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Department of Energy

memorandum

DATE: December 7, 1993

REPLY TO:
ATTN OF: IG-1

SUBJECT: INFORMATION: Report on "Audit of Personal Property Management
at Los Alamos National Laboratory"

TO: The Secretary

BACKGROUND:

Los Alamos National Laboratory (Los Alamos) established a personal property management system for its inventory of Government-owned personal property with an acquisition cost of approximately \$1 billion. The objective of the audit was to determine whether Los Alamos' personal property management system properly protected, identified, and controlled Government-owned personal property in accordance with applicable regulations. The attached report is being sent to inform you of our finding and recommendations.

DISCUSSION:

We found that Los Alamos' system did not properly protect, identify and control Government-owned personal property. For example, the audit projected that Los Alamos may not be able to account for \$100 million of personal property. In addition, the database contained \$207 million of property that may be incorrectly recorded and \$62 million of property that could not be inventoried. Finally, neither loans of personal property to employees nor loans to other entities were adequately justified. The primary cause of these deficiencies was that Los Alamos did not follow requirements to safeguard property in four ways: (1) ensure that managers and employees followed required procedures before moving property; (2) hold employees financially liable and personally accountable for property; (3) maintain consistent and accurate property information; and (4) ensure that loaned property was adequately justified. Additionally, Albuquerque did not adequately monitor Los Alamos' management of personal property.

We recommend that Los Alamos establish controls to ensure that its employees follow required procedures to safeguard property, and are financially liable and personally accountable for property. In addition, we recommend that Albuquerque review, and approve or disapprove, Los Alamos' system in accordance with the Department's Property Management Regulations. If implemented, these recommendations will help ensure that Los Alamos' system properly protects, identifies and controls Government-owned personal property.

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Management concurred with the finding and agreed to implement the recommendations in the report. Details of the finding are the subject of Part II of the report. Management and auditor comments are in Part III.

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF PERSONAL PROPERTY MANAGEMENT
AT LOS ALAMOS NATIONAL LABORATORY

Report Number: DOE/IG-0338
Date of Issue: December 7, 1993

Western Regional Audit Office
Albuquerque, New Mexico 87115

AUDIT OF PERSONAL PROPERTY MANAGEMENT
AT LOS ALAMOS NATIONAL LABORATORY

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	1
PART I — APPROACH AND OVERVIEW	2
Objective	2
Scope and Methodology	2
Background	3
Observations and Conclusions	4
PART II — FINDING AND RECOMMENDATIONS	6
Personal Property Management	6
PART III — MANAGEMENT AND AUDITOR COMMENTS	14
PART IV — APPENDIX	

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDITS

AUDIT OF PERSONAL PROPERTY MANAGEMENT
AT LOS ALAMOS NATIONAL LABORATORY

Audit Report Number: DOE/IG-0338

SUMMARY

The Department of Energy's (Department) Albuquerque Operations Office (Albuquerque) and the Los Alamos National Laboratory (Los Alamos) are responsible for ensuring that Los Alamos maintains an efficient and effective personal property management system that protects, identifies, and controls Government-owned personal property in accordance with applicable regulations. Albuquerque is responsible for reviewing and approving Los Alamos' personal property management system. Los Alamos is responsible for ensuring that personal property is properly protected, identified, and controlled.

Our audit disclosed that Los Alamos did not have an efficient and effective personal property management system to ensure that personal property was adequately protected, identified, and controlled. In addition, Albuquerque did not approve or disapprove Los Alamos' personal property management system consistent with Federal and Department regulations. Specifically, the audit showed that Los Alamos did not account for \$11.6 million of personal property. In addition, \$22.2 million of personal property was not properly recorded in the database, \$61.7 million of personal property could not be inventoried, and loans to employees and other entities were not adequately justified. As a result, from a total personal property inventory of approximately \$1 billion, we estimated that \$100 million of personal property may not be accounted for, and \$207 million may not be correctly recorded in the database. Moreover, substantial amounts of personal property on loan to employees and other entities were at risk of unauthorized use.

Albuquerque concurred with the finding and agreed to implement the corrective actions recommended in the report.

Office of Inspector General

PART I

APPROACH AND OVERVIEW

OBJECTIVE

Los Alamos is operated by the University of California (University) for the Department. Los Alamos is a National Laboratory involved in multiple areas of research and development in nuclear technologies.

