LANL Report on Recommendations of the UC Special Review Team
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Director
Dec. 10, 2002

Introduction
Los Alamos National Laboratory Director John C. Browne provides this report to the President of the University of California. Its purpose is to describe

- actions taken by the Laboratory since August, 2002 in response to apparent misuse of purchase cards and purchase orders by several individuals and to issues raised concerning property management; and
- Additional actions that are underway or are planned in response to the recommendations of the UC Special Review Team (SRT), chaired by UC Senior Vice President Darling, after their visit to the Laboratory on November 25, 2002.

Actions Taken at Los Alamos National Laboratory Prior to the SRT Visit.
Beginning in August 2002, I took the following actions; unless otherwise noted, all listed actions are ongoing.

- I chartered an External Review Team in August, 2002, chaired by John Layton, former DOE Inspector General, to review policies, procedures and practices related to procurement cards (procards). Membership consists of Charles Matson, former Inspector General of the U.S. Department of Labor and representatives from PricewaterhouseCoopers, the University’s external audit firm. Subsequent to completing the initial charter, I determined that this team also should review policies, procedures and practices related to purchase orders, Just-in-Time purchasing, and local vendor agreements (LVA). I expect to receive the Team’s final report on procards about mid-December. Their review of the other purchasing mechanisms will begin immediately in January 2003.

- At my direction, on August 23, 2002 Rich Marquez, Associate Director for Administration, issued revised procedures governing use of procards. A copy of his memorandum is attached. The revised procard procedures will significantly strengthen controls and correct identified weaknesses in the procard program. The LANL External Review Team, chaired by John Layton, has indicated that the changes described in Rich’s memo will address about 90% of its findings regarding internal control weaknesses or vulnerabilities.

- As soon as I was notified in July 2002 of the FBI investigation at TA-33, we reviewed security measures and directed additional counter-intelligence actions to assure that there would be no threats to national security. In addition, we requested that the FBI inform us immediately of any indications they might see of national security issues; they told us that they saw no evidence of national security problems in connection with their investigation.
I have repeatedly made clear that all Laboratory managers and staff are expected to give unqualified and prompt cooperation to law enforcement, Inspector General, and University personnel engaged in investigations or reviews of Laboratory activity. In this connection, as soon as The Energy Daily article alleging senior management cover-up and investigative interference appeared, I specifically asked Acting NNSA Administrator Linton Brooks to request that the DOE Inspector General immediately investigate the allegations. Ambassador Brooks promptly responded to my request, and we received a confirming letter from the Inspector General the following day. The Inspector General’s investigation is currently on going.

Subsequent to news article allegations of missing property, I directed that Joe Salgado, Principal Deputy Laboratory Director, review records of classified computer holdings to determine whether any classified computer equipment was missing. Loss or theft of classified computers would be a security violation as well as an issue of property management. We reviewed our records back to 1999 and confirmed that there have been no reports of such security violations.

There is a perception that the Laboratory and the University have not had a communication strategy for addressing current issues with NNSA and DOE senior officials, the DOE Inspector General, and the media. One of the special review team’s recommendations addresses the issue of communications. I agree with their recommendation and have formed a Laboratory team of senior managers to address this issue. However, I would like to point out that I have consistently kept UCOP, NNSA, other government agency officials and the NM congressional delegation informed of these matters since I became aware of them in July, 2002.

Response to Recommendations of the UC Special Review Team

Recommendation 1. University Auditor Patrick Reed should visit the Laboratory to review the approach and scope of management’s plans to address the unreconciled and unresolved procard expenditures. The University Audit Office plans to verify and validate the results of management’s review and resolution of these expenditures and, therefore, the efforts of the Laboratory and the University Audit Office should be completed by December 31, 2002.

Action:
On December 4, 2002, a special Laboratory Information Meeting (LIM) was held at which John Layton gave an oral summary of his External Review Team’s observations and findings, including the amounts of unreconclined, questionable, and disputed purchase card transactions listed in the UC review chaired by Senior Vice President Darling.

