Report on

Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees
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DATE: July 8, 1996

REPLY TO
ATTN OF: IG-1

SUBJECT: INFORMATION: Report on “Audit of the Department of Energy Program Offices’ Use of Management and Operating Contractor Employees”

TO: The Secretary

BACKGROUND:

The Department of Energy (Department) and predecessor agencies established program offices at Headquarters to administer mission responsibilities in areas such as defense programs, energy efficiency and renewable energy, environmental management, energy research, and national security. These program offices relied on several hundred employees from the Department’s management and operating contractors, especially Department laboratories, to perform a variety of functions to meet mission objectives. The purpose of the audit was to review the activities of management and operating contractor employee (laboratory employee) support provided directly to Department program offices located in the Washington, D.C. area for periods of six months or longer. The objective of the audit was to assess the nature and extent of support provided by laboratory employees assigned.

DISCUSSION:

The Office of Inspector General performed audit work at several of the Department’s laboratories, including those located at Argonne, Brookhaven, Lawrence Livermore, Los Alamos, and Pacific Northwest. In addition, we performed audit work at program offices located in the Washington, D.C. area, including the Offices of Energy Research, Defense Programs, Nonproliferation and National Security, Energy Efficiency and Renewable Energy, and Environmental Restoration and Waste Management.

The audit disclosed that 378 laboratory employees were assigned to the Washington, D.C. area for periods of six months or longer, at least 220 of whom provided a wide range of administrative and technical support services directly to program offices. In addition, these employees worked on projects which have the potential to impact their laboratory employers. The audit found that the Department did not clearly define the proper use of laboratory employees and had not established a system to periodically review their proper usage. Further, the Department was not fully aware of the magnitude of reliance on laboratory employee support or the associated cost implications. As a result, (i) laboratory contract employees were involved
in programmatic and policy arenas in which real or perceived conflicts may exist between their official duties and the tasks they assume when serving the Department program offices, and (ii) the Department may be augmenting its federal workforce in a way that might not be cost-effective and consistent with its staffing objectives.

After completion of our field work, in its implementation of Strategic Alignment Initiative-37, "Reducing Support Service Contracting," the Department began efforts to identify laboratory employee support in order to eliminate management and administrative support services provided by laboratory employees. The Department sent a memorandum to all program offices requiring an inventory of laboratory employees providing support to Departmental elements in controlling tasks they performed. A report of that inventory has been provided to senior Departmental officials, with recommendations for better management oversight in the future.

Given the current levels of program office dependence on laboratory employee support, we believe the Department should establish universal policies regarding the use of this support. The report recommended that the Department: (1) define activities that may be performed by laboratory employees; (2) develop a system to monitor placement of laboratory employees within Department program offices; and (3) evaluate the budgetary impacts of continuing support by laboratory employees.

Management is in general agreement with the findings.

John C. Layton
Inspector General

Attachment

cc: Deputy Secretary
    Under Secretary
U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES

AUDIT OF THE DEPARTMENT OF ENERGY
PROGRAM OFFICES' USE OF MANAGEMENT AND OPERATING CONTRACTOR EMPLOYEES

Report No.  DOE/IG-0392
Date of Issue: July 8, 1996

Eastern Regional Audit Office
Oak Ridge, TN  37830
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SUMMARY

It is Department of Energy (Department) policy that management and operating contractor laboratory employees (laboratory employees) not be placed in positions where conflicts may occur, or be perceived to occur, between the interests of the Department and those of the laboratory employer. Accordingly, the objective of this audit was to assess the nature and extent of support provided by laboratory employees assigned to Headquarters program offices.

We found that 378 laboratory employees were assigned to the Washington, D.C. area for periods of six months or longer, at least 220 of whom provided a wide range of administrative and technical support services directly to program offices. In addition, these employees worked on projects which have the potential to impact their laboratory employers. These conditions occurred because the Department had not clearly defined the proper use of laboratory employees and had not established a system to periodically review their proper usage. Further, the Department was not fully aware of the magnitude of reliance on laboratory employee support or the associated cost implications. As a result, (i) laboratory contract employees were involved in programmatic and policy arenas in which real or perceived conflicts may exist between their official duties and the tasks they assume when serving the Department program offices, and (ii) the Department may be augmenting its federal workforce in a way that might not be cost-effective and consistent with its staffing objectives.

