, solicited bids from four firms to perform a compensation and relocation reimbursement study. The Board of Directors requested this study to establish an appropriate salary schedule for Corporation employees. At the October 28, 1981, Corporation board meeting, the Board indicated that it wanted the salary issue resolved promptly. In order to expedite the process, the Office of Administration allowed only 7 days for companies to respond to the RFP. The number of days allowed was a factor in the lack of a response by one firm. More importantly, competition was limited in that the Corporation solicited bids from only four companies.

According to the procurement officer, the firms solicited had a good reputation for such assignments. However, no documentation existed on how these four firms were chosen or on what basis the Corporation determined that these four firms represented adequate competition. Only two firms chose to submit proposals and, on November 9, 1981, one of the proposers, Hay Associates, was awarded the contract, valued at about \$44,000.

The short time allowed to respond to the RFP and the limited solicitation of only four companies were factors restricting competition for this contract. For example, when we contacted one of the two firms which did not submit a proposal, a senior official informed us that when the RFP was received, his staff was committed to other projects. Although interested in the Corporation's contract, the 7 days given to respond to the Corporation's solicitation would have required pulling people from those projects without notice. He indicated that the firm's policy is generally not to take staff from a fee-paying client to develop a proposal for a contract that the firm has no assurance of receiving. He could not recall if his company had been given advance notice about the RFP. To obtain further comments on the Corporation's solicitation practices for this contract, we contacted a senior partner at the other company submitting a bid but not receiving the contract. The partner stated that he had no problem with the manner in which the solicitation was handled. Prior to receiving the Corporation's RFP, the Corporation had provided the company with information on its needs for a compensation and relocation reimbursement study. Therefore, the company knew the RFP was coming and was able to meet the 7-day time frame for submitting a proposal.

Thus, while the 7-day time frame may not have been a problem for one company, it was a factor which precluded another company from responding to the proposal. More importantly, however, competition was restricted at the outset by limiting the solicitation to only four companies without any documentation or justification that such a restriction in competition was warranted.

Microfilming services

On August 20, 1981, the Corporation signed a contract with Microtech Industries, Inc., to provide for the transfer of Corporation project files onto microfiche. According to the contract, the value of services provided was not to exceed \$10,000. The solicitation and awarding of this contract were handled by the Office of Administration's Technical Research Services Office. The Office of Administration's files on the contract were limited to a letter from the technical research office recommending that Microtech receive the contract and a copy of the final contract. The procurement officer chose not to be involved in this procurement.

According to the files and discussions with the procurement officer and a program office official, the contract was solicited and awarded in the following manner. The technical research office determined the need for microfilming services and then informally notified the Corporation's procurement officer of its need. The procurement officer, relying on the technical research office's expertise in the microfilming area, authorized that office to handle the solicitation. As a result, a staff member phoned three microfilming reproduction companies, chosen from approximately 50 companies listed in the local telephone directory,

for estimates of their costs for services and made notes on the responses received. Based on responses received, the technical research office selected Microtech, and the contract was drawn up and signed by the Office of Administration.

An FFP detailing program office needs was not prepared. Because the Office of Administration's procurement officer elected to limit his participation to drafting the final contract, oversight was not available to ensure that the best commercial and Government practices were followed. This practice underscores the need for guidelines to implement consistent contracting procedures which would fully define the roles and responsibilities of the program offices and the Office of Administration's procurement office.

Processing support for financial analysis

On October 23, 1981, the Corporation signed a sole source contract with Lloyd Eush and Associates to provide computer data processing support for financial analyses of synthetic fuels projects. Office of Administration records show that the contract was signed after the work was completed. The Office of Administration did not have documents detailing the need for the services or showing how or who authorized the company to work for the Corporation. The October contract, valued at \$25,000, covered software and corresponding timesharing and consulting services which the company had been providing to the Corporation since July 1, 1981.

No RFP was issued for this contract, and documentation as to why a sole source contract was awarded could not be found in the Office of Administration files. According to material in the Office of Administration files, the Corporation's Office of Finance determined its need for technical assistance, and under the recommendation of the Corporation's Vice President for Finance, selected the company to provide the services. The Office of Administration's involvement was limited to signing the October contract which was drafted by the Office of Finance after the work was completed.

When individual offices handle the solicitation and awarding of contracts, there is no central control over Corporation spending nor is there any assurance of consistency in the execution of the Corporation's contracting policy. The status of Corporation funds cannot be determined if Corporation offices other than the Office of Administration approve and award contracts. Also, the integrity of the Corporation's contracting practices can be subject to question when the Office of Administration does not have records supporting a sole source award.

Economic models relating to energy supply and demand

In an October 1981 letter from the Corporation's Acting Director, Office of Planning, eight firms were invited to meet

with Corporation staff to discuss the Corporation's needs for models or equations to use in evaluating the financial aspects of proposed synthetic fuels projects. Specifically, the models and equations would show the relationships between crude oil prices, interest rates, etc. No documentation exists on how these eight firms were selected and on what basis a decision was made that they would provide adequate competition. ADF Network Services, Inc., already under contract to the Corporation and claiming to have financial analysis capability, was not one of the eight firms invited to bid. According to the Corporation's Vice President for Administration, the Corporation did not want to be tied to one contractor for too many services. The Corporation formally issued an RFP to the eight firms on November 4, 1981, soliciting bids for developing the models. Six of the eight firms responded with proposals by a November 12, 1981, deadline. Review of the proposals took the same amount of time as that given the companies to respond to the RFP--9 days (November 12, 1981, through November 20, 1981). A Corporation technical review panel, consisting of one individual from the Corporation's Office of Planning and another from the Office of Finance, chose Data Resources, Inc., of Washington, D.C., for the contract, valued at about \$21,000. A contract with Data Resources authorizing it to begin work on Corporation projects, was signed on December 4, 1981.

As of March 1982, the Office of Administration had no records on the need and solicitation process for this contract--only a copy of the signed contract. According to Office of Administration officials, the Office of Administration had little involvement in the contract process. The Office was not involved in soliciting proposals, selecting the contractor, or drafting the contract. The Office of Administration was not aware of a contract with Data Resources until an invoice for \$10,000 was presented for payment on March 1, 1982.

Not only did this contract limit competition to eight firms without documenting the basis for the selection of only eight, but it also was executed without involvement by the Office of Administration as evidenced by the fact that the Office of Accounting was not aware of the contract until an invoice was presented for payment. If the Corporation is to ensure that all contracts are awarded in accordance with the best commercial and Government procedures, one central office should oversee and approve the procurement from the justification of the need for the contract to its signing. Also, adequate documentation and records must be maintained by that office on each contract.

EFFORTS TO ESTABLISH UNIFORM CONTRACTING PRACTICES

Prior to February 1982, the Corporation's Office of Administration lacked expertise in the contracting area. In November 1981, the Corporation appointed a new Vice President for Administration, a position which had been vacant since June 1981. Although the Board of Directors approved the Corporation's

Policy and Procedures for Administration of Contractual Arrangements the month before, the Vice President for Administration delayed the issuing of guidelines for implementing the contracting procedures prepared by the procurement officer. He wanted to have the guidelines reviewed by someone with broad experience in Government contracting procedures. When a contract manager was hired in February 1982, the Vice President for Administration elected to have him first work with all program offices on an individual basis to gain their confidence in the contract knowledge and services available from the Office of Administration.

The contract manager told us in April 1982 that the August 1981 draft guidelines for implementing the contracting procedures, while not perfect, were satisfactory and had they been implemented, would have provided a good foundation for improved contracting practices. We noted that the draft guidelines outlined the responsibilities of the program users and the Office of Administration, and called for a written justification for awarding contracts on a non-competitive basis. However, the section on procurement planning could have been made stronger by requiring documentation for such items as (1) the need for goods or services being contracted for and (2) any factors which limited competition. While broad procedures have been issued, guidelines for implementing these procedures are still needed to help assure consistent competitive practices and adequate contract documentation in accordance with the best commercial and Government practices.

We have noted some improvements in Corporation contracting practices since March 1982. For example, on March 8, 1982, the Corporation issued an RFP for an automated accounting and personnel system. Documentation of the preparation and issuance of this RFP showed improvement over past Corporation contractor solicitation practices. The Corporation's contract manager was involved in preparing the RFP. Although the contract was not openly advertized, seven nationally known accounting firms were invited to bid for the contract. According to the Corporation's controller, since the Energy Security Act requires the Corporation's accounts to be audited by a nationally recognized accounting firm, he preferred to have the accounting system designed by a nationally known firm.

Five of the seven firms attended a pre-bidders conference which was announced in the RFP, whereby the firms were able to discuss the RFP with representatives of the Corporation. Contractors were given 23 days to respond to the RFP. The Corporation's procurement officer has maintained files on the history of this contract, which includes a list of accounting firms solicited, the identity of the firms that responded, the members of a panel that reviewed the proposals, the criteria used in evaluating proposals, and the score awarded each firm. The panel made its recommendation to the Corporation President, who is authorized to select the firm to be awarded the contract. A letter contract was awarded in June 1982, the final contract is still being negotiated. The contract file could be improved,

however, by providing documentation on the need for the contract and the basis for the solicitation process used.

CONCLUSIONS

Our review of selected professional service contracts awarded between August and December 1981 showed that the Corporation's Office of Administration did not provide adequate oversight of its professional services procurements from the initial planning and justification of the need for such services to the signing of the contracts. The Office of Administration has not issued guidelines to implement contracting procedures to ensure that program offices implemented the Corporation's contracting policy. Although we have noted a recent example of improvement in the solicitation of one contract, we believe the previous deficiencies underscore the need for guidelines. Detailed guidelines have been in the draft stage for over a year. They could be issued on an interim basis and changes made as necessary before final guidelines are adopted.

RECOMMENDATION

We recommend that the Chairman, U.S. Synthetic Fuels Corporation:

- Issue guidelines for implementing the Corporation's policy and procedure for administering contractual arrangements to all offices. Such guidelines should include guidance on the roles and responsibilities of the Office of Administration and program offices to ensure that (1) the need for goods and services in each contract are adequately documented and (2) if competition is limited by such factors as short response time or unique services needs, written justification is provided for the limitation.

