COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

AUG 29 1975

B-183920

The Honorable Timothy E. Wirth
House of Representatives

Dear Mr. Wirth:

In your May 16, 1975, letter, you asked us to make a limited evaluation of an Energy Research and Development Administration (ERDA) staff study about allegations that the Dow Chemical Company's ~~Rocky Flats division had misused Government funds in~~ managing ERDA's Rocky Flats plant. The ERDA staff study--based on annual ERDA audits, day-to-day contract administration activities, and a special ERDA audit into selected merit salary increases and procedures followed in a selected layoff--concluded that "no basis was found to support an assumption that Government funds were misused at the Rocky Flats plant."

We found no basis to question the results of ERDA's special audit into selected salary increases and layoffs. We found no evidence, however, that ERDA had considered whether contractor employees should be allowed to continue attending certain training programs after the contractor had announced it no longer intended to remain at Rocky Flats. ERDA officials advised us that there is no written policy covering such a situation. Our review also showed that the Dow Rocky Flats division had charged about $600 of unallowable costs to ERDA; Dow subsequently reimbursed ERDA for these costs.

We discussed the preparation of the staff report with ERDA officials at the Rocky Flats Area Office. We interviewed ERDA auditors who had furnished data for the report and reviewed their workpapers and related Area Office records supporting the facts and conclusions in the staff report. We also interviewed Mr. James D. Kelly, President, Local Union 8031, United Steelworkers of America, Rocky Flats, concerning his comments to you on the staff report. We further discussed issues identified in the staff report with Rocky Flats division officials and reviewed pertinent division records.

We briefed your office on the results of our limited evaluation. Information on the scope of ERDA's audit and the nature of certain costs charged by Dow to the ERDA contract follows.

SCOPE OF ERDA AUDIT

ERDA Area Office officials requested its Rocky Flats audit staff to review

--procedures followed in the layoff in January 1975 of four Dow employees, three salaried and one hourly, to determine if contractual and labor union agreement provisions were followed and

--merit increases granted to Dow salaried employees in calendar year 1974 to determine if frequency and percentage of increases were according to contract terms.

The ERDA audit staff reviewed specific actions concerning layoff procedures including payment or nonpayment of severance pay for each of the four employees laid off. In addition they sampled 47 of the 500 merit increases in excess of 15 percent which were granted during 1974 and identified the basis for granting these 47 increases. We found no basis to question the auditors' conclusion that these layoffs and increases were handled properly.

ERDA headquarters officials believe that the audit was sufficient. They explained that normally the Rocky Flats audit staff annually evaluates personnel administration and payroll, contracting and procurement, travel and relocation costs, cash controls, and financial accounting and reporting. The officials said that the auditors had found very few instances of contractual noncompliance and no instances of misuse of Government funds by the division in these reviews.

PAY INCREASE GRANTED TO SALARIED EMPLOYEES WHEN DIVISION'S COSTS EXCEEDED BUDGET

ERDA approved two pay increases for all salaried employees at the Rocky Flats division during calendar year 1974. The second, a supplement increase, was approved by ERDA in November 1974, retroactive to July, even though ERDA was aware that the division's costs exceed the amount budgeted.

In December 1974, after previously approving the salary increases, ERDA notified the division of its concern over the excessive costs and requested a plan of action to remedy this situation by the end of the fiscal year. Subsequent management actions reduced costs in several areas including a layoff of 45 hourly and 15 salaried Dow employees in January 1975. ERDA officials commented that the layoffs were

not only attributed to increased salaries but also to reduce production and operation schedules. In addition, they said approval of a supplemental salary increase was essential to retain highly trained and experienced personnel at Rocky Flats.