After completion of our field work, in its implementation of Strategic Alignment Initiative-37, "Reducing Support Service Contracting," the Department began efforts to identify laboratory employee support in order to eliminate management and administrative support services provided by laboratory employees. The Department sent a memorandum to all program offices requiring an inventory of laboratory employees providing support to Departmental elements in controlling tasks they performed. A report of that inventory has been provided to senior Departmental officials, with recommendations for better management oversight in the future.

Given the current levels of program office dependence on laboratory employee support, we believe the Department should establish universal policies regarding the use of this support.

Audit Report Number: DOE/IG-0392
Specifically, we recommended that the Department: (1) define activities that may be performed by laboratory employees; (2) develop a system to monitor placement of laboratory employees within Department program offices; and (3) evaluate the budgetary impacts of continuing support by laboratory employees.

Office of Inspector General
PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Department of Energy (Department) and predecessor agencies established several program offices at Headquarters to administer mission responsibilities in areas such as defense programs, energy efficiency and renewable energy, environmental management, energy research, and national security. These program offices had relied on several hundred employees from the Department’s management and operating contractors, especially Department laboratories, to perform a variety of functions to meet mission objectives.

The purpose of the audit was to review the activities of management and operating contractor employee (laboratory employee) support provided directly to Department program offices located in the Washington, D.C. area for periods of six months or longer. The objective of the audit was to assess the nature and extent of support provided by laboratory employees assigned to Headquarters program offices.

SCOPE AND METHODOLOGY

We performed audit field work from May through September 1995, at a variety of Departmental locations. Specifically, we performed audit work at several of the Department’s laboratories, including those located at Argonne, Brookhaven, Lawrence Livermore, Los Alamos, and Pacific Northwest. In addition, we performed audit work at program offices located in the Washington, D.C. area, including the Offices of Energy Research, Defense Programs, Nonproliferation and National Security, Energy Efficiency and Renewable Energy, and Environmental Restoration and Waste Management. Furthermore, we obtained information about, and discussed activities concerning laboratory employee support provided by other Department facilities.

Our audit included the following methodologies applied to the laboratories and the program offices. During the audit, we:

- Identified and reviewed various criteria regarding the limitations of the use of laboratory employees, including limitations to make decisions concerning the establishment, management and evaluation of programs, priorities, and policies of the Department;
Based on data provided by selected laboratories and Department program management, identified 378 laboratory employees assigned to work in the Washington, D.C. area for a minimum of 6 months, at least 220 of whom provided direct support to Department program offices;

- Interviewed 34 of the laboratory employees identified to ascertain the tasks they performed;

- Interviewed 21 federal employees from various program offices to determine the extent of support obtained from laboratory employees; and,

- Reviewed documents concerning tasks performed, as well as samples of documents prepared by laboratory employees providing support to Department program offices.

This audit addressed employees of the Department’s management and operating contractors. That is, we excluded support service contract personnel from our analysis. Since almost all management and operating contractor employees were from one of the Department’s major laboratories, we refer herein to these employees as “laboratory employees.”

We performed the audit in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective.

We did not identify any Departmental policies, procedures or authorizations universal to the assignment of laboratory employees to program offices. Therefore, we assessed control risk at the maximum level and did not rely upon any internal controls established concerning program office assignments.

We discussed our finding with responsible Departmental officials during the course of the audit and at an exit conference on June 12, 1996.

BACKGROUND

Since the beginning of the Federal Government’s atomic energy activities in the 1940s, the Department and its predecessor agencies have relied upon the services of management and operating contractors (contractors) to manage an extensive complex of nuclear weapons research programs, production facilities, and multi-program laboratories. Although these facilities are Government-owned, they are operated by large industrial corporations, non-profit entities, and academic institutions. In 1995, the Department expended about $14.5 billion for operations conducted by its contractors.
To carry out its mission, the Department has several Headquarters program offices. Each has the responsibility to manage a technical or scientific area, or business line, within the Department, and provide technical and programmatic guidance to the Department's contractors. Further, the Department established regional operations offices and field offices which have contract administration responsibilities for the contractors. Over the past decade, the organizational relationships between the contractors, the Departmental field sites, the Headquarters program offices, and the Department's senior executive staff have been in a state of almost continuous transition. However, all the organizational relationships have required an appropriate distinction between roles of federal officials and the contractors.

