

January 1993

ENERGY MANAGEMENT

Types of Allowable and Unallowable Costs Incurred Under Two DOE Contracts



148549



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

Resources, Community, and
Economic Development Division

B-251443.1

January 29, 1993

The Honorable John D. Dingell
Chairman, Subcommittee on
Oversight and Investigations
Committee on Energy and Commerce
House of Representatives

The Honorable George E. Brown, Jr.
Chairman, Committee on Science,
Space and Technology
House of Representatives

In response to your request and subsequent discussions with your offices, this fact sheet provides information on costs that the Department of Energy's (DOE) management and operating contractor—Martin Marietta Energy Systems (MMES)—incurred while operating DOE's facilities at Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. MMES has two contracts with DOE—one for the facilities at Paducah and Portsmouth and another for the facilities at Oak Ridge. Total federal obligations for the two MMES contracts for fiscal year 1991 exceeded \$1.8 billion.

We examined selected MMES costs and transactions to illustrate the types of costs MMES charged to the government and to determine whether we could identify any unallowable costs. We also reviewed the reports and supporting workpapers resulting from the audits performed on allowable costs by the contractor's internal audit staff.¹ We previously reported on entertainment and alcoholic beverage costs incurred under the MMES contract for the facilities at Paducah and Portsmouth.² That report showed that MMES charged about \$554,000 to the government in entertainment costs for fiscal years 1986 through 1991. In addition to alcoholic beverage costs, these costs included such things as golf outings, musical performances, dinners, luncheons, receptions, tours, and a charter boat ride. These costs, which DOE considered to be allowable under the contract, were incurred as part of DOE's marketing program for the sale of enriched uranium.

In summary, we identified some limited instances where costs incurred were determined to be unallowable principally on the basis of either DOE

¹These audits determine if the costs incurred by the contractor were allowable under the contract.

²See Energy Management: Entertainment Costs Under DOE's Uranium Enrichment Production Contract (GAO/RCED-92-230FS, July 30, 1992).

or MMES actions. However, compared to the over \$1.8 billion obligated in fiscal year 1991 for the two MMES contracts, the amounts of the identified unallowable costs were relatively small. Either DOE or MMES has taken or plans appropriate action to deal with the identified unallowable costs. We also found that the most recent allowability-of-costs report—examining fiscal year 1991 costs—prepared by MMES' internal audit staff included a broad discussion of unallowable cost issues and identified some unallowable costs. The two previous reports did not identify any unallowable costs. Furthermore, MMES provided us with data showing that it incurred over \$2.2 million in costs to operate DOE facilities in calendar year 1991 that were not charged to the government because MMES considered these costs to be unallowable. The following examples highlight what we found:

- MMES charged about \$133,000 to the government for employee memberships in a variety of trade, business, and professional organizations in fiscal year 1991. Membership costs are generally allowable in accordance with the contracts. However, MMES charged \$66,585 for memberships in two organizations for fiscal years 1990, 1991, and 1992 that DOE's contracting officer determined in 1989 were lobbyist groups; therefore, the cost of memberships in these groups was unallowable. After making this determination in 1989, DOE did not follow up on its decision to ensure that MMES was not reimbursed for these costs. We brought this matter to DOE's and MMES' attention in May 1992, and in late October 1992 DOE requested that MMES reimburse the government \$66,585 for these unallowable membership costs. Subsequently, in early December 1992 DOE informed us that it was reconsidering its decision on the basis of further discussions within DOE and with MMES. On December 8, 1992, DOE's contracting officer notified MMES that this reconsideration was contingent upon MMES' certifying that the two organizations were not lobbying organizations. MMES provided DOE with this certification on December 9, 1992. On December 10, 1992, we confirmed through a discussion with an official from the Clerk of the House of Representatives' Records and Registration Office that neither organization was a registered lobbyist group and no individual was shown as a lobbyist for either organization.
- MMES' internal audit staff, under the existing contracts, is responsible for reviewing the allowability of costs charged to the contracts. The internal audit staff did not report any unallowable cost findings in the two allowable-cost audit reports it issued in 1988 and 1991, although the supporting workpapers revealed some areas in which unallowable cost issues were raised. At that time, those issues were resolved internally

between MMES management and the internal auditors. However, in its September 30, 1992, report examining fiscal year 1991 costs, MMES' internal audit staff questioned various MMES policies and practices and identified some unallowable costs. For example, the internal audit staff found that about \$1,900 had been paid for unallowable moving expenses associated with the delivery and transfer of a sailboat to an employee's new work location.