The objective of the audit was to determine whether Los Alamos' personal property management system properly protected, identified, and controlled Government-owned personal property in accordance with applicable regulations.

SCOPE AND METHODOLOGY

The audit was conducted at Los Alamos from January through June 1993. The audit included a review of Department and Los Alamos policies and procedures relating to the management of personal property. The audit emphasized the policies and procedures in place during Fiscal Year (FY) 1993.

Consistent with the specific audit objective, we:

- o Examined laws and regulations, applicable Department orders, the prime contract between the Department and the University, policies and procedures, memoranda, databases, and correspondence pertaining to personal property management;
- o Reviewed the policies and procedures of Albuquerque and Los Alamos related to personal property management; and
- o Interviewed personnel responsible for oversight and management of personal property.

The audit examined a personal property management system that contained 129,585 personal property items with an acquisition cost of approximately \$1 billion. Los Alamos' inventory of personal property items was located at Los Alamos and numerous other sites. Except for items on loan to other entities, our review was limited to those items located at Los Alamos. We stratified the population of the inventory into nine strata and selected a random sample from each stratum. The total sample from all nine strata consisted of 400 personal property items with an acquisition cost of \$254 million. During

the inventory, the auditee was allowed sufficient time to locate those items we did not find. We permitted Los Alamos officials to locate personal property during the timeframe we conducted our inventory at a specific location. This timeframe was typically 2 to 3 days. In addition, we performed a limited review on Los Alamos' personal property loan program. Specifically, we reviewed property on loan to Los Alamos employees and other entities such as universities. We asked employees with property on loan from Los Alamos to bring the loaned property to the Los Alamos Audit Group office to verify against official records. In addition, we examined the justifications for the loans. Similarly, we visited four universities and one high school to verify the location of property on loan and determine if the loaned property was adequately justified.

The audit was made according to generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective of the audit. Accordingly, we assessed the significant internal controls with respect to personal property management. Our assessment consisted of identifying and reviewing: (1) Los Alamos' internal controls governing personal property management and (2) Albuquerque's internal controls to ensure that Los Alamos' personal property management system effectively managed personal property. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. An exit conference was held on October 26, 1993.

BACKGROUND

As a management and operating (M&O) contractor, the University operates Los Alamos for the Department. Los Alamos is involved in multiple areas of research and development which require vast amounts of personal property. Its main mission is research and development in nuclear technologies. However, Los Alamos also conducts research and development in energy, environmental protection and cleanup, materials science, and other basic sciences. Los Alamos' approximately 7,300 employees use about 129,585 personal property items with an acquisition cost of about \$1 billion.

At Los Alamos, personal property is broken into four categories: capital, non-capital, sensitive, and administratively controlled. Capital items have a cost of \$5,000 or more and an anticipated service life of 2 years or more, regardless of their use or source of funding. Non-capital items have a cost of a \$1,000 or more but less than \$5,000, and

an anticipated service life of 2 years or more. Sensitive items are those property items, regardless of cost, considered susceptible to being appropriated for personal use or which can be easily converted to cash. Moreover, administratively controlled items are not considered capital, controlled, or sensitive, but are property numbered for administrative purposes and security reasons.

The University is responsible for the efficient and economical management of all Government-owned property in the custody of Los Alamos. In order to fulfill this responsibility, Los Alamos was required to establish a personal property management system that effectively and efficiently protects, identifies, and controls Government-owned personal property.

Los Alamos assigned responsibility for protection of Government-owned personal property to various levels of management and to property users. Specifically, Los Alamos division leaders had primary responsibility for protecting Government property entrusted to their organization. In addition, group leaders had general responsibility for property management, including proper use and protection. Moreover, each property user had individual responsibility for proper use and protection of the property. Finally, property administrators were responsible for record keeping, inventories, audits, inspections, and follow-up on unlocated property.

OBSERVATIONS AND CONCLUSIONS

During the audit, Los Alamos began positive efforts to address property management deficiencies. For example, Los Alamos established a task force to consider property management issues such as property protection, database accuracy, employee accountability, and a centralized database. Los Alamos also implemented a new property management system in February 1993: the Property Accounting Inventory Reporting System (PAIRS).

