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United States Government

Department of Energy

memorandum

DATE: August 10, 1993
REPLY TO: IG-1
ATTN OF:
SUBJECT: INFORMATION: Report on "Inspection of the Department of Energy's Procedures for Administering Contractors' Executive Employees' Compensation"

TO: The Secretary

BACKGROUND:

We conducted an inspection of certain aspects of the Department of Energy's administration of its management and operating and other designated contractors' executive employees' compensation. The purpose of the inspection was to evaluate whether Departmental officials were performing their responsibilities for reviewing, approving and reporting contractors' executive employees' compensation. Contractor executive employees' compensation totalled \$533 million in fiscal year 1991.

DISCUSSION:

The inspection disclosed, in part, that additional policy and procedures for monitoring contractors' executive employees' compensation are needed to ensure that compensation is paid only after being approved by Departmental officials. We found that contractor officials at Savannah River and San Francisco Operations Offices charged executive employees' salaries to their respective contracts prior to receiving Departmental officials' approval during 1990 through 1992. During this same period, contrary to their respective contracts, contractors under these Operations Offices were also not submitting some executive employees' compensation for Departmental officials' approval.

The inspection also disclosed that Departmental officials need to establish a Department-wide policy regarding incentive compensation programs. We noted deficiencies in the administration of the incentive compensation programs at the Savannah River Operations Office. These deficiencies included payments of incentive compensation prior to Departmental officials' approval and inadequate support of individual incentive compensation awards. These programs, which cost the Department about \$20 million for calendar years 1989 through 1991 included \$1.5 million that had not been approved by Departmental officials.

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Furthermore, the inspection disclosed that additional training and guidance is needed in order to facilitate certification of the Department's contractor compensation systems. We noted that under the new contract with the University of California, the University's compensation systems are not required to be certified by the Department, even though the requirement to submit executive salaries to the Department for approval will be phased out by 1997.

In commenting on this report, the Managers of the Operations Offices and the Deputy Director of Procurement, Assistance and Property Management generally concurred with the recommendations and identified corrective actions to address the recommendations.

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
Acting Associate Deputy Secretary for Field Management,
w/o Attachment
Assistant Secretary for Human Resources and
Administration, w/o Attachment
Associate Director, Procurement, Assistance and
Property
Director, Office of Contractor Human Resource Program
Manager, Albuquerque Operations Office
Manager, Chicago Operations Office
Manager, Oak Ridge Operations Office
Manager, San Francisco Operations Office
Manager, Savannah River Operations Office

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

INSPECTION OF THE
DEPARTMENT OF ENERGY'S
PROCEDURES FOR ADMINISTERING CONTRACTORS'
EXECUTIVE EMPLOYEES' COMPENSATION

Report No. DOE/IG-0332
Date Issued: August 10, 1993

Office of Inspections
Washington, D.C. 20585

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Inspection of the
Department of Energy's
Procedures for Administering
Contractors' Executive Employees' Compensation

INTRODUCTION AND PURPOSE

The Department of Energy (Department) relies on its management and operating contractors to manage the Department's major laboratories and facilities, as well as carry out a major portion of its mission. These contractors and certain other designated contractors are required to have their executive employees' salaries reviewed and approved by Departmental officials each year. In fiscal year 1991, approximately \$7.8 billion was spent for these contractors' employee compensation—including over \$533 million for these contractors' executive employee compensation, the focus of our report.

The purpose of the inspection was to review the Department's responsibilities and procedures for reviewing, approving and reporting contractors' executive compensation. One key objective of the inspection was to determine if the Department and its contractor officials were carrying out their responsibilities according to applicable Federal laws; and Department regulations, policies and procedures.

SCOPE AND METHODOLOGY

The inspection covered the period beginning June 1991 through March 1993. In conducting the inspection, we reviewed executive employee compensation files of the Department and its management and operating contractors and other designated contractors for fiscal years and calendar years 1989 through June 1992. We also interviewed officials from the Department's Offices of Procurement, Assistance and Program Management and General Counsel; and four Operations offices—San Francisco, Oak Ridge, Albuquerque and Savannah River. Furthermore, we interviewed some of the Department's contractor officials from the University of California at Lawrence Livermore National Laboratory, Lawrence Berkeley Laboratory and Los Alamos National Laboratory; Stanford University at Stanford Linear Accelerator Center; Martin Marietta Energy Systems, Inc. Oak Ridge; Oak Ridge Associated Universities, Inc.; Westinghouse Savannah River Company; Ross Aviation; and AT&T Technologies, Inc. at the Sandia National Laboratory. Finally, we reviewed prior Department of Energy

Office of Inspector General reports covering contractors' employee compensation. This inspection was conducted in accordance with Quality Inspection Standards issued by the President's Council on Integrity and Efficiency.

BACKGROUND

Because of the Department's reliance on its management and operating contractors and the fact that approximately 50 percent of their expenditures are for compensation, Departmental officials developed specific personnel policies and procedures regarding the administration of its management and operating and other designated contractors' employee compensation. These policies and procedures are covered in the Department of Energy Acquisition Regulation and Order system.

Department of Energy Acquisition Regulation 970.2201, "Basic Labor Policies", states that personnel and labor policies of the Department's contractors should be designed to achieve the type of labor-management relations essential to develop the energy program. The regulation also states that Department officials shall review labor expenses under its management and operating contractors as a part of its responsibility for assuring judicious expenditure of public funds. The regulation goes on to state that it is Department policy to assure that contractor personnel practices are consistent with Federal Acquisition Regulation 31.205 which states that compensation must be reasonable for the work performed.

Federal Acquisition Regulation requirements are implemented in the Department of Energy's Acquisition Regulation 970.3102-2, "Compensation for Personal Services", which states in part that salaries are considered reasonable if the total compensation conforms to compensation paid by other firms of the same size, in the same industry, or in the same geographic area for similar services or work.

Consistent with the Department's policies to assure reasonableness of contractor compensation, Department of Energy Acquisition Regulation 970.3102-2 required that the Department's contracting officers (who are typically located at operations offices) review and approve management and operating contractors' executive employees' salaries of \$60,000 and above. This amount has been amended twice through Department of Energy Regulation 970.3102-2, with the current salary approval level set at \$80,000. According to Headquarters' Office of Contractor Human Resource Program officials, they are required to review and approve contractor salary requests over \$100,000. As of September 1990, Department officials had reviewed and approved a

total of 7,141 executive salary actions for the period April 1990 through September 1990. The portion of the executives salaries charged to the Department during this period ranged from \$70,000 to \$210,000.

SUMMARY RESULTS OF INSPECTION

The following summarizes the findings of our inspection:

- o Contrary to its contract, during calendar years 1990 and 1991 Westinghouse Savannah River Company (Westinghouse) charged about \$4.7 million in executive salary increases to its contract prior to receiving Departmental officials' approval. Some of the salary increases were charged up to 29 months prior to Departmental officials' approvals. Departmental officials retroactively approved about \$4 million of these Westinghouse salary increases.
- o Because of a misinterpretation of language in its contract, Bechtel Savannah River, Inc. (Bechtel) had not submitted its executive salaries and salary increases to Departmental officials' for review and approval since May 1990. Effective December 1992, Departmental officials at Savannah River reestablished its review and approval of Bechtel executive salaries.
- o Westinghouse and Bechtel officials at Savannah River established incentive and phase-out compensation programs during calendar years 1989 to 1991 which cost the Department about \$20 million. Approximately \$1.5 million of these costs, incentive compensation paid to Bechtel employees, were not approved by Departmental officials. Departmental officials at Savannah River discontinued these programs effective March 19, 1993.
- o Contrary to its contract signed in 1987, the University of California was not submitting executive level salaries of its joint appointees to Departmental officials for review and approval. Joint appointees are University employees who work simultaneously under contract with the Department and the University.
- o University of California officials at the Lawrence Berkeley Laboratory (Berkeley) were paying joint appointees stipends (administrative bonuses) which exceeded the stipend amounts approved by Departmental officials. In one example, Departmental officials approved 62.5 percent (\$500), of an \$800 proposed monthly stipend, but the University charged the Department \$1000 per month.

- o Headquarters' Office of Contractor Human Resource Program officials established a Contractor Executive Compensation Board to review and approve contractor salaries above \$138,900, without requirements to maintain complete files on salary decisions.
- o Contrary to Department of Energy Order 3220.4, "Contractor Personnel and Industrial Relations Report", contractors were not reporting total employee compensation to the Department.
- o Operations Office officials were not always complying with Headquarters' Office of Contractor Human Resource Program officials' direction.
- o Contrary to Department of Energy Order 3220.4, officials from the four Operations Offices covered in this inspection were not verifying the accuracy of contractor compensation reports.
- o Additional training and guidance is needed to effectively implement the Department's program to certify contractors' compensation systems.
- o The new University of California contracts will phase out Departmental officials' approval for University executive employees' compensation by 1997 without a requirement that Departmental officials certify the University's compensation systems.

Departmental and contractor officials at the Operations Offices, as well as Headquarters' officials, stated that the three primary reasons that executive salary increases were charged to Departmental contracts prior to Departmental officials' approval were: 1) late submissions of salary requests by contractors; 2) Departmental officials' delay in processing executive salary requests even when submitted in a timely fashion; and 3) submission of insufficient documentation by contractors to support salary requests. It also appears that Headquarters' officials may not have sufficient staff to provide timely review and approval of contractor salary requests.

In comments responding to a draft of our report, Departmental officials in Headquarters' Office of Contractor Human Resource Program stated that the University of California had signed a new contract with the Department effective October 1992, which over the period of five years will eliminate the requirement for the University to submit its executive employees' salaries and salary increases to Departmental officials for review and approval; except for its Laboratory Directors. Also, the Manager of the Savannah River Operations Office provided

comments stating that during the course of our inspection they reached agreement with Westinghouse Savannah River Company to discontinue charging proposed executive salaries to their contract prior to Department officials' approval.

The findings above and related recommendations are discussed in more detail in the following sections.

FINDINGS AND RECOMMENDATIONS

Contractors Charged Executive Salary Increases to Their Respective Contracts Without Departmental Officials' Required Prior Approval

It is the Department's policy that no contractor's salary be charged to the Department prior to appropriate Departmental officials' approval. Department of Energy Regulation 970.3102-2(d) states "...all compensation due an individual of \$80,000 or more shall require the contracting officer's or designee's review and approval....As in the case of other personnel and compensation costs, it is intended that contracting officer review and approval of individual compensation normally will be prior to incurrence of costs." This policy, is reiterated in a June 25, 1991 memorandum to Operations Office officials from the Director of Headquarters' Office of Contractor Human Resource Program. We discussed the prior approval policy with a Headquarters' Office of Contractor Human Resource Program official who stated that the policy applies to all management and operating and other designated contractors. We also noted that in the case of Westinghouse their contract stated that salaries at \$60,000 and above must be approved in advance by the Department's contracting officer.

We believe that the Department's procedures for the prior approval of executive salaries is an important element of management and operating contract administration in protecting the Government's interest. Normally, Government cost type contractors use their own funds in carrying out the work under their Government contract; and they must submit invoices to Government officials to be reviewed and approved before being reimbursed for costs incurred. Unlike these cost type contractors, the Department's management and operating contractors use Government funds provided through a letter of credit as they incur costs, including those for executive salaries. Also, the Department's management and operating contractors are not required to submit invoices for review or approval by Government officials. Furthermore, Departmental officials, historically, have rarely disallowed costs incurred by management and operating contractors. This historical

practice by Departmental officials emphasizes the importance of contractor officials following the Department's policy of Departmental officials reviewing and approving contractor's executive salaries before they are paid.

We found in this inspection that three of the Department's contractors, whose salary records we reviewed, charged over \$4.7 million in executive employees' salary increases to their contracts prior to obtaining Departmental officials' approval. These contractors were Westinghouse, the University of California and Stanford University. Following is a more detailed discussion of our findings.

Savannah River Operations Office

Westinghouse

We reviewed the Department's contract with Westinghouse and the contract's personnel appendix. We also reviewed selected Westinghouse executive salary records for calendar years 1989 through June of 1992. Consistent with the Department's 1989 policies and procedures, the Westinghouse contract and personnel appendix both stipulate that Westinghouse salaries at \$60,000 and above must be approved in advance by the Department's contracting officer. The appendix states "that the Contractor shall propose and provide supporting information....on salary action well in advance of the proposed effective dates,...." It states that "No commitments shall be made to employees regarding compensation actions until Contracting Officer approval has been obtained."

Contrary to the contract's requirement for prior approval, Westinghouse officials charged calendar years 1990 and 1991 executive employees' salary increases of approximately \$4.7 million to its Department contract without prior Departmental officials' approval.

