

July 1995

DEPARTMENT OF  
ENERGY

Poor Property  
Management Allowed  
Vulnerability to Theft  
at Rocky Flats





**Office of Special Investigations**

B-261651

July 3, 1995

The Honorable Cardiss Collins  
Ranking Minority Member  
Committee on Government Reform  
and Oversight  
House of Representatives

The Honorable Dan Schaefer  
Chairman, Subcommittee on Energy  
and Power  
Committee on Commerce  
House of Representatives

The Honorable David E. Skaggs  
House of Representatives

This report responds to the October 5, 1994, request from Mike Synar, then Chairman, Subcommittee on Environment, Energy and Natural Resources, House Committee on Government Operations, that we examine whether theft has contributed to the Department of Energy's (DOE) inability to account for millions of dollars worth of equipment at DOE's Rocky Flats Plant (now the Rocky Flats Environmental Technology Site). This report continues the examination of property management issues at Rocky Flats that we reported on in 1994.<sup>1</sup> In addition, the Subcommittee's office requested that we investigate allegations that the plant's Motor Vehicle Maintenance Shop was vulnerable to theft and that contract-award abuse had occurred.

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## Background

The Subcommittee's request followed its September 1994 hearing<sup>2</sup> on property management at DOE facilities. Concerns were raised at the hearing about the operation and management of the government-owned, contractor-operated Rocky Flats Plant. The facility was formerly dedicated to nuclear weapons-related activities. Today, Rocky Flats is addressing environmental restoration, cleanup, and waste management issues that

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<sup>1</sup>Department of Energy: The Property Management at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77, Mar. 1, 1994) and Department of Energy: Status of DOE's Property Management Program (GAO/RCED-94-154FS, Apr. 7, 1994).

<sup>2</sup>Managing DOE: Government Property Worth Millions of Dollars Is Missing (GAO/T-RCED-94-309, Sept. 19, 1994).

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grew out of its use as a nuclear weapons plant. Since January 1, 1990, EG&G-Rocky Flats, Inc. (EG&G) has operated the plant. In September 1993, government-owned property in the plant's property tracking database totalled about \$600 million. At that time, the contractor reported nearly \$13 million worth of missing property. GAO is currently assessing whether the contractor and DOE have resolved these property management issues.

Our 1994 testimony documented serious weaknesses in EG&G's property management and noted that DOE's oversight of EG&G was insufficient. The testimony presented several reasons for missing property, one of which was theft. The testimony further discussed the possibility of a tainted contract award (a parts purchase agreement contract for the Rocky Flats Motor Vehicle Maintenance Shop) and the need for future investigation.

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## Results in Brief

According to DOE and EG&G officials, theft has contributed to their inability to account for millions of dollars worth of government-owned property throughout the plant. The extent to which theft is a factor is unknown due to poor property management practices and inadequate records. Further, even when potential theft was identified, it oftentimes was not properly referred to the DOE/Office of Inspector General (OIG) or the Federal Bureau of Investigation (FBI), the responsible investigative entities.

We uncovered weaknesses in the ordering and inventory systems of Rocky Flats' Motor Vehicle Maintenance Shop. Ineffective management oversight, inadequate internal controls, and lax physical security contributed to an environment in which the shop automotive parts and supplies were easily pilferable.

We also discovered that an EG&G shop supervisor had accessed a database without authorization and disclosed the incumbent supplier's unit prices of its then current contract to a competitor. The competitor subsequently won the new contract.

Since the hearing that prompted this request, DOE and EG&G have reported improvements in the physical security of government-owned property. However, it is important that their increased focus on property management and associated security measures continue during the interval between and after the changeover of contractors.

As of July 1, 1995, Kaiser-Hill will be the new contractor for plant operations. Susceptibility to theft and a loss of accountability is high

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during changeover periods, and the new contractor must be aware of the problem areas we found.

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## Possible Theft Not Referred or Investigated Appropriately

Poor property management practices, such as characterizing possibly stolen property as missing and not confronting theft issues, contributed to an environment that allowed theft at Rocky Flats. We found instances in which EG&G did not report possible theft to DOE, and we also found instances in which DOE did not refer possible theft to the DOE/OIG or the FBI, as regulations require.