CORPORATION COMMENTS AND OUR EVALUATION

The Corporation's Chairman officially commented on the contracting chapter of this report in a letter dated August 12, 1982. Although stating that, as of June 1982, detailed procurement regulations had not been issued, the Chairman pointed to several memoranda issued by the Corporation within the last 6 months requiring various actions to strengthen contracting operations including (1) justifying contracts issued on a non-competitive basis, (2) monitoring contractor performance to assure conformance with the contract requirements, and (3) documenting a need for the contract. The Chairman also commented that a central repository has been completed for all Corporation contracts.

On March 15, 1982, the Corporation's President issued a memorandum to senior executives stating that when a consulting firm is to be hired on a non-competitive basis, the proposed contract should be accompanied by an explanation of why the

non-competitive award was necessary. The document also called for specifying to whom consultants will be responsible.

On May 24, 1982, the Corporation's Vice President for Administration issued a "Consultant Agreement Kit" to the Corporation's senior management officials. The "work kit" includes a requirement that documentation be prepared on the work to be provided and also that a Corporation official be designated to monitor the consultant's work. A followup memorandum from the Vice President for Administration, dated July 12, 1982, provided additional guidance on administering consultant agreements.

An August 17, 1982, memorandum issued by the Corporation's President to senior management officials required that a "Statement of Need for Procurement" accompany all procurement requests. These statements must be signed at the vice presidential level and will become an integral part of procurement actions and included in official contract files.

In following up on the Chairman's comment that a centralized repository has been completed for all Corporation contracts, we found the Office of Administration to be maintaining a more comprehensive file on contracts than existed during the time of our audit. While additional information was made available on some contracts, documentation such as that required by the recent Corporation memoranda was not available to complete the history of many of the contracts.

Memoranda issued by the Corporation's President and Vice President for Administration address our major concerns with the Corporation's contracting practices. We believe, however, that the memorandum dealing with justifying non-competitive awards should be expanded to include justifying limited competition for major Corporation contracts. In commenting on this report, the Corporation Chairman agreed that greater emphasis should be placed on contract justifications. He also stated that consolidating contracting policies into one document would be desirable.

The Corporation has made significant progress in establishing and documenting contracting procedures. We believe an equally determined effort by Corporation officials and staff is required to assure their implementation.

CHAPTER 3

CONTROLS OVER FUND WITHDRAWALS

AND DISBURSEMENTS

Section 177(b) of the Energy Security Act requires the Corporation to retain a firm or firms of nationally recognized public accountants to annually audit the Corporation's accounts. The same section of the act authorizes us to audit the Corporation's accounts as we deem necessary, and to report to the Congress not less than every 3 years.

At the end of fiscal year 1981, Feat, Marwick, Mitchell & Co. (PMM & Co.), the Corporation's independent certified public accountants, examined the Corporation's statements of financial condition, results of operations, and changes in financial position. The accountants reviewed documentation supporting a sample of disbursement transactions to determine that expenditures made were for Corporation purposes and were properly recorded. As stated in its November 18, 1981, audit report, PMM & Co. did not evaluate the internal accounting controls over contractual services and administrative expenses because no consistent system of controls was in effect throughout the year. In PMM & Co.'s opinion, the financial statements were a fair presentation of the Corporation's financial position and were prepared in conformity with generally accepted accounting principles.

In March 1982, we issued a report to the Congress on the Corporation's fiscal year 1981 financial statements 1/ in accordance with section 177 of the act. To avoid unnecessary duplication and expense, we discharged our responsibilities by relying on the work of the Corporation's public accountants. During our review of PMM & Co.'s workpapers and audit report, we found nothing that would indicate that PMM & Co.'s opinion was inappropriate. We therefore concurred with, and transmitted to the Congress, PMM & Co.'s opinion and the Corporation's 1981 financial statements.

From September 1981 through March 1982, we reviewed two aspects of the Corporation's internal accounting controls-- control over fund withdrawals from the Treasury Department and control over disbursements for administrative expenses. PMM & Co. did not review these controls because during the time of its review, the Corporation's internal accounting controls changed as the accounting system developed. During our review, a January 1981 letter of credit system for controlling fund withdrawals from the Treasury and a December 1980 interim

1/"Review of the United States Synthetic Fuels Corporation's Financial Statements for the Fiscal Year Ended September 30, 1981," GAC/AFMD-82-49, Mar. 22, 1982.

manual accounting system for controlling disbursements had been in effect for some time. During this period, we found no major problems with the Corporation's use of a checks-paid, letter of credit system to withdraw funds from the Treasury. However, as discussed later, we did note an area for improvement in the current control system over disbursements and have made a recommendation for improvement.

DRAWING TREASURY FUNDS FOR
CORPORATION ACTIVITIES

Section 139 of the Energy Security Act authorizes the Corporation to charge and collect fees in connection with financial assistance provided to project sponsors. The fees are to be used as reimbursement for Corporation administrative expenses, such as personnel, office space, and so forth, which are related to providing financial assistance. However, until financial assistance is provided and administrative fees collected, the Corporation defrays all administrative expenses out of funds from the multi-billion-dollar Energy Security Reserve fund established in the Treasury.

The Corporation and the Treasury entered into a memorandum of understanding on January 14, 1981, which provides for drawing funds from the Energy Security Reserve for Corporation expenditures. On January 23, 1981, the Treasury, on behalf of the Corporation, issued a \$50-million letter of credit to National Savings and Trust Co. (NS&T), the Corporation's commercial bank in Washington, D.C. The Corporation writes checks against the NS&T account to pay its bills. Each day, the bank cashes Corporation checks which arrive for payment. The bank totals these checks to determine how much the bank is owed by the Corporation. Once this is done, the bank contacts the Federal Reserve Bank of Richmond, Virginia, requesting reimbursement. After the Federal Reserve Bank confirms the call, payment for the amount owed is wired to the bank, which then credits the Corporation's account for the full amount.

The checks-paid, letter of credit system has provided Treasury funds to the Corporation's commercial bank on a day-to-day basis to the extent required to cover checks presented for payment. In this manner, the Corporation is provided with funds actually required for its expenditures while at the same time minimizing outlays of the Treasury and the Treasury's borrowing from the public. An official from the Treasury's Trust and Revolving Funds Branch, NS&T's accounts manager, and the Corporation's chief accountant all expressed satisfaction with the system to date. We found no problems with the system at the time of our review, and according to monthly account analyses prepared by NS&T, the Corporation's bank balance has been kept low, and the bank has accepted all checks presented for payment.

ACCOUNTING SYSTEM CONTROLS
OVER DISBURSEMENTS

The Corporation's controls over disbursements were developed as part of an interim manual accounting system prepared for the Corporation in December 1980 by the public accounting firm of Price, Waterhouse and Company. The manual system was intended to be used only until a permanent automated accounting system was developed or purchased. The system is cumbersome in that accounting entries are posted to some 600 accounts covering 12 cost centers 1/ and any time an account analysis or verification of payment is needed, a manual search of the ledgers or payment files is required. Thus far, the Corporation's accounting office staff has been able to manage the system, but as the volume of transactions increases, an automated system would better enable the current staff to maintain accounting control by automatically accumulating, classifying, and summarizing Corporation financial transactions.

The Corporation issued an RFP on March 8, 1982, to seven accounting firms to solicit proposals for an automated accounting system. Six proposals were received at the Corporation by the March 30, 1982, deadline, and a contract for the automated system was awarded in June 1982. 2/ Automated systems provide faster access to identify administrative and program expenses and automatically provide information on the status of accounts. They also provide management with more-timely information for controlling administrative expenses. An automated system should also reduce the staff time spent summarizing financial data for financial reports required by the Treasury 3/ and the Energy Security Act and reduce the opportunity for human error in developing total figures. In the future, the automated system should also be useful in tracking Corporation financial commitments to specific projects.

We measured the effectiveness of the Corporation's manual system of controls over fund disbursements against control criteria established by the American Institute of Certified Public

1/The 12 cost centers are: Chief Executive Officer/Chief Operating Officer; Board of Directors; General Counsel; Administration; Administration Pool; Planning; External Relations; Technology and Engineering; Finance; Projects; Manpower; and Inspector General.

2/In August 1982, contract work was suspended, and the Corporation was reassessing its present need for an automated system.

3/Namely, the Statement of Transactions, and Certification of Unexpended Balances.

Accountants (AICPA). According to AICPA, 1/ accounting systems control should provide reasonable assurance that

- transactions are executed in accordance with management's authorization;
- transactions are properly recorded, permitting the preparation of financial statements in accordance with generally accepted accounting principles; and
- access to assets is permitted only in accordance with management's authorization.

We determined that 152 disbursements, randomly selected from approximately 550 made during January 1982 and February 1982, were issued in accordance with management's authorization. PMM & Co., in November 1981, also reported that transactions were being properly recorded. We noted a need for improvement, however, in controls over the Corporation's petty cash and blank checks.

Management authorization for disbursements

Check disbursements

Procedures for making check disbursements, prepared by Price, Waterhouse and Company in December 1980, involve accounting office staff, the program office heads, 2/ the Controller, 3/ the Vice President for Administration, and the Chief Operating Officer. Disbursements of amounts greater than \$25,000 require the approval of the Corporation Chairman or his designee. We reviewed 152 disbursements with a total value of about \$280,000, randomly selected from about 550 made during the months of January 1982 and February 1982 and found, in all 152 cases, the Corporation was adhering to the procedures described below.

Check disbursements are made by the Corporation's Office of Accounting, located organizationally within the Office of Administration. Accounting clerks receive invoices and vouchers for goods and services provided to the Corporation. The accounting clerks determine the accuracy of the invoices by comparing them to receiving reports, purchase orders, travel authorizations,

1/AICPA, Statement on Auditing Standards Number 1, Section 320.

2/These include the Vice Presidents for Projects, Finance, Technology and Engineering, External Relations, and Planning; the General Counsel; and the Inspector General.

