



**Department of Energy**

Washington, DC 20585

April 17, 2009

The Honorable Joe Barton  
Ranking Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman Barton:

Thank you for your March 16, 2009, letter regarding the Department of Energy's Inspector General audit report (DOE/IG-0811, "Washington Savannah River Company, LLC, Internal Audit Function") on the quality of auditing and adequacy of agency oversight of the Washington Savannah River Company, LLC (WSRC), for spending in fiscal year 2007 at the Savannah River Site. In your letter, you raised concerns about the audit practices of WSRC described in the subject report as well as potential inadequacies of the Savannah River Operations Office in providing appropriate oversight.

As requested, the Department's responses to questions and documents are enclosed. Please note that one of the responsive documents is marked "business sensitive." The Department has determined this document is not business sensitive and may be publicly disclosed.

In recognition of the importance and effectiveness of the contractor internal audit function, we have provided a copy of this audit report to each of our Field Managers. Each Field Manager will provide an assurance for each contractor that there are no current or potential issues with the contractor's internal audit systems.

If you have any questions, please contact me or Mr. Stephen Lerner, Office of Congressional and Intergovernmental Affairs, at (202) 586-5450.

Sincerely,

  
Inés R. Triay  
Acting Assistant Secretary for  
Environmental Management

Enclosures

cc: The Honorable Henry A. Waxman, Chairman  
Committee on Energy and Commerce



## Responses

1. Please identify the names, titles, and offices of the officials at the Department of Energy (DOE) and the Savannah River Operations Office (Savannah River) who have been or are responsible for the management and operations contract at the Savannah River Site over the past ten years, including, but not limited to officials who were responsible for the Washington Savannah River Company, LLC (WSRC) contract during the period covered by the Inspector General Audit. Please note any personnel changes.

The list containing the names of Office of Environmental Management (EM) and Savannah River (SR) officials responsible for the Management and Operating (M&O) contract over the last ten years is provided below. Please note that date gaps in position coverage may be attributed to the staffing process to fill positions vacated by personnel who retired/resigned and clear breaks in command may not be readily apparent due to reorganizations/restructurings, establishment and/or abolishment of positions.

	Name	Title	Position Tenure
<b><i>EM Manager</i></b>			
1	John E. Surash	Head of Contracting Activity (HCA)	Nov. 2007 - Present
<b><i>SR Managers</i></b>			
1	Jeffrey Allison	Manager, Savannah River Operations Office, HCA (until Nov. 2007)	2003 - Present
2	Greg Rudy	Manager, Savannah River Operations Office, HCA	1998 - 2002
<b><i>SR Deputy Managers</i></b>			
1	Jeanie Schwier	Deputy Manager for Business	2007 - Present
2	Roger Butler	Deputy Manager for Business	2004 - 2006
3	Sandy Johnson	Deputy Manager for Cleanup	2008 - Present
4	William Bill Spader	Deputy Manager for Cleanup	2005 - 2008
5	Charlie Anderson	Deputy Manager for Cleanup	2003 - 2005
6	Charlie Hansen	Deputy Manager	2000 - 2003
7	Frank McCoy	Deputy Manager	1998 - 2000

<i>Assistant Managers</i>			
1	Marvin Garcia	Assistant Manager for Strategic Planning and Analysis	2003
2	Marvin Garcia	Assistant Manager for Business Logistics	2002 - 2003
3	Brent Armstrong	Assistant Manager for Business Logistics	1997 - 2001
<i>Chief Financial Office Personnel</i>			
1	Sarah Blanding	Financial Manager	2005 - 2008
2	John Pescosolido	Financial Manager	1996 - 2004
3	Paul Anderson	Accounting Manager	2005 - 2005
4	Renee Alvis	Supervisory Accountant	1997 - Present
5	Earline Broaden	Supervisory Staff Accountant	2005 - 2006
6	Al Garrett	Supervisory Staff Accountant	1994 - 2004
<i>Office of Contract Management Personnel</i>			
1	Jeffrey C. Armstrong	Supervisory Contract Specialist, Procurement Director	2006 - Present
2	Mike Allison	Supervisory Contract Specialist, Procurement Director	2004 - 2005
3	Ron Simpson	Supervisory Contract Specialist, Procurement Director	1995 - 2003
4	James Detwiller	Contracting Officer	1988 - 2005
5	Dan McCusker	Contracting Officer	2004 - 2006
6	Tom Reynolds	Contracting Officer	1989 - 2004
7	Elaine Nix	Contracting Officer	2006 - Present
8	James Lovett	Contracting Officer	2004 - Present
9	Wesley Painter	Contracting Officer	1982 - 2003

**2. The Inspector General reports that Savannah River Officials had not required WSRC to comply with the provisions of a DOE-required 2004 internal audit contract clause and associated Acquisition Guide. Please (a) identify the names and titles of DOE officials who were involved in this decision, including, but not limited to, the official who approved this decision, and (b) explain in detail why the WSRC contract did not incorporate the new**

**audit contract clause until August 8, 2008 – three and one half years and several billion dollars after the DOE required the new policy and terms.**

(a) The DOE-SR Office of Contracts Management officials present during the November 2004 time period when the referenced policy was issued are listed under question number 1.

(b) The DOE Policy referred to in the OIG report is actually Acquisition Letter (AL) 2005-04, which was issued by the Department's Office of Procurement and Assistance Policy on November 2, 2004, and was also announced in DOE Policy Flash 2005-07 issued on the same date.

The AL 2005-04 contains the following Background statement:

The DOE Inspector General (IG), in consultation with the Chief Financial Officer (CFO), and the Office of Procurement and Assistance Management (OPAM), and the Contractor Internal Audit Council, developed and implemented the Cooperative Audit Strategy in October 1992 to maximize the overall audit coverage at management and operating contractors and fulfill its responsibility for auditing the costs incurred by DOE's major facilities contractors. The Cooperative Audit Strategy enhances DOE's efficient use of available audit resources by allowing the IG to rely on the work of Contractor internal audit activities. The success of the Cooperative Audit Strategy depends on the IG and Contractor Internal Auditors working closely with the CFO, DOE's and National Nuclear Security Administration's OPAM, Departmental Contracting Officers, and related Departmental program functions [emphasis added].

The class deviation transmitted by this Acquisition Letter modifies the Management Controls clause at DEAR 970.5203-1 and Accounts, Records, and Inspection clause at DEAR 970.5231-3 to enhance contract coverage of the Cooperative Audit Strategy. The revised versions of the two clauses are attached to the deviation determination.

Contracting Officers shall incorporate the two modified clauses into solicitations for management and operating contracts and awards. Additionally, Contracting Officers shall attempt to negotiate these clauses in existing M&O contracts at the next annual negotiation" [emphasis added].

The Acquisition Letter did not require the clauses to be immediately incorporated into existing contracts. Insertion of the clauses into existing contracts is a matter of bilateral agreement.

On January 8, 2008, the DOE-SR contracting officer sent a modification incorporating AL 2005-04, into the WSRC M&O contract (Enclosure 1). On

January 10, 2008, a new M&O contract was awarded to Savannah River Nuclear Solutions (SRNS), LLC. On February 19, 2008, WSRC responded and noted that they currently complied with all aspects of the Cooperative Audit Strategy and they requested to defer execution of the modification in light of the upcoming transition to a new contractor (Enclosure 2). The modification was made to the WSRC contract after the transition to the SRNS contract was completed.

The AL clauses were negotiated into the contract by the Savannah River Operations staff in August, 2008. This action was taken in response to a request by the cognizant auditor, the Savannah River Audit Group, OIG.

Although the modified clauses promulgated in the AL were not incorporated into the contract until 2008, DOE-SR put in place a Cooperative Audit strategy that met the intent of the AL at the inception of the WSRC contract in 1996. WSRC Internal Audit Division, OIG, DOE-SR CFO and Contracting Officers (CO) have worked closely together on audit issues throughout the life of the contract.

**3. Please provide a copy of Savannah River's *Integrated Performance Manual* and explain whether all procedures in this manual relating to internal audit and contract oversight have been followed.**

DOE-SR does have an "Integrated Performance Assurance Manual (IPAM)." The IPAM is the DOE-SR's manual implementing the requirements of DOE Order 226.1A "Implementation of Department of Energy Oversight Policy." This Order covers such operational aspects as environment, safety, and health; safeguards and security; cyber security; and emergency management. The IPAM requires that all organizations be cognizant of costs charged by the contractor and advise the Contracting Officer of unreasonable or questionable costs. Neither the IPAM nor the Order addresses business systems specifically. A copy of the DOE-SR IPAM is enclosed (Enclosure 3).

**4. What is DOE's position with regard to contractor adherence to contract provisions, what are the procedures for waiving these requirements, and was Savannah River adhering to these procedures?**

The Office of Acquisition Management (OAM) of the DOE-SR requires that all contractors fully comply with the terms and conditions of their contracts. The premise of the question is that OAM waived a requirement by not including the modified clause in the WSRC contract. As noted above, the AL did not require immediate incorporation of the modified clause in the WSRC contract and thus there was no waiver of a requirement.

**5. Please explain why the internal audits supplied to DOE were supplied to the Savannah River Evaluation Team, but not to the Contract Management Division and, in particular, not to the official in charge of WSRC oversight. Who was responsible for this decision?**

There was never a decision made to exclude the Contracts Management Division from distribution of WSRC Internal Audit Reports. There is a contract clause that requires the following "The contractor agrees to conduct an internal audit and examination satisfactory to DOE of the records, operations, expenses, and the transactions with respect to costs claimed to be allowable under this contract annually and at such other times as may be mutually agreed upon. The results of such audit, including the working papers shall be submitted or made available to the contracting officer." This requires that the CO receive a copy of the annual unallowable cost audit and the contractor was in compliance with this requirement. The DOE-SR Financial Evaluation Team (FET) did receive all WSRC internal audit reports and forwarded copies to DOE organizations with commensurate oversight. Due to the lack of experienced key personnel in FET, copies of the audit were not provided to the CO. As a result of the OIG audit, DOE-SR has directed the current M&O contractor Savannah River Nuclear Solutions (SRNS) to include the Contracts Management Division on distribution for all issued internal audit reports.

**6. What has DOE done to ensure that the current management and operations contract holder, Savannah River Nuclear Solutions, fully adheres to and is compliant with all contract provisions, including the internal audit function? Please provide documents substantiating any corrective actions.**

The modified clause from AL-2005-04 was included in the solicitation for the new M&O contract, and is in the new M&O contract. In addition, the DOE Contracting Officer notified the President of SRNS of the draft audit report findings requesting that SRNS address procedures to prevent future or similar occurrences in the SRNS internal audit function. In response, SRNS committed to an efficient, transparent, and properly functioning internal audit process (see Enclosure 4). Additionally, in response to DOE-SR concerns, SRNS established new "Standards and Guidelines for Internal Audit" which became effective February 28, 2009. (Enclosure 5).

**7. Please provide DOE analysis and reviews of WSRC internal audit functions, including but not limited to, any assessment of WSRC internal audit adherence to internal written procedures relating to the performance and documentation of its internal peer reviews and supervisory reviews.**

We have enclosed copies of eight OIG audit reports (Enclosure 6) which included reviews of the WSRC Internal Audit (IA) function, two reviews performed by the DOE-SR FET on the WSRC IA function (Enclosure 7 and Enclosure 8) and one Peer Review (Enclosure 9) performed by internal auditors from Lawrence Livermore National Laboratory, Pacific Northwest Laboratory and Brookhaven National Laboratory. The eight OIG reviews covered each fiscal year (FY) from FY 1998 through FY 2006 and all concluded that the audit work performed by the WSRC internal audit function was in compliance with auditing standards and

could be relied upon. The FET reviews found the WSRC internal audit function to be in compliance with auditing standards and found no indications of material weaknesses. The Peer Review concluded the following “We found many positive aspects about the IA activity. The IA activity is well structured and is effectively carrying out its mission. The IA activity is knowledgeable in the use of audit tools and appropriate practices, and is well respected. Among these tools and practices are automated audit software (TeamMate), effective reports with a focus on risk; and generally positive feedback by management and customers.” In addition the peer review concluded “There is an overall understanding of Institute of Internal Auditors (IIA) Standards within the IA activity. In the Peer Review Team’s overall opinion, WSRC Internal Audit generally conforms to the IIA Standards.”

**8. What corrective actions with regard to WSRC internal audit have been identified and initiated? Has DOE verified that corrective actions have been effectively implemented and, if so provide that verification?**

DOE-SR proposed an alternative action plan that was accepted by and deemed to be responsive by the OIG. The corrective actions were included in the OIG report in the Management and Auditor Comments section. The components of the SR corrective action plan were:

- (a) DOE-SR will require the M&O contractor internal audit function to include distribution of all reports to the Federal Contracting Officer. The current M&O contractor, SRNS has been instructed to include the DOE CO on all issued audit reports.
- (b) DOE-SR CFO will obtain and provide the DOE-SR Contracting Officer, all information necessary to provide full disclosure and assist in the determination of allowability of costs. The DOE-SR CO has been provided a copy of the original WSRC draft reports that included the language questioning costs related to the internal control nonconformances. The CFO has complied with all other requests for information from the CO.
- (c) The DOE-SR CFO Financial Evaluation Team Leader performed a review of the WSRC 2007 Unallowable Cost Audit (Enclosure 7). This review included a general workpaper review that included a reconciliation of the final report to the supporting workpapers. The results of this review were provided to the DOE-SR CO and included full disclosure of any items that were removed from the final report. This review concluded that the WSRC FY 2007 Unallowable Cost Audit was performed satisfactorily in accordance with IIA standards and conclusions stated in the final report were reasonable and supported by adequate documentation in the workpapers. The review did identify a couple of areas that could be improved but none that were material enough to affect the conclusions of

the report or to question the integrity of the work performed in meeting auditing standards.

(d) DOE-SR has recommended that the current contractors with internal audit functions (SRNS and WSRC) include a procedure to address unresolved professional differences of opinion by either:

- Requesting a meeting with the DOE-SR CFO and CO to ensure full disclosure and arbitrate any unresolved issues or
- Provide a written communication to the DOE-SR CFO and CO that identifies the unresolved professional difference of opinion, the magnitude and justification for excluding the issue from the final report.

On February 4, 2009, the DOE-SR CO sent a letter to both SRNS and WSRC providing direction to implement the above procedure. Copies of these direction letters are enclosed (Enclosure 10). SRNS and WSRC both provided confirmation that the directed procedures had been implemented. Copies of these confirmation letters are enclosed (Enclosure 11).

**9. Please identify the names, titles, and offices of WSRC officials who represented the contractor in any and all negotiations concerning implementation of the internal audit provisions of the Department Acquisition Letter AL-2005-04.**

As indicated in response to question 2, DOE-SR and WSRC exchanged letters in January and February 2008 regarding timing of implementation of the requirements of the AL.

	Name	Title
1	Francis T. Iwuc	Acting Manager, Contract Administration and Accountability, Former WSRC
2	Mal Collins	Former Director of Internal Oversight Department, WSRC
3	Lee Burkhart	Former Admin Lead, Office of Internal Oversight Department, WSRC

Additional negotiation was conducted when WSRC and DOE executed MOD 184 on August 8, 2008. WSRC officials involved in this process were:

	Name	Title
1	Kathryn B. Burnau	Manager, Contract Administration, Procurement and Property Services, WSRC
2	Stephen F. Piccolo	President, WSRC
3	Leo Sain	Former President, WSRC