For example, Savannah River officials did not approve \$2.6 million in 1990 calendar year salary increases for 632 Westinghouse executive employees until December 13, 1991. Westinghouse officials started charging some of these increases to their Departmental contract as early as January 1, 1990, 23 months prior to Savannah River officials' retroactive approval.

Savannah River officials did not approve \$323,000 in 1990 calendar year executive salary increases of an additional 66 Westinghouse executive employees until June 1, 1992.

Westinghouse officials started charging their contract for some of these increases as early as January 1, 1990, 29 months prior to Savannah River officials' retroactive approval.

Also, Savannah River officials did not approve \$1.1 million in 1991 calendar year executive salary increases of 224 Westinghouse executive employees until June 1, 1992. Westinghouse officials began charging their contract for some of these increases as early as January 1, 1991, 17 months prior to Savannah River officials' retroactive approval.

Other examples of Westinghouse officials charging executive salary increases to the contract prior to receiving Departmental officials' approval include the following:

- o The Westinghouse Vice President and Director of the Savannah River Laboratory was given an increase by Westinghouse officials on January 1, 1991. In a September 5, 1991 letter to Westinghouse's President, Savannah River officials stated that the increase was not approved. In this instance, not only did Westinghouse officials fail to remove previous salary costs charged to the contract, they continued to pay the salary increase and charge the Department until brought to their attention by the Office of Inspector General during this review in June, 1992. At that time, Westinghouse officials had charged \$15,300 in unapproved executive compensation to their contract.
- o In the same letter, Savannah River officials denied salary increases for the Westinghouse Vice President and Manager of Financial Management and Information Systems, and the Vice President and General Manager of Engineering and Projects Division; and reduced the increase to the Westinghouse Manager of Human Resources. Westinghouse officials charged \$21,116 in unapproved increases paid to these three managers to their Department contract until June, 1992.
- o In another example, we found that as of September 1992, Westinghouse officials had not received Savannah River officials' approval for its Vice President and General Manager of the Reactor Restart Division's salary, even though he began working on October 29, 1990. Headquarters' Office of Contractor Human Resource Program Director approved the Vice President's salary on January 9, 1991. At the time of our review, Savannah River officials had not transmitted the approval to Westinghouse officials.

Savannah River's Director of Contractor Human Resources, stated that the salary approval to Westinghouse has not

been transmitted because Westinghouse officials have been paying the Vice President \$40,000 per year in additional compensation above his base salary which has not been approved by Savannah River officials. The Director stated that the additional compensation represents the cash equivalent of benefits that the Vice President would normally receive but has elected not to receive. He stated that approval of the Vice President's salary would be held until Westinghouse officials provide a justification for the \$40,000 compensation in lieu of benefits. The Westinghouse Manager of Compensation stated that the Vice President is the only Westinghouse employee receiving compensation in lieu of benefits.

We also noted at Savannah River instances in which neither Savannah River nor Westinghouse officials could provide approval documentation for salary increases totalling over \$65,000 for the following individuals:

- o Three of Westinghouse's senior executives—the Vice President and General Manager of the Nuclear Materials Processing Division, the Deputy General Manager of the Nuclear Materials Processing Division, and Deputy General Manager of Engineering and Projects were given salary increases on November 1, 1990. Neither Savannah River nor Westinghouse officials could document approval of these increases, and Westinghouse officials did not provide evidence that approval for these increases were requested. The unapproved compensation associated with these increases charged to the Department through June 1992 totalled \$44,000.
- o Westinghouse's Manager of Administrative Services received a salary increase on April 1, 1991. Neither Savannah River nor Westinghouse officials could provide records that this increase was approved by Savannah River officials. This increase was in effect until the employee received an "approved" increase seven months later on November 1, 1991. Costs charged to the Department from the unapproved increase totalled \$3,570.
- o Westinghouse's Deputy General Manager of the Reactor Restart Division received a salary increase on November 1, 1990. Neither Savannah River nor Westinghouse officials could provide records that this increase was approved by the Department. Also, Westinghouse officials requested approval of a subsequent increase for this individual, to be effective on December 1, 1991. Savannah River officials approved this request, but changed the effective date to February 1, 1992. Westinghouse officials started paying

this new increase on December 1, 1991 and never adjusted the costs charged to the Department to reflect the revised date of February 1, 1992. Unapproved compensation resulting from these two actions totalled \$11,500.

- o The President of Westinghouse Savannah River Company was given an increase by Westinghouse officials on February 1, 1991. The President was subsequently transferred back to Pittsburgh in July 1991, and his increase was never approved by Savannah River officials. Compensation charged to the contract from this unapproved action during the five months it was in effect totalled \$6,500.

Furthermore, we found two instances where two Westinghouse managers have been paid salaries or salary increases over a period of several years without Departmental officials' approval. In one instance, Departmental officials have never approved the salary for one manager who began working April 1, 1989. Westinghouse officials submitted his salary request on March 7, 1989. Additional documentation was requested by Savannah River officials and subsequently submitted by Westinghouse officials on September 14, 1990. However, as of September 1, 1992, three years after the original submission, Savannah River officials had not approved this individual's salary or subsequent increases. As a result, through June 30, 1992, the manager had received \$338,000 in unapproved compensation.

Departmental officials also have never approved the salary of another manager who commenced work on May 1, 1991. On May 28, 1991, Savannah River officials requested additional data including a position description for the employee. As of September 1992, the information had not been provided, yet Westinghouse officials continued to charge his salary to the contract. As a result, through June 30, 1992 the manager had received \$147,000 in unapproved compensation.

In comments responding to a draft of this report, the Savannah River Manager stated that "both Savannah River and WSRC [Westinghouse] officials recognize that timeliness/approval of individual salary actions has been an ongoing problem since inception of the WSRC [Westinghouse] contract in April 1989." These officials also stated that substantial and continual progress has been made on this issue and within this year the remaining issues will be resolved. They further stated that since June 23, 1992, Westinghouse officials have followed a practice of not charging their contract before receiving government approval of individual salary actions.

San Francisco and Albuquerque Operations Offices

We also found contractor executive salary increases being charged to contracts prior to Departmental officials' approval at San Francisco and Albuquerque Operations Offices. As a result of our inspections, contractors at San Francisco have reimbursed the Department for \$22,122 and had initiated action to reimburse the Department \$10,668 of the unapproved salaries that they had charged to the Department.

Los Alamos, Berkeley and Livermore

For instance at Los Alamos, University of California officials requested an \$8,700 increase for its Laboratory Director effective January 1, 1990. University officials began paying the increase and charging it to their contract in January 1990. On May 1, 1991, approximately 16 months later, Departmental officials approved the increase retroactive to January 1, 1990. Prior to this retroactive approval, on January 1, 1991, University officials again increased the Director's annual salary by another \$11,100 and began charging it to their contract without Departmental officials' approval. This increase was approved on August 1, 1991 by Departmental officials, but the effective date was changed to July 1, 1991. As a result of these actions, the Director's salary exceeded Department officials' approved salary by \$5,500 for the period of January 1, 1991 through June 30, 1991.

In our 1990 report entitled "General Management Inspection of the San Francisco Operations Office", we recommended that the San Francisco Manager review the Directors' salaries to ensure that they were not being paid in excess of approved Departmental rates. Based on this recommendation, San Francisco officials sent letters to Livermore and Berkeley officials requesting documentation that the Directors' salaries did not exceed Departmental officials' approved salary levels. In response to San Francisco's letters, University officials reimbursed the Department \$22,122 in unapproved salaries.

Despite this reimbursement, we found that University officials continued to charge their contract for the Laboratory Directors' salary increases prior to receiving Departmental officials' approval. For example, on July 25, 1990 University officials at Livermore requested Departmental officials' approval of the Laboratory Director's January 1, 1990 salary increase of \$8,300. Effective January 1, 1990 University officials began paying this increase to the Laboratory Director and charging the expense to

their contract. On May 13, 1991, Departmental officials approved this increase retroactive to January 1, 1990, approximately 15 months earlier.

University of California Contract Changes

Effective October 1992, the University of California executed new contracts to operate the Department's Berkeley, Livermore and Los Alamos National Laboratories. We noted that the contracts' personnel appendixes phase out Departmental officials' approvals of the University's executive salaries by the contract's fifth year -- completely eliminating Department officials' approval for all University employees' executive salaries except the Laboratory Directors. As discussed later in this report the contract further states that the Laboratories' compensation systems do not require approval by Departmental officials. Details of these contract provisions are discussed in the Contractor Compensation Systems Certification section of this report beginning on page 49.

Stanford Linear Accelerator Center (Stanford)

At the Stanford Linear Accelerator Center we found the following instances of unapproved salaries:

<u>Employee</u>	<u>Stanford Proposed Effective Date</u>	<u>Department Approved Effective Date</u>	<u>Increases Charged Prior to Department Approved Effective Date</u>
Asst. Dir	04/01/89	08/17/89	\$1,435.81
Dept. Head	06/01/89	08/22/89	1,684.53
Tech. Mgr	01/24/90	03/26/90	587.44
Engineer	05/24/88	08/03/88	1,218.16
Dept. Head	12/28/88	05/24/89	3,499.45
Dept. Head*	10/15/89	10/15/89	<u>2,242.88</u>
TOTAL			<u>\$10,668.27</u>

* Stanford paid a higher monthly salary than that approved by Departmental officials for the period of 10/15/89 through 9/1/90.

On July 8, 1992 Stanford officials initiated action through an internal memorandum to reimburse the Department \$10,668 for the unapproved salaries.

Another example of Stanford charging the contract prior to Departmental officials' approval included a Stanford Professor with a Department approved salary of \$119,196 effective March 1, 1992. On March 25, 1992, Stanford officials requested a non-permanent \$20,000 Supplemental Salary for the employee for the period January 1, 1992 through September 1992. Stanford officials began paying the increase on February 25, 1992 retroactive to January 1, 1992, five months prior to Departmental officials retroactive approval on July 29, 1992.

Reasons For Unapproved Contractor Executive Salary Charges

As stated above, the three contractors—Westinghouse, the University of California and Stanford University together charged over \$4.7 million in executive salary increases to their respective Department contracts prior to receiving Departmental officials' approval. Departmental and contractor officials in the Operations Offices and Headquarters stated that the three primary reasons that contractors charged salary increases to their contracts prior to Departmental officials' approval were: 1) late submissions of executive salary requests by the contractor; 2) Departmental officials' (Headquarters' and Operations Office officials) delay in processing these salary requests; and 3) contractors submitting insufficient documentation to Operations Offices in support of salary requests.

Regarding late submissions, we found that Department of Energy Order 3220.1A, "Management of Contractor Compensation", requires that the contracting officer submit salary increases to Headquarters' Office of Contractor Human Resource Program at least ten working days prior to the proposed effective date. The Order does not include a requirement stating when contractors should submit salary requests to Operations offices to ensure timely review and approval. Although the Order does not include a requirement for Operations Offices, San Francisco Operations Office officials require that the contractors submit salaries 30 days prior to the proposed effective date if San Francisco officials approval is required, and 45 days prior to the proposed effective date if Headquarters' officials approval is also required.

Regarding delayed approvals by Departmental officials, we found in some instances that contractors submitted salary requests for approval in advance of their proposed effective date, but Headquarters' Office of Contractor Human Resource Program and Operations Office officials did not process the increases prior to the proposed effective dates.

Regarding inadequate or insufficient information being submitted by the contractor to the Operations Offices officials, we found that other than the Department of Energy Form 3220.5, "Application for Contractor Salary Approval", and the "List of Proposed Salary Increases" form, Department officials do not have written executive salary approval procedures which specify the type of documentation which should be submitted by contractors in support of their salary requests.

A Headquarters' Office of Contractor Human Resource Program official stated that procedures and standards for approving executive compensation over \$80,000 are provided in the draft Industrial Relations Handbook which is utilized by Office of Contractor Human Resource Program and Operations Office officials. Our review of the Handbook revealed that it does not provide procedures that specify the type of documentation that Operations Offices and Headquarters' Office of Contractor Human Resource Program officials' need to determine whether to approve or deny a contractor's salary request.

Also, our review of Headquarters' Office of Contractor Human Resource Program and Operations Offices' files revealed an inconsistency in the data maintained in files to support the approval or denial of contractor salary requests. That is, some files we reviewed contained extensive documentation to support the executive salary action requested, such as resumes, job descriptions, performance evaluations, market data, etc. while other files only contained Department of Energy Form 3220.5, "Application for Contractor Salary Approval". This was especially apparent in files pertaining to the approval or denial of the contractors' salary requests for new hires, promotions and substantial merit increases.