3/During much of the time of our review, the Controller's position was vacant. Therefore, the Director of Management Planning and Systems performed the Controller's payment review function.

and contracts. The Office's senior accountant reviews the work of the accounting clerks and then forwards the invoices and supporting documentation to the appropriate program office head. When the program office head indicates that the goods or services have been received, the invoice package is sent to the Vice President for Administration and the Controller for their review, signature, and authorization that a check be prepared. The Office of Accounting then prepares the check for the Vice President for Administration's and the Chief Operating Officer's signatures, after which, the Office of Accounting mails the checks.

The Corporation's interim procurement procedures direct that departmental procurement action be authorized by the senior departmental officers (presidential or vice presidential level). Files on Corporation payments sampled showed all disbursements to be supported by invoices or claims for reimbursement approved by program office heads.

Petty cash disbursements

During our review, the Corporation disbursed petty cash funds from three separate office locations (1900 I St. and 2121 K St. in Washington, D.C., and a Corporation office in Denver, Colorado). The petty cash funds were established to provide reimbursement to employees for small expenditures for a nonrecurring or emergency nature made in the conduct of Corporation business. The total amount of money in the petty cash fund was limited to \$500 at the K Street office and \$200 each at the L Street and Denver offices.

Interim procedures for making disbursements from, and reimbursement to, the petty cash funds were approved by the Corporation's Chairman on January 29, 1981. As with the Corporation's other accounting procedures, a permanent system was still not adopted as of June 30, 1982. Employee reimbursements are limited to \$50 per voucher, and requests for reimbursement must be submitted on a Petty Cash Voucher approved by a program office head or his/her designee. Receipts supporting the request for reimbursement are also required. The custodian of the petty cash fund is the only person authorized to make the disbursements.

To sample petty cash operations, we reviewed disbursements from the petty cash fund maintained at the K Street office made during the month of February 1982. Fifty disbursements from petty cash were made during the month, all for less than \$50. We noted that all cash disbursements were supported by vouchers signed by Corporation program office heads or their designees.

Proper recording of transactions

As stated earlier, FMM & Co. audited the financial statements of the Corporation and reported on November 18, 1981, that the financial statements prepared by the Corporation were a fair presentation of the financial position of the Corporation as of September 30, 1981, and were made in conformity with generally accepted accounting principles. As part of the FMM &

Co. audit, 200 disbursements were traced from the Corporation's general ledger back to the disbursement book. FMM & Co. determined that expenditures were for Corporation purposes and were properly classified, recorded, and documented. Cancelled checks were matched to the disbursement book to assure the proper documentation of entries. FMM & Co. also reviewed supporting documentation for payroll disbursements.

Access to petty cash and blank checks

Controlling access to assets includes safeguarding cash on hand and the Corporation's stock of blank checks. We believe the Corporation needs to increase security over blank checks and the petty cash fund. During our audit, we found that blank checks and up to \$500 in petty cash were stored in an unlocked safe in an unoccupied office in the accounting area but accessible to other Office of Administration employees. It was standard operating procedure for the safe to be unlocked at the start of the business day and not locked until the close of business. Cash was kept in a small locked cash box in the safe and blank checks were stored in their original cardboard shipping boxes in the safe. On several occasions the safe drawers were left standing open. Although no thefts of petty cash or checks had been reported, we believe the Corporation should keep the safe containing the cash and checks locked at all times as a preventive measure. According to the custodian of the \$500 petty cash fund, the number of petty cash disbursements average about 50 to 60 per month. Therefore, keeping the safe locked would not present a problem regarding time spent gaining access to the petty cash.

CONCLUSIONS

The Corporation is using a checks-paid, letter of credit system for drawing funds from the Treasury to fund its operations. This system provides the Corporation's commercial bank with funds to cover Corporation checks while minimizing outlays of the Treasury. According to monthly account analyses prepared by the Corporation's commercial bank, the system has worked well as the Corporation's bank balance has been kept low and the bank has accepted all checks presented for payment. Treasury, commercial bank, and Corporation officials all expressed satisfaction with the system and we found no problems with the operation of the checks-paid, letter of credit system.

The Corporation's accounting control over disbursements includes a cumbersome interim manual accounting system. Determining total expenditures on a cost center or account basis requires several manual calculations, making it a time-consuming process. Although the Corporation signed a contract to purchase an automated accounting system in June 1982, work on the contract was suspended in August 1982 in order to reassess the Corporation's present need for an automated system.

In performing a test of the manual system, we found that the disbursements were made in accordance with management's authorization and were supported by invoices or claims for reimbursement approved by program office heads. We found, however, that security over cash and blank checks maintained at the Corporation's Office of Accounting could be improved. We found that cash was kept in a small locked box and blank checks stored in their original cardboard shipping boxes in an unlocked safe during business hours. On several occasions, safe drawers were left open. We believe the Corporation should keep the safe containing the cash and blank checks locked when not in use and in a restricted area in order to better assure that access to assets is permitted only in accordance with management's authorization.

RECOMMENDATION

We recommend that the Chairman, Synthetic Fuels Corporation:

--Assure that access to assets are permitted only in accordance with management's authorization by keeping cash and blank checks in a locked safe in a restricted area.

CORPORATION COMMENTS AND OUR EVALUATION

On August 12, 1982, the Corporation's Chairman responded to our recommendation by stating that procedures to keep blank checks and cash in a locked safe are being enforced. He stated that a restricted area for the safe is being created. In addition, an electronic system was being installed, restricting access to the accounting area.

In subsequent spot checks of the safe, we found it to be locked. Also, an electronic card system, which should limit access to the accounting area where the safe is located, became operational on August 6, 1982. The electronic access system coupled with keeping the safe locked at all times should provide a reasonable safeguard over petty cash and blank checks. Its effectiveness was impaired since certain defects in the system were unresolved as of August 31, 1982.

CHAPTER 4

ESTABLISHING A CORPORATION SALARY STRUCTURE

Since the inception of the Synthetic Fuels Corporation, the Corporation's salary structure has been a matter of debate. This chapter discusses the legislation dealing with Corporation salaries and discusses the various actions, including two consultants' studies, taken by the Corporation to resolve the salaries issue.

LEGISLATION

Section 117 of the Energy Security Act reflects the consideration given by the Congress to the sum of money that would be necessary to pay Corporation employees. This section limits the Corporation staff to no more than 300 full-time professional individuals. It also places some restrictions on the salaries of individual employees.

Specifically, section 117 of the act directs the Corporation's Board of Directors to establish the compensation for each individual officer position of the Corporation. 1/ The Board is required, with respect to other employees, to establish the compensation for the category into which every employee position falls. In establishing these rates of compensation, the Board is directed to take into account the rates in effect under the Federal Government's Executive 2/ and General 3/ Schedules for comparable positions or categories.

The act states that if the Board determines it is necessary to fix the compensation of any officer position or category of other positions at a rate or rates exceeding Level I of the Executive Schedule (\$69,630), the Board must transmit to

1/Compensation may include not only salaries but also benefits such as life and health insurance, disability, and retirement plans. A summary of these other benefits, as they relate to the Corporation, is contained on pages 34 to 36. However, because of the complexity in assessing total compensation packages, and because of congressional interest expressed on salaries, we chose to focus mainly on the Corporation's salary levels.

2/Most appointed executive positions are paid through the Executive Schedule, which has five levels, ranging from \$57,500 to \$69,630.

3/The General Schedule covers employees in competitive career positions from the lowest level clerical employees through non-appointed top managers. It has 18 levels ranging from \$8,342 to \$75,177 per year, but maximum pay cannot exceed \$57,500 per year because of a congressionally imposed ceiling.

the President of the United States its recommendations with respect to the rates of compensation it deems advisable for such positions and categories. If the President does not disapprove within 30 days of notification, the rates become effective.

The Joint Explanatory Statement of the Committee of the Conference for the Energy Security Act indicates that the Congress wished to give the Corporation's Board some flexibility in establishing compensation. The statement specifies that "The Conferees recognize that such rates of compensation may prove inadequate to attract and retain the qualified, experienced personnel needed to carry on the business of the Corporation." The statement continues that the Conferees expected that the Corporation Board would be recommending higher salary levels to the President.

THE INITIAL CONSULTANT STUDY

One of the first orders of business of the Corporation, once an interim Board of Directors was appointed on October 5, 1980, concerned employee compensation. On October 20, 1980, interim Chairman John C. Sawhill contracted with Towers, Perrin, Forster, and Crosby, Inc. (TPF&C), a management consulting firm, to design a total compensation system, including fringe benefits. TPF&C is an international consulting organization offering a broad range of specialized services including executive compensation, salary administration, communications, and human resource management. It has been in the management consulting business since 1917 and now serves more than 4,000 clients in the private and public sectors with operations in over 90 countries.

In performing this study, TPF&C developed an understanding of the Corporation's operating objectives, planned organizational structure, and legislative requirements. It reviewed short-paragraph position descriptions prepared by the Corporation on what were perceived as the nine top Corporation management positions--the Chairman and the heads of the Offices of Finance, General Counsel, Planning, Technical Support, Administration, Project Development, Governmental Affairs and Public Information, and the Inspector General. It also analyzed marketplace data ^{1/} and made a comparison with the Federal salary schedules. In recommending salaries, TPF&C could not be totally objective since the Corporation's Board had already established the maximum salary for a Corporation employee--\$175,000 annually for the Chairman.

^{1/}These include TPF&C's Compensation Data Bank, which encompasses industrial companies with sales generally between \$3 billion and \$6 billion and banks and financial institutions with assets over \$10 billion; the American Management Association, Executive Compensation Service, Top Management Report, which covers industrial companies with average sales of about \$4 billion and banks with average assets of about \$10 billion; and confidential surveys and client reports covering investment banking, professional services, and other selected industries.

TFF&C met with Chairman Sawhill on October 27, 1980, to review its study approach, released an interim report on November 11, 1980, and its final report on salaries on December 17, 1980. While the TFF&C analysis was in progress, the Chairman and Board also established annual salaries for the General Counsel, Vice Presidents for Planning and Administration, and an Assistant Vice President. These salary levels exceeded Level I of the Executive Salary Schedule and were transmitted to President Carter, who took no action of disapproval.

