



OFFICE OF INSPECTOR GENERAL

U.S. Department of Energy

AUDIT REPORT

DOE-OIG-22-21

January 2022

**PERSONAL PROPERTY ITEMS HELD BY
SUBCONTRACTORS AT LAWRENCE
BERKELEY NATIONAL LABORATORY**



Department of Energy
Washington, DC 20585

January 12, 2022

MEMORANDUM FOR THE ACTING MANAGER, BERKELEY SITE OFFICE

SUBJECT: Audit Report on Personal Property Items Held by Subcontractors at Lawrence Berkeley National Laboratory

The attached report discusses our review of personal property items held by subcontractors at Lawrence Berkeley National Laboratory. This report contains seven recommendations and one suggested action that, if fully implemented, should help ensure that the accountability of personal property items complies with applicable laws, regulations, and policies. Management concurred or partially concurred with our recommendations and provided responsive corrective actions. Management also concurred with our suggested action.

We conducted this audit from December 2020 through September 2021 in accordance with generally accepted government auditing standards. We appreciated the cooperation and assistance received during this audit.

A handwritten signature in black ink, appearing to read "Jennifer L. Quinones".

Jennifer L. Quinones
Deputy Inspector General
Office of Inspector General

cc: Deputy Secretary
Chief of Staff
Under Secretary for Science



Department of Energy Office of Inspector General

Personal Property Items Held by Subcontractors at Lawrence Berkeley National Laboratory (DOE-OIG-22-21)

WHY THE OIG PERFORMED THIS REVIEW

The Office of Inspector General has issued several audit reports identifying weaknesses in managing personal property items such as lack of consistent monitoring and oversight, and lack of accountability controls.

As of September 30, 2020, Lawrence Berkeley National Laboratory's (LBNL) Procurement & Property Management Group identified 26,150 accountable personal property items with an asset value of \$1.1 billion. Of the \$1.1 billion, \$6.8 million pertains to accountable personal property items held by subcontractors at LBNL. Due to the vulnerable nature of personal property items to loss, theft, or misuse, we initiated this audit to determine whether LBNL was identifying, tracking, and recording personal property items held by its subcontractors in accordance with applicable laws, regulations, and policies.

What Did the OIG Find?

We found that LBNL's Procurement & Property Management Group is not identifying, tracking, and recording personal property items held by its subcontractors in accordance with applicable laws, regulations, and policies. Specifically, we found three subcontractor-acquired personal property items worth \$25,961 that were not authorized by LBNL's Procurement teams prior to acquisition. In addition, we found six personal property items amounting to approximately \$1.6 million that were not barcoded, as required. Finally, we determined that LBNL did not always consistently administer controls on 30 administratively controlled items worth \$62,791. Although formal property management records are not required for administratively controlled items, there is an opportunity for LBNL to improve its oversight and monitoring in applying controls based on potential risk of loss, damage, or theft.

What Is the Impact?

Without adequately identifying, tracking, and recording personal property items held by its subcontractors, LBNL increases the risk that it is passing on unallowable costs from its subcontractors to the Department of Energy for unauthorized acquisition of personal property items. In addition, personal property items that are not barcoded increases the risk of potential theft, loss, or misuse. Finally, lack of administrative controls may lead to potential waste or abuse of Government personal property. Without consistent monitoring and oversight of personal property items, LBNL cannot be assured that personal property items are being used as required or achieving intended objectives.

What Is the Path Forward?

To address the issues identified in this report, we have made seven recommendations and one suggested action that, if fully implemented, should help ensure that LBNL complies with applicable laws, regulations, and policies.

BACKGROUND

The Regents of the University of California (UC) have managed and operated Lawrence Berkeley National Laboratory (LBNL) under contract with the Department of Energy and its predecessors since 1943. LBNL is a member of the national laboratory system supported by the Department through its Office of Science. Since 2019, the Bay Area Site Office provided consolidated oversight and contract management at two Office of Science laboratories, LBNL and the SLAC National Accelerator Laboratory. However, in September 2021, the Acting Director of the Office of Science determined that a site office assigned to each laboratory is better able to provide Department oversight and stewardship. Effective November 2021, the establishment of separate site offices at LBNL and the SLAC National Accelerator Laboratory have been implemented. The Berkeley Site Office now provides oversight and contract management at LBNL. LBNL conducts unclassified research across a wide range of scientific disciplines. In accomplishing its mission, LBNL relies on its subcontractors, who often acquire personal property items, to perform a wide range of mission-related work.