- MMES did not charge to the government over \$2.2 million in costs incurred to operate DOE facilities in calendar year 1991, according to the MMES Vice President, Business Management and Administration, because it considered them to be unallowable. The costs were broadly categorized as being for such things as (1) relocation, (2) community relations, (3) incentive compensation for executives, (4) country club dues, and (5) entertainment. Although MMES provided us with data on the dollar amounts for the various categories, its officials did not want specific itemized details of these uncharged costs to be disclosed, because the information is proprietary.

In addition, because your offices expressed interest in costs incurred under the contracts for recreational activities and travel, we have also included that information in this fact sheet. For example, in fiscal year 1991 MMES charged over \$320,000 in recreational costs, allowable under the contracts, for such items as golf balls (\$7,300), the rental of a theater and swimming pool for MMES employees and family members (about \$3,500 and \$1,600, respectively), and a Christmas party for the children of MMES employees (about \$20,000).

Section 1 of this fact sheet discusses costs incurred by MMES in managing and operating DOE facilities and describes several examples.

Scope and Methodology

To accomplish our objective of examining MMES costs to illustrate the types of costs charged to the government and to identify unallowable costs, we judgmentally selected a sample of MMES cost centers based on allowable and unallowable costs specified in MMES' contracts with DOE. We then judgmentally selected transactions from these cost centers for a detailed review to determine whether the costs were allowable. We selected transactions from fiscal years 1990 and 1991 because they were the two most recently completed fiscal years.

We judgmentally selected 24 MMES cost centers for our sample on the basis of (1) the allowable and unallowable costs specified in the contracts,

(2) the potential that the cost centers may contain unallowable or questionable costs, and (3) the cost areas that your offices expressed concern about, such as payments for employee memberships, recreation, and travel expenses.


We also reviewed the allowable-cost audit reports issued in 1988 and 1991 by MMES' internal audit staff and the supporting workpapers. We discussed the findings in the workpapers with the internal audit staff. We also obtained a copy of the latest MMES internal audit report examining fiscal year 1991 costs, which was issued on September 30, 1992. Because a copy of this report was received after our detailed audit work had been completed, we did not review the internal audit staff's workpapers. However, we have included information from that report to provide the most recent results of MMES' audit of the allowability of costs.

We reviewed the (1) terms and conditions of allowable and unallowable costs specified in the contracts and (2) the allowable and unallowable cost provisions in DOE's Acquisition Regulation, the Federal Acquisition Regulation, and the Federal Travel Regulation.

We discussed the information presented in this fact sheet with DOE and MMES officials, including DOE's Chief Financial Officer for the Oak Ridge, Tennessee, Operations Office and MMES' Vice President, Business Management and Administration. We incorporated their suggestions where appropriate. In general, these officials agreed with the facts presented. These officials stressed, however, that the unallowable cost examples identified represent isolated instances, not systemic problems. As you requested, we did not obtain written agency comments on this fact sheet. We conducted our review from November 1991 to December 1992 in accordance with generally accepted government auditing standards.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this fact sheet until 30 days from the date of this letter. At that time, we will send copies of this fact sheet to the appropriate congressional committees; the Secretary of Energy; the Director, Office of Management and Budget; and other interested parties.

If you or your staff have any questions about this fact sheet, please call me at (202) 275-1441. Major contributors to this fact sheet are listed in appendix I.

A handwritten signature in black ink, appearing to read "Victor S. Rezendes". The signature is fluid and cursive, with the first name being the most prominent.

Victor S. Rezendes
Director, Energy and
Science Issues

Contents

Letter		1
Section 1		8
Costs Incurred by MMES in Managing and Operating DOE Facilities	Background	8
	Selected Costs That MMES Charged to the Government	8
	MMES' Internal Audit Staff Has Recently Reported Some Unallowable Cost Findings	15
	Unallowable Costs MMES Did Not Charge to the Government	16
Appendix	Appendix I: Major Contributors to This Fact Sheet	18

Abbreviations

DEAR	Department of Energy Acquisition Regulation
DOE	Department of Energy
FAR	Federal Acquisition Regulation
FTR	Federal Travel Regulation
GAO	General Accounting Office
MMES	Martin Marietta Energy Systems

Costs Incurred by MMES in Managing and Operating DOE Facilities

Background

The Department of Energy's (DOE) Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio, installations are government-owned, contractor-operated nuclear production and research facilities managed and operated by Martin Marietta Energy Systems (MMES).