TFF&C's December 17, 1980, salary report recommended the salary structure shown in appendix I. This structure includes ranges for 20 salary grades and a number of examples of typical positions that would be assigned to each grade. It also shows six additional ranges 1/ for the Corporation's Vice Presidents and Chairman. TFF&C perceived the Corporation as a highly professional organization--an investment banking firm or other large financial institution dealing with the planning and financing of costly and complex investment projects--and concluded that this salary structure would enable the Corporation to recruit the quality of personnel needed.

In making a comparison with Federal salary schedules in effect during fiscal year 1981, TFF&C stated that its recommended Corporation salary structure, although not designed to correspond directly to the Federal system, provides for roughly comparable salary ranges and levels for jobs up to Corporation salary grade 16--those positions paying around \$50,000. It is not competitive at the higher levels because sharp compression of top Federal salaries sets in, due to linkage to congressional salaries and those in Presidentially appointed positions. At its December 22, 1980, meeting, the Board approved the salary grade structure recommended by TFF&C.

PRESIDENTIAL ACTION

Presidential action on Corporation salaries was triggered by a January 27, 1981, memorandum sent to President Reagan by Chairman Sawhill just prior to his and the other Board members' resignation. This memorandum announced the selection of another position, the Vice President of Technology, at an annual salary of \$120,000. In addition, the memorandum included a list of six vice presidents appointed by the Board including position titles, dates of appointment, levels of compensation, prior affiliations, and education.

On February 23, 1981, a memorandum was sent to President Reagan signed by the Chairman and most members of the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, urging his review of the

1/The lowest salary range for a vice president is identical to grade 20.

Corporation's compensation levels. At that time, the Subcommittee was itself investigating, among other Corporation activities, compensation levels. ^{1/} On February 25, 1981, President Reagan sent a two-sentence memorandum to the Corporation stating simply that the compensation levels transmitted in the Chairman's January 27, 1981, memorandum "are specifically disapproved by me pursuant to Section 117(b)(2) of the Energy Security Act." The President's memorandum was referring to his authority to take action of disapproval within the 30-day limit set by the act.

Upon receiving President Reagan's letter, the Corporation asked the law firm of Arnold & Porter to formulate a legal opinion on the effect of the President's February 25, 1981, memorandum on the Corporation's continued payment of salaries to its officers. On March 3, 1981, the law firm stated that the only salary included in the President's memorandum which was subject to his right of disapproval was that of the Vice President for Technology. All other salary levels included in the January 27, 1981, memorandum had already become effective since they had previously been transmitted to President Carter and he had not exercised his right of disapproval within the 30-day time limit.

Despite this legal opinion, however, to be responsive to the President's February 25, 1981, memorandum and with due recognition that a new Board of Directors may want to act differently on salary levels, five of the six vice presidents receiving salaries in excess of Executive Level I (\$69,630) signed a statement on March 5, 1981, that they would, as of February 25, 1981, accept salary payments at the \$69,630 annual rate pending a review by a new Board of Directors. This action, on an annual salary rate basis, would have reduced the Corporation's salary expenditure level by about \$247,000. The Vice President for Planning would not sign the statement; consequently, the Corporation paid him his original salary of \$140,000 until terminating his employment on October 31, 1981.

Keeping the salary cap at \$69,630, the Corporation otherwise used the TFF&C salary structure as a guide for hiring staff during the next several months. It was not until the newly confirmed Board of Directors held its first meeting on October 28, 1981, that further action was taken on the salary situation. At the meeting, it was pointed out that the area of Corporation salaries was critical and that it would be impossible for the Corporation to conduct business without knowing how much it could pay key people. To settle the question of an appropriate salary schedule for Corporation employees and in light of the congressional criticism of the salary system in effect, the Board appointed a Compensation Committee, comprised of three

^{1/}The final report "Oversight of the Energy Security Act: Implementation of the Synthetic Fuels Corporation," was released by the Subcommittee on May 28, 1981. The report heavily criticized Corporation administrative activities.

board members, to make recommendations to the Board on salaries. To assist the Committee, the board voted to retain an independent consultant to undertake another review of the Corporation's salary structure, including comparing it with the present Federal salary schedule.

THE HAY ASSOCIATES' SALARIES STUDY

On November 9, 1981, the Corporation awarded a contract to Hay Associates to review its salary structure. Hay Associates has been designing compensation systems for almost 40 years. It includes as its clients, based on the 1980 Fortune directory, 40 percent of the 500 largest industrials, 24 of the 50 largest commercial banks, and 27 of the 50 largest insurance companies in the United States.

Hay Associates' report, issued on December 14, 1981, stated that in performing the study, it was sensitive to (1) the congressional intent that a comparability exist between Corporation employee salaries and Federal pay schedules and (2) the Corporation's need to attract and retain a number of high-quality and experienced professionals to enable it to accomplish its statutorily defined mission.

Hay Associates' analysis represented all 13 positions it identified as senior executive positions, 22 out of 33 exempt positions, and all 31 non-exempt positions 1/ of the Corporation's 101 classified personnel as of November 9, 1981. 2/ The methodology employed in the evaluation of the Corporation positions is a job measurement system known as the Hay Guide Chart-Profile Method. This Hay-developed technique, which has been employed in over 5,000 public and private sector organizations throughout the world, evaluates the total content of any position through analysis of three job dimensions--technical knowledge (referred to by Hay Associates as know-how), problem solving, and accountability.

For each position evaluated, there are three guide charts--one for each of the three job dimensions. Each of the guide charts contains several standards relating to that particular job dimension. These standards are generally evaluated by using position description statements; however, if a position

1/Non-exempt employees are non-supervisory clerical or technical employees protected by the minimum wage and overtime pay provisions of the Fair Labor Standards Act. Exempt employees--those exempted from the act--function primarily in a supervisory or managerial role for the Corporation.

2/There were 15 additional positions on the Corporation personnel roles which were not included in Hay Associates' analysis because the Corporation had not yet classified them as exempt or non-exempt.

description is not available, a job content questionnaire is used supplemented by a personal interview with the incumbent and/or consultation with the Director of Personnel. The evaluations are then assigned a numerical point value. The total score, derived by adding up the points on each of the three guide charts, becomes the basic measure of the job's worth.

The evaluated job content of each position, used in conjunction with the actual current salaries of these positions, permitted Hay Associates to analyze the internal equity, external competitiveness, ^{1/} and the adequacy of the 20-grade salary structure being used at that time by the Corporation. Hay Associates observed that:

- Current job documentation was limited. For example, only 1 of the 13 senior executive positions had a current position description.
- The senior executive/exempt salary practice was internally inequitable because of the \$69,630-salary ceiling. For example, each of the six positions slotted at the \$69,630 level had a different job difficulty score (Hay-evaluated content points), with one position having over 2.5 times as many points as another.
- The 20-grade classification structure was marked by a number of inconsistencies due to misclassification, inappropriate design, or both. For example, in 10 cases, two adjacent grades had positions where at least one position in the lower grade was scored as being more difficult than at least one position in the higher grade.
- Although the non-exempt and the majority of the exempt positions were judged to be externally competitive, the senior executive positions were, to varying degrees, consistently uncompetitive. A major reason given by Hay Associates was the salary ceiling for these Corporation positions of \$69,630.

In formulating a new salary structure for the Corporation, Hay Associates concluded that the criticality of the Corporation's mission would appear to warrant the recruitment from various parts of the private sector, especially the industrial sector, of talented and experienced individuals, many of whom will

^{1/}The senior executive and exempt positions were contrasted with Hay Associates' comparisons of over 400 U.S. industrial organizations, more than 200 financial management institutions, 6 public corporations, and the U.S. Federal Government. The non-exempt positions were compared to Hay Associates' non-exempt salary survey of Washington, D.C., and the U.S. Federal Government.

already be employed with competitively paying corporations. ^{1/} Additionally, short-lived institutions do not offer the career future of other organizations, and attracting employees to such an environment usually requires more substantial salaries as an incentive. Considering these facts, a total cash compensation policy must therefore be sufficient to attract the desired personnel.

Hay Associates' recommended salary policy for Corporation senior executive, exempt, and non-exempt positions is contained in appendix II. Hay Associates assigned a salary range for each of the 13 senior executive, 22 exempt, and 9 non-exempt positions included in its survey. The maximum level of each range is 50 percent greater than the minimum level. Although a direct comparison cannot be made between TPF&C's and Hay Associates' recommended salary structures because positions and position titles changed in the course of time, it can generally be stated that Hay Associates' recommended salary levels are somewhat lower than TPF&C's. The following table gives four examples where this occurs:

<u>Position</u>	<u>Hay Associates' recommended salary range</u>	<u>TPF&C recommended salary range</u>
Chairman	\$152,287 to \$228,430	\$160,000 to \$240,000
Vice President, Finance	68,793 to 103,189	130,000 to 200,000
Controller	59,403 to 89,105	64,000 to 96,000
Attorney	32,348 to 48,552	35,100 to 52,700

Hay Associates, in analyzing the salary levels paid to Corporation officials during the course of its study, concluded that the senior executive salary structure was generally uncompetitive against a culmination of industrial, financial, public corporation, and Federal Government data. For example, 6 of the 13 positions' current salaries are less than the minimum of the salary ranges that Hay Associates recommended and another 5 positions' current salaries, although higher than Hay Associates' recommended minimums, were significantly lower than the midpoint of the salary ranges recommended by Hay Associates. Since recruitment and retention of appropriately skilled individuals to fill these positions is vital to the Corporation, Hay Associates recommended that the

^{1/}Of the 127 Corporation employees on board as of March 23, 1982, 71, or 56 percent, attained the majority of their experience in private industry. An additional 19, or 15 percent, were hired from associations, universities, or other non-profit organizations. Two employees have an equal amount of Government and private industry experience, and the remaining 35 (28 percent) primarily have a Government background.

industrial sector be the single most appropriate marketplace to guide development of Corporation executive salary policy; the Federal General Schedule should not be used because of the salary compression at the senior level.

Hay Associates believed that the exempt group is generally competitive. For example, 14 of the 22 positions' current salaries are well within the Associates' recommended salary ranges and 3 positions' salaries even exceed the Associates' recommended ranges. Hay Associates cited aggressive startup hiring practices as a probable reason for this occurrence; a practice not unusual with new organizations. The Associates characterized the non-exempt salary practice also as being competitive, since six of the nine positions' current salaries were well within the Associates recommended ranges, and two positions exceeded it. The Associates recommended that the Corporation continue along these lines during the startup period since competitive staffing practices are so necessary for institutions just starting up and consequently having fewer personnel upon whom to rely.