In a General Accounting Office (GAO) report entitled "Government Contractors -- Are Service Contractors Performing Inherently Governmental Functions?," issued in November, 1991, GAO concluded that it was difficult to obtain a clear definition of inherently governmental functions. As such, they relied on basic principles, stating that, "the government should not contract out its responsibilities to serve the public interest or to exercise its sovereign powers." In further explanation, GAO used as a key criterion for the appropriateness of service contracts, the determination of "whether the government maintains sufficient in-house capability to be thoroughly in control of the policy and management functions of the agency."

The GAO report identified that the Department "contracted out for some activities that may have involved government functions." However, due "to the difficulty in defining governmental functions, [GAO was] unable to definitively conclude that these activities involved such functions." GAO attributed this to "the lack of authorized federal positions for employees and the lack of federal employees with sufficient expertise to do the work."
PART II

FINDING AND RECOMMENDATIONS

Reliance on Management and Operating Contractor Employee Support

Department policy requires that contractor personnel, including employees of the Department’s laboratory management contractors, not be placed in positions where conflicts may occur, or be perceived to occur. However, we found that at least 220 laboratory employees were interwoven with federal employees at Department Headquarters and worked in programmatic areas that could potentially impact their laboratory employers. At the conclusion of the audit itself, the Department estimated that it spent over $30 million per year for the use of the laboratory employees. These employees provided a broad spectrum of technical and administrative assistance to program offices for periods of six months or longer. The Department had not clearly defined the proper use of laboratory employees and did not establish a system to periodically review the proper usage of such personnel. Further, the Department was not fully aware of the magnitude of reliance on laboratory employee support or the associated cost implications. As a result, (i) laboratory contractor employees were involved in programmatic and policy arenas in which conflicts may exist between their laboratory responsibilities and their assignments to the Department’s program offices; and, (ii) the Department may be augmenting its federal workforce in a way which might not be cost-effective and consistent with its staffing objectives.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Human Resources and Administration:

1) Define activities that may be performed by laboratory employees;

2) Develop a system to monitor placement of laboratory employees within Department program offices; and,

3) Evaluate the budgetary impacts of continuing support by laboratory employees.

MANAGEMENT REACTION

Management was in general agreement with the findings and indicated its willingness to work with the Office of Inspector General to take appropriate actions to manage the use of management and operating contractor employees.
DETAILS OF FINDING

Independent Government Decisionmaking

In this era of downsizing Government, one of the Department’s important challenges is to make effective use of all available resources, including management and operating contractors’ laboratory employees. In meeting this challenge, the Department must ensure that its laboratory employees do not perform, or give the appearance of performing, inherently governmental functions, or are not placed in potential conflict situations.

Inherently Governmental Activities

It is federal policy that government actions result from informed, independent judgments made by government officials. Since the early days of the Federal Government, however, there has been debate over which activities should be performed solely by federal employees and which may be performed by private sector (contractor) employees. Activities such as commanding combat troops or determining federal program priorities or budget requests represent inherently governmental functions, and, consequently, must be performed by federal employees. On the other hand, activities such as building maintenance and food services are not inherently governmental functions, and thus may be performed by contractor employees. Oftentimes, however, such distinctions are not clear-cut.

Existing guidance for federal officials provides a general conceptual framework for addressing performance of inherently governmental activities. Office of Management and Budget (OMB) Policy Letter 92-1, “Inherently Governmental Functions,” and OMB Circular A-76, “Performance of Commercial Activities,” for example, discuss inherently governmental activities. Because both pronouncements apply to the entire Executive Branch, however, they are general in nature and do not legally define which functions are inherently governmental. Consequently, each executive agency must apply its own criteria as to what actions constitute inherently governmental activities, while making sure that its criteria conform to the intent of these two OMB pronouncements.