Both the federal government and DOE have specific regulations addressing contract administration—the Federal Acquisition Regulation (FAR) and the Department of Energy Acquisition Regulation (DEAR), respectively. Both regulations include extensive guidance on the issue of allowability of costs.

At the end of each fiscal year, representatives for MMES, the Oak Ridge Field Office, and the DOE Office of Inspector General are required to certify and approve that the net costs incurred under the contracts were allowable. In addition, MMES' internal auditors are required under the contracts to perform annual allowable-cost audits.

Selected Costs That MMES Charged to the Government

Our examination of costs charged under MMES' contracts with DOE involved a judgmental selection of MMES cost centers and transactions for review from the following areas: (1) memberships, (2) miscellaneous costs charged to the contracts, (3) recreational activities, and (4) travel expenditures. In addition, we previously reported on entertainment and alcoholic beverage costs incurred under the MMES contract for the facilities at Paducah, Kentucky, and Portsmouth, Ohio.¹

Memberships Costs

MMES charged for the cost of employee membership fees in a wide variety of trade, business, and professional organizations. MMES charged a total of about \$133,000 for membership fees in fiscal year 1991. Our review of memberships paid under DOE's contracts with MMES revealed the following information:

- In fiscal years 1990, 1991, and 1992, MMES charged \$66,585 for memberships in two organizations that were unallowable, because in November 1989 the contracting officer had determined that the two organizations were lobbying groups.
- In fiscal year 1991 MMES paid for memberships in 33 organizations that were not on the approved list as required by the contracts.

¹See Energy Management: Entertainment Costs Under DOE's Uranium Enrichment Production Contract (GAO/RCED-92-230FS, July 30, 1992).

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

- In fiscal year 1991, contrary to its own internal policy, for many employees MMES paid for more than one annual membership.

By letter dated November 14, 1989, DOE's contracting officer ruled that two organizations on MMES' approved organizations list were lobbyist groups, and therefore the cost of memberships in these organizations was unallowable. After making this determination in 1989, DOE did not follow up on its decision to ensure that MMES was not reimbursed for these costs. We brought this issue to DOE's and MMES' attention in May 1992. Resulting from further discussions between DOE and MMES, on October 27, 1992, DOE advised MMES that it must reimburse the government \$66,585 for this unallowable cost because the two organizations have the appearance of being lobbyist groups.

In early December 1992, however, DOE informed us that it was reconsidering its decision on the basis of further discussions within DOE and with MMES. Through a December 8, 1992, letter, DOE's contracting officer notified MMES that it was not until 1992 that DOE learned that MMES did not agree with DOE's 1989 interpretation that the two groups were lobbying organizations. The contracting officer added that he was willing to reconsider the allowability of the membership costs for fiscal years 1990, 1991, and 1992 contingent upon MMES certifying that the two groups were not lobbying organizations. The contracting officer also stated that

Although our initial conclusion regarding these organizations may have been in error, we expect Energy Systems in the future to comply with our determinations or raise objections in a timely manner. Ignoring Contracting Officer determinations is not acceptable.

On December 9, 1992, MMES provided DOE with the requested certification and added that the "prior confusions on this subject are unfortunate and we will pursue actions to be more timely in communicating on issues such as these."

On December 10, 1992, we confirmed through a discussion with an official from the Clerk of the House of Representatives' Records and Registration Office in Washington, D.C., that neither organization was a registered lobbyist group and no individual was shown as a lobbyist for either organization. According to this official, the Records and Registration Office maintains a computerized system with such information.

DOE's contracts with MMES require that MMES provide DOE with a current list of approved organizations during the first quarter of each fiscal year. This

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

list identifies organizations for which membership costs are allowable. The cost of contractor memberships in organizations that are necessary for effective performance of work under the contracts, is reimbursable. When we reviewed the fiscal year 1991 approved organizations list and compared it with the actual list of memberships paid for in 1991, we found that MMES charged the government for the cost of memberships in 33 organizations that were not on the approved list. The total cost of memberships in the 33 organizations was over \$7,700.

MMES' Director of Contracts explained in a letter that the organizations were not on the approved list because they were identified after the submission of the annual listing. MMES believes that memberships in additional organizations are allowable provided they meet the established criteria. To ensure better identification and communication of additional organizations, MMES is taking steps to submit quarterly updates of the annual listing.