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## EG&G Did Not Report Possible Theft to DOE

The EG&G Administrative Inquiries Unit did not always report suspected stolen property to DOE for referral to investigative authorities. In fiscal year 1993, 65 cases of missing/possibly stolen property were reported to EG&G's Administrative Inquiries Unit. That unit reported 5 of the 65 cases to DOE's Office of Safeguards and Security.<sup>3</sup> The EG&G unit incorrectly assumed that another unit would forward the remaining 60 cases to DOE.

For example, in a property accountability report, a Rocky Flats property custodian categorized the removal of a laptop computer as a theft because it had disappeared from an employee's unlocked, overhead storage cabinet while the employee was at lunch. However, EG&G's Administrative Inquiries Unit reflected it as a missing laptop computer. Because the report was not submitted to the Office of Safeguards and Security, it was not referred to the FBI or DOE/OIG for investigation.

In another instance, a Rocky Flats employee arranged to move an Apple computer, monitor, and keyboard to his new office location. The employee and the property custodian verified that the three items, which had been packed in boxes, arrived at the new site. However, when the employee began unpacking his office belongings, the three items were missing. The employee reported this to EG&G, but the incident was not referred to DOE. Four weeks after the incident, the same employee reported that his Apple LaserWriter II printer and cables had been taken from his office. The employee again informed the EG&G Administrative Inquiries Unit about the missing equipment. For over a year, the Administrative Inquiries Unit did not report either instance to DOE so that they could be referred to the FBI or the DOE/OIG.

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<sup>3</sup>The Office of Safeguards and Security oversees preliminary inquiries to develop information on the probability of violations, losses, and security incidents. It reports such information to the DOE/OIG, the FBI, and other responsible DOE headquarters elements, as appropriate.

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According to DOE, it has clarified the reporting responsibilities, in that DOE's Office of Safeguards and Security now periodically reviews EG&G reports to ensure that all cases concerning possibly stolen property are reported to DOE for referral to the proper investigative authorities.

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### DOE Did Not Refer Potential Theft to DOE/OIG or FBI

Officials of DOE's Office of Safeguards and Security stated that, in accordance with DOE Order 5639.3, authority to investigate theft at Rocky Flats is limited to the FBI and DOE/OIG. Despite instances of missing/stolen property reported by plant employees, DOE has referred few instances to these two entities. For example, the Office of Safeguards and Security referred six incidents of possible theft to the FBI and DOE/OIG in fiscal year 1993. Although DOE's Office of Safeguards and Security kept no records of its referrals for fiscal years 1991-92, the FBI official responsible for that region reported receiving "few" stolen-property referrals from Rocky Flats in those years. As a result, instances of stolen or missing property at Rocky Flats—ranging from laptop computers to laser printers and power tools—may not have been adequately investigated. The fact that DOE did not refer all potential theft cases to appropriate investigative authorities decreased the likelihood that actual theft could be detected or the criminals could be apprehended.

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### Increased Investigative Efforts at Rocky Flats Now Occurring

As a result of our audit/investigation, the FBI in Denver, supported by the U.S. Attorney's Office, increased its investigative efforts at Rocky Flats to detect property theft. Additionally, DOE's Office of Safeguards and Security is now referring all instances of missing or possibly stolen property to the DOE/OIG, which is working closely with the FBI. For example, currently there are four separate ongoing investigations of property theft, as well as an investigation into how eight armored personnel carriers, formerly owned by Rocky Flats, ended up in private hands.

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### Motor Vehicle Maintenance Shop Vulnerable to Theft

Management and internal control inadequacies on the part of DOE and EG&G have created an environment that is vulnerable to theft. For example, at the Rocky Flats Motor Vehicle Maintenance Shop,<sup>4</sup> DOE and EG&G did not conduct required semiannual stock inventories and did not maintain adequate inventory controls and documentation. Additionally, they allowed lax security involving the automated ordering/inventory systems and the parts and supplies.

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<sup>4</sup>The Motor Vehicle Maintenance Shop personnel maintain and repair over 675 motorized vehicles and capital equipment, ranging from cars and trucks to heavy construction and emergency equipment. The shop also issues related parts and petroleum fuels for all government equipment at Rocky Flats.