The UC's contract with the Department incorporated a requirement to manage property. Specifically, the contract includes Department of Energy Acquisition Regulation 970.5245-1, *Property*, to establish, administer, and properly maintain an approved property management system of accounting, and to control, utilize, maintain, repair, protect, preserve, and dispose of Government property in its possession under the contract. LBNL's Procurement & Property Management Group, under the Office of the Chief Financial Officer, is responsible for the accountability of Government property at LBNL, including property held by its subcontractors. LBNL's Procurement & Property Management Group's policies reflect the requirements defined in the UC's contract for managing Government property as well as internally establishing policy.

Accountable property records are managed and maintained using the Sunflower Asset Management System. Accountable property held by subcontractors can be furnished by LBNL to the subcontractor as Government-furnished property or acquired by the subcontractor using Government funds authorized under a formal subcontract, which is known as subcontract-acquired property. Government-furnished property is property owned by the Government and made available to a subcontractor for its use during the performance of work under a specific subcontract with LBNL. Subcontractor-acquired property is property regardless of value that the subcontractor acquires, fabricates, or otherwise provides under the terms of a subcontract and to which the Government takes title. Personal property items include all equipment, material, and supplies not classified as real property. The Sunflower Agreement module is used to track personal property items held by subcontractors. LBNL's Procurement & Property Management Group follows Laboratory Procurement Standard Practices Manual (SP) 45.1, *Government Property*; Property Management's *Personal Property Policy Manual*; and Title 41 Code of Federal Regulations (CFR) 109, *Department of Energy Property Management Regulations*.

We initiated this audit to determine whether LBNL is identifying, tracking, and recording personal property items held by its subcontractors in accordance with applicable laws, regulations, and policies. The scope of our audit covers awarded subcontracts with personal property items from fiscal year (FY) 2017 through FY 2020. As of September 30, 2020, LBNL's Procurement & Property Management Group managed 26,150 personal property items

with an asset value of \$1.1 billion in the Sunflower Inventory Assets module, which represents property held by LBNL. From FY 2017 through FY 2020, Procurement teams (Procurement) identified 354 subcontracts containing personal property items. During the same period, LBNL’s Procurement & Property Management Group managed 95¹ subcontracts which contained 213 items worth an asset value of \$6.8 million in the Sunflower Agreement module subject to barcoding requirements. We judgmentally selected 71 out of 354 subcontracts with personal property items and conducted a detailed review of sensitive (specifically attractive items), controlled, and administratively controlled personal property items. Table 1 summarizes the accountable personal property items and subcontracts:

Table 1: Summary of Accountable Personal Property Items and Subcontracts

	<u>Barcoded Items</u>	<u>Asset Value</u>	<u>Number of Subcontracts</u>
Property Management Data (FY 2017 – FY 2020)	213	\$6,797,945	95
	<u>Number of Subcontracts</u>		
Procurement Data (FY 2017 – FY 2020)	354		
Judgmental Selection of Procurement Data	71		

PURCHASED ITEMS WERE NOT ALWAYS AUTHORIZED IN SUBCONTRACTS

We found LBNL’s subcontractors procured approximately \$25,961 worth of personal property items that were not authorized, as required. Specifically, during our review of subcontract files, including Final Property Certifications, and the Sunflower Agreement module, we found that in 2 of the 71 subcontracts reviewed, that three subcontractor-acquired property items were not authorized by LBNL Procurement and were not identified in the subcontracts. For example, while reviewing the Sunflower Agreement module, including the Final Property Certifications, we found that a subcontractor acquired an oscilloscope that was not authorized in the subcontract. We learned that the oscilloscope was acquired for \$17,130 through a verbal agreement between the subcontractor and LBNL’s project manager; however, the personal property item was not authorized by LBNL Procurement through a subcontract modification. SP 45.1, effective 2014, states that subcontracts must identify all subcontractor-acquired property authorized for acquisition by the subcontractor that is known at the time of award. The subcontractor-acquired property must be identified in the subcontracts with a detailed description, to the extent known. SP 45.1 also states that the subcontractor must obtain authorization from the procurement specialist before acquiring any tangible personal property items not specified in the subcontract. The subcontract must be modified to include each new item of subcontractor-acquired property.