We were told by the Headquarters' Office of Contractor Human Resource Program officials that Department of Energy Form 3220.5 and an attachment to the Order, "List of Proposed Salary Increases", contain all the data needed to approve or deny salary requests. When questioned as to why some files contained more documentation than others, the official stated that there are several instances in which some Headquarters' file would contain more documents than others. One instance is when a contractor submits unsolicited documentation, such as resumes, etc. Another instance is when Operations Offices or Headquarters' officials require additional data in order to complete their analysis.

A Headquarters' Office of Contractor Human Resource Program official stated that the office had previously considered suggesting additional documentation, beyond Department of Energy Form 3220.5, to support contractors' salary requests. He

stated, however, that the number of instances in which additional documentation is required is limited; and for this reason incorporating a requirement for additional documentation into a mandatory Order was not warranted.

Conclusions

We believe that identifying specific documentation required for all new hires, promotions or substantial merit increases may reduce the number of instances in which Departmental officials need to request additional information from contractors to support their salary requests. This may also reduce the delay in Departmental officials reviewing and approving or denying contractor executive salary requests; and may, therefore, reduce the number of instances where contractors charge the Department for executive salary prior to Departmental officials' approval.

We also believe that Operations Office Officials should determine, as San Francisco Operations Office officials have done, how far in advance they need salary requests in order to process them in a timely fashion; and then require contractors to submit their salary requests accordingly. Establishment and implementation of this requirement may reduce the number of late contractor submissions of executive salary requests; and thus reduce the delay in Departmental officials decisions to approve or deny executive salary requests.

We further believe that the Department's Operations Office officials monitoring to see that contractors' executive salaries are consistent with those approved by Departmental officials would be a proactive control procedure which may reduce the amounts of unapproved contractor executive salaries charged to the Department. For example, we found at two Operations Offices that our comparison of data obtained from the contractors' compensation reports to the Department's approved salary forms revealed that contractors were charging salary increases to the contract which were not approved by Departmental officials. Routine comparison of the reported information on the contractor compensation reports to the Department's approved executive salary increases would give an indication of the inconsistencies of the contractors' reports, as well as assist the Operations Office officials in determining if unapproved salaries are being paid to contractor employees.

We believe that routinely monitoring contractors' executive compensation is a contract administration responsibility of Departmental management officials. Department of Energy Acquisition Regulation 970.2201 and the draft Department Industrial Relations Handbook state that Departmental officials

shall review labor expenses of its management and operating contractors as a part of its responsibility for assuring judicious expenditure of public funds. We also noted that some Operations Offices are reviewing these compensation reports. For example, the Chicago Operations Office Manager stated in his response to our draft report that his office currently reviews compensation records. In addition, the Oak Ridge Operations Office Manager stated that "....to assure they [contractors salaries] are consistent with the DOE approved salary levels....An audit of accounting/payroll records would be more appropriate, and we plan to have our Evaluation and Control Division periodically audit these records."

In comments responding to a draft of this report, the Savannah River Manager stated that they did not agree with our position that charging Department salaries to the contract without prior Departmental officials' approval is contrary to Departmental policy. Savannah River officials stated that:

"....Under normal circumstances prior approval of salary actions should be received, but it is clear that the Department of Energy Regulation and the DOE salary approval form permit retroactive approvals. Therefore, formal DOE policy does not require prior approval before charging such costs to the contract...."

We discussed the Savannah River Manager's comments with a Headquarters' Office of Contractor Human Resource official who stated that both the Department of Energy Regulation and the DOE approval form are neutral on whether retroactive approval of contractor salary requests are permitted. We also reviewed the DOE salary approval form and found that the form provides for a proposed date and an effective date. The proposed date is the contractors' suggested date for a salary request to be effective and the effective date is a date established by DOE officials. Furthermore, our review of Appendix A to the Westinghouse contract appears to confirm that prior approval of salary requests is DOE's policy. The appendix states that "No commitments shall be made to employees regarding compensation until Contracting Officer approval has been obtained." Finally, we noted that a June 25, 1991 memorandum to DOE Operations Offices stated that "It is DOE policy that no salary be reimbursed prior to appropriate DOE approval. In this case no DOE funds, including letters of credit or otherwise, are to be expended to pay an increase...."

Because of Savannah River officials' comments regarding the Department's policy for approving contractors' executive salaries and the importance of this policy in assuring that contractors' executive salaries are reasonable, we believe that

Headquarters' Office of Contractor Human Resource Program officials need to ensure that the Department's policy is understood by the Department's Operations Office and contractor officials.

Recommendations

1. We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management working with Operations Office officials:
 - a. Develop and implement additional review and monitoring policy and procedures to facilitate the timely review and approval of contractors executive compensation and to ensure that executive compensation is only paid as approved by the Department.
 - b. Ensure that the Department's policy that contractors shall not charge executive salaries to their contracts prior to receiving the appropriate Departmental officials' approval is consistently understood by Departmental and contractor officials.

Management Comments

Regarding these recommendations and the Deputy Director, Office of Procurement, Assistance and Program Management, concurred stating that language providing guidance on the timely review of salaries will be clearly communicated to all Operations Offices. The Deputy Director further stated that "Nevertheless, the authors of the Department of Energy Acquisition Regulation 970.3102-2(d) acknowledged that prior approval is not always possible... Therefore DOE will continue to authorize retroactive approval as circumstances warrant."

Regarding recommendation 1.a., the Manager, San Francisco Operations Office concurred in principle. The Manager stated that due to the time consuming efforts, as well as the limited staffing levels, the desired benefits as a result of this action may not be achieved. The Manager further stated that tighter internal controls would address the problem of improper charging of salaries; and that the contractor should certify that the necessary internal controls are in place.

Regarding recommendation 1.a., the Manager, Chicago Operations Office concurred with the stipulation that the Operations Office officials have input into the policy and procedures that are developed. The Manager also stated that in the development of

suitable Departmental guidelines, and the responsibility for the review and monitoring of contractor executive compensation should be delegated primarily to the Operations Office at the contracting officer level where sufficient knowledge and expertise exists to make such decisions; thereby freeing the Headquarter's Office of Contractor Human Resource Program officials to develop policy and guidelines.

Regarding recommendation 1.b., the Managers at San Francisco and Chicago Operations Offices concurred. The Manager, San Francisco Operations Office, stated that he will instruct contractor officials, in writing, that charging executive salaries to their contracts prior to receiving appropriate Departmental officials' approval is prohibited. The Manager, Chicago Operations Office, stated that while contractors charging salaries to their contracts prior to receiving Departmental officials' approval is not a problem with Chicago contractors, his office staff will continue to adequately communicate this policy to their contractors.

2. We recommend that the Managers at the Savannah River and San Francisco Operations Offices review the contractors' executive compensation expenses for 1990 through 1992 and direct the contractors to reimburse the Department for unapproved salaries charged to the Department, and establish follow-up procedures to ensure that reimbursement occurs in a timely manner.

Management Comments

The Managers at Savannah River and San Francisco Operations Offices concurred with the recommendation. The Manager, San Francisco Operations Office stated that if unapproved salary elements are uncovered, San Francisco officials will direct the contractor to make relevant reimbursements.

The Deputy Director, Office of Procurement, Assistance and Program Management concurred in principle indicating that they did not see a systemic problem with Operations Offices in which single incidents were identified, therefore in these instances the Operations Office officials should not be required to review all salary actions for each of their management and operating contractors.

Contractors Failed to Submit Executive Salary Actions to the Department

In addition to contractors charging executive salaries to their contracts prior to Departmental officials' approval of the requested increases, we found that Westinghouse and the University of California at Livermore had not been submitting some salaries for Departmental officials review and approval as required by their contracts. Following is a more detailed discussion of what we found.

Westinghouse

Westinghouse entered into a contract with the Department and began managing the Savannah River Site effective April 1, 1989. A key element of Westinghouse's contractual relationship with the Department was that although Westinghouse would manage the Site, it would do so as part of a team consisting of itself and Bechtel Savannah River, Inc. (Bechtel), a subcontractor to Westinghouse. Westinghouse's subcontract with Bechtel was approved in January 1990. In accordance with the Westinghouse and Bechtel contracts, Westinghouse officials began submitting for Departmental officials' review and approval compensation data for Westinghouse employees, as well as for Bechtel employees. Westinghouse's last requests for executive salary approvals for Bechtel personnel, however, were submitted to Savannah River officials in May 1990. Since then Westinghouse officials have not submitted Bechtel compensation reports or executive salary requests to Savannah River officials for review and approval because Westinghouse believed that their contract with Bechtel gave them (Westinghouse) not Savannah River the authority to approve Bechtel salaries.

Bechtel Executive Salaries not Submitted to Savannah River Operations Office

As a consequence, Savannah River officials have not been involved in the review or approval of millions of dollars of Bechtel compensation since early 1990. Examples of Bechtel executive compensation elements which Savannah River officials have not actively managed are as follows.

During calendar year 1990, approximately 60 Bechtel employees had salaries above the Department's approval threshold of \$70,000. These actions were reviewed by Savannah River officials until May of 1990 when Westinghouse officials stopped submitting them to Savannah River officials. Since May 1990, Savannah River officials have not reviewed Bechtel's executive salary actions.

In calendar year 1991, approximately 90 Bechtel employees earning salaries over the Department's approval threshold had combined salaries totalling over \$8 million. The increases associated with these salaries were not reviewed by Savannah River officials. In 1992 the number of Bechtel employees with salaries requiring Savannah River approval increased to approximately 95.

Salary Increase Fund not Submitted to the Department

The Salary Increase Fund is an approved pool of money normally utilized annually for contractor employees' salary increases. The same contract interpretation by Westinghouse officials which resulted in Bechtel executive salaries not being reviewed and approved by Department officials, also resulted in Westinghouse officials not submitting the Salary Increase Fund Plan for Bechtel since calendar year 1990.

For example, Westinghouse's calendar year 1991 Salary Increase Fund request to Savannah River officials did not provide specific data or mention Bechtel. However, Savannah River officials in responding to Westinghouse officials' request, specified a percentage to be used for Bechtel's calendar year 1991 Salary Increase Fund. Again, for calendar year 1992 Westinghouse's Salary Increase Fund request did not include specifics for Bechtel. In Savannah River officials' response to Westinghouse, Savannah River officials approved a 5.7 percent increase for Westinghouse, but no percentage was authorized for Bechtel. Instead Savannah River's Manager wrote: "I have noted that the Salary Increase Fund for Bechtel was not submitted with Westinghouse's request as it has been in the past. I understand there is an issue as to whether Bechtel is a subcontractor or not." Savannah River officials did not approve a Salary Increase Fund for Bechtel for calendar year 1992. However, Westinghouse officials authorized approximately \$5 million for Bechtel's 1992 Salary Increase Fund.

Westinghouse Officials' Interpretation of the Bechtel Contract

We asked Westinghouse officials why they stopped submitting Bechtel compensation data to Savannah River officials for review and approval. Westinghouse officials stated that as the Contracting Officer for the Bechtel subcontract they, not Savannah River officials, have approval authority and responsibility for Bechtel compensation requests.

Westinghouse officials took this position regarding Bechtel compensation requests because of the definition of the term

"Contracting Officer" in the personnel appendix of the Bechtel contract with Westinghouse, which is worded differently than the definition of the term "Contracting Officer" in the Bechtel contract. The Bechtel contract defines "Contracting Officer" in Section I.1C, Definitions, as "the Government official executing the contract between Westinghouse and DOE...." It also states in the "Allowable Cost and Fee" clause that personnel costs shall be managed in accordance with the personnel appendix, but that compensation above certain thresholds (\$60,000 initially) require "Contracting Officer" (defined as "Government official" in the Bechtel contract) approval.

However, the personnel appendix, unlike the contract defines "Contracting Officer" as "a person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings." Use of this definition in the personnel appendix led Westinghouse officials to take the position that they were the contracting officer when the personnel appendix stated that certain compensation actions were to be approved by the "Contracting Officer". Taking this position, Westinghouse officials would not only approve Bechtel executive salary actions, but also its annual salary increase funds, incentive compensation programs, employee assistance programs, awards, memberships, licenses, training, as well as employee and community relations programs.

In a draft of this report we recommended that Savannah River officials review and approve Bechtel salaries as required by the Department of Energy order and Bechtel's contract provisions. In comments on our draft report, the Savannah River Manager stated that at the time of our inspection in the summer of 1992, Savannah River officials were actively negotiating with Westinghouse to reestablish the Department's right to review and approve Bechtel's compensation actions. These approval rights were regained through a letter dated December 24, 1992, two and one-half years after Westinghouse officials stopped submitting these requests in mid-1990.

Recommendation

We recommend that the Manager, Savannah River Operations Office review existing Bechtel salaries since May 1990 for reasonableness and recover any unallowable or unreasonable charges to the Department's contract.