Despite these positive steps, Los Alamos' personal property management system did not properly protect, identify, and control Government-owned personal property. Federal and Department regulations required that a personal property system be in place that effectively manages Government-owned personal property in the custody or possession of Department organizations and contractors. However, our audit showed four deficiencies: (1) Los Alamos did not account for \$11.6 million of personal property; (2) \$22.2 million of personal property was not properly recorded in the database; (3) the database contained \$61.7 million of personal property that could not be inventoried; and (4) personal property loaned to employees or

other entities was not adequately justified. Therefore, we estimated that \$100 million of personal property items may not be accounted for and \$207 million may not be correctly recorded in the database. Moreover, personal property on loan to employees and other entities was at risk of unauthorized use.

Albuquerque and Los Alamos agreed that the personal property management system contained deficiencies and agreed to implement our recommendations. On September 14, 1993, the Albuquerque Manager directed Los Alamos to implement the recommended corrective actions. Los Alamos designated August 1993 as Personal Property Awareness Month and reminded employees of the importance of safeguarding personal property. Moreover, the Los Alamos Director issued a August 17, 1993 memorandum to all Los Alamos employees stating that our audit and a May 1993 survey by Department Headquarters revealed significant deficiencies. The memorandum also reemphasized the personal property responsibilities of Los Alamos managers and employees and outlined corrective actions.

PART II

FINDING AND RECOMMENDATIONS

Personal Property Management

FINDING

Federal and Department regulations and contract clauses required Los Alamos to establish an efficient and effective personal property management system that protected, identified, and controlled Government-owned personal property. Although Los Alamos established such a system, it did not effectively protect Los Alamos' inventory of Government-owned personal property with an acquisition cost of approximately \$1 billion. For example, Los Alamos did not account for \$11.6 million of Government-owned personal property. In addition, the personal property database contained \$22.2 million of incorrectly recorded property and \$61.7 million of personal property that could not be inventoried. Finally, loans of personal property to employees or to other entities were not adequately justified. These deficiencies existed because Los Alamos did not:

- o ensure that managers and employees followed required procedures before moving property;
- o hold employees financially liable and personally accountable for missing, damaged, or destroyed property;
- o maintain consistent and accurate property information; and
- o ensure that property loaned to employees or to other entities was adequately justified.

In addition, Albuquerque did not approve or disapprove Los Alamos' system in accordance with Department regulations. As a result, we estimated that \$100 million of Government-owned personal property may not be accounted for and approximately \$207 million of personal property may not be correctly recorded in the database. In addition, personal property loaned to employees and to other entities was at risk of unauthorized use.

RECOMMENDATIONS

We recommend that the Manager of the Albuquerque Operations Office:

1. Require Los Alamos to:
 - o ensure that employees complete the Laboratory Property Removal/Loan Form before moving personal property from one location to another;
 - o establish policies and procedures to ensure that employees are held financially liable and personally accountable for missing, damaged, or destroyed personal property;
 - o include in its database only those personal property items that can be inventoried;
 - o record loaned personal property accurately in the database; and
 - o either adequately justify property loaned to employees and to other entities, or require the property to be returned to Los Alamos.
2. Direct the Facilities and Property Management Division to:
 - o conduct a review of Los Alamos' personal property management system within the timeframe prescribed in the Department Property Management Regulations;
 - o either approve or disapprove the system based upon that review; and
 - o ensure that Los Alamos implements the actions recommended in Number 1.

MANAGEMENT REACTION

Albuquerque concurred with the finding and agreed to implement the recommendations. However, Albuquerque disagreed with our estimate that \$100 million of Government-owned personal property may not be accounted for. A summary of management and auditor comments is contained in Part III of this report.

DETAILS OF FINDING

REQUIREMENTS FOR PERSONAL PROPERTY PROTECTION

Federal and Department Regulations and University contract clauses required Los Alamos to establish a personal property management system that effectively managed and protected Government personal property. Further, the heads of Department Operations Offices were responsible for managing and administering a program that effectively managed Government personal property in the custody of the Department and its contractors.

Federal Acquisition Regulations (FAR) stated that contractors were responsible and accountable for all Government property in accordance with the contract. The contractor's system was to control, protect, preserve, and maintain all Government personal property. Moreover, the FAR stated that property records must identify and adequately control all Government property and provide a complete, current auditable record of all transactions.