The unauthorized purchases occurred because there were no effective controls other than the subcontract itself to ensure subcontractors notified LBNL Procurement if there were any changes or purchases of personal property items. We found two subcontractors that did not always

¹ Twenty-four of the 95 subcontracts had no ending balance/inventory of barcoded personal property items.

inform LBNL when they acquired personal property items. For example, officials from one subcontractor told us that they were unclear of LBNL's expectations because the subcontract agreements did not specify a dollar threshold of what should be reported for subcontractor-acquired property. In addition, the subcontractor's officials stated that the language in the subcontract agreements was vague in terms of the specific acquired property that would require them to notify LBNL. Further, the subcontractor's officials stated that notifying LBNL for every low-dollar item, such as supplies, could be burdensome. In fact, the Department's Organizational Property Management Officer found the subcontractor's statements to be very concerning. Specifically, the Department's Organizational Property Management Officer stated that all property acquired by the subcontractor must be reported to LBNL because the subcontractors are not trained to manage property and do not have High Risk property training. As a result, if subcontractors are not notifying LBNL of all acquired property, then there is an increased risk that subcontractors' sites may have Government purchased items that are not being managed, accounted for, and dispositioned in accordance with Title 41 CFR 109.

This issue also occurred because the subcontractors did not always obtain approval prior to acquiring personal property items, as required. SP 45.1 states that the subcontractor must obtain authorization from the procurement specialist for changes in Government-furnished property or before acquiring any tangible personal property not specified in the subcontract. Upon approval, the subcontractor must notify LBNL of the purchase of any subcontractor-acquired property by providing a description of each item. The subcontract must be modified to include each new item of subcontractor-acquired property. Further, the subcontract agreement's Article, *Furnished and Acquired Property*, (Property Article) states that the subcontractor shall not acquire other personal property for use without the Procurement Representative's advanced written approval. Contrary to SP 45.1 and the Property Article, we found that purchases were made without LBNL Procurement's authorization. Consequently, subcontracts were not modified to include new items of personal property that were acquired by the subcontractors resulting in incomplete personal property records.

Moreover, there are inconsistencies amongst the subcontracts, the Subcontract Closeout Memoranda, and the Final Property Certifications. The Subcontract Closeout Memoranda were not properly documented by LBNL to ensure that Government-furnished property and subcontractor-acquired property were accurately accounted for in 4 of the 71 subcontracts we reviewed. SP 45.1 states that when the subcontractor's need for Government property ends or upon completion of the subcontract, the procurement specialist coordinates the disposition of the Government property with LBNL's technical representative, Property Management, and the subcontractor. Upon the subcontract's completion, all accountable property provided to the subcontractor or acquired by the subcontractor is to be returned to LBNL, transferred to a new subcontract, or disposed of properly. When the subcontractor has Government-furnished property and/or subcontractor-acquired property, the subcontract file shall contain a Final Property Certification and a Subcontract Closeout Memorandum. The Final Property Certification is completed by the subcontractor to account for all Government-furnished property and subcontractor-acquired property including any disposition requests. The technical representative completes a section in the Subcontract Closeout Memorandum to indicate whether Government-furnished property, subcontractor-acquired property, or fabricated items were associated with the subcontract and the property's disposition. Upon closer review of four

subcontracts, we observed inconsistencies between the Subcontract Closeout Memoranda and the Final Property Certifications in addressing personal property items when compared to the personal property items that were authorized in the subcontracts. The Subcontract Closeout Memoranda were not adequately or properly documented to address personal property items held by subcontractors. The technical representatives selected “Not Applicable” or left the sections blank despite records showing that LBNL furnished, and subcontractors acquired and made disposition requests for personal property items.

When we inquired about the inconsistencies between the Subcontract Closeout Memoranda and the Final Property Certifications, an LBNL Procurement official informed us that there was no procedure for reconciling these documents in the subcontract files and agreed improved coordination and communication during the contract closeout process could help ensure that personal property items are properly recorded and verified.

In addition to the three unauthorized personal property items above, we also identified 10 personal property items totaling \$61,358 that were not identified in the Property Article of the subcontracts we reviewed. For example, one subcontractor identified three personal property items amounting to \$25,516 based on the Final Property Certification. These three personal property items were identified in the proposal backup, not in the subcontract’s Property Article. By not properly identifying the personal property items in the Property Article of the subcontracts, it increases the risk that these items will not be tracked or monitored.