On December 5, 2002, Rich Marquez issued instructions to Division Leaders and Associate Directors for reconciling and justifying purchase card transactions. As
of this date, the figures contained in the University team’s report have been substantially reduced as a result of work done at the Laboratory since the December 4 meeting. Current figures, which are expected to decrease even further within the next day, are as follows (numbers are approximate pending review and validation):

- Unreconciled transactions: $490,000 (down from $3.782 million as listed in the Special Review Team’s report);
- Transactions pending review and justification: $600,000 (down from $790,000 as listed in the Special Review Team’s report);
- Disputed transactions: $300,000 (down from the $317,000 as listed in the Special Review Team’s report).

We have verified that a number of the accounts that showed as unreconciled on the database we provided to the Layton External Review Team, had been reconciled manually some time ago, but had not been entered into the database. Manual reconciliation is done (required) if a cardholder does not reconcile his/her account on time. Late reconciliations cannot be done automatically; they must be done manually. I have directed Rich Marquez to complete reconciliation and justification work not later than December 16, 2002. In addition, I have asked him to assure that manual reconciliations in the future are entered promptly into the database.

In the meantime, University Auditor Patrick Reed was at the Laboratory December 2 through December 4, 2002 to clarify the scope of the work he and a team of UC auditors will undertake to validate the Laboratory’s reconciliation and justification of prior years’ purchase transactions. He and Rich Marquez have agreed on terms of reference for the validation that he and UC auditors will do between now and the end of the year. Pat is expected to return to LANL with a team on Monday, December 9.

**Recommendation 2.** The Laboratory should direct the relevant employees and supervisors to complete the reconciliation and approval of these overdue expenditure statements by December 31, 2002. The Laboratory should strictly enforce all procedures contained in the new procard program, specifically the reconciliation/approval requirements; and should ensure that appropriate actions are taken promptly if cardholders fail to comply with reconciliation or other requirements.

**Action:**
As indicated above, Division Leaders and Associate Directors were tasked to complete their reconciliations and justifications of prior years’ transactions and to provide reports to BUS Division on December 9, 2002. Their reports will be reviewed by BUS under the direction of Rich Marquez and subsequently validated by Pat Reed and his team.

As a result of the progress we have made in reconciling and resolving purchase card accounts (as described under Recommendation 1 above), we have been able to make substantial reductions in the numbers of card holders and approving supervisors whose accounts are more than 30 days overdue.
As indicated above, I have directed ADA Marquez to complete the current reconciliation work by December 16, 2002. In addition, I have asked to have quarterly progress reports on the effectiveness of the new procard program that was implemented in May 2002 and the revised procedures that we issued in August 2002.

**Recommendation 3.** The Laboratory should establish a process to ensure that controlled property items are promptly entered into the property inventory, regardless of the method of purchase. The process should include regular reconciliation of Property Office records of controlled property with purchasing records of acquisitions of controlled property items.

**Action:**
I have directed Rich Marquez to revise our procedures to assure that all controlled items are promptly entered into the property inventory. I have directed Rich to report to me by January 6, 2003 on his procedures for assuring that items are promptly and appropriately entered into the property inventory regardless of the method by which they are purchased and for periodically reconciling property management and purchasing records.

To put this item in context, it is worth noting that the Laboratory has consistently performed at the “Outstanding” level in property management. For the last 4 years, we have annually accounted for 99.5% or more of our controlled property inventory, on the bases of number of items and value of items.

**Recommendation 4.** The Laboratory should evaluate its policies and procedures related to “unlocated” property. In addition, the Laboratory should clarify the roles and responsibilities of the Security Division, other line managers and property custodians for following up on “unlocated” property.

**Action:**
I have asked Rich Marquez and Jim Holt, Associate Director for Operations to propose revisions to current policies and procedures regarding “unlocated” property. I expect that the revisions will require increased follow-up to reports of “unlocated” status and will clarify roles and responsibilities among S and BUS Divisions, line managers, and property custodians. I have asked for a report not later than January 6, 2003 on new or modified procedures for addressing “unlocated” property.