OMB Policy Letter 92-1 provides guidance addressing as inherently governmental those activities which include: determining agency policy; determining federal program priorities or budget requests; directing and controlling federal employees, or intelligence/counterintelligence operations; and determining budget policy, guidance, and strategy. In addition, the Policy Letter also indicates activities that are not inherently governmental. These activities involve gathering information or providing advice, opinions, recommendations, or ideas to government officials who are ultimately responsible for using this information to make decisions.

OMB Circular A-76 also indicates governmental activities are those that are “so intimately related to the public interest as to mandate performance by government employees.” The Circular notes that these activities involve either 1) exercising discretion in applying governmental authority, or 2) using value judgments in making decisions for the Government.
This general guidance on government functions is echoed in the Federal Acquisition Regulation (FAR) Subpart 17.6, “Management and Operating Contracts,” section 17.603, “Limitations,” which are applicable to the Department’s management and operating contractors. While these contracts allow considerable latitude for the laboratory employees to operate Department facilities, they specifically prohibit these employees from assuming the role of government officials. The provisions set forth in Department contracts, for instance, prohibit laboratory employees from: (1) determining basic governmental policies, and (2) providing day-to-day staff or management functions of the agency or of any of its elements.

Conflicting Interests

The Department, which relies significantly on laboratory support, has recognized that conflict situations can arise with the use of contractor employees to support Department functions. It has also acknowledged that it has the responsibility to ensure that advice or assistance from laboratory employees is unbiased, impartial, objective, and technically sound. For example, Department guidance dealing with the use of support service contractors stated that if a contractor performs analyses and/or renders advice in drafting a product, the Department shall take steps to ensure that the contractor will not be, or appear to be, improperly influencing or promoting the product. Procurement officials also advised that the principles outlined in this guidance, which was a formal Department policy until policy streamlining reform in May 1994, should be followed by all program elements whenever possible.

Involvement of Laboratory Employees

The audit disclosed that 378 laboratory employees were assigned to the Washington, D.C. area, of which at least 220 employees were assigned to Departmental program offices and provided a wide range of administrative and technical services. These employees were collocated with federal employees, oftentimes were assigned to Headquarters for periods of up to two years, and sometimes worked on projects which could impact their laboratory employers. In addition, some were involved in providing day-to-day staff activities in the program offices.

Laboratory Employees Assigned to Department Program Offices

At the time of our audit, the Department and the laboratories we visited were able to identify 378 laboratory employees who were assigned to Department work in the Washington, D.C. area for periods of at least six months. The Department did not have an inventory of all laboratory employees who were assigned to work in the program offices. However, we were able to compile this data from the laboratories and program offices visited during the audit. A schedule of these employees by their employing laboratories follows:
Of these employees, at least 220 provided technical and administrative services directly to Department program offices. As indicated by the following table, most of the laboratory employees identified to the program offices provided support to the Offices of Nonproliferation and National Security, Defense Programs, Environmental Management, Energy Research, and Energy Efficiency. We also determined that 19 of the 220 laboratory employees provided services to multiple program offices. In addition, we received information from the laboratories that a total of 14 laboratory employees worked in other program offices.

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<td><strong>Total</strong></td>
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1 Data received on 158 laboratory employees was inconclusive; therefore, we evaluated only 220 of the 378 laboratory employees.
Laboratory personnel maintained a continuing presence within the Department program offices. We evaluated the circumstances surrounding 86 of the 220 employees assigned to program offices and found that generally the assignments were of a long-term duration. Specifically, for the 86 employees, assignments ranged from 8 months to, in one case, 15 years, with the average assignment being about 2 years. In addition, laboratory employees were sometimes assigned to program offices on a rotational basis; that is, when one laboratory employee's assignment ended, another employee, normally from the same laboratory, would become the replacement. These employees worked in Departmental offices alongside program office personnel or had space in buildings within close proximity to the program offices.

We concluded that the use of laboratory employees by the program offices had become so pervasive that the offices were dependent on their presence.