Management Comments

Regarding the recommendation, the Manager, Savannah River Operations Office, concurred stating that Savannah River officials' position has always been that Bechtel officials, responding through Westinghouse officials, were acting contrary to the provisions of its contract with the Department. The Manager further stated that efforts were continually being made to rectify the situation and that an agreement has been reached with Westinghouse officials. He stated that Savannah River officials are in receipt of Bechtel's salary actions for the period 1990 to present and that Savannah River officials are reviewing the actions for reasonableness and appropriate action will be taken upon completion of the review.

The Deputy Director, Office of Procurement, Assistance and Property Management, concurred with the recommendation stating that Savannah River Operations Office officials are currently reviewing these salary actions.

Lawrence Livermore National Laboratory's Joint Appointees

At the Department's San Francisco Operations Office, we found that the University of California at Lawrence Livermore National Laboratory was not reporting or requesting Department officials' approval of executive salaries for its joint appointees. Joint appointees are faculty members who work a percentage of their time for the University and under the University's contract with the Department. Department of Energy Regulation 970.3102-2 requires that contractors receive approval of part time compensation for executive employees who earn over \$80,000, provided a total of 50 percent or more of the compensation is reimbursed by the Department. The Summer 1992 roster of joint appointees included 14 University employees with annual salaries estimated to be \$1.4 million. Nine of these employees required Departmental officials' approval based on the salary level and the percentage of time worked at Livermore.

According to a University Human Resources official at Livermore, Appendix "A" of their contract excluded academic appointees from the Department salary approval process. Appendix A, Section IV. titled "Pay" of the contract stated that:

"The Laboratory salary rate for University academic appointees shall be in accordance with established University policy as follows:

3. a. The monthly salary rate for an individual with an eleven month appointment is one-twelfth of the individual annual campus rate.
- b. The monthly salary rate for an individual with a nine month appointment is one-ninth of the individual's annual rate, except for cases described in "C" below."

Our review revealed that Appendix A did not exempt academic employees from Departmental officials' approval, if the salary was above \$80,000 and the individuals work 50 percent or more at Livermore.

In a response to a draft of this report, the Director of Contractor Human Resource Program stated that as of October 1, 1992, this issue was resolved in the new contract with the University of California. These actions will no longer need approval. Our review of the University's new contract, effective October 1992, also revealed that the Department no longer required the University to submit joint appointee salaries to Departmental officials for approval.

Recommendation

We recommend that the Manager, San Francisco Operations Office review the joint appointees' salary increases for 1990 through 1992 for reasonableness and recover any unallowable or unreasonable charges to the Department contract.

Regarding the recommendation, the Manager, San Francisco Operations Office, nonconcurrent stating that "payment of salaries to joint appointees is made in accordance with established University policy as spelled out in the previous contract — "The Laboratory salary rate for University academic appointees shall be in accordance with established University policy..." We again reviewed the contract language and found that the specified contract clause did not pertain to joint appointees salary increases, and the contract is silent on joint appointees' salaries and salary increases. We further discussed this issue with a San Francisco Industrial Relations Official, who stated that "the contract language is not as clear as it should be, however, over the years it has been San Francisco's and Headquarters officials' [Office of Contractor Human Resource Management's] contract interpretation that the joint appointees' salaries are established by the University and reimbursed by the Department."

The Deputy Director, Office of Procurement, Assistance and Program Management concurred with the recommendation. In an earlier response to the draft report, Headquarters' Office of Contractor Human Resource Program officials stated that: "Salary approval for joint appointees should have been obtained in the past, but effective October 1992 the contract no longer required these approvals." The Deputy Director in his concurrence also stated that the salaries were established in accordance with UC policy under the terms of the contract with the University.

Contractors' Incentive Compensation Programs

We found at the Department's Savannah River Operations Office (Savannah River) site that during calendar years 1989 to 1991 Westinghouse and Bechtel officials were paid \$20 million through incentive compensation programs and related phase-out programs. The following is a discussion of how Savannah River officials administered these programs.

Savannah River Policy on Programs

At the time a new contract to manage and operate the Savannah River site was being negotiated in July through August 1988, the record of negotiations stated that even though the former contractor paid bonuses, Savannah River "was opposed to an Incentive Compensation Plan which would be considered an allowable cost". The record also stated that based upon Savannah River's current competitive salary structure, incentive compensation was not considered necessary to: 1) maintain the concept of "generally comparable" benefits or 2) to retain and attract qualified personnel. It further stated, however, that Savannah River officials may agree to fund additional studies regarding the incentive compensation issue once a contractor is selected.

As part of contract negotiations, Savannah River officials' willingness to consider incentive compensation was expressed in the Westinghouse contract personnel appendix: "At the option of the contractor, and with the prior approval of the Contracting Officer, the Contractor may establish a program to provide a portion of approved exempt salaries to employees on an incentive basis."

Westinghouse's Incentive Compensation Programs for 1989

In a February 2, 1990 letter to Savannah River Westinghouse officials requested that for 1989 performance:

- o \$1.5 million in incentive compensation for employees in salary grades 38-43 be authorized for the 1989 performance period ending December 31, 1989.
- o \$2 million in supplemental funds be provided for payment to certain employees in salary grades 34-37. These employees had previously received bonuses under DuPont's system, but would not be included in the new incentive compensation program. The primary purpose of the payments were to ease the employees' transition from a "bonus" program into a "base-pay-only" program.

In an April 5, 1990 letter, Savannah River officials approved incentive compensation payments of \$1,096,600 for 179 employees in salary grades 38-43 for the 1989 performance year. Savannah River officials also approved \$1,780,000 in lump sum (supplemental fund) payments for former DuPont employees in Westinghouse salary grades 34-37 for the same time period.

Furthermore, Savannah River officials stated that an additional \$1 million would be available for future supplemental payments (for 1990), but after the "1990" payments, these transitional, phase-out payments to the former DuPont employees would be discontinued.

In making the 1989 calendar year incentive payments, Westinghouse officials underpaid the supplemental funds for former DuPont employees and overpaid the authorized incentive compensation for higher grade Westinghouse employees. Westinghouse officials paid the former DuPont employees in salary grades 34-37 \$1,390,650, or \$389,350 less than the \$1,780,000 Savannah River authorized. Conversely, Westinghouse officials paid \$1,485,950 (\$389,350 more than authorized by Savannah River officials) in incentive compensation to grades 38-43 employees. In a January 30, 1992 letter to Westinghouse, Savannah River officials disallowed the \$389,350 of incentive compensation paid in excess of the authorized amount of \$1,096,600. Incentive compensation, after disallowances, averaged \$6,126 per Westinghouse employee. According to a response to a draft of this report from the Deputy Director Office of Procurement, Assistance and Program Management, Savannah River officials also disallowed an additional \$41,400 because Westinghouse employees were not in grades approved for payments by Savannah River Operations Office officials.

Westinghouse's Incentive Compensation Programs for 1990 Performance

In an October 31, 1990 letter to Savannah River, ten months after the period of performance had commenced, Westinghouse officials requested Savannah River approval of \$6,985,000 in incentives for the 1990 performance year. The program was expanded to cover 707 employees in salary grades 36-43, including the addition of 364 employees in salary grades 36 and 37. Westinghouse officials also requested \$1,049,500 in supplemental, phase-out funds for former DuPont employees. Two months after the period of performance was completed, Savannah River officials authorized \$6,951,500 in incentive compensation payments and \$749,700 in supplemental payments to 291 former DuPont employees.

Westinghouse officials actually paid its employees \$6,930,450 in incentive compensation for the calendar year 1990 performance period, including \$1,928,445 to 343 employees in salary grades 36 and 37 and \$5,002,005 to 337 employees in their higher salary grades 38 through 43. Westinghouse also made "phase-out" payments to 157 DuPont employees (out of 291 eligible), totaling \$240,500 out of the \$749,500 authorized by Savannah River officials. These incentive and "phase-out" compensation payments averaged \$5,622 per employee in the lower grades 36 and 37; \$14,843 per employee in the higher grades 38 through 43; and \$1,532 of "phase-out" for each former DuPont employee.

Westinghouse's Incentive Compensation Programs for 1991 Performance

The structure of the incentive compensation program changed radically between calendar years 1990 and 1991. After having just added 343 employees in salary grades 36 and 37 to the program in 1990, all but five of these employees in salary grades 36 and 37 (now 445 in number) were taken out of the incentive program for 1991. The number of employees in salary grades 38 and 39 who participated in the 1990 incentive program were also significantly cut from the 1991 program, dropping from 239 to just ten.

In order to ease the transition of employees in salary grades 36-39 out of the incentive compensation program, Westinghouse officials provided supplementary, phase-out (non-incentive) payments to these employees. Specifically, the 440 employees in salary grades 36 and 37 received \$2,131,800, an average of \$4,845 per employee, to come out of the program in 1991. Westinghouse officials also paid an additional \$2,216,256 to 308 employees, an

average of \$7,196 per employee, in grades 38 and 39 to come out of the program in 1991. The total of these phase-out payments was \$4,348,056.

In addition to taking the lower grade employees out of the calendar year 1991 incentive compensation program, Westinghouse officials added 14 of their highest grade employees (salary grades 44-48) to the calendar year 1991 program. These 14 executives were paid \$593,300 in incentive compensation for the calendar year 1991 performance period. Upon review by Savannah River officials, the amount chargeable to the contract was reduced by \$80,000 to a total of \$513,300. The cost of this action to the Government totalled \$513,300 or approximately \$42,775 per employee.

Westinghouse officials paid \$2,129,700 in incentive compensation to the remaining employees in salary grades 36-43 for calendar year 1991 program. Upon review by Savannah River officials this amount was reduced by \$98,100, resulting in net costs for the program of \$2,031,600, or an average of \$17,821 per employee. Total incentive compensation for calendar year 1991 performance, after disallowances of \$178,100 amounted to \$2,544,900.

A comparison of the number of Westinghouse employees by salary grades that received incentive payments from the 1990 and 1991 incentive compensation program follows:

SALARY GRADE	NUMBER OF EMPLOYEES	
	1990	1991
36	130	02
37	213	03
38	125	03
39	114	07
40	49	54
41	21	17
42	19	19
43	09	09
44	--	03
45	--	05
46	--	02
47	--	01
48	--	01
TOTAL	<u>680</u>	<u>126</u>

Total 1989, 1990, and 1991 Program Costs

During the period of 1989 through 1991, Westinghouse officials approved \$10,529,950 for incentive compensation, \$1,390,650 for supplemental payments and another \$4,588,556 for "phase-out" payments. Total approved costs for Westinghouse's program for the calendar years 1989 through 1991 was \$16,509,156.

Bechtel Programs

We found that Bechtel's incentive compensation programs cost approximately \$3.2 million for the period of calendar years 1989 through 1991. Although Bechtel's incentive compensation programs paralleled Westinghouse's programs, Westinghouse officials did not request Departmental officials' approval of Bechtel incentive compensation after calendar year 1989 performance payments (\$389,740 paid in 1990).

For calendar year 1990 performance, Westinghouse officials did not submit Bechtel incentive compensation data to Savannah River officials for review and approval. Specifically, Westinghouse requested authority from Savannah River officials on October 31, 1990 to pay incentive compensation to Westinghouse employees for calendar year 1990 performance. No mention of Bechtel was made in either Westinghouse officials' request, or Savannah River officials' subsequent approval given on March 8, 1991. Prior to Savannah River officials' approval, on February 26, 1991, Bechtel officials had formally requested authority from Westinghouse to pay \$1,505,200 of incentive compensation to Bechtel employees, based on previous guidance received from Westinghouse officials on October 31, 1990. Westinghouse officials authorized these payments on March 8, 1991; there is no documentation that Savannah River officials ever approved these payments.

For calendar year 1991 performance, Bechtel paid a total of \$1,354,754 in incentive compensation to its employees. Although Savannah River officials provided criteria for paying incentive compensation for calendar year 1991 performance to Westinghouse and Bechtel employees on November 8, 1991, Westinghouse officials have never submitted to Savannah River officials for review or approval any details on incentive compensation payments actually made by Bechtel to its employees for calendar year 1991. Westinghouse officials' position that they should review and approve Bechtel's incentive compensation was based on the same contract interpretation that resulted in Bechtel's Salary Increase Fund not being submitted.

Program Discontinuance

At the time of our review, Savannah River officials were reevaluating the Westinghouse incentive program. Subsequently, the Manager of Savannah River notified Westinghouse in a July 23, 1992 letter of his intention to eliminate incentive compensation as an allowable cost under the contract for calendar year 1992 performance. The letter stated in part: "As you know, for the past few months I have been conducting a thorough review of the Westinghouse Savannah River Company Incentive Awards Program. This has included a review of what other Department of Energy Operations Offices are reimbursing in the incentive awards area. Based on this review I have concluded that it is in the best interest of the Government to no longer recognize individual incentive award payouts as allowable costs under the prime contract."

A December 24, 1992 letter documented agreements reached between Savannah River and Westinghouse officials in a December 21, 1992 meeting relative to fiscal year 1993 fee and other contract issues. Item nine of the letter stated:

"All open issues relative to the handling of Incentive Compensation (IC) are resolved and IC paid in fiscal year 1993 will not be an allowable cost under the Contract."

This agreement was formally incorporated within the contract through Modification M068, dated March 19, 1993. Specifically, Section III.E.2. of the Personnel Appendix to the contract was modified, in part, to state:

"No incentive compensation payments are authorized as allowable costs for CY [calendar year] 1992 performance of exempt employees. Future incentive compensation payments will only be allowable if they are made in accordance with a plan approved in advance by the Contracting Officer."

On February 12, 1993, prior to this modification being signed, Westinghouse officials paid its employees \$5,330,500 in incentive compensation for 1992 performance. On the same date, Bechtel employees were also paid \$662,000 in incentive compensation. These payments totalling \$5,992,500 were made through the contractors' normal payroll systems, and funded by the Government through the contractors' letters of credit. After the Modification was signed on March 19, 1993 the funds were repaid to the Department as follows:

<u>DATE</u>	<u>AMOUNT</u>	<u>METHOD</u>
2/22/93	\$1,400,000	Westinghouse check
2/26/93	1,027,700	Offset against a Westinghouse invoice
3/25/93	2,902,800	Offset against a Westinghouse invoice
4/07/93	662,000	Offset against Bechtel invoice
	<u>\$5,992,500</u>	TOTAL

In negotiating Modification M068 to the Westinghouse contract, Savannah River officials agreed to increase Westinghouse's fiscal year 1993 base fee by \$3 million and the award fee by \$500,000. Both Westinghouse and Savannah River officials have indicated that this fee increase was in some part due to Westinghouse having to absorb these now unallowable incentive compensation costs. We may conduct an inspection of this growth in fee in the future.

Administration of Savannah River's Incentive Compensation Programs

In reviewing the administration of Savannah River's incentive compensation programs from 1989 through 1991, we observed that: 1) the programs cost more than originally indicated by either the Westinghouse contract's personnel appendix or Savannah River officials correspondence to Headquarters; 2) authorization and approval for major changes to the program were not documented well; 3) Savannah River had not ensured that incentive payments for 1991 performance conformed with program guidance; and 4) the level of performance required by the contractor to "earn" maximum incentive compensation was set at a relatively low level.

Cost of Programs

The incentive compensation programs appear to have cost more than was initially indicated by both the personnel appendix to the Westinghouse contract, and Savannah River officials' correspondence with Headquarters' Office of Contractor Human Resource Program. The personnel appendix stated that if the contractor wanted to "provide a portion of approved exempt salary to employees on an incentivised basis", the costs of such an incentive program should not add to the total compensation costs for the contract. The specific language of the personnel appendix stated: "For each fiscal year, the total cost of base

and incentive payments for all eligible employees will not exceed the total of projected salary payments (including the applicable portion of the approved salary increase fund) for the same eligible employees."

Savannah River's Assistant Manager for Administration (Assistant Manager) reaffirmed this position in a February 16, 1990 memorandum to the Director of Headquarters' Office of Industrial Relations [Contractor Human Resource Program]. Specifically, the Assistant Manager wrote: "For such employees, Westinghouse would establish an "incentivized" base rate of pay: which is lower than the "non-incentivized" rate of pay; and provide the opportunity for such employees to earn incentive pay awards based upon individual performance. The "pool" of salary funds available for the base pay and incentive awards would approximate the total pool of funds available if those same employees were on a non-incentivized salary schedule. In other words, the total salary pool remains approximately the same, but it is distributed on a base plus incentive basis...."

Contrary to the above statements, our review disclosed that the incentive compensation costs were substantially incremental in nature, and increased the total compensation costs incurred under the Westinghouse contract. This conclusion is evident when the 1991 "phase-out" payments are compared to related salary increases. Specifically, for 1991 performance, employees in salary grades 36 through 39 were paid a total of \$4,348,056 in "phase-out" payments. We were told by a Savannah River official that these 1991 "phase-out" payments were to approximate, and were actually somewhat less than, the incentive compensation which these individuals would have received had they remained in the incentive program. Yet at the same time these employees received the \$4,348,056 in "phase-outs/incentives", they also received total salary increases of \$1,232,000. These salary increases were calculated to raise these employees' base salaries back to where they would have been had the employees never entered the incentive compensation program. Therefore, for 1991 alone, the cost of these employees' "incentive" compensation (\$4,348,056) appears to have exceeded any "savings" in base salaries from these employees being on an "incentive" pay scale (\$1,232,000) by some \$3 million.

Program Expansion and Contraction

During a January 31, 1990 meeting with Savannah River, Westinghouse proposed that employees in salary grades 36 and 37 be placed in the incentive compensation program. Westinghouse officials stated that in the course of the meeting, Savannah River officials agreed with their proposal. Westinghouse

subsequently followed up on the meeting with a February 2, 1990 letter to Savannah River's Manager which stated, in part: "It is our intent to assign a selected number of Grade 36 and 37 positions (up to two-thirds of the population) to the Incentive Salary Schedule E001 when the job evaluation results are entered into the system in February 1990." Westinghouse subsequently added 343 employees in salary grades 36 and 37 to the 1990 incentive compensation program, or approximately one half of the program's total (680).

In spite of the significance of this action, a virtual doubling of the program, Savannah River officials have not provided evidence that they approved this action. Even though Westinghouse disclosed their intentions to Savannah River officials, Savannah River officials did not provide specific approval to Westinghouse, other than the funding approval for the 1990 incentive compensation payments, given by Savannah River on March 8, 1991, two months after the performance year. Corroboration of this lack of approval is found in an attachment (entitled "IC Program Background") to an October 28, 1991 memorandum from the then Assistant Secretary for Defense Programs to the Director, Office of Procurement, Assistance and Program Management. In discussing the 1990 Incentive Compensation Program, the document states: "Two major issues were identified with the WSRC [Westinghouse] IC [Incentive Compensation] Fund request: 1) WSRC [Westinghouse] placed over 700 employees in the IC Program without clear DOE approval;..."

We also found evidence that as late as December 1990, the last month of the performance year, Savannah River had concerns regarding the large numbers of employees in the program and the appropriateness of their being in the program. In a December 12, 1990 letter to Savannah River, Westinghouse's Manager of Human Resources responded to issues brought up by Savannah River in a meeting held December 5, 1990 with Westinghouse. Specifically, "Issue 3a." of the letter states: "DOE questioned whether employees in Incentive Grades 36 and 37 met the guidelines in the proposed Westinghouse incentive plan; i.e., does their performance have a "significant impact....on the success of the program?" "Issue 3b." further states: "DOE questioned the number of people eligible for incentive compensation as submitted in Attachment B in my letter of October 31."

Although Savannah River did not change the 1990 program which Westinghouse had set up, Savannah River officials continued to have major concerns, as evidenced by the changes made to the program for 1991. Savannah River's Assistant Manager for Administration told us that at the end of 1990, Savannah River management was concerned that Westinghouse's incentive compensation program was both too large and not adequately

focused on those employees who would most directly impact the success of the contractor's programs. As a result, Savannah River began discussions with Westinghouse in early 1991 to restructure the program.

In restructuring the 1991 program, Savannah River officials removed all but five employees in salary grades 36 and 37, removed all but ten employees in salary grades 38 and 39, and added fourteen employees in the highest salary grades, 44 through 48. Since these fourteen employees were already in Westinghouse's Corporate incentive program, the primary effect of this action was to change the source of funding from Westinghouse Corporate to the Department.

Individual Awards for 1991 Performance

In his letter of November 8, 1991 approving Westinghouse's 1991 incentive program, Savannah River's Manager stated that individual awards should be "based on the employee's performance against Individual Assessment and Development Program (Individual Assessments) objectives agreed to by the manager and the employee prior to the start of the performance year, as well as organizational accomplishments." He further stated that: "Individual IC [incentive compensation] payments above the objective award amount used in calculating the pool must be supported and documented from the standpoint of individual and organizational accomplishments as documented in the annual IADP appraisals [Individual Assessments]."

Although it was a clear requirement that the 1991 individual incentive awards were to be supported by individuals' performance appraisals, we found that Savannah River officials had not reviewed the Individual Assessments to ensure that this requirement was met. Although Savannah River's Assistant Manager for Administration, in a letter dated April 17, 1992, requested that Westinghouse provide Savannah River with the Individual Assessments and performance appraisals for all 1991 program participants, Westinghouse requested relief from this requirement based on the sensitivity of the information. Savannah River officials did not review the Individual Assessments and performance appraisals for the 1991 participants as originally requested; instead Savannah River officials reviewed the awards list of individuals, and based on their knowledge of the performance of these individuals and their organizations determined if the award was appropriate. As a result of this review, Savannah River disallowed incentive compensation paid to seven individuals totaling \$178,100.

During this inspection, we reviewed Individual Assessments supporting the 1991 incentive payments and noted some inconsistencies and deficiencies. For example, some employees who had their incentive awards disallowed by Savannah River, had received the highest possible performance rating from Westinghouse. In other instances, employees who had received the highest possible performance rating received smaller incentive awards than employees in the same salary grade who received a much lower performance rating. We also noted instances where no Individual Assessments were available to support incentive awards.

In discussing the termination of the incentive compensation program in 1992, a Savannah River official stated that the disallowance of incentive compensation for seven individuals indicated to Savannah River that the program was not operating as Savannah River intended. Savannah River was also concerned by the lack of significant differences in the amount of incentive payments being awarded to the majority of recipients in each of the salary grades. Savannah River officials stated that this "clustering" of awards gave an indication that Westinghouse was not effectively differentiating between individuals' performances.

1991 Performance Requirements

We found that the amount of the total Westinghouse incentive compensation pool in 1991 was tied to the Westinghouse Award Fee performance rating. We believe that the basic performance requirements for Westinghouse receiving the total pool under the 1991 incentive program were set at too low of a level. In authorizing the total funds available for payout under the 1991 incentive compensation program, Savannah River's Manager stated that the program would remain fully funded if the average of Westinghouse's two most recent award fee ratings were 80 or better. In the award fee performance ratings, an "80" is currently slightly below the mid-point of a "satisfactory" rating (76-85). The performance description for "satisfactory" states: "Performance meets expected levels. Minimum standards are exceeded and "good practices" are evident in contract operations. Notable achievements or notable deficiencies may or may not exist." To date, Westinghouse has never received an award fee rating below 80.

Under this standard, if, as a group, Westinghouse personnel met expected levels of performance, they would be eligible to receive maximum incentive compensation; there would be no additional reward for exceeding expected levels of performance

(a "good" rating), or substantially exceeding expected levels of performance (an "outstanding" rating).

Alternatively, because the requirement was to have an "average" of 80 for the two most recent award fee ratings, it would also be technically possible for Westinghouse to receive full funding for incentive compensation while operating at a less than expected ("marginal") level of performance. Specifically, for the six month award fee periods ending on 3/31/90, 9/30/91, and 9/30/92, Westinghouse received ratings of 90, 88, and 89, respectively. Under the 1991 criteria, a "marginal" rating as low as 72 averaged with any of these ratings would still have qualified Westinghouse for maximum funding of the incentive program.

Headquarters' Policy on Incentive Compensation

The 1989 draft Department of Energy Order 3220.1A stated that incentive payments may be an allowable cost provided they meet the specified requirements set forth in Department of Energy Acquisition Regulation 970.3102-2 (h), which states that the incentive compensation should be reviewed for reasonableness. The draft Order required that the following information be collected:

1. A description of the plan and its scope;
2. The rules for determining employee eligibility;
3. The formula for generating the incentive; and
4. The rules for determining the amounts of percentages of awards.

The draft Order also required that Headquarters' Director of Procurement and Assistance Management, through the Director of Industrial Relations, approve incentive compensation and management bonus programs. On May 14, 1992, Order 3220.1A was finalized without the requirement for Headquarters' Director, Office of Contractor Human Resource Program approval of incentive compensation programs. The Order also does not address the manner in which these programs should be administered. According to Headquarters' Office of Contractor Human Resource Program Director's response to a draft of this report, the Order was updated solely for the purpose of providing new organizational references.

Conclusion

Based upon our inspection, we concluded that there were deficiencies in the administration of Savannah River's incentive compensation programs. Contrary to the contract's personnel appendix and correspondence by Savannah River officials, the

program increased total compensation costs for the contract. Approvals for major program changes had not been properly documented. Other approvals had been given late into the performance years. Individual incentive awards had not in all cases been properly supported by required individual performance appraisals. Support for these individual awards had not been reviewed by Savannah River personnel. As a result of Savannah River's administration of the Incentive Program and Headquarters' lack of Department-wide policy on the administration and approval of these programs, we believe that Headquarters' Office of Contractor Human Resource Program officials should review the administration and reasonableness of incentive programs at other Operations Offices; and based on the results of this review, determine if the Department should continue to allow incentive compensation as an allowable cost.

Recommendations

1. We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management determine if existing incentive compensation programs should be continued and if future programs will be allowed, and if so, establish Department-wide policy and procedures for the administration, review and approval of incentive compensation programs.

Management Comments

Regarding the recommendation, the Deputy Director, Office of Procurement, Assistance and Program Management concurred stating that current policy provides that incentive compensation payments will not be an allowable cost for all future management and operating contracts and that existing programs will be evaluated for continuation/termination.

2. We recommend that the Manager, Savannah River Operations Office:
 - a. Determine the reasonableness and allowability of total incentive compensation paid by Bechtel for calendar year 1990 Performance.
 - b. Review individual incentive compensation payments for calendar year 1991 performance which are above the objective award amount used to calculate the pool, for both Westinghouse and Bechtel recipients, and disallow any awards which are not adequately supported and documented from the standpoint of individual and organizational accomplishments

as documented in the annual Individual Assessment and Development Appraisal.

Management Comments

Regarding recommendations 2.a. and 2.b., the Manager, Savannah River Operations Office, concurred. Savannah River is reviewing the actions for reasonableness and will take appropriate action upon completion of the review."

Regarding recommendation 2.b., the Savannah River Manager stated it would be inappropriate to reopen the review of the 1991 incentive compensation payments, because Savannah River's Head of Contracting Activity and Westinghouse senior management had agreed to an alternate review process. This agreement resulted in the recovery of \$178,100 of incentive compensation paid for 1991 performance. The Manager further stated that a part of this agreement was that all other incentive charges paid in 1991 would be allowable. We requested copies of the section of the agreement which stated that all other incentive charges paid in 1991 would be allowable. According to a Savannah River Management and Evaluation Branch official, the agreement that all other incentive charges paid in 1991 would be allowable was a verbal agreement.

Regarding recommendations 2.a. and 2.b., the Deputy Director, Office of Procurement, Assistance and Program Management concurred stating that Savannah River officials are currently reviewing these payments to determine reasonableness and allowability. Regarding recommendation 2.b., the Deputy Director stated that action was taken by Savannah River officials to provide a reasonable alternative review process which resulted in the contractor not charging the Government \$178,100 in incentive compensation payments for 1991.

Berkeley Officials Paid Stipends Contrary to Department Officials' Direction

According to a May 1992 Berkeley/University Joint Appointee List, there are a total of 17 appointees earning approximately \$1.8 million annually with annual stipends of \$103,000. Our review of these joint appointees revealed that these individuals are paid a monthly stipend ranging from \$400 to \$1,000 per month in addition to their base salary. According to San Francisco Operations Office officials and University officials at Berkeley, the Department does not have a stipend policy, but abides by the University's policy on stipends. The University's Academic Personnel Manual states that in addition to their base salary for

teaching, research and University service Divisional, Associate or Assistant Deans are paid stipends for additional administrative responsibilities. The stipends are reviewed by the President and approved by the Board of Regents.

University officials at Berkeley stated, during our inspection interviews, that the stipend pay is a prorated amount based on the percentage of time the individual works at Berkeley versus the University. We reviewed the "Faculty Salary Recommendations" approved by Headquarters' Office of Contractor Human Resource Program officials for January 1, 1991 and that Headquarters' officials also based their stipend approvals on the percentage of time a joint appointee works at Berkeley. The inspection disclosed, however, that stipends were not paid based on percentage of time worked. A discussion of examples of what we found follows.

We reviewed April and July 1992 University invoices to Berkeley. The April invoice for 15 joint appointees included \$4,672 in stipends. The amount of time the individuals worked for Berkeley varied from zero to 66 percent. Our review of the April invoice revealed that:

- o The entire stipend for all of the joint faculty members were charged to the Department regardless of the percentage of time the individuals worked at Berkeley.
- o Departmental officials paid the entire stipends of two individuals whose percentage of time working for Berkeley was listed as zero percent.
- o The University had charged stipends which exceeded the amount approved by Departmental officials.

Reasons Entire Stipends were Charged to the Department

After reviewing University invoices, we again interviewed a Berkeley Human Resource official as to why the entire stipends of joint appointees were being paid by the Department. The following written explanation was provided by the Berkeley official:

"...joint faculty who have a year-round joint appointment with LBL [Berkeley] and UC [University of California] are paid by their respective UC campus and LBL is recharged for their salary based on a percent time worked. The stipend, however, is recharged at 100% to LBL....at LBL when a joint faculty member assumes a Division Director or Center Director's role, a stipend is paid to compensate them for

the additional responsibilities. Because the assumption of these duties is solely for the benefit of LBL, the stipend is paid by LBL."

We also asked a San Francisco official about the two individuals who do not work at Berkeley. The San Francisco official stated that although the individuals do not work at Berkeley, they have administrative responsibilities for research at Berkeley; therefore, the entire stipend should be paid by Berkeley.

Regarding individuals being paid stipends who do not work on the contract, Headquarters' Office of Contractor Human Resource Program officials stated "...This refers to two managers who at the point in time IG [Inspector General] staff did the inspection had already received their stipends. At that time the employee records did not indicate any time spent on the contract. In fact, they were in charge of major organizational units at LBL. The charging of stipends for these individuals was in accord with the contract and was allowable."

Furthermore, we found a joint appointee who is being paid a monthly stipend which doubles the DOE approved stipend. In this instance, Headquarters' Office of Contractor Human Resource Program officials approved a \$500 stipend and the University charged the Department \$1,000. This approval reflected 62.5 percent of an \$800 monthly stipend which equates to \$500. In response to a draft of this report, a Headquarters' Office of Contractor Human Resource Program official stated that "...LBL [Berkeley] raised the stipend above the DOE approved amount without DOE approval after UC increased the maximum stipend allowed for LBL [Berkeley] joint appointees. LBL [Berkeley] advised San Francisco of their action but did not make a formal request for approval of the increase."

Conclusions

We believe that the Department should have a policy regarding how stipends are charged to the Department and procedures as to when stipends can be increased.

Recommendations

1. We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management clarify requirements regarding contractors paying stipends to joint appointees.

Management Comments

Regarding the recommendation, the Deputy Director, Office of Procurement, Assistance and Program Management, concurred stating that the Office of Contractor Human Resource Management will develop and issue a policy statement on reimbursement of stipends.

2. We recommend that the Manager, San Francisco Operations Office:
 - a. Review the additional administrative responsibilities for which joint appointees received a stipend prior to October 1992, to determine if they are solely for the benefit of the Department.
 - b. Recover excess joint appointee stipend charges from the University of California.
 - c. Comply with Headquarters' Office of Contractor Human Resource Program officials' determination regarding contractors paying stipends to joint appointees.

Managements Comments

Regarding these recommendations the Manager, San Francisco Operations Office, concurred stating that he will review the additional administrative duties of joint appointees and determine if they are solely for the benefit of the Department. The Manager further stated that the excess stipend charges from the University will be recovered.

Regarding these recommendations the Deputy Director, Procurement, Assistance and Program Management concurred. The Deputy Director stated that the San Francisco Operations Office officials will perform a review and that charges found by the contracting officer to be in violation of applicable policies and agreements will be recovered. Regarding recommendation 1.c., the Deputy Director stated that the new contract with the University of California clarifies the matter of stipends and the Office of Contractor Human Resource Management will develop and implement a policy on reimbursement for stipends.

Contractors Are Not Reporting Total Compensation to the Department

Department of Energy Order 3220.4, "Contractor Personnel and Industrial Relations Reports", requires that contractors submit

semiannual compensation reports to the Department for executive employees earning over \$60,000 annually. According to a Headquarters' Office of Contractor Human Resource Program official, this amount has been informally increased to \$70,000. The Order specifies that the contractor shall submit all compensation, including base pay, bonuses and incentives. The Order also requires that the full amount of compensation received by the employee be reported even if it is not reimbursed by the Department. Consistent with Department of Energy Order 3220.4A, management and operating and other designated contractors are required to report compensation for executive employees.

At Headquarters' Office of Contractor Human Resource Program we reviewed reports from 51 contractors for the period of September 1989 through April 1991. Sixty-three percent of the reports reviewed did not include information in the "other compensation" section of the report but we found that other compensation was paid by some contractors, which should have been reported.

For example, we reviewed a public financial report required by the Securities and Exchange Commission for the parent company of one of the Department's management and operating contractors. The report disclosed that one contractor official's executive compensation for March 1991 was \$374,259. However, according to the April 1991 "Report of Compensation" the total compensation reported to the Department effective March 31, 1991 was \$210,000.

According to a Headquarters' Office of Contractor Human Resource Program official, Department officials have historically required that its management and operating contractors report total compensation to the Department. The officials stated that at one time the information was used to ensure that contractor officials did not exceed the \$69,630 salary of the Department of Energy Secretary, but that in 1983 most contractors stopped submitting this data. The officials also stated that "management's thinking changed during this time period and total compensation was not required to evaluate salaries for reasonableness."

A Headquarters' Office of Contractor Human Resource Program official stated that the total salary information is not necessary to complete Headquarters' or the Operations offices' review for reasonableness. He also stated that a revised draft Department of Energy Order 3220.4 only requires that contractors report compensation charged to the Department. However, effective January 7, 1993 Department of Energy Order 3220.4A was issued to reflect changes in organizational titles and continues to require that the contractor submit "Other Compensation" whether or not, it is reimbursed by the Department. According to a Headquarters' Office of Contractor Resource Program official draft Order 3220.4 is still pending.

Conclusions

It has been nearly three years since the Department first issued the draft Order that includes the policy on reporting contractor employees' "other compensation." During this time there has been inconsistent application of this requirement by Operations Offices and inconsistent compliance by contractors.

Recommendation

We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management provide direction to Operations Offices on what compensation data contractors should report to the Department and avoid further delay in finalizing the Draft Order.

Management Comments

Regarding the recommendation, the Deputy Director of Procurement, Assistance and Program Management, concurred stating that direction will be provided to the Operations Offices and contractors on compensation data requirements.

Noncompliance with Headquarters' Contractor Human Resource Program Officials' Direction

During this review we found instances in which Operations Office officials did not comply with Headquarters' Office of Contractor Human Resource Program officials' directions.

In one case at San Francisco, Headquarters' Office of Contractor Human Resource Program officials delayed executive salary increases up to six months for three Rockwell International Corporation (Rockwell) employees at the Energy Technology Engineering Center due to the late submissions of salary increase requests. Prior to forwarding the approved salary increases to Rockwell, San Francisco officials changed Headquarters' Office of Contractor Human Resource Program's effective dates for these employees to the dates originally proposed by Rockwell officials. According to a San Francisco official the effective dates were changed because Headquarters' Office of Contractor Human Resource Program policy of not issuing retroactive salaries to the contractor is unfair to the contractor. A Headquarters' Office of Contractor Human Resource Program official stated that determining if salaries will be retroactively approved in a given

situation is a "judgement" call based on a number of factors. For example, a contractor that has a pattern of late salary requests may not have its requests retroactively approved.

We also found an example in which San Francisco officials did not request Headquarters' Office of Contractor Human Resource Program officials approval of a part-time employee who works 50 percent for Livermore and whose salary exceeded \$100,000. The employee, a part time Assistant to Livermore's Director was hired effective December 2, 1991. According to Livermore's salary increase request, the employee was scheduled to work 50 percent of the time for Livermore and earn an annualized salary of \$108,000. His salary request was approved by San Francisco officials, but was not forwarded to Headquarters' Office of Contractor Human Resource Program officials for approval as required.

In our review of Headquarters' and Operations Offices files on contractor executive compensation review and approval, we found a similar occurrence at the Albuquerque and Chicago Operations Offices. At Albuquerque, Headquarters' Office of Contractor Human Resource Program officials approved a 62 percent salary increase for a contractor employee, but stated that another increase would not be considered for at least 24 months. However, contrary to Headquarters' Office of Contractor Human Resource Program officials direction, the Albuquerque Operations Office approved a lump sum payment of \$3,300 during this period.

At Argonne National Laboratory (Argonne), Chicago officials recommended a starting salary of \$120,000 effective May 1, 1991 for one of the Argonne Directors. Headquarters' Office of Contractor Human Resource Program officials denied the request, but approved a salary of \$110,000 effective May 1, 1991. Subsequently, Chicago Operations Office officials approved a "temporary and interim prorated supplemental salary adjustment" of \$10,000 at the time the employee was hired. Again this salary adjustment was made contrary to Headquarters' Office of Contractor Human Resource Program officials decision and without their approval.