PERSONAL PROPERTY ITEMS WERE NOT ALWAYS BARCODED

LBNL’s Procurement & Property Management Group did not always barcode personal property items, as required. Specifically, we found 3 of the 71 subcontracts that identified subcontractor-acquired property had items that were not barcoded. Within those three subcontracts, we identified six personal property items amounting to \$1,585,833 that were not barcoded. Table 2 summarizes the description, the property location, and the amount of each item that was not barcoded, as required:

Table 2: Personal Property Items Not Barcoded

<u>Item Description</u>	<u>Personal Property Item Location</u>	<u>Amount</u>
Distribution System	Sanford Underground Research Facility	\$298,781
Thermosyphon	Sanford Underground Research Facility	\$188,475
Cryogenic Vacuum System	Sanford Underground Research Facility	\$242,386
Breakout System	Sanford Underground Research Facility	\$180,289
Grids and Extraction Region	Sanford Underground Research Facility	\$152,499
Analog Electronics System	Sanford Underground Research Facility	\$523,403
	Total	\$1,585,833

The six items in Table 2 were fabricated equipment to support a project at the Sanford Underground Research Facility in Lead, South Dakota. As defined in Title 41 CFR 109–1.100-51 and Title 41 CFR 102–35, *Disposition of Personal Property*, Accountable Personal Property

includes nonexpendable personal property whose expected useful life is two years or longer and whose acquisition value, as determined by the agency, warrants tracking in the agency's property records, including capitalized and sensitive personal property. SP 45.1 and LBNL's *Personal Property Policy Manual* state that accountable personal property includes any equipment having an original unit acquisition cost of \$10,000 or more; are functionally complete, nonexpendable assets; retain their identity; and are not intended to be incorporated into another asset with an acquisition cost of at least \$10,000. Accountable personal property items with an original acquisition cost of \$500,000 or more are termed capital personal property. To mark Government ownership, equipment costing \$10,000 or more and capital personal property items costing \$500,000 or more are to be barcoded.

LBNL did not barcode the personal property items in Table 2 because of inconsistent applications of what constitutes accountable personal property items. Specifically, we found that LBNL's Procurement & Property Management Group applied the definition of accountable personal property items inconsistently as cited in Title 41 CFR 109, SP 45.1, and the *Personal Property Policy Manual*. Accountable personal property warrants tracking in the agency's property records as mentioned in Title 41 CFR 109. SP 45.1 and the *Personal Property Policy Manual* state that equipment costing \$10,000 or more is to be barcoded. LBNL's General Accounting rolled the costs of the six fabricated personal property items into one main asset tag. We determined that the rolling of costs for these six assets into one main asset tag conflicts with the equipment definition as cited in SP 45.1 and the *Personal Property Policy Manual*.

Furthermore, the six fabricated personal property items were authorized as subcontractor-acquired property in three subcontracts. SP 45.1 states that subcontracts must identify all subcontractor-acquired property authorized for acquisition by the subcontractor that is known at the time of award. The subcontractor-acquired property must be identified in the subcontracts with a detailed description, to the extent known. SP 45.1 further states that subcontractor-acquired property items that will not be consumed or incorporated into the order item(s) must be delivered or otherwise dispositioned after subcontract completion or expiration. Some examples of personal property dispositions include returning the property to the Laboratory, retaining the property by the subcontractor for use under another Laboratory subcontract, and disposing the property by the subcontractor. Based on our review of the Final Property Certifications dated August 27, 2020, and September 23, 2020, all six fabricated personal property items were dispositioned by the subcontractors by transferring these items to another subcontract. Therefore, all six fabricated personal property items retained their identity and should have been individually barcoded. A Property Management official considered the assets as equipment in accordance with LBNL's SP 45.1 and the *Personal Property Policy Manual* and acknowledged LBNL can individually barcode items. However, an LBNL Procurement official later stated that equipment is not intended for sale and does not ordinarily lose its identity or become a component part of another article when put into use; therefore, these items did not need to be barcoded. An LBNL official thought these personal property items did not need barcoding because they were eventually going to be incorporated into a larger system after the transfer. We do not agree since SP 45.1 requirements state Property Management is required to track all subcontractor-acquired property items meeting LBNL barcode requirements. These six personal property items were not incorporated into a larger system until after they were transferred to a separate subcontract.