CONTINUATION OF SUPERVISORY TRAINING PROGRAMS AFTER DECISION TO LEAVE ROCKY FLATS

Management Skills Exchange Program

The Management Skills Exchange program was initiated in January 1974 for Dow Rocky Flats division supervisors. The program was oriented primarily to division management philosophy--why top management believed in the things they did, and how those beliefs were translated into operating methods, policies, and procedures. In March 1974 the division informed ERDA that it did not intend to continue as the operating contractor at Rocky Flats after June 30, 1975; however, Dow management decided to continue the program and accelerate the schedule so as to complete the training of about 400 supervisors before the departure date.

Estimated costs of the program, including salaries, motel, meals, refreshments, and guest speaker expenses, all charged to the division's contract with ERDA, amounted to about $260,000. Of this amount about $228,000 represented salaries and fringe benefits of attendees and coordinators. Nearly 90 percent of Dow supervisors attended the program after the March 1974 announcement.

About 10 percent of the supervisors who attended the program have transferred to other Dow divisions or retired. The remaining supervisors are employed by the new contractor operating the Rocky Flats plant.

Salaried Operations Roadshow

Dow's Rocky Flats division supervisors and managers have participated, since late 1973, in a weeklong corporate training program called the Salaried Operations Roadshow. The agenda of the Roadshow held in Denver in March 1974 indicated that most of the 11 topics discussed during the week related to Dow's corporate history, concepts, philosophy, and techniques of administering and measuring performance of a salaried operation. Three of the topics covered union activities--philosophy and tactics, supervising in a union operation, and anatomy of a tough strike.

Twenty of Dow's Rocky Flats division employees attended the Roadshow after Dow announced in March 1974 that it was no longer going to manage the Rocky Flats facility. The Dow authorizing official who had attended the program said that since the training related primarily to corporate-type operations, it would not be a proper charge to the ERDA contract. ERDA estimates about $22,000 of travel expenses and salary costs were charged to the ERDA contract since March 1974. Of the 20 employees, 11 have been transferred to other Dow divisions.

Dow sent four of these 20 employees to the Roadshow after its employees relations manager had advised corporate headquarters that it did not expect to send additional employees to the Roadshow. In addition, one of these participant's salary and travel costs were charged to the ERDA contract even after the division's general manager advised its auditor that further Roadshow expenditures should be charged to Dow corporate expenses.

We believe that ERDA should have determined whether participation in those two training programs by Rocky Flats employees were in the best interest of the Government in March 1974 when Dow announced that it was no longer going to continue as the operating contractor at the Rocky Flats plant.

In commenting on this matter, ERDA headquarters officials expressed the belief that such training was probably justified on the basis that knowledge of Dow's corporate philosophy, practices, and procedures by supervisors remaining at Rocky Flats could affect a more orderly transition of contractors. Our review of ERDA records, however, showed no indication that ERDA had evaluated the merits of allowing contractor employees to attend these programs after notice of contract termination.

UNALLOWABLE EXPENSE CHARGED TO ERDA CONTRACT

The coordinator of the Management Skills Exchange program filed travel expense reports for reimbursement of costs identified only as "Refreshments for Mangements Skills Exchange Program." Each was certified by the coordinator and approved by Dow's Rocky Flats division general manager as chargeable to the ERDA contract as official contract expenditures. No receipts or other documentation to support the amounts claimed for reimbursement were attached to the expense reports.

The coordinator advised us that the amounts claimed on these travel expense reports represented cost of liquor, mixes, and snacks at the cocktail party held during each of the training sessions. Total expenses claimed by the coordinator during 1974 amounted to $634.75.

We brought this matter to the attention of division officials who stated that these expenses should have been charged to a Dow corporate account. On June 10, 1975, Dow reimbursed ERDA for these expenses.

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We believe that ERDA should evaluate the adequacy of its procedures for monitoring the management activities and associated costs incurred during a reasonable period prior to the termination of its operating contractors. In view of ERDA's agreement to evaluate the matters discussed in this report during its closeout audit of the Rocky Flats contract and to assess the adequacy of its monitoring procedures, we plan no additional audit effort at this time. We intend to follow-up ERDA's audit of these matters and any action taken at an appropriate time.

Sincerely yours,

Acting Comptroller General
of the United States