The Corporation's Compensation Committee discussed the Hay Associates' report during the January 18, 1982, Board of Directors meeting, and reported back to the Board during the February 16, 1982, meeting. The Committee stated that it considered two special factors related to the Corporation in deciding on a proper salary structure:

--The Energy Security Act places a sharp limitation on the number of professional employees, and further, it is the Corporation's policy to self impose even greater limitations in order to avoid evolving into a large bureaucracy. This will require a capacity in the Corporation to compete effectively in the marketplace, primarily the private sector, for very highly qualified persons to fill its positions.

--The Corporation's limited life does not provide the potential for long-term career opportunities found in most Government agencies or a large corporation.

The Committee recommended that three general categories be established for exempt employees and three general categories be established for non-exempt employees. The salaries of individual employees will be adjusted within the salary ranges for their positions by means of formal job evaluation procedures developed by Hay Associates to recognize the qualifications and actual or personal contributions of individual employees to the Corporation.

At the recommendation of the Compensation Committee, the Board of Directors approved the following categories at the February 16, 1982, meeting:

Exempt Position Categories

	<u>Minimum salary</u>	<u>Maximum salary</u>	<u>Typical positions</u>
Entry level professional and supervisory	\$12,854	\$30,890	Support Services-Manager, Mail/Supply Manager
Mid level professional and entry level managerial	30,891	48,927	Manager, Employment, Senior Analyst-Projects, Attorney
Upper level and mid and upper level managerial	48,928	a/69,630	Team Leader-Projects, Senior Attorney (Assistant General Counsel)

a/Pursuant to the Energy Security Act, if the Board of Directors determines that it is necessary to fix the compensation of any category of positions at a rate higher than that prescribed for Level I of the Federal Executive Schedule, the Board may transmit to the President its recommendations with respect to such rate of compensation.

Non-Exempt Position Categories

	<u>Minimum salary</u>	<u>Maximum salary</u>	<u>Typical positions</u>
Entry level clerical	\$ 8,300	\$14,866	Mail/Supply Clerk, Receptionist
Mid level clerical	14,867	21,433	Correspondence Secretary, Accounts Payable Clerk
Upper level clerical	21,434	28,000	Administrative Assistant

The Compensation Committee indicated that it still had under review a salary policy for senior executives and that it would report to the Board of Directors on this matter at a later date. Actions have since been taken to establish the salaries of all but one senior executive position--the chairmanship. ^{1/} For four positions, requests were made that the salaries exceed the Executive Level I rate. On April 8, 1982, pursuant to a resolution passed at the March 26, 1982, Board meeting, the Chairman requested President Reagan to approve annual salary levels in excess of Executive Level I for the Corporation President (at

^{1/}The present Corporation Chairman, Mr. Edward Noble, has agreed to a \$1-per-year salary for his first 2 years.

\$135,000) and the Vice President for Technology and Engineering (at \$108,000). Since President Reagan did not disapprove these salaries within 30 days of the Chairman's letter, the salaries became official on May 15, 1982. ^{1/} At the August 19, 1982, Board meeting, appointments for the recently created Executive Vice President position and a new Vice President for Finance were announced. The Board is recommending salaries of \$85,000 for each of these positions.

OTHER BENEFITS

In addition to recommending Corporation salaries, TFF&C also submitted a report on December 17, 1980, recommending a benefit plan for the Corporation. The plan, which TFF&C states is oriented toward relatively short-service employees, is summarized below:

- Short-term disability: Provides benefits for up to 26 weeks based on a combination of full and partial pay, with eligibility for full pay based on the length of service with the Corporation. For example, an employee having between 1 and 2 years of service could receive 2 weeks at full pay and 24 weeks at 60 percent, while an employee having between 5 and 6 years of service could receive 18 weeks at full pay and 8 weeks at 60 percent.

- Long-term disability: Benefits begin after 6 months of disability. Employee receives 60 percent of annual pay up to \$80,000 plus 40 percent of pay between \$80,000 and \$100,000, less the full amount of the employees' Social Security and workers compensation benefits and 50 percent of the Social Security benefit available to the employee's family.

- Medical: A plan with coverage similar to the Federal Government's Blue Cross/Blue Shield high option plan. The plan is noncontributory for employee coverage only, but contributory (\$27 a month) for dependent coverage. It provides that the maximum medical expenses for an employee with a family would be \$1,300 a year (including the plan's deductible).

- Life insurance: Group life and accidental death and dismemberment benefits, each at a level of two times the annual salary, are provided on a noncontributory basis. In addition, employees are permitted to obtain additional coverage of either two times or four times their pay, which is partially paid by both the employee and the Corporation.

^{1/}According to the Vice President for Administration, President Reagan did not officially receive the April 8, 1982, letter until April 15, 1982.

--Pension: A noncontributory plan in which employees receive upon retirement 4 percent of their final average earnings (based on highest 5-year average) for service up to 5 years plus 2 percent of their final average earnings for additional years of service. This total is then reduced by 3 percent of their Social Security benefits for each year of service. Employees can retire with full benefits at age 62 but may retire earlier with benefits reduced by 5 percent for each year benefits commence prior to age 62. The vesting schedule is 5 percent after 2 years, 75 percent after 3 years, and 100 percent after 4 years. Any retirement benefits earned may be paid in a lump sum at date of termination or deferred to normal or early retirement age. A lump sum payment would be computed on the basis of an assumed present value of an annual benefit due at age 65.

--Vacations: Recognizing the fact that many Corporation employees had sufficient service at their former place of employment to entitle them to relatively long vacations, the vacation schedule is not only linked to years of service but also to the Corporation position for which the employee is hired. For example, entry level hires receive 2 weeks vacation their first year and reach 4 weeks vacation in their third and subsequent years. Senior level hires, on the other hand, receive 4 weeks vacation on their first and subsequent years.

--Holidays: Employees receive a total of 10 holidays a year-- 7 of the Federal employee holidays, the day after Thanksgiving, and 2 additional "floating" days either selected by the Corporation or the employee.

In February 1982, the present Board of Directors' Compensation Committee, during the course of determining the employee salary structure, recommended that the Corporation reexamine the other employee benefits and then report back to the Committee on its recommendations. Due primarily to congressional criticism of the retirement plan, ¹/ the Corporation, as a part of its reexamination effort, requested on April 9, 1982, that George E. Puck Consulting Actuaries, Inc., formulate a Corporation retirement plan. The Compensation Committee, after meeting with the Corporation staff and reviewing its June 2, 1982, report concerning the Corporation's employee benefit plans and the consulting firm's May 27, 1982, retirement plan proposal, recommended changes to employee benefits at the June 17, 1982,

¹/The House Government Operations Committee report "Oversight of the Energy Security Act: Implementation of the Synthetic Fuels Corporation," was critical of the retirement plan's being noncontributory and being a lump sum payment option.

Board meeting, which were subsequently approved by the Board. These changes are listed below:

- The four times pay option (total protection of six times annual salary) will be eliminated from the life insurance plan. Effective August 1, 1982, those employees currently enrolled in the four times pay option had their premium subsidized at the two times pay option only. Those employees electing to continue the four times salary option did so at their own expense.
- A group travel accident plan was added to provide \$100,000 of additional life insurance and injury protection to Corporation officials while traveling on Corporation business.
- A dental assistance plan was added, effective July 1, 1982. The cost of employee coverage is fully paid by the Corporation, although employees must contribute 25 percent of the cost for any dependent coverage.
- A new retirement plan, very different from the one proposed by TFF&C was adopted. The major revisions were that: (1) the vesting schedule was changed to 25 percent after 2 years, 50 percent after 3 years, 75 percent after 4 years, and 100 percent after 5 years; (2) benefits are based on an annual defined contribution rather than defined benefits; and (3) any lump sum payment is based on the funds currently assigned to the individual rather than the present value of expected future payment.
- A savings plan was adopted in which employees can voluntarily contribute 1 percent to 6 percent of pay. After discussions on the details with the Internal Revenue Service are completed, the Corporation will match 50 percent of the employee contribution.

CONCLUSIONS

The first Corporation Board of Directors chose to exercise the flexibility allowed by the Energy Security Act for setting salaries. They established a Corporation salary structure which included paying many senior managers at levels exceeding the highest salary level of the Federal schedules. Because of the controversy directed toward this initial salary schedule, particularly those salaries of senior management, the present Board of Directors, at its first meeting in October 1981, took action to resolve this matter. A committee made up of Board members was appointed, and a consultant's study of salaries was authorized to assist the committee. Based on the results of this study of salaries and the committee's recommendations, the Board adopted a salary plan in February 1982 for all employees of the Corporation except senior executive positions. Actions were

later taken to establish the salaries of all but one senior executive position--the Chairman--who has agreed to a \$1-per-year salary for his first 2 years.

CHAPTER 5

DELAYS IN FILLING

INSPECTOR GENERAL POSITION

The Energy Security Act provides for the President to appoint an Inspector General and Deputy Inspector General by and with the consent of the Senate. These positions were not filled until May 5, 1982, over 19 months after the Corporation began operations. The Office of the Inspector General had been functioning with a professional staff consisting of one part-time and four full-time consultants. These consultants have produced several products including an operating principles document, seven responses to requests from a congressional committee, a self-initiated review of the Corporation's administrative practices, and an annual report to the Congress dated November 30, 1981. As of June 30, 1982, the office had spent about \$637,000 for administrative expenses.

This chapter discusses the legislation establishing the Corporation's Office of the Inspector General and the activities relating to staffing the Office. It also summarizes the various products that the Office issued.

LEGISLATION

Section 122 of the Energy Security Act provides for the President to appoint an Inspector General and a Deputy Inspector General for 7-year terms, by and with the advice and consent of the Senate. The Inspector General shall report directly to and be under the general supervision of the Board of Directors and shall not be under the control of, or subject to the supervision of, any other officer of the Corporation.

