



U.S. Department of Energy  
Office of Inspector General  
Office of Audit Services

# Draft Audit Report

## Management Controls over the University of California's Contributions to the Los Alamos National Laboratory Foundation

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES

NNSA Audits Division  
Albuquerque, NM 87185

## DRAFT

### MEMORANDUM FOR THE MANAGER, LOS ALAMOS SITE OFFICE

FROM: George W. Collard  
Assistant Inspector General  
for Performance Audits  
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "Management Controls over the University of California's Contributions to the Los Alamos National Laboratory Foundation"

#### INTRODUCTION AND OBJECTIVE

The Department of Energy (Department) is charged with carrying out unique and critical missions at the Los Alamos National Laboratory (Los Alamos). In recognition of the benefits Los Alamos has derived from its location in northern New Mexico and other resources provided by the region, the Department supports a number of outreach activities in northern New Mexico.

In 1996, the University of California (University), which manages and operates Los Alamos under contract with the Department, proposed the establishment of a nonprofit foundation in New Mexico to support educational outreach, community investment, and educational enrichment programs in northern New Mexico public schools and communities. The Department accepted the University's proposal, and in 1997, modified its prime contract to fund the Los Alamos National Laboratory Foundation (Foundation) using two separate funding mechanisms. Per the contract modification, M440, the University agreed to contribute \$1 million annually to the Foundation for educational outreach and community investment. The modification also allowed the University to make an additional \$2 million annual contribution for educational enrichment as an allowable cost under the contract. Between Fiscal Year's (FY) 1998 and 2005, the University provided about \$25 million to the Foundation. We initiated this audit to determine whether the University complied with the funding procedures specified in the contract modification.

#### CONCLUSIONS AND OBSERVATIONS

The University did not make its annual contributions for educational outreach and community investment to the Foundation in accordance with the funding sources specified in contract requirements. Except for FYs 1998 and 1999, the University inappropriately charged its annual contributions as an allowable General and Administration expense to the Department instead of incurring the costs as a University expense as required by the contract modification.

## DRAFT

University officials charged the Department for their portion of the Foundation contributions because they believed the contract would be modified based on their proposal to make the contributions allowable costs. The official contract files indicate that the contract was modified in 1999, authorizing the University to make the annual contributions for FYs 1998 and 1999 allowable under the contract. However, the modification did not state that subsequent years' contributions would be allowable. According to Los Alamos Site Office counsel, it was unclear as to how the modification affected the subsequent years' contributions. We also contacted the contracting officer who issued the 1999 modification to determine if a modification making all contributions to the Foundation allowable costs was executed. He stated that he had no recollection of such a modification and would have to research the contract files. As of November 21, 2005, he had not provided any additional information.

As a result, since FY 1998, the Department reimbursed the University \$6 million for unallowable contributions. Such funds could have been used for other Los Alamos mission priorities.

### RECOMMENDATIONS

We recommend that the Manager, Los Alamos Site Office:

1. Make a determination regarding the allowability of the \$6 million in contributions charged to the contract; and,
2. Clarify whether future contributions are an allowable cost under the contract.

### MANAGEMENT REACTION

To be added

### OTHER MATTERS

The Department did not specify the appropriate funding mechanism through which the University could make contributions for educational enrichment to the Foundation that would be charged to the Government. Specifically, the Department allowed the University to charge an annual \$2 million contribution as an allowable cost to the contract, in conflict with Federal cost principles. Department officials agreed that the use of a grant would have been a more appropriate mechanism for providing educational enrichment to assist communities impacted by Departmental activities in Northern New Mexico.

## DRAFT

### SCOPE AND METHODOLOGY

The audit was performed at the Los Alamos Site Office, Los Alamos National Laboratory, and the National Nuclear Security Administration's Albuquerque Service Center from July 20,2004, to November 21,2005. To accomplish the **audit** objective, we:

- Reviewed the Department's contract with the University;
- Examined the Contracting Officer's files; and,
- Held discussions with Department and Los Alamos personnel.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits, and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objective of the audit. 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. We did not conduct a reliability assessment of computer-processed data because only a very limited amount of computer-processed data was used during the audit. We held an exit conference with \_\_\_\_\_ on \_\_\_\_\_

We appreciate the cooperation of your staff during our review.

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**APPENDIX 1**

**MAI            EN   COMMENTS**

To be added.

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**MONETARY IMPACT REPORT**

**MONETARY IMPACT OF REPORT NO.:**

- 1. Title of Audit: Management Controls over the University of California's Contributions to the Los Alamos National Laboratory Foundation
- 2. Division/Office: National Nuclear Security Administration Audits Division/Los Alamos Audit Group
- 3. EIGPTS No.: A04LA013
- 4. Type of Audit:

Financial: \_\_\_\_\_ Performance:  X   
 Financial Statement \_\_\_\_\_ Economy and Efficiency  X   
 Financial Related \_\_\_\_\_ Program Results \_\_\_\_\_  
 Other (specify type): \_\_\_\_\_

5.

FINDING		BETTER USED				QUESTIONED COSTS			MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	Recurring			(G) Questioned Portion	(H) Unsupported Portion	(I) Total	(J) C=Concur N=Noncon U=Undec	(K) Y=Yes N=No
			(D) Amount Per Year	(E) No Yrs	(F) Total Amount					
1.	Contributions to the LANL Foundation					\$6,000,000		\$6,000,000		
TOTALS--ALL FINDINGS						\$6,000,000		\$6,000,000		

6. Remarks: The University did not make its contributions to the Los Alamos National Laboratory Foundation in accordance with funding sources specified in Appendix N of the Department's contract with the University of California. With the exception of 1998 and 1999, the University inappropriately charged its annual contributions for educational outreach and community investment to the foundation as allowable General and Administration expenses to the Department instead of incurring the cost as a University expense. The questioned costs consisted of \$6,000,000 million that UC contributed to the Foundation.

7. Contractor:  None  10. Approvals:  
 8. Contract No.:  None  Division Director \_\_\_\_\_ Date \_\_\_\_\_  
 9. Task Order No.:  None  DAIGA Monitor \_\_\_\_\_ Date \_\_\_\_\_