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EG&G did not conduct regular semiannual stock inventories as required by the EG&G Procedures Manual. Since 1991, only two inventories have been conducted. The two, in 1991 and 1994, identified discrepancies of 68 percent and 60 percent, respectively, between inventory records and physical counts. DOE personnel did not consider that inventory control regulations applied to numerous automotive items stored in the Motor Vehicle Maintenance Shop parts department, e.g., batteries, alternators, tires, oil filters, and seat cushions. Thus, DOE did not require EG&G to perform inventories.

Because EG&G did not inventory stock regularly, automotive parts could be easily ordered and even stolen without indication in the contractor's records. For example, in fiscal year 1993, according to accounting records, the shop purchased over \$196,000 worth of parts or vehicle supplies from vendors. For that year, purchases worth \$22,000, or approximately 11 percent of the total amount purchased, were recorded in the inventory. According to EG&G personnel, most of the unrecorded purchases were installed on the vehicles for which they were ordered. Counter to plant procedures, the shop had no invoices or file documentation for many of the vehicles, resulting in no verification that all of the parts had been installed.

With regard to security, unauthorized employees had access to the shop's computerized ordering system. In addition, shop employees installed parts immediately after receiving them without first entering them in the computerized inventory system or placing them in the parts/supply room. Further, sometimes the parts/supply room was left open and unattended, enabling any employee to enter and take parts at will. For example, one employee told us he could walk into the parts room and obtain parts for personal vehicles.

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## Contract-Award Procedures Abuse

The environment of weak management and loose internal controls at the Rocky Flats Motor Vehicle Maintenance Shop also provided the opportunity for abuse of contract-award procedures. In a joint effort with the FBI, we discovered that an EG&G shop supervisor had provided the incumbent supplier's unit prices to a competitor. The supervisor had no role in the contracting process and no authority to access a database for ordering parts that the incumbent vendor supplied EG&G. At the time, both contractors were bidding on a contract to supply the shop with automotive parts and supplies.

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During our investigation of this incident, the supervisor admitted to us that, without authorization, he had abused contract-award procedures by giving unit prices that the incumbent supplier charged EG&G for automotive parts to a competing contractor prior to the contract award. Further, according to the supervisor, the competitor used the information to structure a bid lower than the incumbent's and was thus awarded the contract. Although we traced the incumbent's pricing information to the winning vendor's files, the winning vendor denied using the information to structure its bid. The FBI continues to conduct a grand jury investigation of this matter.

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## DOE and EG&G Report Improvements

Since the hearing that prompted this request, DOE and EG&G have reported improvements in the physical security of property at the Rocky Flats Plant. The Rocky Flats Material Control Manager is now controlling the ordering, stocking, and access to vehicle parts at the Motor Vehicle Maintenance Shop. A security official also has reported that security police have increased site-wide random vehicle stops and building patrols. We have not evaluated the effectiveness of changes reported by DOE and EG&G. We are also aware that, as of July 1, 1995, Kaiser-Hill will be the new contractor. As DOE transitions to the new contractor, it and the new contractor should benefit from the experiences and problems we have found in the past.

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## Methodology

We began our investigation on July 19, 1993, after being alerted to the possibility of theft at the Rocky Flats Plant by GAO evaluators, and concluded it on May 9, 1995. We examined investigative files and interviewed personnel of EG&G's Administrative Inquiries Unit to determine how they dealt with missing property and theft issues. We also met with officials of DOE, DOE/OIG, and the FBI to obtain their data and input on the relevance of theft at the plant.

To obtain overall cost data and the value and quantities of recorded inventories at the Motor Vehicle Maintenance Shop, we reviewed accounting records and interviewed accounting personnel. To determine the accuracy of the inventory records, we obtained the results of past inventories from accounting personnel. We discussed parts management procedures that were being used and should have been used with personnel at the Motor Vehicle Maintenance Shop and at the Rocky Flats Plant warehouse.



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Because we could not verify the complete Motor Vehicle Maintenance Shop inventory, we selected a high-volume stock item and then collected file data on purchases and recorded issuances. We checked vehicle files to locate work orders showing the use of that part to determine whether the work orders corresponded to the number of recorded issuances.

Jointly with the FBI, we investigated the allegations of contract-award abuse by interviewing and examining documents of all witnesses and participants named in the contract negotiations and alleged abuse.

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We are sending copies of this report to interested congressional committees. We will also make copies available to others upon request. If you have questions concerning this report, please contact me or Deputy Director Donald Wheeler of my staff at (202) 512-6722.



Richard C. Stiener  
Director

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