The act authorizes the Inspector General to supervise, coordinate, and provide policy direction for audits, investigations and inspection activities relating to the promotion of economy and efficiency in the administration of the Corporation's programs and operations, and for preventing and detecting fraud and abuse in the programs and operations of the Corporation. The Inspector General is also responsible for determining the extent to which such programs and operations are in compliance with the act and consonant with its objectives.

The act authorizes the Inspector General access to all Corporation records, documents, and other information, including requesting information and assistance from Federal, State, or local governmental agencies. Furthermore, the Inspector General is authorized to compel by subpoena the production of information necessary in the performance of his duties.

The Inspector General is required to prepare an annual report as well as such other reports as are requested by the Congress, or committees or subcommittees thereof. The Inspector

General is also authorized to make additional investigations and reports of the Corporation's operations which are, in the judgment of the Inspector General, necessary or desirable. The Inspector General's reports shall be transmitted to the Board of Directors and to the Congress, or committees or subcommittees thereof, without further clearance or approval.

Within the confines of a \$2-million annual budget for administrative expenses (adjusted annually for inflation) and the salary structure established by the Board, the act authorizes the Inspector General to employ such personnel or consultants as deemed necessary to carry out the functions and duties of the Office.

CONSULTANTS FUNCTIONING AS AN
OFFICE OF THE INSPECTOR GENERAL

On November 17, 1980, the Corporation's Board of Directors retained Joseph Seltzer as Assistant to the Chairman of the Board of Directors for Inspections and Internal Audit, pending the appointment of an Inspector General and a Deputy Inspector General by the President with the advice and consent of the Senate. Mr. Seltzer was an Inspector General of the now defunct Federal Energy Administration. ^{1/} In December 1980, Mr. Seltzer began to compose his professional staff of contract rather than permanent personnel in recognition of the President's expected appointment of an Inspector General and a Deputy Inspector General. The contracts of Mr. Seltzer and his staff were for short (1- to 3-month) duration at amounts ranging from \$100 to \$300 a day. As a result of the over 19 months it took to have an Inspector General and Deputy Inspector General appointed and confirmed, Mr. Seltzer and his staff had their contracts renewed repeatedly. The contracts and contract renewals were approved by the Vice President for Administration.

Although we generally agreed with the policy of having all consultant contracts and contract renewals approved by the Vice President for Administration, it may have been advisable to make exceptions in the cases of Mr. Seltzer and his staff. These consultants, functioning without a permanent Inspector General, were performing work similar to that of an Inspector General's Office. Having their contracts and contract renewals approved by the Vice President for Administration could be construed to be inconsistent with the Energy Security Act, which states that the Inspector General shall be under the general supervision of the Board of Directors and not subject to the control of any other Corporation officer. Thus, it may have

^{1/}All functions of the Federal Energy Administration were transferred to the Department of Energy on October 1, 1977, pursuant to the Department of Energy Organization Act (P.L. 95-91), enacted August 4, 1977.

been more appropriate if their contracts and contract renewals would have been approved directly by the Board.

It was not until February 3, 1982, that the President sent nominations to the Senate of Samuel K. Lessey, Jr., and Robert W. Gambino for the positions of Inspector General and Deputy Inspector General, respectively. After these nominations were confirmed by the Senate on May 3, 1982, and Messrs. Lessey and Gambino were sworn in on May 11, 1982, the Corporation finally had an Inspector General and Deputy Inspector General.

Prior to their confirmation and swearing in, Messrs. Lessey and Gambino served as consultants to the Corporation for significant periods of time. According to Mr. Lessey's contract, dated September 21, 1981, his assignment was to develop an organizational framework and interim operational capability for the Office of the Inspector General. ¹/ Mr. Gambino's contract, dated January 11, 1982, states that he was to assist in developing this organizational framework and interim operating capability. Members of Mr. Seltzer's staff told us that Messrs. Lessey and Gambino did not participate in their ongoing work. Messrs. Lessey and Gambino confirmed this fact because it was viewed as a conflict of interest and not legal until confirmation, although both gentlemen stated that they did have several discussions with the staff to keep current with their activities.

Mr. Lessey explained his and Mr. Gambino's work under contract in letters dated March 23, 1982, and April 15, 1982, to the Chairman, Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations. He stated that his and Mr. Gambino's time was used to become educated with the Corporation and its relationships to other Government entities and to analyze the proper role of the Inspector General within the Corporation. He stated that this required studying various documents including the Energy Security Act, reports issued by the Office's consultant staff, reports and audit plans of various other Inspector General Offices, and project solicitation material. Meetings of Corporation staff, including those with potential project sponsors, were also attended on a regular basis.

Messrs. Lessey and Gambino stated that they are now focusing their attention on hiring a core of full-time permanent staff for the Office. They will concentrate on two disciplines--auditors/certified public accountants and individuals having experience in managing and/or monitoring large projects. They stated that they will be developing a plan which will indicate the areas of Corporation programs and activities the office intends to review.

¹/This work was unrelated to the "Proposed Operating Principles" discussed in detail on the following page, which was finalized by Mr. Seltzer's staff in February 1981.

FAST ACCOMPLISHMENTS

Mr. Seltzer and his staff of consultants produced several written products including an operating principles document, seven responses pursuant to five requests from a congressional subcommittee, a self-initiated review of the Corporation's administrative practices, and an annual report on its fiscal year 1981 activities. In addition to working on these products, Mr. Seltzer assigned each of his staff to monitor one or two of the major Corporation offices. Monitoring responsibilities included attending most major meetings of those offices and reviewing and commenting on its correspondence. However, because of the staff's month-to-month status, they did not formulate any plan detailing how and when they would conduct future reviews of Corporation programs and operations.

The first major task undertaken by the Chairman's audit and inspection consultants was to review the history and statutory basis of the Federal Government's Inspector General concept and to meet with Inspectors General of several Federal departments and agencies in order to exchange ideas. Based on this work, the Office of Inspector General's "Proposed Operating Principles" was prepared. This document, dated February 1981, and submitted to the Board of Directors in October 1981, described the role of the Inspector General as three-fold:

- Aid and assist corporate management in achieving the Corporation's goal by independently furnishing information and recommendations pertinent to management's duties and objectives.
- Keep the Board of Directors and the Congress fully and directly informed concerning problems of fraud, waste, abuse and deficiencies, recommending corrective actions, and following the Corporation's progress in implementing these recommendations.
- Help to develop the Corporation's procedures and policies.

To perform these duties, the document states that the Inspector General's Office will participate in management and staff meetings, receive and review routine reports and correspondence, initiate audits and investigations, and respond to requests for assistance.

Soon after completing the operating principles, the Chairman, Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, requested, by a March 3, 1981, letter, that the consulting auditors' office provide information and documents on the compensation levels of Corporation officers. The office responded to the subcommittee's request on March 13, 1981, with a supplement provided on April 3, 1981. The responses focused on the accounts of senior Corporation officers--past and present--compensated above the Executive Level I rate. The response indicated that all but one of the Corporation's officers had agreed to a rollback of their salaries to Executive Level I,

pending a review of the appropriate level by the new Board of Directors.

A second request for information and documents from the subcommittee was received on May 29, 1981. This time the subcommittee requested a list of those hired by the Corporation after May 11, 1981, either on a permanent or contractual basis, copies of all documents pertaining to Corporation outside contracts for legal services, a review of the termination agreements made with vice presidents who had resigned from the Corporation, and copies of all requests for reimbursements for relocation submitted by non-officers to the Corporation. The consulting auditor's office transmitted this information on June 5, 1981, and June 15, 1981. Regarding a review of the termination agreements, it was stated that finalization of these agreements was in abeyance, awaiting decisions on a new Board of Directors. 1/

On October 20, 1981, the subcommittee asked the office to investigate the circumstances surrounding a 2-day briefing session of the Corporation's Board of Directors which had taken place on October 19 and 20, 1981. The subcommittee specifically questioned whether the briefings contravened the provisions of section 116 of the Energy Security Act. 2/ In its October 26, 1981, report, the consulting auditor's office concluded that the briefings were of an informational nature, no official business had transpired, and no violation of section 116 had occurred.

On February 17, 1982, the subcommittee requested that the office provide copies of several other Corporation documents. This included information on the Synthetic Fuels Review Panel established by the Chairman in December 1981; contracts awarded by the Corporation since May 1, 1981; all letters, notes, and memoranda relating to the termination agreements of former Corporation employees; and the consultants working for the Corporation during the first quarter of fiscal year 1982. This information was provided on February 18, 1982, and March 12, 1982.

On March 3, 1982, the subcommittee requested an investigation by the consulting auditors into allegations that privileged information had been leaked to the private sector by Corporation employees. The consulting auditors' office's report, dated April 7, 1982, concluded that "one or more employees, feeling self-important, probably sounded off over a drink and discussed with industry representatives information that was the basis for

1/These termination agreements were not finalized until the December 11, 1981, Board meeting.

2/Section 116 states that all meetings of the Board of Directors held to conduct official business of the Corporation shall be open to public observation, and shall be preceded by reasonable public notice.

the leak." The report stated that there was no evidence found suggesting that any Corporation employee acted maliciously against the Corporation. Furthermore, there was no evidence that anyone having access to information concerning future Corporation actions used such information as a basis for investing or speculating in the securities or property of any company that had applied for financial assistance from the Corporation.

Concurrent with its early congressional request work, the consulting auditor's office was also engaged in a review of the Corporation's administrative practices. The purpose of the review, initiated in February 1981, was to assist the Corporation in formulating and implementing sound administrative procedures as well as to detect any significant problems, abuse, or deficiencies in its early operations. This review was conducted by examining available files, records, and correspondence and by interviewing management and staff in appropriate offices. The report, issued to the Corporation Chairman and the Congress in August 1981, ^{1/} stated that the principal past deficiencies in administrative practices have been the lack of uniformity and inadequate documentation in personnel and contracting transactions. Consequently, inconsistencies have led to inequities in salary versus assigned duties and responsibilities as well as less than full value for contracted services. The report stated that, although some progress has been made in instituting procedures and controls in personnel and contracting, further development of procedures and controls are needed as well as their adoption by all levels of Corporation management. Among the many recommendations included in the report are:

- Further examining salaries of Corporation personnel.
- Developing and installing a permanent accounting system.
- Publicizing the role and functions of the procurement officer.
- Expediting the development of contracting procedures.
- Completing present contract files to reflect history of selection, product, billings, etc.

