

memorandum

DATE: May 20, 2008
REPLY TO: IG-34 (A08CH002)
ATTN OF:
SUBJECT: Audit of Joint Appointments at Office of Science Laboratories
TO: Chief Operating Officer, Office of Science

Audit Report No.: OAS-L-08-10

INTRODUCTION AND OBJECTIVE

The Department of Energy's (Department) Office of Science laboratories utilize joint appointments with institutions of higher education and other scientific institutions to supplement their staffing and create research opportunities. Joint appointees are typically, though not always, contractor employees of one of the Office of Science's national laboratories or an institution of higher education.

Joint appointments are characterized by a person who remains an employee of one institution while conducting research or performing development or teaching activities at another institution. Costs of the joint appointment are divided according to a formal agreement between the Department's contractor and the partner institution according to the percentage of effort expended for each. For example, if the joint appointee is an employee of a national laboratory, and the agreement stipulates that the appointee will spend approximately 50 percent of their time at the partner institution, then the Department's contractor will invoice the partner institution for 50 percent of the costs associated with that employee. The Department's requirements related to charging external organizations for goods and services are contained within DOE O 522.1, *Pricing of Departmental Materials and Services* (Pricing Order). Among the requirements in this directive are that full cost must be recovered and that billing must be prompt to preclude the use of Federal funding. While the Pricing Order lists exclusions and exceptions to the full cost recovery pricing policy, joint appointments are not among them.

In Fiscal Year (FY) 2007, Argonne National Laboratory (Argonne) had 75 active joint appointments and Oak Ridge National Laboratory (ORNL) had 58 active joint appointments with a total value of \$6.9 million and \$3.9 million, respectively. We initiated this audit to determine whether financial controls over joint appointment activities were in place and functioning at Office of Science laboratories.

CONCLUSIONS AND OBSERVATIONS

For the most part, we found that financial controls over joint appointment activities were in place and functioning at the Department's Office of Science laboratories we visited. However, we noted that neither ORNL nor Argonne recovered the full costs of joint appointees from their partners and had not always ensured that invoices were sent in a timely manner.

Full Cost Recovery

Contrary to the Department's general pricing policy, ORNL and Argonne had not developed full cost recovery rates applicable to joint appointees and therefore, had not recovered costs as appropriate. ORNL did not charge its partners for laboratory indirect costs such as General and Administrative expenses for its joint appointments. Argonne, on the other hand, charged 26 percent for these costs but could not support how the rate was developed. In comparison, the full cost recovery rate for laboratory indirect costs on Work-for-Others projects was about 42 percent at ORNL and about 40 percent at Argonne. In both cases, the indirect rate charged by the laboratories has been reciprocated by their joint appointments partners, with Argonne partners charging 26 percent and ORNL partners charging nothing.

As a result of the reciprocal pricing strategy adopted by these organizations, net recoveries of indirect costs associated with joint appointments were about \$104,000 less than required. In FYs 2006 and 2007, total under-recoveries of indirect costs amounted to about \$1.6 million for the two laboratories we visited. Argonne did not recover up to \$909,000 and ORNL did not recover \$742,000. These under-recoveries were offset by ORNL's reciprocal pricing policy. In particular, ORNL's partner institutions charged only their standard indirect rates for their employees, permitting ORNL to avoid about \$1.5 million in overhead charges for the joint appointees from the Laboratory.

Timely Billing

Neither laboratory we visited was always timely in billing for joint appointees it provided to other institutions. In addition to Departmental requirements to bill timely, both ORNL and Argonne have a policy to invoice for joint appointment activity on a monthly basis. However, testing revealed that they did not always comply with the policy.

- At ORNL, billing delays ranging from 58 days to 363 days resulted in \$536,529 in late invoices. Of the 140 invoices for the 14 randomly selected appointments reviewed, 25 were not timely, most with multiple months elapsing between invoices. One invoice from outside of the timeframe of our review was sent 365 days late and totaled \$96,838.
- Likewise, billing delays at Argonne resulted in \$61,313 in late invoices. The delays ranged from 30 to 126 days. Of the 247 invoices for the 19 randomly selected appointments tested, 11 were not timely.

SUGGESTION FOR IMPROVEMENT

Based on our review of joint appointment activities at ORNL and Argonne, we suggest that the Chief Operating Officer, Office of Science, direct the site offices to ensure that the laboratories are in compliance with the full cost recovery and prompt billing requirements of the Department's Pricing Order.

SCOPE AND METHODOLOGY

The audit was performed from October 2007 to April 2008 at Argonne and ORNL. The scope of the audit covered joint appointments in effect during FYs 2006 and 2007. To accomplish the audit objective, we reviewed applicable laws and regulations, as well as laboratory policies for conducting joint appointment activities. Discussions were held with cognizant Departmental and laboratory officials. Joint appointments were randomly selected at each site and associated agreements and invoices were reviewed.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit included tests of controls and compliance with laws and regulations related to Joint Appointment activities. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. During the audit, we assessed the Department's compliance with the Government Performance and Results Act of 1993, as it related to the audit objective. We concluded that the Department had not established specific performance measures for Joint Appointments. We relied on computer-processed data to accomplish our audit objective. We traced the data to supporting documents to validate the reliability of the information as necessary to satisfy our audit objective.

An exit conference was held with officials from the Office of Science on April 25, 2008.

We appreciate the cooperation of your staff during our review. Because no formal recommendations are being made in this report, a formal response is not required.



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