Fieldwork Assignments

Laboratory employees provided administrative and technical services, ranging from secretarial support to the position of Director of the Office of Energy Intelligence. We found that the vast majority of these positions were for technical support, such as providing oversight and coordination of various programs, including ecosystem research, satellite and terrestrial communications, and serving on various task forces. The following list of tasks taken from field work assignments is illustrative of the range of involvement of laboratory employees.

An Argonne employee coordinated research and development efforts with other governmental agencies. This employee represented the Department for several years on an interagency research coordinating committee. As a staff member for the Committee on Environmental and Natural Resources Research of the National Science and Technology Council, the Argonne employee represented the Department in:

- reviewing national and international research and development programs in earth and environmental sciences dealing with global environmental change;
- assisting in interagency and intergovernmental planning and coordination of research and development programs in earth sciences;
- identifying and defining research and development needs related to earth and environmental sciences;
- assisting with the preparation of long-range research planning and budget planning documents for the overall national effort in earth and environmental sciences; and,
- providing reviews, analyses, advice, and recommendations for national programs in earth and environmental sciences related to assessing humankind's impact on the global environment.

Another Argonne employee was assigned to Energy Research to assist the Department in the review and evaluation of programs. Specifically, the field work proposal's description of work included:
monitoring university contracts;
reviewing university proposals;
assessing materials research needs appropriate to the Department's mission; and,
assisting the Materials Sciences Division in reviewing programs and activities at other national laboratories.

The Department assigned four laboratory employees, one from Los Alamos and three from Pacific Northwest, to perform a variety of activities. Field work proposals stated these laboratory employees were “responsible for program management functions” such as tracking laboratory and subcontractor performances, milestones, schedules, and costs. Additionally, they developed guidance for programmatic implementation consistent with Department policy and prepared information papers and briefings. These laboratory employees functioned as “action officers” responsible for nuclear material protection, nuclear material control and accounting cooperation with Russia, the International Nuclear Analysis Program, United States-International Atomic Energy Agency reporting requirements, and safeguards implementation at Department sites.

One laboratory employee led the development of a model strategic communications plan for a program office which involved bringing together more than 80 communications and public practitioners from the Department, contractors, U.S. corporations, and other state and federal agencies. The employee was instrumental in the development of communication products including testimony, speeches, press kits, editorial boards, press releases, video tapes, and briefing books. This laboratory employee’s duties also included public presentations about program office activities, building external support for program office achievements, and being a liaison to key program office supporters and constituents.

A Lawrence Livermore employee coordinated activities for the Department concerning the National Ignition Facility, a planned fusion laser to be built at Livermore. This employee served as a primary liaison between the Congress, the Department, and the laboratory to coordinate National Ignition Facility project activities. Tasks included coordinating activities related to preparation of the Stockpile Stewardship Program’s Environmental Impact Statement required by the National Environmental Policy Act; assistance in responding to budget submission calls; as well as responding to inquiries from executive and legislative offices. In addition, this employee provided assistance in preparing and implementing project plans.

One laboratory employee was in the residency program for the Office of Defense Programs. Duties included providing advice on production, budget and facilities of site operations; participation in policy guidance for stockpile support and industrial standards; liaison between Defense Programs and other Department organizations; and participation in potential new Headquarters initiatives with the facility where the employee worked.

These examples illustrate the activities of laboratory employees.
Need for Departmental Criteria and Review

The Department did not clearly define the proper use of laboratory employees and did not establish a system to periodically review this usage. Furthermore, Department-wide criteria had not been developed to define which functions were inherently governmental and could, therefore, only be performed by federal employees. Also, Department-wide guidance on the use of laboratory employees had not been developed, nor was a system in place to track and monitor the work performed by laboratory employees to ensure that they were not placed in conflict situations.

The Department was not fully aware of the magnitude of reliance on laboratory employee support or the associated cost implications. Interviews with managers in several program offices during the course of the audit indicated that they did not know the cost of laboratory employee support. After the end of audit field work, the Department made efforts to determine the total number of employees and funding cost per employee. The Department requested the program offices provide a listing of all laboratory employees supporting their particular office, including total funding costs. The information received from the program offices covered 220 laboratory employees, with total costs in excess of $30 million. We concluded that the effort to gather this data was a positive step which was indicative of the Department's desire to become more involved in this process.

In a November 1991 report on this subject, GAO recommended that the OMB require that each agency, including the Department of Energy, identify specific functions which should appropriately be administered only by government employees. Despite these recommendations, the Department did not have a policy for identifying those specific functions to be solely administered by government employees, nor had it designed a system for tracking laboratory employees within the organization.

Department Response During the Audit

During the course of the audit, the Department recognized that the use of laboratory employees for support service missions was a significant concern. This culminated in several memoranda on this subject in September and October 1995, including a September 22, 1995, memorandum from the Secretary of Energy (Secretary) to all heads of Departmental elements. The subject of the Secretary’s memorandum was, “Prohibition of Use of Management and Operating Contractors to Compensate for Reduced Support Service Contracting.” In this document, the Secretary stated that the laboratory employees “shall not be required, nor should they propose, to provide administrative or management support services....”

To better control the Department’s use of laboratory employees, in October 1995, the Office of Procurement and Assistance Management undertook an inventory of external assignments of laboratory employees. In one of the memoranda issued, the Department made the following statement, which is highly relevant to the subject of this audit report:
An area of additional concern is the inappropriate use of management and operating contractor employees for the performance of inherently governmental functions. Even when the services performed are of a type which may legitimately fall within the scope of a management and operating contract, the use of nongovernmental personnel to perform inherently governmental functions, such as supervising Federal employees, is a violation of fundamental contracting principles. Such activities must be terminated immediately.

At the end of our audit, Defense Programs responded that it had developed and implemented a system to reduce its number of details and ensure the appropriate use of management and operating contractor personnel. This included a centralized control and approval process, laboratory/M&O guidelines, and FY 1996 end of year targets. Defense Programs believed that its actions supported all aspects of the Inspector General’s report recommendations. Defense Programs also said that since completion of the Inspector General’s audit work, it had reduced the number of its laboratory employees from 58 as shown in the report to 46 as of June 15, 1996.

We believe that the Department, based on its actions to date, has begun to address the issues raised in this report. However, until all of the corrective actions have been taken and there is time to evaluate their effectiveness, it is impossible to reach any final conclusion as to whether the concerns will be fully remedied. A Department-wide effort will be needed if long-term progress is to be made.

**Departmental Vulnerability**

The Department’s widespread reliance on laboratory employees suggests that (i) laboratory contract employees are involved in programmatic and policy arenas in which real or perceived conflicts may exist, and that (ii) the Department may be augmenting its federal workforce in a way which might not be cost-effective and consistent with its staffing objectives.

With the exception of those laboratory employees providing unique expertise, the use of laboratory employees in program offices may not be economical, especially given the budget situation facing the Department. In particular, the use of laboratory employees for clerical and administrative tasks represents an expenditure of funds that appears questionable. The Department’s average cost of over $150,000 per laboratory employee at Headquarters indicates that the Department needs to evaluate the continuing economy of using laboratory employees. Furthermore, in the current environment of federal personnel cutbacks, the use of laboratory employees could be used inappropriately to bypass personnel constraints.
PART III

MANAGEMENT AND AUDITOR COMMENTS

The Deputy Assistant Secretary for Procurement and Assistance Management commented on the initial draft version of this report and concurred with the findings. Management and auditor comments follow.

Management Comments. Management expressed general agreement with our findings and the need to work with the Office of Inspector General to take appropriate actions to manage the use of management and operating contractor employees. In addition, management also stated that:

"... in October 1995, the Deputy Assistant Secretary for Procurement and Assistance Management requested Headquarters program offices to develop an inventory of M&O employees providing support services to Headquarters. A report of that inventory has been provided to the Deputy Secretary. The inventory includes the employees' names, what duties they are performing, and how much they cost per month."

Auditor Comments. As recognized in the report, the Department has taken what we consider to be promising initial steps to address the issues raised by the audit. However, until management's planned actions are fully defined and implemented, we are unable to assess their adequacy.
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2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

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