During our review, we looked at the salaries, contracting, and accounting areas and found that some corrective action has been taken, but more is needed. For example, the Corporation did commission a new study of Corporation salaries, is assessing the need for a permanent accounting system, and appointed a contracts officer. Detailed contracting regulations, which address the contracts officer's role, had not been issued on either an interim or final basis as of June 30, 1982.

^{1/}The Board of Directors did not have a quorum until four directors were sworn in October 1981.

Although we found more documentation is being maintained on the most recent Corporation contracts, files of the earlier contracts are still in various states of incompleteness.

The only other product issued by the office during this period was a November 30, 1981, annual report. The report summarizes the documents mentioned above, which were completed by the office as of November 30, 1981.

CONCLUSIONS

It was not until May 11, 1982--over 19 months after the Corporation began operations--that the positions of Inspector General and Deputy Inspector General were actually filled. Awaiting this action, the Corporation's Board of Directors authorized a small staff of consultants with short-term contracts (1 month to 3 months) to function as an Inspector General's Office. During this time, the staff prepared an operating principles document, responded to several congressional requests for information, performed a review of the Corporation's administrative practices, and prepared an annual report summarizing its fiscal year 1981 activities.

Because of its month-to-month status, a plan was never formulated detailing what reviews the office would perform of Corporation programs and operations. In addition, the Vice President for Administration, whose operations had been subject to review by consulting auditors performing functions similar to those of an Office of Inspector General, approved contracts and contract renewals of these consultants. However, the Energy Security Act specifies that the Inspector General's Office is to be under the direct supervision of the Board of Directors and not under the control of any other Corporation officer.

With the May 1982 swearing-in of an Inspector General and Deputy Inspector General for 7-year terms, we believe a step has been taken in the right direction for the office to perform its mission. The Inspector General indicated that a plan will be developed discussing what areas of Corporation programs and operations the office will review. He also stated that his staff will primarily consist of full-time permanent personnel although consultants will also be utilized from time-to-time as authorized by the act. While he will use the functional services provided in the Office of Administration (i.e., assistance in drawing up the contracts and payroll), he has total control over all staffing decisions as long as he remains within the confines of the Inspector General's statutorily defined budget and the salary structure established by the Board of Directors.

Tower, Perrin, Forster, and Crosby's Recommendation
of the U.S. Synthetic Fuels Corporation
1981 Salary Ranges for Executive, Managerial,
Professional, Administrative/Technical, Clerical and Secretarial Staff
(December 17, 1980)

Salary grade	Salary range			Typical positions by type: illustrative			
	Minimum	Target	Maximum	Secretarial/ Clerical	Administrative/ Technical	Professional	Executive/ Managerial
1	\$ 8,800	\$ 11,000	\$ 13,200	Mail/Supply Clerk	--	--	--
2	9,700	12,100	14,500	Clerk-Typist	--	--	--
3	10,700	13,300	15,900	Receptionist-Typist	--	--	--
4	11,700	14,600	17,500	Secretary-Pool	Junior Programmer	--	--
5	12,900	16,100	19,300	Secretary-Staff Unit	--	--	--
6	14,100	17,600	21,100	Secretary-Senior Staff	--	Assistant Economist Assistant Financial Analyst	--
7	15,500	19,400	23,300	Secretary-Senior Staff Member	Programmer Paralegal	Assistant Engineer	--
8	17,000	21,300	25,600	Secretary to Director or Assistant Vice President	--	Associate Economist Financial Analyst	--
9	18,800	23,500	28,200	Administrative Associate-Secretary to Vice President	Programmer/ Analyst	--	Manager, Mail & Reproduction Services
10	20,700	25,900	31,100	--	Administrative Assistant-Secretary Chief Executive Officer	Senior Paralegal	Associate Engineer
11	22,800	28,500	34,200	--	--	Economist, Financial Analyst	--
12	25,000	31,300	37,600	--	Systems Analyst	--	--
13	28,000	35,000	42,000	--	--	Associate Attorney Engineer	--
14	31,400	39,200	47,000	--	Senior Systems Analyst	Senior Staff Member	Manager, Employment
15	35,100	43,900	52,700	--	--	Attorney	Director, Office Services Manager, Compensation and Benefits
16	40,000	50,000	60,000	--	--	Senior Staff (Team Leader)	--
17	46,000	57,500	69,000	--	--	Senior Attorney Senior Engineer	Director Personnel

Towers, Perrin, Forster, and Crosby's Recommendation
of the U.S. Synthetic Fuels Corporation
1981 Salary Ranges for Executive, Managerial,
Professional, Administrative/Technical, Clerical and Secretarial Staff
(December 17, 1980)

Salary grade	Salary range			Typical positions by type: illustrative			
	Minimum	Target	Maximum	Secretarial/ Clerical	Administrative/ Technical	Professional	Executive/ Managerial
18	53,800	67,400	81,000		--	Senior Attorney (Team Leader) Senior Engineer (Team Leader)	Assistant Vice President-Corporate Management Services Assistant General Counsel
19	64,000	80,000	96,000		--	Chief Economist Planning	Assistant Vice President-Project Tracking Controller Assistant General Counsel
20	80,000	100,000	120,000		--	--	Assistant Vice President, Project Assessment & Negotiation Vice President, Governmental Affairs and Public Information
	90,000	113,000	136,000		--	--	Vice President, Administration & Treasurer Vice President, Project Development
	95,000	120,000	145,000		--	--	Vice President, Technical Support
	110,000	140,000	170,000		--	--	Vice President, Planning
	130,000	165,000	200,000		--	--	Vice President, Finance, Vice President and General Counsel
	160,000	200,000	240,000		--	--	Chairman & Chief Executive Officer

Source: Towers, Perrin, Forster, and Crosby, U.S. Synthetic Fuels Corporation Cash Compensation System, Dec. 17, 1980.

HAY ASSOCIATES' RECOMMENDATION FOR
U.S. SYNTHETIC FUELS SALARY SCHEDULES

Recommended Senior Executive Salary Policy
(December 14, 1981)

<u>Position</u>	<u>Salary</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
Chairman	a/\$69,630	\$152,287	\$190,358	\$228,430
President	69,630	132,296	165,370	198,445
Senior Vice President, Projects	69,630	91,105	113,831	136,657
Vice President, Projects	62,500	72,225	90,281	108,338
Vice President Administration	65,000	68,793	85,990	103,189
General Counsel	52,750	68,793	85,990	103,189
Vice President, Finance	69,630	68,793	85,990	103,189
Vice President, Technology and Engineering	69,630	65,764	82,204	98,646
Inspector General	b/65,000	62,432	78,040	93,648
Controller	b/65,000	59,403	74,254	89,105
Vice President, External Relations	69,630	54,860	68,575	82,290
Director, Planning	69,500	54,557	68,196	81,836
Director, Socio- Economic Affairs	b/50,000	45,370	56,712	68,055

a/Since the Chairman currently only receives \$1 per year, this salary was assumed for purposes of analysis only.

b/Since no salary has been established for this position, this level was used for purposes of analysis only.

Recommended Exempt Salary Policy
(December 14, 1981)

<u>Position</u>	<u>Salary</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
Team Leader, Projects	\$56,000	\$51,477	\$64,346	\$77,215
Senior Attorney (Assistant General Counsel)	69,500	47,837	59,796	71,756
Manager, Financial Systems & Analysis	65,000	46,398	57,998	69,598
Senior Engineer, Technology and Engineering	52,750	42,590	53,237	63,884
Senior Financial Analyst	54,250	42,590	53,237	63,884
Senior Attorney (Non-Project)	60,000	38,146	47,682	57,219
Senior Socio-Economic Environmental Analyst	44,000	38,146	47,682	57,219
Manager, Employment	36,000	36,115	45,143	54,172
Associate Director, House Relations	47,000	33,322	41,651	49,982
Director, Media Relations	43,500	33,322	41,651	49,982
Senior Analyst, Projects	38,700	33,195	41,493	49,792
Attorney	44,000	32,348	40,435	48,522
Director, Information Services	52,000	32,348	40,435	48,522
Senior Accountant	28,500	28,455	35,568	42,682
Manager, Technical Services	30,500	27,100	33,875	40,651
Manager, Research Services	26,000	24,561	30,701	36,842

Recommended Exempt Salary Policy
(December 14, 1981)

<u>Position</u>	<u>Salary</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
Director, Public Disclosure	\$32,000	\$24,096	\$30,119	\$36,144
Assistant to Director, Media Relations	15,000	21,937	27,421	32,906
Administrative Assistant	30,000	19,779	24,723	29,669
Support Services-- Manager	16,000	18,129	22,660	27,193
Assistant Research Analyst	16,000	17,536	21,920	26,304
Mail/Supply Manager	12,900	16,267	20,333	24,400

Recommended Non-Exempt Salary Policy
(December 14, 1981)

<u>Position</u>	<u>Salary</u>	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
Administrative Assistant	\$21,543	\$14,704	\$18,379	\$22,056
Administrative Secretary II	19,544	13,065	16,331	19,598
Correspondence Secretary	23,800	13,065	16,331	19,598
Administrative Secretary I	16,917	11,699	14,624	17,549
Secretary	16,000	10,561	13,201	15,842
Administrative Services Technician	11,000	10,470	13,088	15,706
Accounts Payable Clerk	13,750	10,334	12,917	15,501
Mail/Supply Clerk	9,700	9,742	12,177	14,613
Receptionist	13,300	9,651	12,063	14,477

Source: Hay Associates, A Review of the Compensation Plan, Classification Structure, and Relocation Reimbursement Policy of the U.S. Synthetic Fuels Corporation, Dec. 14, 1981.