OTHER OBSERVATIONS – LACK OF OVERSIGHT OVER ADMINISTRATIVELY CONTROLLED PROPERTY ITEMS

We found that LBNL's Divisions were not consistent in the way they managed administratively controlled items. Administratively controlled property, per LBNL's *Personal Property Policy Manual*, is "Government personal property that is not identified as accountable property and is not subject to inventory [...]. Administrative controls, to the extent practicable, are placed on all property, regardless of useful life, cost, or sensitivity." Our judgmental sample of 71 subcontracts revealed 5 subcontracts with approximately \$165,000 worth of administratively controlled items. We then selected 9 invoices from these 5 subcontracts, representing 30 items with a cost of approximately \$62,791, and discovered one Division did not track personal property items individually valued below a \$10,000 threshold or include those items on the sensitive property items list because tracking these items was not required. In addition, the Division treated the personal property items as supplies. In another example, a Division official told us that the untagged items were most likely held at the subcontractor's data center but could not be certain of the items listed in the subcontract. While we confirmed from the invoices that these items were purchased, we did not physically verify missing stickers or items.

While formal property management records are not required for administratively controlled items, Title 41 CFR 109–1.5108-5, *Administratively Controlled Items*, notes controls such as physical security, custodial responsibility, and identification/markings can be used to safeguard personal property items. Additionally, LBNL's *Personal Property Policy Manual* states, "Administratively controlled property, to the extent practicable, is identified as U.S. Government Property or U.S. DOE Property using an orange 'LBNL/DOE U.S. Govt. Prop.' sticker." Because administratively controlled items are considered Government property, controls can be used, to the extent practicable, to ensure that these items are protected from loss, theft, and misuse while in the possession of subcontractors. While we confirmed from the invoices that these items were purchased, we did not physically verify missing stickers or items.

Furthermore, some administratively controlled property items below \$10,000 could potentially be high risk and sensitive personal property items. Some examples of administratively controlled property items include flash and hard drives since these items may store sensitive data and are portable. Since LBNL's Divisions do not always track some items below the \$10,000 threshold that may be considered high risk or sensitive personal property items such as monitors, flash drives, and hard drives, there is the potential that such items may be held by subcontractors without adequate controls. Due to its potential impact on public health and safety, the environment, national security interests, or proliferation concerns, high risk and sensitive personal property must be controlled, and disposed of other than the routine manner as defined in Title 41 CFR 109–1.100-51. Examples of high risk property include, but are not limited to, automatic data processing equipment, export controlled information, export controlled property, and hazardous property. According to Title 41 CFR 109–1.5303, property should be assessed and evaluated as high risk property as early in its life cycle as practical to ensure appropriate treatment at disposal and to prevent inadvertent, uncontrolled release. Sensitive personal property classifications do not preclude agencies from specifying additional personal property classifications to effectively manage their programs as per Title 41 CFR 102–35.

Based on our discussions with various Divisions, LBNL extended a level of trust to its subcontractors and relied on them to safeguard these items without verifying whether subcontractors had adequate controls to manage or safeguard Government property. Even though the Divisions were not actively tracking administratively controlled items, they provided examples of control techniques used to monitor Government property residing with subcontractors. For example, the Divisions knew that the administratively controlled items were acquired and being used for their intended purpose because the subcontractors were meeting their deliverables and achieving their milestones. Additionally, several Divisions used the invoice certification process as a control technique.

Although a formal tracking mechanism is not required for administratively controlled property items, reducing exposure of these items to loss or misuse can still be achieved. There is an opportunity for LBNL to enhance its oversight and monitoring of administratively controlled items by standardizing a risk-based approach in applying controls.

IMPROVEMENTS NEEDED FOR PERSONAL PROPERTY ACCOUNTABILITY

Without adequately identifying, tracking, and recording personal property held by its subcontractors, LBNL increased the risk that it was passing on unallowable or unallocable costs from its subcontractors to the Department for unauthorized acquisition of personal property items. Due to the lack of proper authorization, approval, and notification of subcontractor-acquired personal property items, the risk of unauthorized purchases and questionable costs was increased. Specifically, \$25,961 of personal property items were acquired without prior authorization; therefore, we questioned these costs. In addition, personal property items that were not barcoded increased the risk of potential theft, loss, or misuse. Finally, lack of administrative controls may lead to potential waste or abuse of Government personal property. Without consistent monitoring and oversight of personal property items, LBNL could not be assured that personal property items were being used as required or achieving intended objectives.