Regarding the issue of noncompliance with Headquarters' Office of Contractor Human Resource Program officials' directions, we also found that none of the Operations Offices covered in our inspection had established procedures to verify the accuracy of the contractor's compensation reports. Department of Energy Order 3220.4, (Section 7) "Responsibilities and Authorities" requires that Operations Office officials establish procedures to verify the accuracy of contractor's compensation reports.

Recommendations

1. We recommend that the Managers, San Francisco, Chicago and Albuquerque Operations Offices assure compliance with Headquarters' Office of Contractor Human Resource Program officials decisions regarding executive salary approvals.

Management Comments

Regarding the recommendation, the Manager, San Francisco Operations Office, concurred with the recommendation stating that the Operations Office staff has been directed to comply with Headquarters' Office of Contractor Human Resource Program officials' decisions regarding executive compensation.

Regarding this recommendation, the Deputy Director, Office of Procurement, Assistance and Program Management, concurred stating that "Managers have agreed to take actions to assure Operations Offices comply with Headquarters['] decisions and directions [regarding executive salary approvals]." Albuquerque Operations Office officials' comments were incorporated into the Deputy Director's response.

The Manager, Chicago Operations Office stated that in the case cited at Chicago, contractual language gives the contracting officer the authority to approve contractor salaries.

2. We recommend that the Manager, San Francisco Operations Office receive Headquarters' Office of Contractor Human Resource Program official's approval for part time employees who work 50 percent or more for the Department and earn compensation over \$100,000.

Management Comments

Regarding the recommendation, the Manager, San Francisco Operations Office, concurred stating that an agreement has been established between the San Francisco Operations Office officials and the Office of Contractor Human Resource Program officials in which the Office of Contractor Human Resource Program officials will approve salaries of contractor employees who work 50% or more and earn over \$100,000.

The Deputy Director Office of Procurement, Assistance and Program Management also concurred with the recommendation stating that the San Francisco Operations Office will submit such actions to Headquarters' for approval.

3. We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management review those salaries at San Francisco and Chicago Operations Offices which they did not previously review and recover any unreasonable or unallowable costs.

Management Comments

Regarding the recommendation, the Deputy Director, Office of Procurement, Assistance and Program Management concurred stating that the Office of Contractor Human Resource Management will review the applicability of those salaries at the San Francisco and Chicago Operations Offices and request the contracting officers to recover any unreasonable costs.

The Manager, Chicago Operations Office, nonconcurred stating that in the Chicago case cited, the contracting officer determination was made in accordance with Department of Energy Regulation 970.3102-2. Thus, it is not possible to make any of the costs unallowable retroactively.

4. We also recommend that the Managers at the Savannah River, San Francisco, Oak Ridge and Albuquerque develop written procedures to verify the accuracy of contractor compensation reports in compliance with DOE Order 3220.4 (Section 7).

Management Comments

Regarding the recommendation, the Managers at Savannah River, San Francisco and Oak Ridge Operations Office concurred with the recommendation. The Oak Ridge Operations Office Manager stated that the Oak Ridge Evaluation and Control Division will periodically review the contractor's supporting records. The Savannah River Operations Office Manager stated that: "We understand DOE Headquarters' Office of Contractor Human Resource Program is now developing these procedures. Savannah River will provide them to the contractors and ensure that subsequent reports comply." The Manager, San Francisco Operations Office, stated that he agreed with Headquarters' Office of Contractor Human Resource Program officials' response. Albuquerque officials concurred stating that they would spot check submitted reports against approved salary actions.

Regarding the recommendation, the Deputy Director Office of Procurement, Assistance and Program Management concurred stating that a program for compliance with the requirements of DOE Order 3220.4 will be developed.

The Department's Executive Compensation Board

On June 13, 1991 the former Secretary of Energy established a Contractor Executive Compensation Board (Board) to review and approve compensation for management and operating contractor's laboratory directors and general managers, as well as certain other designated officials, earning salaries at the Federal Executive Level I (at that time it was \$138,900). The Board includes the Secretary, Deputy Secretary or Under Secretary (as appropriate), Director of Procurement, various Program Secretarial Officers, and Lead Program Officers.

According to a Headquarters' Office of Contractor Human Resource Program official, executive salary determinations are made by the Board based on recommendations from Department Program Secretarial Officers. These recommendations are based on the accomplishments of the officials under consideration, and the performance of the facility that they manage. The Board also considers analyses of the comparable compensation levels paid for similar positions prepared by Headquarters' Office of Contractor Human Resource Program officials.

In our review of files relating to the approval of 29 contractor executive employees' salaries totalling \$4.3 million, we noted that some files did not contain documentation of Headquarters' Office of Contractor Human Resource Program officials' analysis or recommendations to the Board from the Program Secretarial Officers. We also noted that some approvals were delayed by as much as 10 months. In some of the instances where delays occurred we found that salary increases were paid without Department officials' approval by the University of California at Berkeley, Livermore and Los Alamos and by Martin Marietta and Westinghouse. We did note, however, that the salary increases at Martin Marietta were paid from corporate accounts until Departmental officials' approvals were received.

Recommendation

We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management develop written procedures requiring that analyses and recommendations considered by the Executive Compensation Board in making executive salary decisions be maintained in official decision files.

Management Comments

Regarding the recommendation, the Deputy Director Office of Procurement, Assistance and Program Management, concurred in principle stating that it is not necessary to establish separate procedures to require records be maintained, and the files from the previous Compensation Board meetings will be incorporated in the official files and future Compensation Board actions will be documented and records maintained.

Contractor Compensation Systems Certification

We also noted that during 1988 Headquarters' Office of Contractor Human Resource Program officials established and provided direction to Operations Office officials for mandatory implementation of a program to certify the Department's management and operating contractors' compensation systems. According to these officials, the program is designed to provide long term assurance of the reasonableness of contractors employees' compensation. One Procurement memorandum, stated that the eventual goal of this program is for Departmental officials to rely on the contractors' compensation system and only approve the salaries of the contractors' Directors. Thus, this program would significantly reduce the number of contractors' individual executive salaries that the Department would review and approve. Certification of the contractors' compensation systems is a Department approved deviation to Department of Energy Regulation 970.3102-2, which requires that salaries over the specified level be reviewed and approved by Department officials.

In order to establish this program, Headquarters' Office of Contractor Human Resource Program officials provided Operations Offices with the general criteria to review contractors' compensation systems. The criteria requires a review and evaluation of the contractors' compensation philosophy and policies and procedures in place to assure reasonable and equitable compensation. Some of the areas required to be evaluated include: compensation strategy, human resources cost considerations, job evaluations, merit increases, performance appraisal system, and salary administration.

Conditional Approval

The program also allows contractor compensation systems to be conditionally approved. A Headquarters' Office of Contractor and Human Resource memorandum, dated April 17, 1989, stated that interim procedures were available for contractors whose systems fall short of certification. This memorandum also included a statement that Operations Office officials could recommend some relief for systems which could not be immediately certified, but who had plans to enhance their compensation system. The memorandum further stated that the plans should address actions and reasonable milestones designed to address inadequacies in the contractor's compensation system. If the milestones were not achieved within the specified time frame the certification would expire and the contractor would again be required to report individual employee executive salaries to Departmental officials for approval.

Periodic Reviews of the Certified Compensation Systems

The April 1989 memorandum also stated that once a contractor's compensation system is certified, Operations Office officials will periodically appraise the system through on-site reviews. The memorandum did not address noted deficiencies found during the review, nor did it address the re-establishment of Departmental officials' approval rights of executive salaries if the deficiencies are not corrected. According to an official from the Office of Contractor Human Resource Program, it is mandatory that the contractor correct noted deficiencies. If these deficiencies are not corrected, the contracting officer has the authority to take action which he deems appropriate. This action may or may not include the re-establishment of Departmental officials' approval rights of executive salaries.

Operations Office Implementation

Some Operations Office officials utilized consultants to review their contractors' compensation system for certification. A Headquarters' Office of Contractor Human Resource Program official stated that the Operations Offices had expended approximately \$129,000 for consulting services as of October 1991.

We also interviewed contractor officials who have used consultants to assist in obtaining certification. One contractor expended \$36,850. Another contractor that undertook efforts to

implement a new compensation system stated that "certification will be a by-product of its efforts". The cost to develop and implement the new system was approximately \$225,000.

Compensation Systems Review and Approval

According to a Headquarters' Office of Contractor Human Resource Program official, 15 contractors' compensation systems have been reviewed by his office. By April 1992, five systems had been approved including the Midwest Research Institute at the Chicago Operations Office; Martin Marietta at the Oak Ridge Operations Office; and EG&G at the Nevada, Albuquerque and Idaho Operations Offices. The official also stated that one system was conditionally approved because the market pricing structure for top level management was inadequate. In this instance despite conditional approval, the contractor was required to report salaries of nine top level management positions with 33 employees representing five levels of management. According to the Headquarters' official, Operations Office officials will monitor the contractor's progress for one year in resolving the deficiency in its compensation system. In this instance, when the deficiency is resolved to the satisfaction of Operations Office officials, they will retain approval authority over salaries of only four of the nine positions. According to a Headquarters' Office of Contractor Human Resource Program official, this contractor's compensation system was fully certified in January 1993.

A Headquarters' official stated that the remaining nine contractors' compensation systems were found to be inadequate due to inadequate market pricing systems and job evaluations; and poor compensation practices. The official stated that at least one of the inadequate systems had been submitted for approval twice. In this instance, the official stated that the Operations Office and contractor officials either lacked the knowledge or the level of competency in order to implement a compensation system which could be certified.

Concerns of Operations Offices and Headquarters' Officials

We interviewed Operations Office officials, as well as contractor officials, about the certification process at the locations covered by this inspection. They stated that contractors had been provided copies of Headquarters' Office of Contractor Human Resource Program criteria, but were still uncertain as to what was required to receive certification of their compensation systems. Several contractor and Operations Office officials stated that Headquarters' Office of Contractor Human Resource

guidance is inadequate; and that additional guidance or procedures would assist in evaluating their respective compensation systems.

The Operations Office officials' concerns appear to be shared by Headquarters' Office of Contractor Human Resource officials who stated that it was originally anticipated that the program would be implemented within one to two years; however, the estimate was changed to 12 or more years based on:

- o The lack of Departmental Operations Office and contractor program expertise;
- o Insufficient Operations office staffing to implement the program; and
- o The continued work load of existing Operations office and Headquarters' Office of Contractor Human Resource Program.

In addition, some Operations Office and contractor officials did not believe that the compensation systems certification program should be mandatory. For example, Operations Office and contractor officials stated that some of the contractors only required approval of a limited number of executives and the effort and cost of certifying these compensation systems could not be justified. Furthermore, a Stanford Linear Accelerator Center official stated that the mandatory requirement was contrary to its contract; therefore, his company would not be applying for certification.

The University of California Compensation System

The new University of California contracts', effective October 1992, provide that University officials may be able to eventually pay executive employee salaries without Departmental officials approval and; without having its compensation systems certified. These contracts phase out the requirement for Departmental officials to approve the University's executive employee salaries over a five year period beginning in 1992.

According to a November 5, 1992 document entitled "Record of Negotiated Procurement", the language in the contracts regarding the University's compensation systems was based, in part, on Departmental officials support of a University "systems" approach to improving personnel administration at the Laboratories. The Record of Negotiation stated:

"...the proposed Personnel Appendix did not resemble a standard DOE management and operating contract personnel

appendix which are designed to reflect stand alone policies and practices tailored to a particular management and operating contract site. In these circumstances, DOE would typically be engaged in heavy transaction reviews in performing its oversight. However, under the ground rules established for negotiation, it was recognized that the laboratories will be expected to manage personnel within University policy....Through very intense, top-level negotiations, and a critical self assessment of personnel practices at the three Laboratories by the University, it was agreed the University should commit to a clear compensation philosophy and comprehensive set of compensation standards against which system-wide improvements could be assessed....Hence, requirements and standards for a "systems" approach to improving personnel administration by the University are proposed in lieu of the traditional transactional management approach which has not been very successful in the past."

Following is a more detailed discussion of the new contracts provisions regarding review and approval of the University's executive employees' compensation.