In addition to the FAR requirements, Department Property Management Regulations required that an effective property management system be in place for Government personal property. The system must (1) effectively protect Government personal property against waste, loss, and unauthorized use and (2) provide uniform principles, policies, standards, and procedures for economical and efficient management of Government personal property. Further, contracting officers shall ensure that the contractor's system is reviewed and approved within 1 year after execution of the contract.

Also, Department Property Management Regulations permitted loans of Government property to employees and to other entities. For example, property which would otherwise be out of service for temporary periods and is not excess property may be loaned for official purposes. These loans must be covered by written agreements that include all terms of the loan.

Finally, the contract between the University and the Department stated that the University shall maintain and administer a property management system in accordance with sound business practices and with the Department's Property Management Regulations. For example, the system was subject to approval by the Department's contracting officer and must account for, control, protect, and preserve Government property.

INEFFECTIVE PERSONAL PROPERTY PROTECTION

Los Alamos' personal property management system did not effectively protect personal property. Specifically, our audit showed that (1) substantial amounts of personal property were not accounted for; (2) significant amounts of personal property were incorrectly recorded in the database; and (3) loans of personal property were not adequately justified.

Personal Property Not Found

Los Alamos did not account for a substantial amount of Government-owned personal property that was supposed to be at Los Alamos. Of 400 personal property items we statistically selected, Los Alamos did not account for 44 items (11 percent) with an acquisition cost of \$11.6 million. Personal property encompassed various items such as personal computers, oscilloscopes, and X-ray machines. The 400 items had an acquisition cost of \$254 million, compared to Los Alamos' total of 129,585 personal property items with an acquisition cost of approximately \$1 billion. The sample was selected from the Property Management (PROPMAN) database, the official database when we selected our sample. We stratified the population of the inventory into nine strata in order to provide adequate coverage of the entire 129,585 personal property items.

Personal Property Inventories

Los Alamos did not account for a large amount of Government-owned personal property during several inventories it conducted. A 1989 inventory revealed that Los Alamos could not account for 5,208 personal property items with an acquisition cost of \$13.8 million. As of June 1993, 3,858 of the items (74 percent) with an acquisition cost of approximately \$9.9 million were still not accounted for.

Also, Los Alamos did not account for large amounts of personal property in two December 1992 inventories. For example, in December 1992 Los Alamos inventoried 1,784 property items with an acquisition cost of \$11.5 million located at the Department's Nevada Test Site. Los Alamos did not account for 586 items (33 percent) with an acquisition cost of \$3.7 million. Also, in the same month Los Alamos conducted an inventory of 41,495 "sensitive" property items (those susceptible to theft or easily converted to cash) with an acquisition cost of \$87.8 million. Los Alamos did not account for 2,425 items (6 percent) with an acquisition cost of \$3.8 million. As of June 1993, the items from both inventories were still not accounted for.

Database Deficiencies

Significant amounts of property in the database either had incorrect location information or could not be inventoried. Of 400 items sampled, 116 items (29 percent) with an acquisition cost of \$33.9 million listed one or more incorrect locations such as group, technical area, building, and room number. During the audit, Los Alamos replaced the PROPMAN database with the Property Accounting Inventory Reporting System (PAIRS). We compared the 116 items in PROPMAN to the new PAIRS and found that 81 items (20 percent of the 400 items) with an acquisition cost of \$22.2 million were still incorrectly recorded in both databases. In addition, a second comparison of Los Alamos' databases with additional property items showed inaccurate data. We selected an additional 400 property items in the field in order to compare the accuracy of the items against both PROPMAN and PAIRS. Of the 400 items, nine (2 percent) were not recorded in either database. Also, 203 items (51 percent) with an acquisition cost of \$3.6 million were incorrectly recorded in PROPMAN. Further, we compared the 203 items with PAIRS and found that 170 items (43 percent of the 400 items) with an acquisition cost of \$3.2 million were incorrectly recorded in both databases.

As another example of deficiencies, the database contained items that could not be inventoried. For example, 13 items which cost about \$61.7 million were grouped under one property number rather than being individually recorded in the database.

Inadequately Justified Loans

Loans of personal property to other entities and to Los Alamos employees were not adequately justified. As of May 1993, Los Alamos had loaned other entities 1,118 personal property items with an acquisition cost of \$14.4 million. We judgmentally selected for inventory personal property loaned to five entities. We found that 19 (95 percent) of the 20 loans were not adequately justified. The justifications merely stated that the loans were for "mutual interest" or "programmatic work".