United States Synthetic Fuels Corporation

2121 K Street, N.W. Washington, District of Columbia 20586 Telephone: (202) 822-6600

August 12, 1982

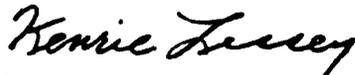
Mr. J. Dexter Peach
Director, Energy and Minerals Division
United States General Accounting Office
Room 4915
441 G Street, NW
Washington, D.C. 20548

Dear Dexter:

In accordance with the procedure set forth in Sections 122(b) and 175(a) and (g) of the Energy Security Act, forwarded herewith is the response of the U.S. Synthetic Fuels Corporation to the "Draft of a Proposed Report" on the subject of an "Evaluation of Administrative Procedures at the Synthetic Fuels Corporation (Code 306283)."

If you have further questions, or if I can be of any assistance, please do not hesitate to call on me.

Sincerely yours,



S. Kenric Lessey, Jr.
The Inspector General



August 13, 1982

Mr. J. Dexter Peach
Director, Energy and Minerals Division
United States General Accounting Office
Room 4915
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Peach:

I appreciate the opportunity to comment on the GAO draft report entitled "Evaluation of Administrative Procedures at the Synthetic Fuels Corporation." Our relationship with the GAO on-site auditors has been constructive and I have reviewed with great interest the findings and recommendations in the report.

I would like to offer comments of two types -- first, a brief description of the organizational setting and circumstances surrounding the period covered in the report on through to the present situation, and second, specific comments on the report as an attachment to this letter (TAB "A"). The purpose of these comments is to clarify points and/or to offer supplemental information to that presented in the report.

In the establishment of the Corporation and the early efforts to activate it, the staff and management encountered the normal problems of the startup of an activity, complicated by turnover in leadership, including members of the Board of Directors, some of the officers, and other key staff positions. There was at that time no experienced staff assigned to the contracting function. Consequently, we would agree that early contracting efforts left something to be desired. The Corporation has hired an experienced contracting officer.

Although the draft report indicates that there has been some progress in contract operations, we believe that it nevertheless understates the substantial progress made during the last few months.

The report focuses on the need for issuance of detailed procurement regulations and on an absence of guidance for implementing the "Policy and Procedure for Administration of Contractual Arrangements" dated September 29, 1981, and approved by the Board of Directors on October 28, 1981 (TAB "B"). While the report characterizes this document as "brief" it is comprehensive in its scope, covering the critical aspects of the procurement process. As you will note, it covers such areas as: the use of outside consultants, responsibilities of the Procurement Office (now designated as Contracts Office) and program offices, procedures for procurement activities, policy on competition, and contract administration.

Letter to Mr. J. Dexter Peach
Page 2

The report is correct in stating that detailed procurement regulations implementing the "Policy and Procedure" had not been issued as of June 1982. It is incorrect, however, in its conclusions that, in the absence of such regulations, guidance has not been issued and that the "Policy and Procedure" has not been implemented.

Following is a synopsis of the steps that have been taken since that time to strengthen our capacity in the contracting area:

1. The Corporation hired a Manager-Contracts in February 1982 as a temporary employee, converting him to permanent status in April 1982. In a memorandum of March 11, 1982 (TAB "C"), his priority assignment was to provide immediate and continuing orderly execution of contractual actions, to provide ongoing advice, guidance, and assistance to the Corporation offices in all aspects of the acquisition of supplies and services, and at the same time, to issue policy and procedural guidance when appropriate and necessary. This encompassed activities already in process as well as new starts. His professional capabilities and experiences are summarized in the attached biographical sketch (TAB "D"). In March 1982 the Corporation provided an additional requisite resource by hiring a professional Contracts Administrator from the private sector.
2. By memorandum of March 15, 1982, "Consultant Agreements," (TAB "E"), the President issued specific instructions on the handling of contracts for professional services. It covers the range of activities, from defining the requirement, source selection, through administration of the contracts. It also establishes the Manager-Contracts as a focal point for such activities.
3. By memorandum of March 29, 1982, "Outstanding Corporation Contracts-Inventory" distributed to the Vice Presidents (TAB "F"), the Vice President-Administration instituted a program of assembling into one central repository all contract files which had theretofore been decentralized among the several Corporation offices. This has been completed.
4. On May 24, 1982 the Vice President-Administration issued a Consultant Agreement Work Kit (TAB "G") which provides forms and written guidelines for requesting and placing contracts for professional services.
5. On July 14, 1982 the President approved issuance of a document providing guidance in the administration of consulting agreements (TAB "H"). This document has been promulgated throughout the Corporation.
6. Procedures for source evaluation and selection in competitive procurements of supplies and services have been established. These are set forth in the attached (TAB "I") "Establishment of Source Evaluation Board" document used by the Corporation. It should be noted that a member of the Office of General Counsel, the Manager-Contracts, and the Contracts Administrator are (nonvoting) members of each such Evaluation Board, to ensure the propriety and correctness of the process.

Letter to Mr. J. Dexter Peach
Page 3

Additional activities in this area include the following:

- o The Office of General Counsel and the Contracts Office have together developed standard clauses that are required to be included in all Consultant Agreements. Other provisions permit more flexibility, so that they may be, and are, tailored to the requirements of each Agreement.
- o All Requests for Proposals are prepared and issued by the Contracts Office, except for a relative few which, by mutual agreement of the two offices, are prepared and issued by the Office of General Counsel. In either instance, each office coordinates with the other.

Most of the material to be encompassed in contract regulations, therefore, has been documented and implemented. However, we agree on the desirability of consolidating the policies into one set of documents. In addition, there are several areas still to be strengthened; for example, greater emphasis on careful statement of justification.

The intent of our legislation as well as the philosophy of the Board of Directors is to administer this Corporation with a minimal level of high quality professional staff. We forecast a total of approximately 200 people on board at the end of fiscal year 1982, while we have the responsibility for \$14 billion in appropriated funds.

We believe that it is important to bear in mind that the Corporation's contracting for supplies and services is not a large decentralized operation. Therefore, we do not need procurement personnel of varying degrees of experience and skill which requires detailed, step-by-step regulations of the kind used in Federal agencies. We intend to avoid the procurement process becoming cumbersome and burdensome.

Our objective has been, and remains, that of conducting our contracting operations in accordance with sound business principles, ever mindful of the fact that we are spending appropriated funds. We will continue to adopt and adapt the best concepts and features of procurement policies and procedures to be found in the government as well as the private sector.

For your further information, attached (TAB "J") are the Corporation's current organization structure and related bylaw responsibilities as approved by the Board in June, 1982.

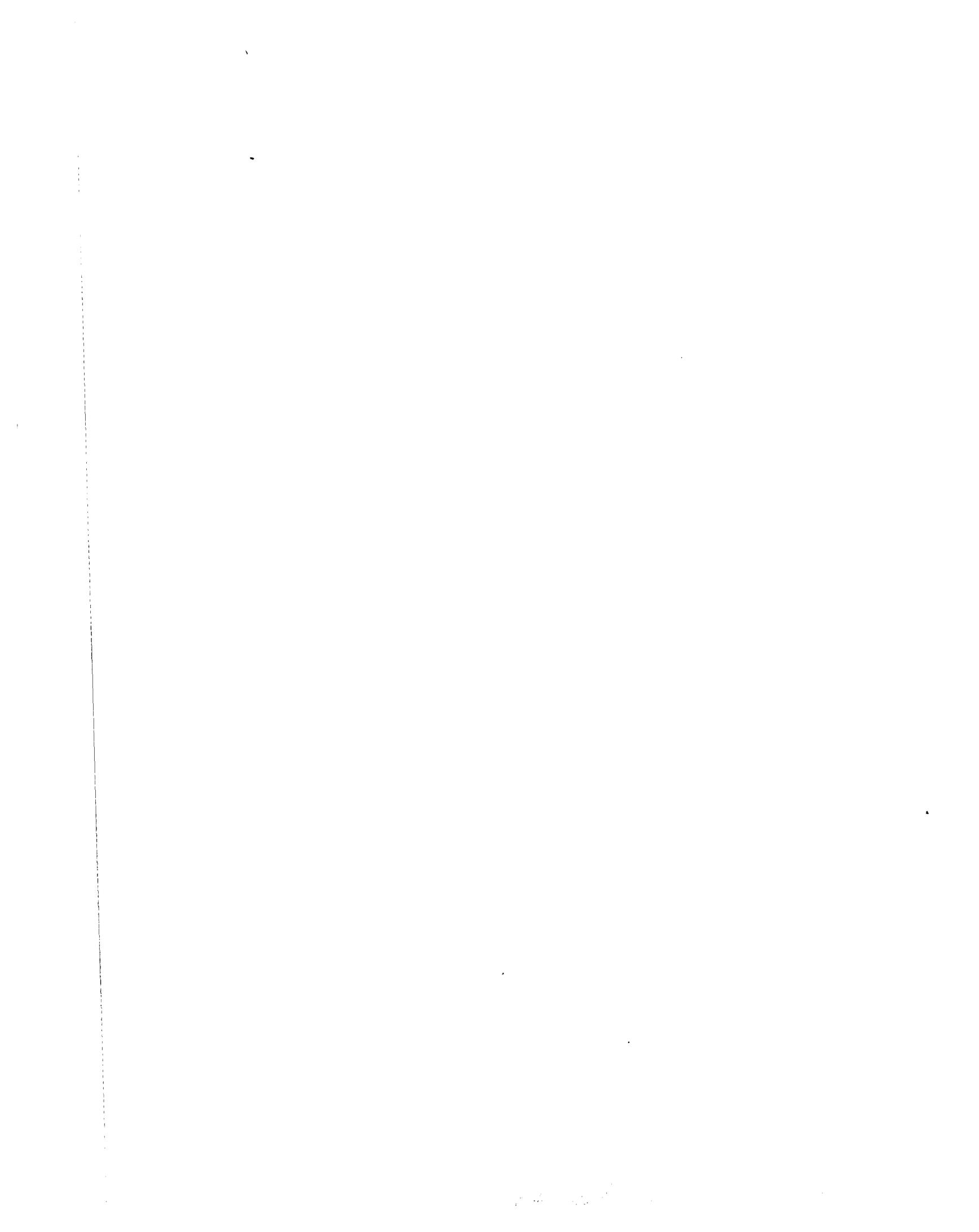
Again, thank you for this opportunity to comment.

Sincerely,



Edward E. Noble
Chairman

(306283)



23344

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS