



U.S. Department of Energy
Office of Inspector General
Office of Inspections and Special Inquiries

Inspection Report

Work Order Estimate and Cost Issues for
Site Support Services at Los Alamos
National Laboratory




Department of Energy

Washington, DC 20585

October 25, 2007

MEMORANDUM FOR THE SECRETARY

FROM:


Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Inspection Report on "Work Order Estimate and Cost Issues for Site Support Services at Los Alamos National Laboratory"

BACKGROUND

The Department of Energy's Los Alamos National Laboratory (LANL) is one of the largest multidisciplinary science institutions in the world. The National Nuclear Security Administration has cognizance over the Laboratory. Site support services at LANL, including maintenance and repairs, are provided by KSL Services Joint Venture (KSL) under a 5-year, almost \$800 million, cost-plus-award-fee subcontract arrangement. Ultimately, essentially all KSL charges are reimbursed by the Department through the Laboratory. Under the terms of the subcontract, KSL is to exercise discipline and rigor to ensure that appropriate levels of project controls and management are provided for the delivery of work on schedule and within budget. KSL's performance is evaluated semi-annually against performance objectives, expectations, and associated weighting factors.

The Office of Inspector General received multiple complaints alleging irregularities by KSL in cost estimating and charging of work orders. It was alleged that actual costs frequently exceeded estimated costs and that KSL often mischarged labor and materials. As a result, we initiated an inspection to: (1) evaluate the extent to which KSL costs exceeded work order estimates; and (2) determine whether labor and materials were being inappropriately charged to work orders.

RESULTS OF INSPECTION

Our work substantiated the allegations. A review of 94,561 work order task estimates for the period January 2005 through April 2007 revealed a systemic problem in that KSL actual costs frequently exceeded estimates, often by significant amounts. This had the potential to negatively impact the ability of KSL and LANL facility personnel to effectively manage the cost of work performed and the allocation of labor and material charges. Specifically, we found that:

- From January 2005 through April 2007 actual cost exceeded estimated cost for work order tasks by more than 20 percent in 71,025 out of 94,561 cases, or 75 percent of the time. In the most extreme cases, estimates of \$.01 were being input to LANL's work control system, PassPort. Associated actual costs grossly exceeded estimates. In one such case, the actual cost was over \$100,000.



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- There were significant issues relating to KSL labor and material charges. A number of responsible LANL officials told us of instances where KSL had charged LANL work orders with labor and materials that were questionable, inappropriate, excessive, or unsupported based on their knowledge of the work performed. We identified specific examples to support these claims. In one case, employees charged time to five work orders for fire alarm communication upgrades even though they did not work on the projects. These labor charges totaled approximately \$9,780. In another case, an employee charged 35 hours to a work order for repairs to concrete steps, after the work was completed. The cost was \$4,900.

We also found internal control weaknesses associated with PassPort, which may have contributed to problems with work order charges and costs. For example, PassPort allowed unapproved charges to be applied against work orders without the knowledge of LANL facility personnel. These were in the form of "Other Costs" charges, which we were told were originally intended to allow KSL to recover certain unanticipated costs up to \$20,000 per year. However, these "Other Costs" reached nearly \$41 million in 2006 and were already over \$14 million by the end of May 2007.

Again, the Department of Energy, directly or indirectly, paid or will pay all of these charges, the source being taxpayer-provided funds.

We observed that various issues concerning KSL estimates and work order costs had been raised previously during LANL reviews of KSL performance. These performance evaluations identified widespread and systemic failures in the fidelity of KSL's system of financial management and controls, including labor charges. In addition, these evaluations found that cost performance was not always accurately portrayed.

We also examined (1) the measurements used to assess KSL's performance with respect to work order cost estimates and labor and material charges and (2) KSL's award fee. We believe LANL could do more to define the standards against which KSL's performance is being judged and the resultant impact performance will have on KSL's award fee. For example, we could not identify any performance measure specifically addressing the appropriateness, accuracy, and support for labor and materials charged to work orders. Also, it was unclear whether KSL's documented performance in the area of work order management had any direct impact on related award fee determinations.

We made several recommendations to management designed to enhance financial and other internal controls associated with KSL's work package estimating and labor charging activities.

MANAGEMENT REACTION

In responding to a draft of this report, the National Nuclear Security Administration generally agreed with the report and indicated a Management Decision would be prepared to formalize corrective actions related to this report and ensure that all issues are being appropriately addressed. Upon receipt of the Management Decision, we will assess whether the identified corrective actions are responsive to our report recommendations.

Attachment

cc: Deputy Secretary
Administrator, National Nuclear Security Administration
Chief of Staff
Manager, Los Alamos Site Office
Director, Policy and Internal Controls Management (NA-66)
Director, Office of Internal Review (CF-1.2)
Audit Liaison, Los Alamos Site Office

WORK ORDER ESTIMATE AND COST ISSUES FOR SITE SUPPORT SERVICES AT LOS ALAMOS NATIONAL LABORATORY

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Overview

INTRODUCTION AND OBJECTIVES

The Department of Energy's (DOE's) Los Alamos National Laboratory (LANL) is one of the largest multidisciplinary science institutions in the world. LANL enhances global security by ensuring the safety and reliability of the U.S. nuclear weapons stockpile; developing technical solutions to reduce the threat of weapons of mass destruction; and solving problems related to energy, environment, infrastructure, health, and national security. LANL is managed for the Department's National Nuclear Security Administration by Los Alamos National Security, LLC, which assumed full contract responsibilities on June 1, 2006.

Since February 2003, site support services at LANL, including maintenance and repairs, have been provided by KSL Services Joint Venture (KSL), which was formed by Kellogg Brown and Root Inc., Shaw Infrastructure Inc., and Los Alamos Technical Associates Inc. KSL continues to provide these services under the new management contract. The total estimated contract value over 5 years is \$785,457,000. This is a cost-plus-award-fee contract that provides an incentive, in the form of an available award fee, to encourage and reward improved performance and increased efficiency in the achievement of the contract objectives. KSL's performance is evaluated semi-annually against performance objectives, expectations, and associated weighting factors.

The contract states that KSL is to "achieve high levels of compliance with industry standards and Laboratory and DOE requirements in the performance of work." It also requires KSL to exercise discipline and rigor in corrective and preventive maintenance to ensure the scope of work is clear, that pertinent project data is current and available, and that appropriate levels of project controls and management are provided for the delivery of work on schedule and within budget. In addition, KSL is to provide cost estimating accuracy that is consistent with acceptable, recognized industry standards.

Funds are obligated to the contract through work orders issued to KSL. The work orders can have multiple tasks and become part of a work package that is assembled for each work activity. The work package is a compilation of all documents required to define the work, identify and analyze hazards, develop and implement controls, perform the work, and ensure performance. Work orders are entered into LANL's work control system, PassPort, which is the institutional computerized maintenance management system tool that is used to manage all support services subcontractor work.

The Office of Inspector General received multiple complaints alleging irregularities by KSL in cost estimating and charging of work orders. It was alleged that actual costs frequently exceeded estimated costs and that KSL often mischarged labor and materials. As a result, we initiated an inspection to: (1) evaluate the extent to which KSL costs exceeded work order estimates; and (2) determine whether labor and materials were being inappropriately charged to work orders.

OBSERVATIONS AND CONCLUSIONS

Our work substantiated the allegations. The review of 94,561 estimates of work order tasks from January 2005 through April 2007 revealed a systemic problem in that KSL actual costs frequently exceeded estimates, often by significant amounts. This can negatively impact the ability of KSL and LANL facility personnel to effectively manage the cost of work performed and the allocation of labor and material charges. Specifically, we found that:

- Inconsistent with applicable performance standards, from January 2005 through April 2007 actual cost exceeded estimated cost for work order tasks by more than 20 percent in 71,025 out of 94,561 cases, or 75 percent of the time. In the most extreme cases, estimates of \$.01 were being input to PassPort, apparently as “place holders.” This resulted in actual costs that grossly exceeded estimates. In one such case, the actual cost was \$101,978.08.

In addition, we found problems with labor and material charges by KSL. Many LANL officials told us of instances where KSL had charged LANL work orders with labor and materials that were questionable, inappropriate, excessive, or unsupported based on their knowledge of the work performed. We found specific examples to support these claims, such as:

- Charges of \$10,191 for more than twice the amount of electrical wire needed for the work performed;
- A work order for cement masons to repair concrete steps where a nuclear safety engineer charged 35 hours after the work was completed. The engineer’s labor charges of \$4,900 were almost 1½ times the total labor estimate of \$3,444 and more than tripled what had been, up to that time, a job cost of \$2,115.60; and,
- Five work orders for fire alarm communication upgrades where employees charged time even though they did not work on the projects. These labor charges totaled approximately \$9,780.

We also found internal control weaknesses associated with PassPort, which may have contributed to problems with work order charges and costs. For example, PassPort allowed unapproved charges to be applied against work orders without the knowledge of LANL facility personnel. These were in the form of “Other Costs” charges, which we were told were originally intended to allow KSL to recover certain unanticipated costs up to \$20,000 per year. However, these “Other Costs” reached nearly \$41 million in 2006 and were already over \$14 million by the end of May 2007. Also, PassPort did not have adequate controls to help ensure the quality of an estimate prior to activation of a work order, e.g., an estimate could be \$0.01. Further, financial limits or monetary ranges were not established in PassPort to control work order charges or alert LANL facility personnel to problems such as actual costs exceeding estimates.

We observed that various issues concerning KSL estimates and work order costs had been raised previously during LANL reviews of KSL performance. These performance evaluations identified widespread and systemic failures in the fidelity of KSL’s financial management and controls, including labor charges. In addition, these evaluations found that cost performance was not always accurately portrayed.

We also examined (1) the measurements used to assess KSL’s performance with respect to work order cost estimates and labor and material charges and (2) KSL’s award fee. We believe LANL could do more to define the standards against which KSL’s performance is being judged and the resultant impact performance will have on KSL’s award fee. We determined that, prior to the performance period October 1, 2006, to June 30, 2007, KSL’s cost estimating performance was combined with other performance elements. For the period beginning October 1, 2006, the quality of KSL’s estimates was made a separate performance element. We could not identify any performance measure specifically addressing the appropriateness, accuracy, and support for labor and materials charged to work orders. We reviewed the award fees that KSL has earned since April 2003 and determined that KSL has never earned the entire available award fee. For example, for the period October 1, 2005, through March 31, 2006, KSL received \$2,815,886 out of an available pool of \$3,027,834. However, it was unclear what direct impact KSL’s performance issues in the areas of estimating and work order charges have had on the award fee determinations.

Details of Findings

ESTIMATED COST

Our review of 94,561 estimates of work order tasks from January 2005 through April 2007 revealed a systemic problem where actual costs frequently exceeded estimates, often by significant amounts. This can negatively impact the ability of KSL and LANL facility personnel to effectively manage the cost of work performed and the allocation of labor and material charges.

KSL's original Performance Evaluation Plan dated January 8, 2003, under "Maintenance and Operations" and "Engineering and Construction," required KSL to "Provide estimating accuracy that is consistent with acceptable, recognized industry standards for productivity and deliver projects within 10% of the estimated cost." Since January 2003, the Performance Evaluation Plan has been modified several times, with the performance measures for the accuracy of estimates evolving from the standard of delivering projects within 10 percent of the estimated cost to a less stringent standard of completing work order tasks within 20 percent of the estimated cost.

For the projects we reviewed, we found that actual costs exceed the estimates of work order tasks by more than 20 percent in 71,025 out of 94,561 cases, or 75 percent of the time. As noted, in some cases, estimates of \$.01 were being input to PassPort, apparently as "place holders," resulting in actual costs that grossly exceeded estimates. For example, in one such case, the actual cost was \$101,978.08. For each year in our sample (2005, 2006, and through April 2007), the percentages of actual costs exceeding estimates remained fairly constant.

The Laboratory has 10 Facility Operations Directors (FODs) who regularly interface with KSL during the performance of maintenance and repair activities in their facilities. Eight of the 10 FODs expressed concerns to us about KSL estimates, making statements such as: "estimates are overrun a fair amount of the time" or "estimates are overrun consistently."

In 2005, "Key Performance Indicators" were developed for cost compliance associated with "Preventative Maintenance," "Small Jobs," and "Projects." A specific color coded system was used to evaluate KSL's performance, with "green" being used to show passing, "yellow" to show need for improvement, and "red" to show failure. For example, under "Preventative Maintenance" tasks, KSL could achieve a "green" rating if the actual cost came within +/- 20 percent of the estimate more than 40 percent of the time, a "yellow" rating if the actual cost came within +/- 20 percent of the estimate from 30 through 40 percent of the time, and

a “red” rating if the actual cost came within +/- 20 percent of the estimate less than 30 percent of the time. Higher percentages were established for “Small Jobs,” and “Projects.” When we asked LANL officials why the standard for passing was set so low, we were told that KSL estimates had been such a problem that “we needed to start somewhere.” In fact, the evaluation comments under both “Small Jobs” and “Projects” stated that LANL “May re-evaluate scoring criteria to ‘raise the bar’ once systemic improvements have been made to improve process and estimating.” KSL scored “red” 90 percent of time for the 11-month period from November 2004 to September 2005 for “Preventative Maintenance,” “Small Jobs,” and “Projects.” In addition, KSL scored “red” 74 percent of the time when its performance was measured at each of the nine Facility Management Units in effect at that time.

Effective December 1, 2006, LANL issued a new administrative procedure for KSL work performance that identifies new controls to address estimates and cost overruns. The procedure states that for all work valued at greater than \$10,000, when tasks reach 85 percent of the cost estimate, KSL is to calculate the projected “final cost.” If the projected cost is less than 120 percent of the estimate, then work continues, but if the projected final cost exceeds 120 percent of the estimate, then KSL is to cease work and develop a formal revised cost estimate. This revised estimate is to be approved by the LANL maintenance manager, and the originator is to be notified of the new costs. We were told, however, that as of May 1, 2007, the new procedure had not been widely implemented.

LABOR AND MATERIAL CHARGES

We found problems with labor and material charges by KSL. A number of LANL officials, including several FODs, told us of cases where KSL had charged their work orders with labor and materials that were questionable, inappropriate, excessive, or unsupported based on their knowledge of the work performed. For example, we were told of inappropriate charges that were the result of timekeeping errors, work orders being charged by people who did not work on them, unapproved overtime charges, and charges to closed work orders. One LANL facility official indicated that when KSL workers have no work to do, they are being subsidized, and work order “padding” is common. We found specific examples to support the above claims.

At one facility, a 2006 electrical upgrade work order with a final PassPort cost of \$140,151 had multiple problems. The total PassPort estimate for this project was \$133,574; however, there

was no cost entered for materials and supplies, and only \$9,282 was entered for labor. The other \$124,292 was shown as “miscellaneous.” Actual labor totaled \$129,579 and actual materials totaled \$10,157. At a point in time when the LANL project coordinator had only authorized KSL to spend up to \$123,812, KSL’s actual charges rose to \$154,170. The LANL project coordinator found the financial condition of the project to be “very disturbing” and performed an analysis of the \$30,358 cost overrun. The project coordinator found that the amount of wire charged to the project was more than twice what was required to perform the work, with an original wire estimate of \$4,529 and an actual wire charge of \$10,191. The project coordinator also questioned labor costs, stating that “We had a report from the customer that the crafts were witnessed sleeping in trucks,” and that “laborers were consistently pulled from the project to support material transfers.” The project coordinator also stated that “I have \$752.58 in labor charges after we pulled off the job . . . that I would like to have backed out of the work order.” The project coordinator stated that no further work was to have taken place, “yet these charges have mysteriously appeared for work not being performed.” Subsequently, the project coordinator questioned these costs, and KSL backed out \$12,696.69 from the work order charges as “cost transfers” and “material mischarges.”

In addition, we identified five work orders for fire alarm communication upgrades where a LANL facility official discovered inappropriate labor charges. For example, schedulers, electricians, and technical staff who did not work on the fire alarm upgrade charged time on these work orders. Inappropriate labor charges were determined to total approximately \$9,780. A LANL facility official alerted KSL to these charges, and KSL backed them out.

On a work order for patching cracks on a loading dock, we determined that a foreman charged three hours to this work order more than four months prior to the job being worked. On a work order for repairing steam and condensate leaks, we determined that a laborer charged six hours on a day when no one else was present, even though a laborer would not work alone. On a work order for cement masons to repair concrete steps, we determined a nuclear safety engineer charged 35 hours after the work was completed. In this case, the engineer’s labor charges of \$4,900 were almost 1½ times the total labor estimate of \$3,444 and more than tripled what had been, up to that time, a job cost of \$2,115.60. KSL management acknowledged that, in all cases, these charges were not appropriate. We were told that some of these

charges could have been the result of timekeeping errors. We requested the time sheets for the three individuals involved. KSL only provided the timesheet for the foreman. We determined that the inappropriate charges were due to a timekeeping error.

In a final example, a KSL employee charged 8 hours to a work order that the employee only worked on for approximately 15 minutes. The KSL employee was tasked to re-glue carpet tiles that started to bend up. The employee completed the task in about 15 minutes and then did nothing the rest of the morning from 8:15 am until noon. The employee then attended a one-hour training class between 12:45 pm and 1:45 pm and then did nothing between 2:00 pm and 4:00 pm. The employee told us that he was directed by KSL management to charge to an incorrect work order. We asked KSL management about this statement, and KSL management denied it. The employee no longer works for KSL.

INTERNAL CONTROLS

We also found internal control weaknesses associated with PassPort, which may have contributed to the problems with work order charges and costs. For example, PassPort:

- Allowed KSL to charge certain unapproved “Other Costs,” such as materials that did not go through the LANL procurement system for approval, without the knowledge of LANL facility personnel. We were told that this feature was incorporated into PassPort with the intent of allowing KSL to recover certain minimal unanticipated costs. While the use of this feature was not capped at any particular dollar amount, we were told the original intent was to use this feature up to \$20,000 per year. However, these “Other Costs” reached approximately \$41 million in 2006 and were already over \$14 million by the end of May 2007;
- Did not have adequate controls to help ensure the quality of an estimate prior to activation of a work order in the system, e.g., an estimate could be as low as \$0.01 and there was no requirement to estimate materials;
- Allowed KSL to charge to work orders as soon as they were created in the database even though the project may not have been ready for the commencement of work activities;
- Did not contain controls to limit charging to only those tasks within a given work order that had been approved for work activities;

-
- Did not contain monetary ranges that could be used to notify LANL facility personnel when KSL charges were approaching the estimated cost;
 - Did not place controls on KSL to prevent charges that exceeded the estimated cost; and,
 - Did not prevent charging to closed work orders.

PassPort has the capacity to accept monetary ranges on all work orders to limit work order charges and to alert LANL when potential problems arise. However these capabilities had not been utilized. We were told by a LANL official that PassPort is a “wide open system without controls.” Since PassPort interfaces with LANL financial systems and results in the debiting of numerous LANL accounts, we believe stricter internal controls are essential to ensure the integrity of the work order process.

PERFORMANCE EVALUATIONS

We observed that various issues concerning KSL estimates and work order costs had been raised previously during LANL reviews of KSL performance. Performance evaluations dating back to 2003 found widespread and systemic failures in the fidelity of KSL’s financial management and controls, including the perceived lack of control relative to labor charges. In addition, these evaluations found that cost performance was not always accurately portrayed. It was noted that KSL was “driving clients to authorize increases in costs in order to complete work that appeared to be driven by inefficiency or poor execution, creating distrust among LANL users.” The performance evaluations identified numerous work management problems, to include concerns that there was little evidence of accountability for: (1) accuracy of estimates on work orders; (2) overrunning estimates on work orders; or (3) work order charges.

Specifically, a performance evaluation dated November 20, 2003, stated that KSL did not direct enough attention to getting quality work done on time and on cost target and that KSL had not demonstrated any significant improvement in maintenance cost or performance over the previous site support services contractor. In addition, this evaluation stated that KSL’s budget overrun was extremely disappointing.

Performance evaluations dated May 13, 2004, and December 9, 2004, stated that there was still considerable room for improvement in the estimating, scheduling, and statusing of work

in PassPort. These evaluations noted insufficient attention being paid by KSL to effectively accomplish work in the field and manage the accuracy of the data in PassPort. They noted that work orders were continuously being overrun with no prior notice to the customer and that the accuracy and timeliness of work order charges remained a concern.

An August 5, 2005, performance evaluation stated that KSL had been slow to align department budgets and the Annual Management Plan with the approved budget and struggled in dealing with seemingly simple financial queries. This evaluation found that planning and general management and administrative costs charged to work orders had grown significantly and that KSL costs associated with oversight of outsourced services had been very high.

Finally, a performance evaluation dated June 22, 2006, stated that KSL had launched key initiatives that had not improved performance in the field. The evaluation stated that KSL had not had a meaningful overhead cost report in months and that business volume by department was unknown. The evaluation stated that it was still unclear if KSL was performing within approved budget and that repeated requests to align cost reports with the approved budget had gone unanswered. The evaluation stated that LANL expected greater attention to estimating and a higher level of maturity 3½ years into a 5-year contract.

PERFORMANCE MEASURES AND AWARD FEE

We also examined (1) the measurements used to assess KSL's performance with respect to work order cost estimates and labor and material charges and (2) KSL's award fee. We believe LANL could do more to define the standards against which KSL's performance is being judged and the resultant impact performance will have on KSL's award fee. We examined the measurements used to assess KSL's performance with respect to work order estimates and labor and material charges. As stated previously, KSL has a cost-plus-award-fee contract. The original Performance Evaluation Plan required that projects be delivered within 10 percent of the estimated cost. However, there have been several revisions to the Plan. Prior to the performance period of October 1, 2006, through June 30, 2007, KSL's performance with respect to estimates was combined with other performance elements. For the period beginning October 1, 2006, the quality of KSL's estimates was made a separate sub-element under the performance measure for "Value of Work Performed," and the goal was that KSL's estimates were expected to be within 20 percent of actual cost. We did not identify any specific performance measure addressing the appropriateness,

accuracy, and support for labor and materials charged to work orders.

We reviewed the award fees that KSL has earned since April 2003 and determined that KSL has never earned the entire available award fee. However, it was unclear what direct impact KSL's performance issues in the areas of estimating and work order charges have had on the award fee determinations. For example, for the evaluation period of October 1, 2005, through March 31, 2006, KSL received \$2,815,886 out of an available pool of \$3,027,834. The following scores and comments were recorded, but the direct impact on the award fee was not specified:

- Corrective Maintenance was required to be completed within 20 percent of the estimate. While LANL scored KSL at 85.6 percent for this element, it was noted in the evaluation that "KSL has requested that a significant number of work orders be exempt from this measure for a variety of reasons, some justified, others not so obvious."
- Engineering and Construction projects established as a goal that no line items have estimated man-hours greater than 130 percent of the industry standard unit man-hour productivity factor. While LANL scored KSL at 80 percent for "Estimating Performance," it was noted that estimating performance missed the mark in several areas, to include failure to quantify units while simply allocating man-hours based on the estimator's experience, adding time (in some cases x 4) to the industry standard productivity factors to account for the inability to perform to industry standard factors, and the addition of field supervision that should have already been included in industry productivity standards. Of particular note, the evaluation stated that "If similar discrepancies arise in future evaluations, KSL will receive a score of zero for the estimating measure and the available fee . . . will be limited to the fee assigned to the individual measures times the percentage of estimates that pass review."

RECOMMENDATIONS

We recommend that the Manager, Los Alamos Site Office, ensures that LANL provides immediate attention to and continued oversight of KSL work package estimating and labor charging activities and ensures that:

1. All KSL estimates are fair and defensible, costs are identified for materials when materials are required for the performance of the work, and contractual requirements for accuracy are met.
2. Only actual labor and material costs are charged to a work order and that those charges are made to the correct work order.

In addition, we recommend that the Manager, Los Alamos Site Office, directs LANL to do an immediate review of:

3. “Other Costs” to determine why these costs have exceeded the intent of this PassPort feature and to ensure that only appropriate and approved “Other Costs” have been charged.
4. The structure of PassPort and implement stricter internal controls to ensure the integrity of the work order process.

We also recommend that the Manager, Los Alamos Site Office, directs LANL to:

5. Continue to have a separate performance measure for the quality of KSL’s work order cost estimates and establish a performance measure for the appropriateness, accuracy, and support for labor and materials charged to work orders. Further, there should be a clear link between each performance measure and KSL’s award fee.

Further, we were advised that LANL is currently conducting a “cost incurred” audit of KSL. Given the nature of the issues in our report, we believe a “floor” audit of KSL would also be beneficial. Therefore, we recommend that the Manager, Los Alamos Site Office, direct LANL to:

6. Conduct a floor audit of KSL.

**MANAGEMENT
COMMENTS**

In comments on a draft of this report, which are included in their entirety at Appendix B, the National Nuclear Security Administration (NNSA) stated that it generally agreed with the report. NNSA stated that many of the issues noted by the Office of Inspector General (OIG) were corrected prior to the OIG’s field

work. NNSA also stated that actions being taken by the Laboratory because of its own internal audit are the genesis of corrective actions, along with validation of issues raised by the OIG. In addition, NNSA stated that numerous problems, both related and unrelated to issues noted in the report, prompted the Laboratory to remove work control functions (including most job estimating) from KSL's subcontract in late April of this year.

Regarding the report recommendations, NNSA stated that it will prepare a Management Decision to formalize corrective actions related to this report and ensure that all issues are being appropriately addressed.

**INSPECTOR
COMMENTS**

While noting NNSA's general agreement with our report, we disagree with NNSA's assertion that many of the issues we identified were corrected prior to our field work. Although LANL had initiated some corrective actions, significant problems continued to exist at the time of our field work. Regarding NNSA's statement that LANL removed most job estimating from KSL's subcontract in April 2007, it is our understanding that KSL still performs estimating for corrective maintenance and small projects, which, based upon our review of past work order tasks, comprise a significant portion of KSL's workload.

Upon receipt of NNSA's Management Decision, we will assess whether the identified corrective actions are responsive to our report recommendations.

Appendix A

SCOPE AND METHODOLOGY

We conducted the majority of our field work from July 2006 through April 2007. Our review included interviews with DOE officials from the Los Alamos Site Office, officials from LANL, and subcontractor employees. We also reviewed applicable policies and procedures regarding integrated work management and cost estimation at LANL, as well as work order estimates for the period January 2005 through April 2007.

Pursuant to the “Government Performance and Results Act of 1993,” we reviewed LANL’s performance measurement processes as they relate to work order estimates and cost charges.

This inspection was conducted in accordance with the “Quality Standards for Inspections” issued by the President’s Council on Integrity and Efficiency.

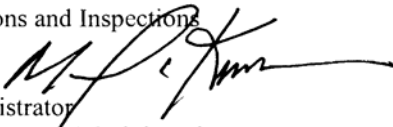


Department of Energy
National Nuclear Security Administration
Washington, DC 20585



October 1, 2007

MEMORANDUM FOR Christopher R. Sharpley
Deputy Inspector General
for Investigations and Inspections

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

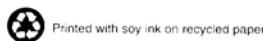
SUBJECT: Comments to Draft Report on Los Alamos Work Order
Estimate/Cost Issues; S06IS041; 2007-03673

The National Nuclear Security Administration (NNSA) appreciates the opportunity to review the Inspector General's (IG) draft report, "Work Order Estimate and Cost Issues for Site Support Services at Los Alamos National Laboratory." We understand that the IG received complaints about irregularities by KSL, LLC a subcontractor of the Los Alamos National Laboratory. Specifically, we understand that the IG wanted to evaluate the extent to which KSL costs exceeded work order estimates and to determine whether labor and materials were being inappropriately charged to work orders.

NNSA generally agrees with the report. It is important to note that many of the issues noted by the IG for this report were, in fact, corrected prior to the IG's field work. Equally, actions being taken by the Laboratory because of its own internal audit are the genesis of corrective actions along with validation of issues raised by the IG.

Numerous problems, both related and unrelated to issues noted in the report, prompted the Laboratory to remove work control functions (including most job estimating) from KSL's subcontract in late April of this year. This change was in process during the IG's visit to the Laboratory. That transition also enabled tighter restriction of subcontract employee Passport Computerized Maintenance Management System (CMMS) authorities, which is being recommended by the report. Even prior to the scope transition noted above, estimating performance and work performance against estimates were given high priority in FY'07 KSL award fee measurement plans. Associated measures, readily available, show distinct improvement throughout fiscal year 2007, with KSL performance against estimates now significantly better than the multi-year trend referred to in the report.

We agree that inappropriate costs be prohibited on work orders but note that the Federal Acquisition Regulations state that allocable direct costs may include work planning, transportation to the work site and direct supervision of a task - thus many such items accrue as direct costs on KSL work orders. The Laboratory's own internal audit this year



Appendix B (continued)

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did not reveal any systemic mischarging by KSL relative to documented FY'07 time charging policies. Some work is essentially level-of-effort and event-driven against standing work authorizations. Hence, not all KSL costs are appropriately measured against Laboratory Passport estimate entries which, as noted in the report, are sometimes placeholders unrelated to the actual work scope. Passport does require that an estimate entry be made regardless of whether scope is known. The Laboratory is ending the past practice of entering \$0.01 in such instances.

Regarding all recommendations, NNSA will prepare a Management Decision which will formalize our corrective actions related to this report. Even though we generally with the report and recommendations, we believe that the process of developing a Management Decision will ensure that all issues are being appropriately addressed.

Should you have any questions about this response, please contact Richard Speidel, Director, Policy and Internal Controls Management.

cc: Dr. Winchell, Manager, Los Alamos Site Office
David Boyd, Senior Procurement Executive
Karen Boardman, Director, Service Center

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