Also, loans of personal property to Los Alamos employees were not adequately justified. As of May 1993, Los Alamos had loaned 3,354 personal property items with an acquisition cost of \$7.3 million to its employees. Using the sample of 20 loans selected for inventory, we reviewed loan forms to determine if adequate loan justifications had been explained. Even though the loan forms required managers to explain the reasons for the loans, 13 (65 percent) of the 20 loan forms merely stated that loans were to "do work at home" or to "do programmatic work at home". These explanations did not clearly describe the types of work to be done or justify why the loans were made.

REASONS FOR INEFFECTIVE PERSONAL PROPERTY PROTECTION

These deficiencies occurred because Los Alamos did not follow requirements to safeguard Government-owned personal property in four ways. First, Los Alamos users of personal property did not follow required procedures when moving property. Los Alamos' Materials Management Manual required a person to complete a standard Laboratory Property Removal/Loan Form and obtain the proper approval from the Division Leader or Group Leader before moving personal property. Further, the Property Administrator was required to sign the form, keep a copy, and distribute copies to both the Materials Management Division and the person removing the property. Our audit showed that users and managers of property did not follow the above requirements. Following these requirements would allow Los Alamos Property Administrators to know the location of personal property and keep an accurate database.

During the audit, Los Alamos considered corrective actions to address this deficiency. For example, Los Alamos property management officials told us that they plan to address the issue of proper notification before moving property from one location to another. In addition, a Los Alamos task force formed to correct property deficiencies has proposed that "[Los Alamos'] security force play a more active role in supporting property management by ensuring that property is being removed with proper authorization." While this would be a positive step, Los Alamos should place primary emphasis on ensuring that managers and users of property follow the required procedures before moving property from one location to another.

Second, Los Alamos did not hold employees financially liable and personally accountable for missing, damaged, or destroyed property. According to Los Alamos' policy, any person removing personal property assumes responsibility for safeguarding that property and may be held personally and financially liable for its loss, damage, destruction, or theft. The prime contract (contract) between the University and the Department stated that the University shall not be liable for loss, destruction, or damage to Government property in its possession unless due to willful misconduct or lack of good faith on the part of the University. The contract did not state, however, that Los Alamos employees cannot be held financially liable and personally accountable. Furthermore, Los Alamos' policy did not explicitly state that employees were financially liable and personally accountable for missing, damaged, or destroyed property.

During the audit, Los Alamos also considered corrective actions to address this deficiency. Los Alamos' task force stated that all Los Alamos employees were accountable for the

property assigned to them. The task force proposed that "when there is noncompliance with this policy, line managers should be responsible for proposing corrective actions," subject to review by their supervisors. While this would be a positive step, Los Alamos should issue (1) a formal policy stating that employees are financially liable and personally accountable and (2) procedures that clearly describe how Los Alamos will implement and enforce the policy.

Third, Los Alamos' personal property database did not consistently and accurately maintain personal property information. The Los Alamos Management Manual required that Los Alamos' records consistently and accurately maintain information on property. However, Los Alamos included in the database information on \$61.7 million of personal property that could not be inventoried. For example, Los Alamos grouped nine property items under one identifying number for accounting purposes. Also, in three instances Los Alamos recorded items of multi-component property scattered throughout Los Alamos (e.g. its Security Alarm System) under one identifying number. In one case, Los Alamos inappropriately recorded funding for construction as a personal property item in the database. Furthermore, Los Alamos did not maintain accurate database information for personal property on loan to other entities. For example, in five instances Los Alamos incorrectly recorded personal property items as located at Los Alamos, when in fact they were located at other entities.

Finally, Los Alamos did not ensure that personal property on loan to employees and to other entities was adequately justified. According to the Department Property Management Regulations, loans of personal property shall be covered by written agreements or memorandum receipts that include all terms of the loan, such as conditions of use. However, Los Alamos managers did not ensure that written agreements for loaned personal property contained adequate justifications.

ALBUQUERQUE'S MONITORING

Albuquerque's monitoring was ineffective because Albuquerque did not approve or disapprove Los Alamos' system in accordance with Department regulations. The Department Property Management Regulations stated that the Department's Property Administrator

shall approve or disapprove the contractor's property management system following a review of the system within 1 year of the execution date of the prime contract.

However, Albuquerque did not approve or disapprove the system following such a review within 1 year of the execution dates of the prime contract (October 1982, October 1987, and October 1992). For example, Albuquerque approved Los Alamos' personal property management system in 1981. However, it did not take action again until disapproving the system in 1990, more than 2 1/2 years after the execution date of the 1987 prime contract. That review should have occurred by October 1988 as required by the Property Management Regulations. Albuquerque approved Los Alamos' system on an interim basis in September 1991, conditioned upon Los Alamos' satisfactory completion of certain corrective actions. Albuquerque then scheduled a review of Los Alamos' personal property management system for May 1993. However, Albuquerque officials told us that they did not conduct that review because the Department's Office of Contract Management and Administration (OCMA) directed Albuquerque not to conduct a review of Los Alamos' personal property management system. Instead, OCMA performed a survey of Los Alamos' personal property management system in May 1993. In July 1993, due to deficiencies identified during our audit and by the OCMA survey, Albuquerque once again disapproved the system.

CONTINUED PROPERTY MANAGEMENT DEFICIENCIES

As a result of not following management and monitoring requirements, Los Alamos' personal property management system continued to have significant deficiencies. For example, a substantial amount of Government-owned personal property at Los Alamos was subject to waste, loss, or unauthorized use. Based on the results of our statistical sample, we estimated that \$100 million (10 percent) of Los Alamos' personal property may not be accounted for and \$207 million (21 percent) may not be correctly recorded in its database. In addition, personal property loaned to employees or to other entities was at risk of unauthorized use. Los Alamos cannot reasonably assure that employees and other entities use loaned personal property only for official purposes as required.

During our audit Los Alamos was conducting a comprehensive "wall-to-wall" inventory of Government-owned personal property. Final results from Los Alamos' inventory were not available at the conclusion of our audit.

PART III

MANAGEMENT AND AUDITOR COMMENTS

Albuquerque concurred with the finding and agreed to implement the recommendations. However, Albuquerque disagreed with the estimate that \$100 million of Government-owned personal property may not be accounted for. A summary of management and auditor comments follows.

1. Personal Property Management

Management Comments. Management concurred with the first recommendation. On September 14, 1993, the Albuquerque Manager directed the Director of Los Alamos to implement the five actions contained in our first recommendation:

- o follow required procedures before moving personal property from one location to another;
- o establish policies and procedures to ensure that employees are held financially liable and personally accountable for missing, damaged, or destroyed personal property;
- o include in its database only those personal property items that can be inventoried;
- o record loaned personal property accurately in the database; and
- o either adequately justify property loaned to employees and to other entities, or require the property to be returned to Los Alamos.

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

Management Comments. Management concurred with the second recommendation and stated that it will require its Facilities and Property Management Division to:

- o conduct a review of Los Alamos' personal property management system within the timeframe prescribed in the regulations;
- o either approve or disapprove the system based upon that review; and

- o ensure that Los Alamos implements the actions recommended in Number 1.

Management stated that it could not perform the review of Los Alamos' system within 1 year of the latest contract execution date (October 1992) because its scheduled review of May 1993 was pre-empted by the Department Headquarters review of May 1993. However, management has re-scheduled its own review for FY 1994. In addition, management stated that in the future, it would review Los Alamos' system in accordance with the required timeframe (within 1 year of the execution date of the contract). Management said it would require Los Alamos to submit a corrective action plan to Albuquerque by October 29, 1993, to address our recommendations. Also, management stated it would approve or disapprove Los Alamos' system based on the results of its review, Los Alamos' corrective action plan, and Department Headquarters input. Finally, management stated that it would conduct follow-up in conjunction with Albuquerque's Los Alamos Area Office (and if necessary, with Department Headquarters) to ensure that Los Alamos implements the recommendations.

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

2. Other Matters

Management Comments. Management disagreed with the estimate that \$100 million of personal property may not be accounted for. Management stated that an accurate estimate of cost savings cannot be realistically determined because its 1990 Contractor Personal Property System Review (CPPSR) determined that Los Alamos' PROPMAN database (from which our sample was drawn) was highly inaccurate. Therefore, an accurate estimate of any monetary impact cannot be known until Los Alamos completes the comprehensive wall-to-wall physical inventory of property currently underway. Also, management stated that our finding and recommendations did not specify how much time Los Alamos officials were given to locate property.

Auditor Comments. We believe our estimate of \$100 million is valid even though we used the population in the PROPMAN database to select our sample. Although Albuquerque stated that its 1990 CPPSR showed the PROPMAN to be highly inaccurate, Los Alamos used the PROPMAN exclusively until late February 1993, when it began to transition from the PROPMAN to the PAIRS. After its 1989 wall-to-wall physical inventory, Los Alamos was supposed to establish a baseline of existing property. However, it did not do so. Therefore, we had to rely on the existing PROPMAN

database information available during the audit. When the audit commenced in January 1993, there was speculation that a new database would be implemented. As a result, we asked Los Alamos officials about the matter. They stated that the new PAIRS would be implemented, but they did not provide a specific date. As a result, we used the PROPMAN, the only available property management database, as the universe from which to select our statistical sample of 400 items. In creating the PAIRS data in early 1993, Los Alamos merely transferred the PROPMAN data into the PAIRS. Therefore, to ensure accuracy we also verified all 400 sampled items against the PAIRS.

Finally, during the inventory, we allowed Los Alamos officials sufficient time to locate those personal property items not found during the inventory. We permitted Los Alamos officials to locate personal property during the timeframe we conducted our inventory at a specific location. This timeframe was typically 2 to 3 days.

PART IV

Appendix
Page 1 of 2

APPENDIX

Details of Statistical Projection

We selected a statistical sample of personal property items from the PROPMAN database as of January 28, 1993. We stratified the population into nine strata to increase sample reliability and to project the error rates of each stratum by dollar amount. The population of Los Alamos' personal property consisted of 129,585 items with an acquisition cost of approximately \$1 billion. We used a statistical random number generator to select a random sample of 400 capital and non-capital items with an acquisition cost of approximately \$254 million (25 percent). The following table shows our estimates for those items that Los Alamos did not account for or that were incorrectly recorded in the database.

<u>STRATA</u>	<u>DOLLAR THRESHOLD</u>	<u>POPULATION SIZE</u>	<u>SAMPLE SIZE</u>	<u>PROJECTED VALUE OF POTENTIALLY UNACCOUNTED ITEMS</u>	<u>PROJECTED VALUE OF POTENTIALLY INCORRECTLY RECORDED ITEMS</u>
1	\$1 to \$99	1,133	30	\$ 3,570	\$ 13,700
2	\$100 to \$499.99	15,540	30	139,860	890,422
3	\$500 to \$999.99	9,026	30	0	1,342,259
4	\$1,000 to \$2,299.99	41,348	30	14,903,750	17,442,158
5	\$2,300 to \$3,599.99	23,685	30	14,762,489	13,903,941
6	\$3,600 to \$4,999.99	12,372	30	5,928,869	12,138,537
7	\$5,000 to \$99,999.99	25,605	140	48,188,819	112,536,392
8	\$100,000 to \$999,999.99	832	36	5,192,512	28,257,353
9	\$1 Million and over	44	44	11,109,851	20,331,948
TOTALS		129,585	400	\$100,229,720	\$206,856,710

Projected Value of Potentially Unaccounted Items

Regarding items Los Alamos did not account for, our standard computerized statistical sampling program projected the results of our sample. For example, the program projected the sample results within each stratum to the total population of that stratum, and totaled the strata as shown in the above table. Using a 95 percent confidence level, the program showed that the average value of the population of items of interest was \$773.47, plus or minus \$249.55. The point estimate of the population was \$100,229,720.44, plus or minus \$32,338,417.96. In other words, we were 95 percent confident that the total value of the population lay Appendix between \$67,891,302.48 and \$132,568,138.40. Therefore, the average precision (sampling error) was 32.3 percent.

Projected Value of Potentially Incorrectly Recorded Items

The computerized program used the same process to project the results of our sample to the population of each stratum for those personal property items that were not correctly recorded in the database. Using a 95 percent confidence level, the program showed that the average value of the items of interest was \$1,596.30, plus or minus \$444.28. The point estimate of the population was \$206,856,705.94, plus or minus \$57,572,576.97. In other words, we were 95 percent confident that the total value of the population lay between \$149,284,128.97 and \$264,429,282.91. Therefore, the average precision (sampling error) was 27.8 percent.

CUSTOMER RESPONSE FORM

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