**Recommendation 5.** The Laboratory, with guidance from the University Auditor, should adopt and enforce improved standards, including compliance with UC Audit Manual provisions, to make sure that Audit findings are investigated and that the recommendations are resolved in a timely and verifiable manner. In addition, the Laboratory should ensure that all managers with outstanding audit findings take timely and effective corrective action.
**Action:**
I have directed Rich Marquez and the LANL Office of Audits and Assessments to assure that the Laboratory’s procedures are fully compliant with audit standards established by the University and contained in the UC Audit Manual. I expect them to coordinate this effort with the University Auditor. In addition, I have asked Audits and Assessments to provide quarterly reports to me and to the University Auditor on timeliness, completeness, and verification of closed audit findings. I have asked for a progress report on January 31 and for the first quarterly report on March 30, 2003.

**Recommendation 6.** Where it does not conflict with ongoing investigations by the DOE Inspector General or law enforcement officials, the Laboratory should complete its internal investigation of these allegations by December 31, 2002. In addition, the Laboratory should initiate appropriate personnel actions, consistent with University and Laboratory policies, either to exonerate or to commence disciplinary action, as the facts warrant, and take appropriate steps to recover any losses.

**Action:**
We have assembled case review boards, in accordance with our administrative policies, for three individuals now on investigative leave. We have completed the process in two cases; letters of termination were mailed to these two individuals on December 6, 2002 and hand-delivered to them on December 09, 2002. The remaining case will be concluded as soon as investigative processes permit.

We will, of course, take all appropriate steps to recover losses whenever possible. In the three cases referred to above, our ability to recover losses is limited by ongoing investigative work, potential criminal proceedings, and provisions of New Mexico State law. In addition, we will urge that federal authorities take all appropriate steps to recover losses and that individuals who have or appear to have engaged in criminal conduct be prosecuted to the full extent of the law.

**Recommendation 7.** The University should, in consultation with the Laboratory, commission an independent evaluation of key financial processes to determine their business and control effectiveness as well as the appropriate organizational structure for performing these functions.

**Action:**
The Laboratory will await your decision on this recommendation. I will be happy to work with UCOP regarding the scope and charter for such a review.

**Recommendation 8.** The Laboratory should review policies and procedures, and clarify roles and responsibilities, for reporting, and taking action on allegations or incidents of inappropriate activity at the Laboratory, including all types of waste, fraud, abuse, and theft. Among other things, the review should identify any discrepancies in reporting
procedures and practices as well as corrective actions needed to ensure that Laboratory management and the DOE Inspector General are notified in a timely manner.

**Action:**
I have asked Roger Hagengruber, recently retired Senior Vice President of Sandia National Laboratories for Special Projects for National Security, to head a small (3-5 people) team of security experts to review our security actions, policies and procedures related to the events of the past year. Dr. Hagengruber is a recognized expert in security matters with extensive experience in threat assessment, security technology, arms control and nonproliferation. He has a long history of policy and program involvement with the defense and intelligence communities as well as with NNSA and its predecessor organizations.

I have asked Roger to identify best security practices from throughout the national security community and to provide recommendations on their potential use at Los Alamos. In addition, his review will include options for organizational structures as well as procedures for assuring that allegations of improper or suspect activities are reported and acted upon promptly and appropriately. I expect to receive Roger’s report by mid- to late-February, 2003.

Pending completion of the Hagengruber review, I have asked Rich Marquez and Jim Holt to assure that the Laboratory complies promptly with all reporting requirements on incidents or allegations involving improper activity.

**Recommendation 9.** The Laboratory, in consultation with the University, should immediately establish a small-integrated team of senior management and communications professionals to communicate Laboratory actions to the media and others as appropriate.

**Action:**
I have established a team to improve communications with the media and with federal organizations. I would welcome University representation on the team. This will be an ongoing activity. We are in the process of hiring a new Leader for our Communications and External Relations Division and a new Public Affairs Director. Both positions have been nationally advertised; screening committees are currently reviewing applications. I have asked Rich Marquez to complete the hiring process not later than January 15, 2003. Consistent with existing Laboratory policy, the cognizant Associate Director fills positions at these levels with the concurrence of the Laboratory Director.
Terminations from the Office of Security Inquiries
With respect to the termination of the two employees of the Office of Security Inquiries, the DOE Inspector General is including this matter in his current review. The Laboratory is fully cooperating with the Inspector General and will continue to do so. In addition, we will work with the University to assess this situation in a manner that does not interfere with the Inspector General’s review.

Progress Reporting
Quarterly progress reports will be provided to the President of the University beginning January 3, 2003.