In numerous instances MMES did not adhere to its internal policy of not paying for more than one annual membership per employee each year. For example, we found that MMES paid for seven memberships for a single employee at a cost of \$1,280 in fiscal year 1991. MMES' policy states that no individual shall be reimbursed for more than one membership during any 1-year period. Although the FAR defines as unreasonable any cost that significantly deviates from the contractor's established practice, when we discussed this matter with MMES officials, they stated that since the contracts do not limit membership to one per person per year, multiple memberships are allowable. MMES' Vice President, Business Management and Administration, also stated that MMES would revise its policy to allow more than one annual membership per employee. A DOE contracting officer agreed to examine the allowability of multiple membership payments for individual employees annually. She stated that she will require MMES to defend its position relative to violating its established policy of paying for only one membership per employee per year.

In some instances, MMES approved for payment memberships in chambers of commerce and Armed Services organizations. The FAR and DEAR specifically disallow the cost of memberships in civic and community organizations. In addition, DOE's contracting officer advised MMES that the courts have found that Armed Services organizations are not trade, business, technical, or professional organizations and are therefore unallowable for membership payment.

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

We identified one instance in which a chamber of commerce was on the approved organizations list for fiscal year 1991, at a budgeted membership cost of \$305. Our examination of MMES' fiscal year 1991 membership payment report showed that MMES charged \$480 to DOE for this membership. When we pointed this out to MMES officials, MMES reimbursed the government for \$480.

We also identified some instances in which Armed Services organizations were on the approved list for membership payments in fiscal year 1991. However, our examination of the fiscal year 1991 membership payment report showed that only one payment was made for a membership in an Armed Services organization at a triennial cost of \$68. MMES informed us on October 29, 1992, that it erroneously charged the \$68 to DOE, and MMES credited the \$68 to DOE. We did not identify any Armed Services organizations on the approved fiscal year organization 1992 list.

Miscellaneous Costs

The following are two examples of miscellaneous costs that MMES charged to the government that were identified as unallowable.

- MMES charged to its contract with DOE the cost of a \$1,000 donation for a symposium entitled "Synthesis and Processing of Ceramics: Scientific Issues." The purpose of the financial support was to invite speakers and to help encourage young scientists to attend. The justification for the donation was that an MMES employee was a co-chairperson of the symposium. Also, the symposium organizer was going to recognize MMES for its contribution in a book to be published later. Contributions and donations are specifically identified as unallowable costs under the MMES contracts; no exceptions are made. After we brought this transaction to MMES' attention, MMES informed us on October 29, 1992, that this payment was mistakenly charged to DOE's account. MMES agreed to credit the amount to DOE.
- MMES charged \$50 for the cost of a bartender's labor at an MMES function. The FAR states that any cost directly associated with an unallowable cost is also unallowable. Alcoholic beverage costs are unallowable under the FAR. Since the labor cost to serve alcoholic beverages is a directly associated cost, the cost is unallowable. MMES' Vice President, Business Management and Administration stated that any charge to the contract for bartender labor was in error. Subsequently, MMES informed us on October 29, 1992, that it believed the cost was allowable because nonalcoholic beverages were served also; however, to avoid even the hint of impropriety concerning bartender labor, MMES reimbursed DOE for the labor charge.

Recreational Costs

MMES charged costs for a variety of recreational activities to the government. In fiscal year 1991 MMES charged over \$320,000 in recreational expenditures while operating DOE's three facilities at Oak Ridge, Portsmouth, and Paducah. Recreational activities are an allowable cost as a part of the cost of conducting a comprehensive employee activities program under MMES' contracts with DOE.² The maximum annual budget for this program, as specified in the contracts, is \$10 per regular employee per year for the Oak Ridge contract—in addition to the cost of maintenance of a recreational park—and \$15 per regular employee per year for the Paducah and Portsmouth contract. Employees and their immediate families may participate in these programs. Recreational costs were charged for such things as golf balls, softball and volleyball scorekeepers and officials, theater and swimming pool rentals, a Christmas party for employees' children, and the maintenance and upkeep of a recreational park in Oak Ridge. The following are some examples of the recreational costs charged to the government for these activities in fiscal year 1991:

- MMES charged about \$7,300 for the purchase of 350 dozen golf balls. The golf balls were provided as prizes for several golfing activities MMES sponsors, according to an MMES Recreational Manager. The Recreational Manager said that, in addition to golf leagues, MMES hosts five golf tournaments a year for its employees.
- MMES charged \$19,000 for individuals to officiate and keep score for employee softball and volleyball games. Furthermore, about an additional \$4,400 was charged to rent a gymnasium for the volleyball activities.
- MMES charged about \$3,500 for a Saturday morning showing of an animated feature film in Paducah, Kentucky, for about 1,100 attendees. The attendees included employees, spouses, and children, according to MMES' Paducah Recreation Manager. A similar event occurs two or three times a year, according to this official.
- MMES charged about \$1,600 for swimming pool rental for employees, spouses, and children. According to an MMES official, the public swimming pool facility is rented from 9 a.m. until noon on Saturdays during the hours when the facility would otherwise be closed. The official said that the pool is opened to the public at 1 p.m. on Saturdays.
- MMES' Oak Ridge contract with DOE specifically allows for the cost of a Christmas party for the children of MMES employees. The 1991 Christmas party cost about \$20,000. MMES used \$1,500 of the \$20,000 for entertainment at the Christmas party. The \$1,500 cost was for three

²The Office of Management and Budget, during December 3, 1992, hearings before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, identified employee morale costs as one of several areas in which the cost principles in the FAR dealing with allowable costs need to be revised. Recreational activities fall under employee morale in the FAR.

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

15-minute shows. According to MMES and DOE officials, the shows were to entertain the children. MMES charged similar costs to DOE in fiscal year 1990.

- MMES charged DOE over \$126,000 for the maintenance of a recreational park at DOE's Oak Ridge facility in fiscal year 1991. The park is open not only to MMES employees and their families, but to the general public at large, according to MMES and DOE officials. The cost to maintain the park is an allowable cost under MMES' Oak Ridge contract with DOE. MMES contributed about an additional \$20,000 for park maintenance, according to MMES' Vice President, Business Management and Administration.

Travel Costs

MMES employees often used the 150-percent rule when obtaining lodging while in travel status. The 150-percent exception rule within the Federal Travel Regulation (FTR) allows a maximum daily rate for subsistence expenses of up to 150 percent of the applicable maximum per diem rate based on certain circumstances.³ Furthermore, on some occasions, MMES allowed employees to obtain rental cars at the same time they were using the 150-percent rule to obtain lodging. In addition, we identified instances in which MMES charged travel costs to the government for lodging, meals, and incidental expenses in excess of the limitations set forth in the FTR, as prescribed by the General Services Administration, for travel in the continental United States.⁴

We examined 11 individual travel vouchers for MMES travel beginning on or after June 30, 1991, when MMES was required to follow the FTR. We found that in eight instances the 150-percent rule was used to reimburse the MMES employee for lodging costs. For two of the eight instances in which the 150-percent rule was used, the employees also obtained a rental car. The 150-percent rule can be used when (1) lodging is at the hotel where the conference or meeting is being held or (2) the lodging rate within the General Services Administration allowance is not available within a reasonable distance of the business location. The following are examples of travel costs MMES charged to the government:

³For MMES the 150-percent rule was made applicable to the lodging rate only; no exceptions were made for the miscellaneous and incidental expenses allowance. The 150-percent lodging rate is determined by multiplying the maximum per diem allowance for lodging and meals by 150 percent, then subtracting the meal allowance. For example, the 150-percent lodging rate for Atlanta, Georgia (effective Jan. 1, 1991), would be $(\$78 + \$34) \times 150\text{-percent} - \$34 = \$134$.

⁴Effective June 30, 1991, MMES revised its travel policy on the basis of government-mandated changes in accordance with General Services Administration requirements.

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

- MMES reimbursed an employee \$201.34 for a rental car for 6 days, when the 150-percent rule was used to obtain lodging in Anaheim, California. The rental car was allowed even though the place of lodging was 50 feet from the convention center. Additionally, a cost of \$30 was incurred for hotel parking. The lodging cost was \$108.78 per day for 6 days—\$652.68 total. The per diem rate for lodging in Anaheim was \$90, in addition to the \$34 for miscellaneous and incidental expenses.

As a result of the changes in the travel policy, MMES' Travel Department is required to contact hotels within a reasonable business distance to find rates within the lodging allowance limits. Travelers who choose not to accept alternative hotels within the allowance limits will not qualify for exceptions. We determined that there were two hotels within 1 mile of the conference site that were within the lodging per diem rate—one at \$69.13 and another at \$85.72. We found no evidence in the documentation MMES provided indicating that any attempts were made to obtain alternative lodging. Furthermore, we found no justification or indication that the rental car was needed or used for official transportation for anyone other than the employee requesting it. The period of travel was July 15-21, 1991.