RECOMMENDATIONS AND SUGGESTED ACTION

We recommend that the Acting Manager, Berkeley Site Office, direct LBNL's Contracting Officer to:

1. Determine the allowability under LBNL subcontracts of unauthorized purchases and questioned costs in the amount of \$25,961 and recover any amounts deemed unallowable or unallocable.

We also recommend that the Acting Manager, Berkeley Site Office, direct LBNL's Procurement & Property Management Group to:

2. Ensure that proper authorization and approval are obtained prior to subcontractors acquiring personal property items.

3. Ensure subcontractors obtain advanced written approval from the procurement specialists before any acquisition of personal property items not already specified in the subcontract.
4. Revise the language in LBNL's subcontract agreement's Property Article to ensure that the subcontractor reports any new personal property items and seeks prior authorization before acquiring personal property items to include high risk and sensitive personal property items.
5. Ensure that proper coordination is conducted with the subcontractor, Procurement, and Property Management during the contract closeout process so that all Government-furnished property and subcontractor-acquired property is accurately recorded and verified.
6. Ensure that the contents of the subcontract files are properly reviewed and reconciled for inconsistencies between the Subcontract Closeout Memoranda and Final Property Certifications.
7. Ensure that personal property items costing \$10,000 or more are barcoded per SP 45.1 and LBNL's *Personal Property Policy Manual*.

We also suggest LBNL's Divisions standardize appropriate controls to enhance monitoring and oversight of subcontractors, to the extent practicable, in safeguarding administratively controlled property, per Title 41 CFR 109.

MANAGEMENT RESPONSE

Management concurred or partially concurred with all of the report's recommendations and identified corrective actions to address the issues in the report. Management also concurred with our suggested action.

Management's comments are included in Appendix 3.

AUDITOR COMMENTS

Management's comments and proposed actions were responsive to our recommendations, and we agree with the proposed actions. Management partially concurred with Recommendation 2, as management stated that LBNL relies on the subcontract to communicate the obligations of the subcontractor and related requirements within the Property Article. However, to comply with the Article, management agreed that LBNL will update or strengthen its invoice approval process to ensure subcontracts are modified to update the Article prior to invoice payment.

Although management pointed out that a revised version of SP 45.1 provided in February 2021 should have been marked as "draft" by LBNL, we did not use this document to conduct our review. We used SP 45.1 that was effective from 2014 through 2021 as it covered the scope of our review.

Appendix 1: Objective, Scope, and Methodology

OBJECTIVE

We initiated this audit to determine whether Lawrence Berkeley National Laboratory (LBNL) was identifying, tracking, and recording personal property items held by its subcontractors in accordance with applicable laws, regulations, and policies.

SCOPE

The audit was performed from December 2020 through September 2021 at LBNL in Emeryville, California.² The scope of our audit covered the awarded subcontracts with personal property items held by subcontractors from fiscal year (FY) 2017 through FY 2020. The audit was conducted under Office of Inspector General project number A20LL033.

METHODOLOGY

To accomplish our audit objective, we:

- Reviewed applicable laws, regulations, Department of Energy guidance related to the management of Government property, and LBNL contract clauses, policies, procedures, and practices.
- Reviewed prior and related reports related to personal property accountability.
- Assessed the implementation of the internal controls as it relates to personal property items held by subcontractors.
- Interviewed Department officials, LBNL employees, and subcontractors to understand the management of personal property items.
- Reviewed subcontractor invoices containing the acquisition of administratively controlled items.
- Reviewed the tracking spreadsheet in the Sunflower Agreement module, Final Property Certifications, and Subcontract Closeout Memoranda maintained by LBNL's Procurement & Property Management Group to determine whether personal property items were authorized, barcoded, and verified.
- Judgmentally selected and examined 71 out of 354 subcontracts with Government-furnished property and subcontractor-acquired property from FY 2017 through FY 2020. We reviewed 30 of the 71 subcontracts to determine whether the accountable personal property items records matched the authorized property items identified in the subcontracts. We reviewed the remaining 41 of the 71 subcontracts to determine whether

² LBNL's Office of the Chief Financial Officer is located in Emeryville, California and provides financial and procurement stewardship to LBNL's operations under the Department contract.