Phase-out of Department Salary Approvals

Regarding the phase-out of Departmental officials' approvals of the University's executive employee salaries, the contracts state, in part, that:

"7. Salary Approvals Salaries of current employees and new hires at or above \$80,000 during the first year of the contract shall require Contracting Officer approval, except those salaries of Executive Program members other than the Director, as cited in Section F. of this Appendix, and those salaries of joint Laboratory-faculty appointees. Consistent with the University's implementation of performance measures related to Laboratory compensation systems, as contained in Appendix F of this contract, it is the intent of the parties that following the first and second years of the contract, this approval threshold shall be increased to \$100,000, and \$115,000, respectively. It is the further intent of the parties that, in the third and fourth years of the contract, the approval threshold shall coincide with the then applicable Regental [The Regents of the University of California] threshold, and that prior to conclusion of the fifth year of this contract, the requirement for DOE salary approval be limited to the Laboratory Director position...."

The contracts' appendixes provide for this gradual phase-out of Departmental officials' approval of the University's executive salaries and salary increases, without a requirement that Departmental officials certify the University's compensation systems. Instead, the appendixes include compensation philosophy and objectives, and a list of compensation standards that are to be included in the University's compensation systems for the purpose of ensuring that compensation objectives are achieved by the University's systems. The appendixes also include performance measures, which the University, not Departmental, officials are supposed to use to assess whether their compensation systems are in compliance with the standards.

Regarding certification of the University's compensation systems, the contracts appendixes state:

"The University's assessment that Laboratory compensation systems meet the....standards, as provided for in the performance measures for human resources, is recognized by the Department of Energy (DOE) as being independent of any requirement for DOE certification of Laboratory compensation systems. It is further agreed by the Department of Energy that DOE certification of Laboratory compensation systems is not a requirement for performance of work under this contract."

Regarding University compensation philosophy and objectives, the contracts' appendixes state in part that:

"The University intends that Laboratory compensation policies and practices flow from University compensation philosophy and sound business practices."

Regarding the performance measures that the University's compensation systems are supposed to meet, the contracts' appendixes include the following language:

"The performance measures for human resources described in Appendix F of the Contract are designed to determine whether the above standards [compensation standards] have been met. The University will assess whether the Laboratories are in compliance with Appendix A by measuring Laboratory compensation and other aspects of human resources administration against these standards."

Concerns Regarding Contract Provisions

During contract negotiations, Headquarters' Director, Office of Contractor Human Resource Program and Albuquerque Operations Office officials expressed concern regarding the phase-out of Departmental officials' approval of the University's executive salary increases without a requirement that Departmental officials certify the University's compensation systems.

Specifically in an attachment to an April 2, 1992 memorandum from an Albuquerque Industrial Relations Branch official to the Department's Chief Negotiator of the University's contracts, the Albuquerque official stated that:

"....This gradual phase-out of the [DOE salary approval] threshold is based solely on the Laboratory implementing the performance criteria it has established. These criteria are woefully inadequate. **DOE must retain approval of salaries over the Department of Energy Regulation-established threshold until the Laboratories meet the requirements for DOE certification.**"

"Overall, this document [March 24, 1992 Draft Appendix A] represents a significant retreat from the existing appendixes with all three laboratories. Almost all DOE approvals have been deleted, and the University, which is the contractor in this relationship, has substituted itself for DOE, the contracting agency, as the oversight authority for the contract. This is contrary to the practice DOE has followed with other cost-type contracts."

Statements by the Headquarters' Director, Office of Contractor Human Resource Program support this observation. He stated in a May 13, 1992 memorandum to the Deputy Director, Procurement, Assistance and Program Management that:

"Where we have relieved the contractors of some of these controls, the decision has been based on demonstrated performance of an effective compensation management program. Even the University of California acknowledges the three laboratories do not meet these criteria that are applied to our other contractors. Rather than the approach proposed by the University, we believe prudent cost management would warrant applying the same criteria to the three laboratories and, as they satisfy the criteria, relieving them of the management controls."

His statements also addressed other concerns regarding the University's contracts. He stated that:

"The central problem presented by the University proposal is that the University has substituted itself for DOE as the oversight authority for the contract. There is a role for the University as contract manager, but not as the approval authority for Government funds."

Finally, in a July 10, 1992 memorandum from Headquarters' Director, Office of Contractor Human Resource Program to the Office of Property Management, the Director stated that:

"We believe now, as we did before, that this agreement deprives the Department of Energy (DOE) of its proper and necessary oversight role. Specifically, we cannot endorse the phasing out of DOE approval of salaries, which will require a deviation from the Department of Energy Regulation, in the absence of a certification of the Laboratories' compensation program."

In spite of these concerns expressed by the Headquarters' Director, Office of Contractor Human Resource Program and the Albuquerque Operations Office officials, the Department executed contracts with the University of California at the three laboratories which not only removed the mandatory compensation system certification requirement, but gradually eliminates Departmental officials' approval rights for salaries over the specified level of \$80,000. The net effect is that Federal Government officials will have no role in approving the reasonableness of these executive salaries. This appears to be a deviation from Department of Energy Regulation 970.3102-2, "Compensation for Personal Services" and may be contrary to Federal Acquisition Regulation 31.205-6 which states that compensation paid to each employee must be reasonable for the work performed.

During negotiation of the new University of California contracts, concern was also expressed that the contracts may be precedent setting for the Department's other management and operating contractors. We reviewed a July 10, 1992 memorandum from the Director, Office of Contractor Human Resource Program to an Office of Property Management official. The Director stated that:

"Unfortunately, the concessions to the University of California have the potential for being precedent-setting and we can expect other contractors to seek similar relaxations of Government control,...."

The concern expressed by the Director, Office of Contractor Human Resource Program, was reiterated by the Deputy Director of the

Office of Procurement, Assistance and Program Management. In a December 1992 memorandum to the Managers at Albuquerque, Chicago, Oak Ridge and San Francisco Operations Offices, the Deputy Director of Procurement stated:

"....We have been advised that a number of other laboratory management and operating contractors have been following the negotiations with UC, with great interest. Their intent seems to be to use the UC contracts as a model or standard for their own management and operating contract arrangement. This will not be the case. Inclusion of nonstandard provisions of the UC contractors was driven by UC's position as an instrumentality of the State of California, or was designed to address unique problems encountered in the past at specific sites...."

Impact of Contract Provisions

The new University of California contracts, we believe, do not provide Departmental officials the opportunity to review and approve these executive salaries for reasonableness as required by Department of Energy Acquisition Regulation 970.3102 and Federal Acquisition Regulation 31.205-6. Federal Acquisition Regulation 31.205-6 states that total compensation must be reasonable for the work performed. Department of Energy Acquisition Regulation 970.3102 states that individual contractor employees earning \$80,000 or more, shall require review and approval by the contracting officer or designee to determine reasonableness.

As we discussed above Departmental officials have established a Contractor Compensation Systems Certification program which allows deviations to the Department of Energy Regulation, but only if Departmental officials certify that a contractor's compensation system meets certain standards. Departmental officials currently require that all of its other contractors (management and operating and other designated) follow these contractor compensation system certification standards. The University's new contracts even deviate from this program by not requiring Departmental certification of the University's laboratories compensation systems.

We noted that Departmental procurement officials stated that the University of California acknowledged that the three laboratories do not currently meet the Department's criteria for contractor certification. Also, based on our limited review of the compensation philosophy and objectives, and performance measures in Appendix A and F of the University's contracts, it does not appear that they include all of the areas covered by the standard

criteria Departmental officials require its contractors to meet in order to certify their compensation systems. Further, where the same areas are covered, it does not appear that the University's contract appendixes address these areas in the same level of detail as the standard Department criteria.

As a result of the compensation provisions of the new contracts, it appears that Departmental officials will not have the authority to ensure that salaries are reasonable. This does not, however, appear to be Departmental officials' intent, based on the November 5, 1992 Record of Negotiated Procurement, in which Department officials stated that:

"As an incentive to show adequate improvement [of the compensation system], a provision has been negotiated which expresses an intent of the parties to raise the salary approval thresholds over time consistent with achieving the established Appendix F Performance Measures. There is no intent to raise the thresholds without the University's implementation of these performance measures."

Therefore, at a minimum, the Department should ensure that the University's compensation systems meet the performance measures of their contracts before allowing the salary threshold levels proposed in the contracts appendixes to be implemented.

Conclusions

We believe that additional guidance and training is required in order for Operations Office officials to effectively evaluate and ensure that contractors' compensation systems are properly prepared for Department certification. Unless this guidance and training is provided, contractors may continue to submit inadequate compensation systems to Operations Office officials for certification. We also believe that Headquarters' Office of Contractor Human Resource Program officials should consider allowing exceptions to the mandatory requirement for contractor compensation system certification.

Regarding the University of California's compensation systems, we believe that Departmental officials should negotiate, into the University's contracts, stronger requirements that are consistent with the Department's standard criteria for certification of its contractors compensation systems. It appears that this opportunity may be provided for in the University's contracts which state that:

"This Appendix A may be modified from time to time by mutual agreement of the Contracting Officer and the President of the University...."

"(a) The University and the Department agree that the performance measures will be subject to annual review and may be modified by the agreement of the parties...."

Also, regarding the concern that the University's contracts may be precedent setting, we believe that the Department should issue this memorandum to all of the Operations Office managers, to ensure that all management and operating contractors are aware that these contracts will not be used as a model contract.

Furthermore, in implementing the contractor compensation certification program and the new University of California contracts, Departmental officials should ensure that contractors' contracts recognize Departmental officials' authority to reassert its review and approval of contractors executive salary at any time they deem appropriate.

Recommendations

1. We recommend that the Deputy Director, Office of Procurement, Assistance and Program Management work with Operations Offices officials to:
 - a. Develop written detailed and specific requirements and guidance for the certification of the Department's contractors' compensation systems.
 - b. Provide for training to operations offices, as needed, in order to assist Operations Offices' officials in implementing the compensation systems certification program.
 - c. Consider whether some exceptions to the "mandatory" program of compensation system certification are appropriate.

Management Comments

Regarding these recommendations the Deputy Director, Office of Procurement, Assistance and Program Management, concurred stating that while the Office of Contractor Human Resource Management believes it has provided sufficient guidance, efforts will be made to improve and communicate implementing guidance.

Regarding recommendation 1.b., the Deputy Director stated that while substantial training has already been provided, additional specialized training will be provided as needed.

Regarding recommendation 1.c., the Deputy Director stated that compensation system certification will be reviewed to see if it is appropriate for all management and operating contractors.

Regarding recommendations 1.a. and 1.b., the Manager, Chicago Operations Office concurred stating that she endorses contractor compensation system certification as a means of satisfying the Department's responsibility to provide oversight of contractor program and costs with the ultimate goal of removing ourselves from the individual salary transactional process. She stated that a better definition of criteria for the review of the contractors' compensation system would be helpful, and improved training to upgrade and maintain currency of skills is needed.

Regarding recommendation 1.c., the Manager, Chicago Operations Office concurred stating that the Department's approach to "mandatory" compensation system certification may not be feasible in all management and operating contract situations.

2. We also recommend that the Deputy Director, Procurement, Assistance and Program Management:
 - a. In the next annual review of performance measures in the University of California contracts, seek to establish compensation philosophy, objectives, and performance measures which are at least equal to the standards established for all other management and operating contractors compensation systems.
 - b. Ensure that the new salary thresholds established in the University's contracts are not raised until Departmental officials conduct a review to ensure that the University's compensation systems meet the performance measures of its contract.
 - c. Issue a memorandum to the Managers at Savannah River, Idaho, Richland and Nevada Operations Offices and other Departmental senior officials, as appropriate, to ensure that they are aware that the University of California contract will not be used as a model for other contracts.
 - d. Ensure that the University's contracts and all management and operating contracts with certified compensation systems recognize Departmental officials' authority to reassert its review and approval of contractors executive salary if deficiencies noted during a Operations office review of contractors compensation systems are not corrected.

Management Comments

Regarding recommendation 2.a., the Deputy Director Office of Procurement, Assistance and Program Management concurred.

Regarding recommendation 2.b., the Deputy Director, Office of Procurement, Assistance and Program Management, concurred in principle stating that the matter will be fully explored and appropriate actions taken.

Regarding recommendation 2.c., the Deputy Director, Office of Procurement, Assistance and Program Management, concurred stating that a memorandum was issued on December 22, 1992 to Operations Offices which have laboratories run by academic institutions.

Inspections Comments

We acknowledged in this report that Department officials issued memorandums on December 22, 1992 to Operations Offices which have laboratories run by academic institutions. However, the intent of our recommendation is that the December 22, 1992 memorandum should be issued to the remaining Operations Offices officials to ensure that other DOE management and operating contractors understand that the University's contract is not a model contract.

Management Comments

Regarding recommendation 2.d., the Deputy Director, Office of procurement, Assistance and Program Management concurred stating that the authority to revoke a contractor's compensation system certification exists currently in management and operating contracts except the contracts with the University of California.

Office of Inspector General

**DATE
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