- MMES reimbursed an employee \$15 per day for four days (\$60) for lodging at a private residence while in travel status. The period of travel was July 15-19, 1991. The FTR does not allow any lodging costs when a traveler is staying with friends or relatives, unless the host incurs additional costs. In that case the additional costs substantiated by the employee and determined to be reasonable by the agency may be allowed as a lodging expense.

As part of the new contract extensions for management of the Oak Ridge, Paducah, and Portsmouth facilities, MMES revised its business travel policy to include government-mandated changes, effective June 30, 1991. However, MMES retained its policy of allowing a traveler \$15 per day room allowance without documentation when the traveler stays in the private residence of family or friends. Furthermore, MMES negotiated this \$15 per day lodging allowance into its contract with DOE. When we discussed this allowance with DOE Oak Ridge officials, the officials just pointed out that DOE allowed it on the basis of contract negotiations.

MMES' Internal Audit Staff Has Recently Reported Some Unallowable Cost Findings

MMES' internal audit staff did not report any unallowable cost findings in the two allowable-cost audit reports it issued in May 1988 and June 1991. When we discussed with DOE personnel responsible for management and oversight of costs incurred under the MMES contracts the general lack of unallowable cost findings made by MMES' internal audit staff, the officials pointed out that the contracts specifically identify the costs that are unallowable; therefore, the contractors know what costs are unallowable and do not charge them to the contract. However, the internal audit staff's workpapers supporting the 1988 and 1991 reports questioned some costs MMES charged to its contracts with DOE. For example, the workpapers raised cost issues involving areas such as travel costs, spousal travel, advertising, and memberships. MMES officials said that they did not discuss any of the questioned cost issues with DOE's field office officials. MMES resolved internally all of the cost issues the internal auditors raised.

In early December 1992 we obtained a copy of the internal audit staff's September 30, 1992, report on the allowability of costs. This report covers selected costs MMES claimed for reimbursement in fiscal year 1991. Compared to the 1988 and 1991 reports, this report was much more extensive in questioning MMES policies and procedures and in identifying some unallowable costs. For example, the internal audit staff found that about \$435 in unallowable bartender labor costs had been charged to the contract in fiscal years 1991 and 1992. MMES has since reimbursed the government for these bartender labor costs. According to the MMES' internal audit supervisor for this report, the findings in the report were considered isolated instances, not systemic problems.

On the basis of the MMES report, in late November 1992 DOE officials recommended to the Director of DOE's Procurement and Contracts Division that MMES be directed to refund to DOE certain unallowable costs. For example, DOE recommended that:

- MMES reimburse employees only for reasonable and normal loan origination fees. DOE cited the payment of origination fees of 4.63 percent and 5 percent associated with the relocation of two employees as not being reasonable and therefore unallowable. In this instance, DOE recommended that MMES determine the reasonable amount by using the customary 1-percent fee and reimburse DOE for the difference.
- MMES should not reimburse employees for expressly unallowable relocation expenses. DOE cited the payment of \$1,875 to a moving company for the delivery and transfer of a sailboat to the employee's new work

Section 1
Costs Incurred by MMES in Managing and
Operating DOE Facilities

location as being unallowable. In this instance, DOE recommended that MMES reimburse the government for the \$1,875.

- MMES should not provide meals for government employees. DOE cited meal costs of \$1,817.52 as being unallowable and recommended that MMES refund this amount to DOE.

Unallowable Costs
MMES Did Not
Charge to the
Government

MMES did not charge to the government over \$2.2 million in costs incurred in calendar year 1991 to operate DOE facilities, because MMES considered the costs unallowable, according to MMES' Vice President, Business Management and Administration. These costs included payments for such things as (1) relocation, (2) community relations, (3) incentive compensation for executives, (4) country club dues, and (5) entertainment. Although MMES officials provided data to us on the dollar amounts for the various categories, these officials did not want the specific itemized details of these uncharged costs to be disclosed because this information is proprietary.

Major Contributors to This Fact Sheet

**Resources,
Community, and
Economic
Development
Division, Washington,
D.C.**

Jim Wells, Associate Director

**Atlanta Regional
Office**

John P. Hunt, Jr., Assistant Director
Gene M. Barnes, Evaluator-in-Charge
Maria B. Warkentine, Site Senior
Johnnie E. Barnes, Staff Evaluator

**Office of the General
Counsel**

Jackie A. Goff, Senior Attorney

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

**U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015**

or visit:

**Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC**

**Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.**

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

**Official Business
Penalty for Private Use \$300**

<p>First-Class Mail Postage & Fees Paid GAO Permit No. G100</p>
--