Appendix 1: Objective, Scope, and Methodology

accountable personal property items existed in the subcontracts that were not captured in the Sunflower Agreement module. Since the selection was based on a judgmental or nonstatistical sample, results and overall conclusions are limited to the items tested and cannot be projected to the entire population or universe of costs.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. We assessed internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the control environment component and the underlying principles regarding LBNL's establishment of structure, responsibility, and authority. We also assessed control activities and the underlying principles of implementing policies and procedures. Finally, we assessed the risk assessment component and the underlying principles of identifying, analyzing, and responding to risk. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We assessed the reliability of procurement data by: (1) performing electronic testing; (2) reviewing existing information about the data and the system that produced them; and (3) interviewing agency officials knowledgeable about the data. We determined that the data was sufficiently reliable for the purposes of this report.

An exit conference with management officials was held on December 7, 2021.

Appendix 2: Prior Reports

- Inspection Report on [*Management of Controlled Substances at Los Alamos National Laboratory*](#) (DOE-OIG-19-54, September 2019). The Office of Inspector General (OIG) determined that Los Alamos National Laboratory did not have appropriate processes, procedures, or controls in place to monitor, track, dispose of, and account for controlled substances because it lacked an institutional policy governing controlled substances from procurement until final disposition. Purchases were mislabeled, bypassing procurement controls, due to the lack of a policy establishing a clear definition of a controlled substance. Controlled substances were inappropriately entered into the Chemical Database because there was no official guidance specifying how controlled substances should be managed or in what system they should be managed. Individual researchers' records were inconsistently maintained and had inaccuracies because researchers used self-produced, unofficial policies and procedures to manage controlled substances in accordance with the Drug Enforcement Administration regulations and not Department of Energy requirements. Controlled substances were retained beyond mission requirements because researchers lacked institutional guidance for the disposal of excess substances when research concluded.
- Audit Report on [*Management Controls over the Bonneville Power Administration's Personal Property Accountability*](#) (OAS-M-08-01, October 2007). The audit found that the Bonneville Power Administration (Bonneville) did not have effective controls over its personal property tracked through the Sunflower system that records information on select personal property. For example, Bonneville did not always ensure that equipment susceptible to loss or theft such as leased computers was entered into accountability. Also, Bonneville had not ascertained that inventory information accurately identified the property's location. Furthermore, it did not make certain the validation of the existence of items that transferred from one property custodian to another. Finally, Bonneville had not always ensured that inconsistencies in lost or stolen property information were reconciled.
- Audit Report on [*Sandia National Laboratories Personal Property Accountability*](#) (DOE/IG-0523, September 2001). The audit found that the Sandia National Laboratories' (SNL) Fixed Assets Database (Database), a primary tool in the effort to ensure property accountability, was not accurate. Specifically, the OIG found that a significant number of personal property items were not listed in the Database, and that property included in the Database could not always be located. Using "reverse" sampling techniques, the OIG found that about 20 percent of the items in the sample were not included in the Database. Another sample, taken from a list of items inventoried by SNL during its fiscal year 2000 inventory, showed that although SNL officials had verified the existence of the items, the OIG could not find over 5 percent of the items sampled. Followup conversations with SNL property officials indicated that these items had not been physically verified during SNL's most recent inventory. In addition, the OIG found that property coordinators were not effectively ensuring that the Database was complete and up to date. In total, the OIG estimated that the Database did not include between 6,100 and 19,500 property items. Based on these shortcomings, the OIG concluded that the Database was not an effective tool in managing Government property entrusted to SNL.

Appendix 3: Management Comments



Department of Energy
Office of Science
Berkeley Site Office
Lawrence Berkeley National Laboratory
1 Cyclotron Road, MS 90-1023
Berkeley, California 94720

November 8, 2021

MEMORANDUM FOR JENNIFER L. QUINONES
DEPUTY INSPECTOR GENERAL
OFFICE OF INSPECTOR GENERAL

FROM: PAUL M. GOLAN
SITE OFFICE MANAGER **PAUL GOLAN** Digitally signed by PAUL GOLAN
Date: 2021.11.08 11:23:21 -0800

SUBJECT: Management Response to the Office of Inspector General Draft
Audit Report on *Personal Property Items Held by Subcontractors
at Lawrence Berkeley National Laboratory (A20LL033)*

Thank you for the opportunity to review and comment on the subject draft report. The Bay Area Site Office (BASO) appreciates the auditors' work in highlighting opportunities for improvement in the areas of identifying, tracking, and recording subcontractor personal property at the Lawrence Berkeley National Laboratory (LBNL). We concur with and will be taking action to address the related recommendations in the report.

