

GAO

Report to the Chairman, Subcommittee  
on Energy and Power, Committee on  
Commerce, House of Representatives

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December 1995

# DEPARTMENT OF ENERGY

## Property Management Has Improved at DOE's Rocky Flats Site







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

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Resources, Community, and  
Economic Development Division

B-270444

December 28, 1995

The Honorable Dan Schaefer  
Chairman, Subcommittee  
on Energy and Power  
Committee on Commerce  
House of Representatives

Dear Mr. Chairman:

In March 1994, we reported that \$29.3 million in property was either missing from or could not be physically located at the Department of Energy's (DOE) Rocky Flats Environmental Technology Site in Colorado.<sup>1</sup> In addition, we reported that the contractor's property management system at that site was inadequate. Responding to the report's findings, DOE staff at Rocky Flats made a commitment to correct the site's problems with property management. As requested, we reviewed (1) the current status of the government-owned property that is missing or cannot be located at the site and (2) the steps that DOE/Rocky Flats officials have taken to improve property management.<sup>2</sup>

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## Results in Brief

As of October 1995, DOE considered that only \$4.5 million worth of property was missing or could not be physically located at Rocky Flats. This amount is considerably lower than the \$29.3 million reflected in our 1994 report primarily because DOE authorized the contractor to write off about \$20.8 million in missing or "unlocated" property from the property records. A portion of the \$20.8 million—about \$13.0 million—was written off because it pertained to unlocated property for which DOE accepted the contractor's documentation explaining what had happened to the property. The remainder of the \$20.8 million—about \$7.8 million—was written off because it pertained to property that had been missing under a previous contractor and for which the then-current contractor was not liable.

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<sup>1</sup>Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77, Mar. 1, 1994). As discussed in the report, the contractor said that while some of the property could not be physically located, it had documentation explaining the property's disposition.

<sup>2</sup>Government-owned property as discussed in this report refers to property of any kind or type that is in the custody of DOE or its contractors and that is owned, rented, or leased by the government, excluding real property such as land or buildings, special source materials such as plutonium, precious metals, and spare parts.

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Generally, we found that DOE has made strides in improving property management at the Rocky Flats Site. For instance, DOE has acquired a new property tracking system more suited to property management. DOE has also given property management greater prominence by elevating it from a branch to a division at the site. In addition, DOE has incorporated specific performance measures into the contract for the site that address many previously identified problems with property management. However, DOE has not yet adequately addressed a significant problem highlighted in our March 1994 report: A large percentage of the data in the site's property tracking system are inaccurate. Without accurate data on property, neither DOE nor its contractor can determine how much property is present at the site and how much has been lost or stolen.

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## Background

DOE's Rocky Flats Site is a government-owned, contractor-operated facility that was formerly dedicated to weapons-related activities but is now undergoing environmental restoration and cleanup. The site is currently operated by Kaiser-Hill Company (Kaiser-Hill), which took over the site's operations from EG&G-Rocky Flats, Inc., (EG&G) on July 1, 1995. The contract between Kaiser-Hill and DOE is a performance-based arrangement in which fees are paid to the contractor on the basis of its achieving certain measures by specific milestone dates. For example, the contract states that as a performance measure for fiscal year 1995, Kaiser-Hill will implement an automated system capable of tracking property from its acquisition to its retirement. Overall, the contract specifies 27 performance measures to be implemented at the site in fiscal year 1995. New performance measures can be established for each fiscal year.

In our March 1994 report on property management at Rocky Flats, we presented the results of EG&G's September 1993 total inventory and reconciliation of the government-owned property at the site. The inventory showed that 4,827 items with an acquisition cost of \$12.8 million were missing.<sup>3</sup> The inventory additionally showed that EG&G officials could not physically locate 871 items with an acquisition cost of \$16.5 million. EG&G said it had documentation explaining why the property could not be located. We reported, however, that the documentation was incomplete and that EG&G might have to reclassify some of the unlocated property as missing.

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<sup>3</sup>The missing or unlocated items included computer equipment such as monitors and keyboards, shop equipment such as lathes and drill presses, electronic equipment such as radios and pagers, and heavy equipment such as forklifts and a semitrailer.

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We also found a number of problems with the adequacy of EG&G's property management system. For instance, inappropriate changes had been made to data in the site's property tracking system, including the deletion of entire records. Also, the contractor had inadequate controls over how property was retired at the site. We reported that as a result, EG&G could not accurately determine how much property was actually present at the site and how much had been lost or stolen. In our report, we made a number of recommendations to improve property management at Rocky Flats. Subsequently, DOE said it concurred with and was taking action in response to each of the recommendations.

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## The Amount of Missing or Unlocated Property at Rocky Flats Has Changed

As of October 1995, DOE considered that only \$4.5 million in property was missing or could not be physically located, which is considerably lower than the \$29.3 million we previously reported. The primary reason for this change is that DOE authorized EG&G to write off about \$20.8 million in missing or unlocated property from the records.

Table 1 summarizes the reasons why the amount of missing or unlocated property reported at the Rocky Flats Site has changed. The most significant reason is the write-off. As the table shows, in April 1994 DOE authorized EG&G to write off \$13.0 million in property after accepting EG&G's documentation as to why the property could not be located.<sup>4</sup>

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<sup>4</sup>DOE's contract with EG&G authorized DOE's contracting officer to determine whether EG&G had complied with the contract's requirements in its accounting for the government-owned property and whether the contractor could or should be held accountable for any missing property. By accepting EG&G's documentation as to the whereabouts of the unlocated property and directing the contractor to write off the balance of the missing property, DOE effectively released EG&G from further liability for the loss of this property.

**Table 1: Changes to DOE's Missing Property Inventory Since March 1994 (as of October 1995)**

	<b>Amount (Dollars in millions)</b>
Property we reported as missing or unlocated in our March 1994 report	\$29.3
Amount of unlocated property that DOE, in April 1994, authorized EG&G to write off the property records	-13.0
Amount of missing property that DOE, in February 1995, authorized EG&G to write off the property records	- 7.8
Amount of missing property found during 1994 and 1995	- 6.0
Amount of additional property identified as missing as a result of two 1995 inventories	+ 2.0
<b>Total amount of property that DOE considered missing as of October 1995</b>	<b>\$ 4.5</b>

Note: As of October 1995, according to DOE officials, the government-owned property at the site had a value of about \$630 million.

According to EG&G officials, the contractor spent hundreds of staff hours researching and obtaining supporting documentation to show what had happened to the property that could not be located. The documentation consisted of information taken from the property records and/or obtained from EG&G site property custodians, who provided written statements attesting to the whereabouts of the unlocated property. For example, in one case the documentation explaining a missing television monitor showed that the monitor had been sold at auction. In another case, the documentation explaining a missing video cassette recorder was a statement by a property custodian saying that the recorder had been stolen about 5 years earlier. After an extensive review of EG&G's documentation, DOE authorized the contractor to write off 782 of the 871 items of unlocated property, worth \$13.0 million, from the property records.<sup>5</sup> In a few cases in which complete documentation was not available, DOE officials said they had used their best judgment to determine whether the documentation that EG&G provided was sufficient.

In February 1995, DOE authorized EG&G to write off a total of about \$7.8 million in missing property from the records. The property in question had been missing under the previous contractor, and according to DOE, EG&G was not liable for it. DOE/Rocky Flats officials pointed out that a December 1989 agreement between DOE and EG&G stipulated that EG&G's liability for the missing property would not commence until after a 1991

<sup>5</sup>DOE also reviewed deletions of property from the records and placed about 100 deleted items back on the records. In addition, DOE reviewed records of property that had been retired; it rejected the retirement of 208 items and placed them back on the records.

baseline inventory had been completed. In our 1994 report on property management at Rocky Flats, we reported that although it might not be possible to prove the contractor's liability for the property that was missing before 1991, by investigating the missing property, DOE could help determine when and under what circumstances the property had been lost and whether some of the missing property had been stolen. However, DOE never conducted an investigation to determine the root causes of why the property was missing.<sup>6</sup>

Other changes have occurred in the amount of inventory reported missing at Rocky Flats. Specifically, EG&G reported that it had found \$6 million worth of the missing property since 1993. Furthermore, as a result of two 1995 inventories, EG&G determined that about \$2 million in additional property was missing.<sup>7</sup> The first inventory, completed in February 1995, reviewed sensitive equipment at the site—those items susceptible to being taken for personal use or readily converted to cash, such as computers and photographic equipment. The inventory determined that \$1.3 million in sensitive property was missing. The second inventory, completed in June 1995, reviewed capital equipment at the site—those items costing \$5,000 or more and having a useful life of 2 years or more, such as lathes. The June inventory determined that \$0.7 million in capital property was missing.

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## DOE/Rocky Flats Has Improved Property Management

Since we issued our 1994 report, DOE has taken several steps to improve property management at Rocky Flats. DOE has acquired a new property tracking system more suited to property management. In addition, DOE has given property management greater prominence by elevating it from a branch to a division at the site. DOE also has implemented most of the recommendations contained in our March 1994 report. Finally, DOE has incorporated specific performance measures into its contract with Kaiser-Hill to address problems with property management.<sup>8</sup>

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<sup>6</sup>DOE/Rocky Flats officials did refer the matter to DOE's Office of Inspector General, which conducted an investigation of eight property items stolen from Rocky Flats during 1994-95. The office was not able to recover the stolen items or determine who had stolen them. DOE also conducted a validation of EG&G's September 1993 inventory. DOE officials believe this was sufficient to understand the root cause of the problems with property management at the site.

<sup>7</sup>Both 1995 inventories were validated by a team composed of EG&G internal auditors and DOE/Rocky Flats personnel.

<sup>8</sup>DOE/Rocky Flats also implemented a policy of individual financial accountability for all of the sensitive property and established a regulatory requirement for baseline acceptance and close-out inventories at the site.

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## DOE's Implementation of Our Recommendations

In our 1994 report, we made seven recommendations aimed at having DOE either (1) require EG&G to correct the weaknesses we identified in its property management system or (2) improve its oversight of property management at the site. In response to our report, DOE agreed to fully implement our recommendations. As shown in table 2, three of the recommendations have been fully implemented and four have been partially implemented.



**Table 2: Status of DOE's Implementation of Our Recommendations**

<b>Our recommendation</b>	<b>DOE's response</b>
Revise, with DOE's guidance, the criteria at the site for what should be in the tracking system so that all of the sensitive equipment is included in the system.	Fully implemented. EG&G completed a review of the criteria used to identify sensitive items and issued a revised list of the items that would be controlled as sensitive property. DOE approved this list in May 1994.
Institute system-level edits into the system to limit and prevent unauthorized access.	Fully implemented. DOE acquired a new tracking system that has the appropriate system-level edits. The system is due to be fully operational by the end of calendar year 1995.
Develop guidance specifying the roles and responsibilities of the property management staff in retiring property.	Fully implemented. EG&G implemented a requirement that staff obtain the approval of both the property accounting supervisor and the property management supervisor before retiring any item.
Order an investigation, in accordance with DOE's guidance, of the property missing from the site and determine, among other things, what happened to the missing property.	Partially implemented. In January 1994, DOE requested its Office of Inspector General to initiate an investigation of the property losses. The office investigated the theft of eight items but was unable to recover the items or determine who had stolen them.
Place a higher priority on overseeing property management at the site. Doing so could necessitate adjusting DOE's staff levels at the site as well as setting milestones for improving DOE's oversight.	Partially implemented. DOE completed an analysis that identified a need for seven additional property management employees. As a result, DOE hired two federal employees and two support service contractor employees to oversee the contractor's property management.
Require EG&G to immediately develop written procedures for its property management operations and submit its procedures to DOE for review and approval.	Partially implemented. EG&G developed detailed procedures for property management and submitted those procedures to DOE for review and approval. Contractor officials said they hope to have DOE's approval within 18 months, or by the end of calendar year 1996.
Undertake, to the extent practical, a study of the historical records at the site to identify and include all appropriate property in the site's property tracking system and to correct inaccuracies in the system as necessary.	Partially implemented. Some inaccuracies in the tracking system's data have been corrected. However, problems with the accuracy of the data remain. DOE estimated, in its validation of EG&G's 1995 inventory of sensitive items, that 30 percent of the records sampled had one or more inaccurate data fields.

**We are concerned with DOE's failure to fully implement one recommendation directed at correcting incomplete or inaccurate data in**

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the current property tracking system. In our March 1994 report, we provided a number of examples of incomplete or inaccurate data in the system. For instance, the system contained records for 121 computer keyboards that had the same serial number as other keyboards in the system. We reported that without properly entered serial numbers, the contractor could not accurately identify, and thereby account for, the government-owned property at the site. Therefore, we recommended that DOE require the contractor to correct the deficiencies resulting from incomplete or inaccurate data as necessary. DOE agreed with us but has not fully implemented the recommendation.

According to DOE/Rocky Flats and contractor officials, considerable time and attention have been spent on correcting the incomplete or inaccurate data in the system. These officials pointed out that the problem of incomplete or inaccurate data will be corrected when Kaiser-Hill completes a property inventory within the first 6 months of fiscal year 1996. However, we do not believe that completing a property inventory will, by itself, correct the problem. We noted in our March 1994 report that some property items that had not been entered into the site's property tracking system may now be missing. In addition, the acquisition cost listed in the system for other property items was inaccurate. It is unclear how a property inventory will identify missing property items that have not been entered into the system. Likewise, it is unclear how a property inventory will confirm whether the acquisition cost listed in the system for individual property items is correct. In our view, a check of the historical records is the only way to correct these inaccuracies.

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### Performance Measures Included in the Contract for the Site

The contract between DOE and Kaiser-Hill for the Rocky Flats Site is designed to contain performance measures, so that a fee is paid when certain results are achieved. The performance measures are intended to define very specific goals, tasks, and timetables for the work to be completed at the site. DOE has instituted these measures in an attempt to establish a direct relationship between a contractor's performance and the entire fee received.<sup>9</sup> While the contract between DOE and Kaiser-Hill contains performance measures related to improving overall property management at Rocky Flats, DOE has not developed specific plans to correct the significant problem of inaccurate data in the site's property tracking system.

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<sup>9</sup>Historically, under cost-plus-award-fee contracts, DOE did not use objective criteria for the fees it awarded contractors but instead determined the fee portion of payments under the contract on the basis of subjective judgment, leaving open the possibility for abuse.

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The contract between DOE and Kaiser-Hill contains performance measures for property management for 2 consecutive years. For fiscal year 1995, the contract specifies that, among other things, the contractor will implement an automated system capable of tracking property from acquisition to retirement. In addition, the contractor will develop the policies and procedures associated with that system and provide a minimum of 8 hours of training to all property management personnel. For fiscal years 1996 through 1999, the contract as of December 1, 1995, specifies that the contractor will hold property losses to less than \$1 million a year. Starting in fiscal year 2000, the contract specifies that the contractor will hold property losses to less than \$200,000 annually. These performance measures will be renegotiated each year.

To determine the amount of the property losses incurred, DOE needs accurate data on the property that is present at the site and its value. However, inaccurate data in the site's property tracking system could preclude DOE from precisely determining its property losses. We reported on inaccuracies in these data in our March 1994 report, and DOE highlighted the problem of inaccuracies in the data in an August 1995 draft "issues and concerns" memorandum that it plans to finalize and transmit to Kaiser-Hill. By issuing this memorandum, DOE intends to alert the contractor to its specific concerns about matters in need of resolution.

DOE's memorandum, however, does not rank the issues and concerns listed or establish a timetable for correcting them. Therefore, it is difficult to determine the significance that DOE has assigned to any of the issues and concerns, including the problem of inaccurate data. In our view, the presence of inaccurate data in the site's property tracking system is a significant problem. DOE/Rocky Flats officials advised us that, in their opinion, the percentage of inaccurate data on sensitive items in the system is as high as 30 percent. We believe that having accurate data is critical to being able to determine what property is present at the site and whether the contractor has held property losses to the levels prescribed in the contract's performance measures.

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## Conclusions

While DOE has taken a number of steps to improve property management at Rocky Flats, the Department was not fully responsive to the recommendations in our March 1994 report, particularly the recommendation to correct the inaccurate data in the site's property tracking system. DOE needs accurate data to determine whether the

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contractor has met the performance measures contained in the site contract.

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## Agency Comments

We provided DOE with a draft of this report for its review and comment. The draft report included a proposed recommendation to the Secretary of Energy to develop a plan and a timetable for correcting the inaccuracies in the data in the site's property tracking system. DOE officials, including the Director, Office of Contractor Management and Administration, and the Rocky Flats Site's Group Leader, Property and Information Management Division, generally concurred with the findings contained in this report. In our discussion, they stressed that they had taken numerous actions to improve property management at the site. They also pointed out that they had recently reached agreement with Kaiser-Hill on a new performance measure for the site that should help address the concerns that resulted in our proposed recommendation. On December 5, 1995, DOE and Kaiser-Hill approved the following new performance measure for fiscal year 1996: "Complete baseline inventories . . . and update all records with complete and accurate information." In our view, implementing this performance measure should help correct the inaccuracies in the data in the site's property tracking system. As a result, we deleted our proposed recommendation.

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We performed our work at DOE's headquarters and Rocky Flats Site from June through December 1995 in accordance with generally accepted government auditing standards. Additional information on the scope and methodology of our review is presented in appendix I.

As arranged with your office, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to the Secretary of Energy; the Director, Office of Management and Budget; and other interested parties. We will also make copies available to others on request.

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Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix II.

Sincerely yours,

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

Victor S. Rezendes  
Director, Energy and  
Science Issues

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## Abbreviations

DOE	Department of Energy
GAO	General Accounting Office
EG&G	EG&G-Rocky Flats, Inc.

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# Objectives, Scope and Methodology

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In March 1995, the Chairman of the Subcommittee on Energy and Power, House Committee on Commerce, asked us to follow up on the problems with property management at the Department of Energy's (DOE) Rocky Flats Environmental Technology Site that we had described in a March 1994 report. As agreed, we reviewed (1) the current status of the government-owned property that is missing or cannot be located at the site and (2) the steps DOE/Rocky Flats officials have taken to improve property management.

We performed our work from June through December 1995 at DOE's headquarters and Rocky Flats Site. This work was done in accordance with generally accepted government auditing standards.

To determine the current status of missing or unlocated government-owned property at the site, we reviewed various sources of information, including the contractor's property inventory reports, computer tapes listing equipment in the plant's property tracking system, and DOE/Rocky Flats' validation of the contractor's property inventory. In addition, we discussed this information with DOE/Rocky Flats and contractor personnel. We did not, however, verify the accuracy of the total of missing or unlocated property currently reported as missing because of the lack of available supporting documentation.

To determine what steps DOE/Rocky Flats officials have taken to improve property management, we reviewed several documents, including DOE/Rocky Flats' corrective action plan for property management, DOE's Darts Status Report listing the actions DOE has taken in response to the recommendations in our March 1994 report, and the new contract for the site between DOE and Kaiser-Hill. We also discussed these documents with DOE/Rocky Flats personnel.



# Major Contributors to This Report

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