The laboratory has also provided technical comments under separate cover for the auditors' consideration. If you have any questions regarding this response, please contact Mercedes Downing at (510) 486-4346.

Recommendations:

We recommend that the Manager, Bay Area Site Office, direct the Contracting Officer to:

1. Determine the allowability of unauthorized purchases and questioned costs in the amount of \$87,319, and recover any amounts deemed unallowable or unallocable.

Management Response: Concur. The Contracting Officer will review the questioned costs and make an allowability determination. Action to be completed by 06/30/22.

We also recommend that the Manager, Bay Area Site Office, direct LBNL's Procurement & Property Group to:

2. Ensure that proper authorization and approval are obtained prior to subcontractors acquiring personal property items.

Management Response: Partially-Concur. LBNL relies on the subcontract to communicate the obligations of the subcontractor, and related requirements within the Article entitled, *Furnished and Acquired Property*. If the Subcontractor fails to comply with the notifications approval requirement in the Article, LBNL will be notified of the purchase when the invoice is submitted. LBNL shall update or strengthen their Invoice approval process to ensure subcontracts are modified to update the property article prior to invoice payment to be in compliance with this Article. Item Action to be completed by 6/30/2022.

3. Ensure subcontractors obtain advanced written approval from the procurement specialists before any acquisition of personal property items not already specified in the subcontract.

Management Response: Concur. LBNL will review the Property Article for revisions to clarify approvals necessary for the Subcontractor to procure personal property not previously authorized. Action to be completed by 03/31/2022.

4. Revise the language in LBNL's subcontract agreement's article, *Furnished and Acquired Property*, to ensure that the subcontractor reports any new personal property items and seeks prior authorization before acquiring personal property items.

Management Response: Concur. LBNL will review the Property Article for revisions to clarify approvals necessary for the Subcontractor to procure personal property not previously authorized. Action to be completed by 03/31/2022.

5. Ensure that proper coordination is conducted with the subcontractor, Procurement, and Property Management during the contract close-out process so that all Government-furnished property and subcontractor-acquired property are accurately recorded and verified.

Management Response: Concur. LBNL will evaluate the existing process for approval between Procurement and Property management prior to the closeout of a subcontract and identify opportunities for improvement to that process. Action to be completed by 12/31/21.

6. Ensure that the contents of the subcontract files are properly reviewed and reconciled for inconsistencies between the Subcontract Closeout Memoranda and Final Property Certifications.

Management Response: Concur. LBNL will evaluate the existing process for approval between Procurement and Property management prior to the closeout of a subcontract and identify opportunities for improvement to that process. Action to be completed by 12/31/21.

7. Ensure that personal property items costing \$10,000 or more are barcoded per SP 45.1 and LBNL's Personal Property Policy Manual.

Management Response: Concur. LBNL will complete the following actions by 07/31/22:

- i. Evaluate and ensure that the Subcontractor is barcoding and tagging personal property items per the requirements in SP 45.1, *Government Property*.

Appendix 3: Management Comments

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- ii. Conduct monthly internal assessments of assets received vs. assets barcode tagged and identify opportunities for improvement to the tagging process.

We also suggest LBNL's Divisions standardize appropriate controls to enhance monitoring and oversight of subcontractors, to the extent practicable, in safeguarding administratively controlled property, per 41 Code of Federal Regulations 109.

Management Response: Concur. At the time of the IG's review, the Laboratory Procurement Standard Practices Manual (SP) Section 45.1, *Government Property*, should have been marked as "draft" by LBNL. LBNL's contract was updated in June 2020 to include requirements of 41 CFR 109, DOE Property Management Requirements, but the SP 45.1 had not been reviewed or approved by DOE. As a result, there was incorrect and inadequate language in SP 45.1 that didn't follow 41 CFR 109.

FEEDBACK

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