

The Regents of the University of California

**COMMITTEE ON OVERSIGHT OF THE
DEPARTMENT OF ENERGY LABORATORIES**

April 3, 2003

The Committee on Oversight of the Department of Energy Laboratories met on the above date by teleconference at the following locations: UCSF - Laurel Heights, 3333 California Street, San Francisco; James E. West Alumni Center, Los Angeles Campus; Social Science Tower 122, Irvine Campus; 111-A University Complex, San Diego Campus; Cheadle Hall, Santa Barbara Campus; 1130 K Street, Suite 340, Sacramento; and 4225 N. Hospital Road, Building 1200, Atwater.

Members present: Regents Atkinson, Davies, Montoya, Moores, Pattiz, Preuss, and Terrazas; Advisory member Binion

In attendance: Regents Connerly, Hopkinson, Johnson, Kozberg, Ligot-Gordon, Sainick, and Sayles, Regents-designate Murray and Seigler, Faculty Representative Pitts, Secretary Trivette, General Counsel Holst, Treasurer Russ, Provost King, Senior Vice Presidents Darling and Mullinix, Vice President Broome, Chancellors Carnesale, Tomlinson-Keasey, and Yang, University Auditor Reed, and Recording Secretary Nietfeld

The meeting convened at 11:35 a.m. with Committee Chair Preuss presiding.

1. READING OF NOTICE OF MEETING

For the record, it was confirmed that notice had been served in accordance with the Bylaws and Standing Orders for a Special Meeting of the Committee on Oversight of the Department of Energy Laboratories, for this date and time, for the purpose of receiving an update on Los Alamos National laboratory management issues.

2. UPDATE ON LOS ALAMOS NATIONAL LABORATORY MANAGEMENT ISSUES

Senior Vice President Darling, who also serves as Interim Vice President for Laboratory Management, provided an update on actions that had been taken with respect to management of the Los Alamos National Laboratory since the January 2003 meeting. He reported that to date, 18 laboratory senior managers and employees had been terminated, removed from management positions, and/or reassigned to new positions. These include the Laboratory Director, the Principal Deputy Director, the Chief Financial Officer, the Security Director and Deputy Director, and the Audit Director. Each of the employees involved in theft or misuse of government funds and property has been terminated, and their cases have been referred to law enforcement officials for prosecution. In addition, the University has rehired Mr. Walp and Mr. Doran, who were terminated from their positions as security investigators at Los Alamos, and they have provided assistance in identifying additional areas that deserve attention.

Mr. Darling continued that senior University officials have taken on personal responsibility for managing Los Alamos business functions. They have been working closely with Admiral Nanos and the Associate Director for Administration in implementing systemic change at the laboratory. They are joined by thousands of Los Alamos employees who are working diligently to change the culture of the laboratory.

University Management of Los Alamos Audit Office

University Auditor Reed is directly managing the Audit Office. In that capacity, he has already taken the following significant steps:

- He has strengthened the independence of the audit function by having the auditor report directly to him.
- He rescinded the so-called “loyalty oath” prior to its mention in the Department of Energy Inspector General’s Special Inquiry on Los Alamos operations.
- He has commenced peer reviews of the critical audit and assessments functions and redefined the internal audit reporting structures.
- He has developed a plan to bring current the substantial backlog of audit and investigation work using staff, UC audit managers, and outside experts.
- He added an independent whistleblower hotline that improves confidentiality in order to encourage employees to report improper activities without fear of retaliation. This is intended to give employees confidence that their concerns will be investigated fully and in a timely manner. He is also implementing recent University policies for reporting and investigating irregularities and protecting whistleblowers from retaliation.

University Management of Los Alamos Business and Finance

Vice President Darling reported that the laboratory’s finance and business operations are being managed by Vice President Broome, who has taken the following actions:

- She organized a “red team” consisting of property, procurement, and technology specialists from Lawrence Livermore National Laboratory to conduct a review of the organizational structure, business procedures, and financial systems of the procurement and property functions.
- She is conducting an internal risk assessment of key financial and business processes, including a “cradle-to-grave” assessment of property acquisition.

- She adopted a more effective transitional organizational structure in the Business Division that enhances financial controls and business processes.
- She will integrate the financial control and business process improvements with the enterprise resource project the laboratory is implementing.
- She named a senior procurement officer from the University as interim head of the Procurement Office and installed a new director of the purchase card program.

External Review of Purchase Cards and Procurement

Mr. Darling continued that the external review team, which consists of two former federal Inspectors General and more than a dozen forensic accountants from PricewaterhouseCoopers, had expanded its recently completed audit of the laboratory's purchase card system to include all other procurement practices, including Just-in-Time contracting, blanket purchase agreements, and local vendor agreements. As soon as the expanded work is done, the results will be reported to the Regents and to the public, and any deficiencies identified by the external review team will be addressed immediately. The number of local vendor agreements has been reduced from 35 to 27, and new restrictions on their use have been imposed. With regard to the purchase card program, the external team has looked at 170,000 separate transactions totaling \$120 million which occurred over a period of 45 months. Its final report has been validated by the University Auditor, who has concluded that there were \$3,000 in fraudulent purchases. However, approximately \$320,000 in costs were questioned as to their allowability under the University's contract with the Department of Energy. These costs include suspect purchases, purchases that were not approved by a supervisor, purchases disputed with the vendor, and some purchases that cannot be documented because records were lost in the 2000 Cerro Grande Fire. The full amount will be reimbursed to the DOE. In addition, the laboratory adopted the University's purchase card program in June 2002. The number of purchase cards used by the laboratory's 8,500 employees has been reduced from 1,100 to 561, and all card-holders and their approving officials have received training in purchase card policies and procedures. Card-holder spending limits have been reduced, and the University requires approval of each transaction by a supervisor. Sanctions that involve revocation of cards for inappropriate use have been imposed.

External Review of Key Business Processes

The University has retained Ernst & Young to conduct a comprehensive review and validation of the laboratory's key financial processes; to review systems integration and

controls; to assess the business organization and recommend the optimal organizational structure; to evaluate core competencies of the business organization personnel; and to recommend required employee skill sets. A team of over 30 Ernst & Young consultants has been at Los Alamos for several weeks and is expected to report back next month.

Property Inventory

Property management is another high priority. As a result, a comprehensive property inventory is under way, the first undertaken since 1998. Because Los Alamos covers 43 square miles and includes some 2,000 buildings and \$943 million in controlled property inventory, a wall-to-wall inventory is a massive but important and necessary undertaking. University personnel have also conducted a survey of all laboratory delivery sites, known as “drop points,” in order to assess vulnerabilities in security and institute secure delivery of laboratory property to employees. It is anticipated that the external consultants will recommend additional property management controls for implementation.

LANL Oversight Board

Vice President Darling reported that the LANL Oversight Board appointed by President Atkinson to guide him and Interim Director Nanos had met nearly every other week since its appointment in order to sustain these changes. Its membership includes Regents Blum, Parsky, and Preuss, Chancellor Dynes, and Professor Sidney Drell, a noted arms control advisor. The Board’s meetings have reviewed business, security, project management, scientific and weapons program management, and related issues. On his own initiative, and with the full support of the Oversight Board, Interim Director Nanos has initiated numerous changes at the laboratory which include:

- Director-level reviews of all scientific and national security programs to ensure that the laboratory is meeting its obligations to the nation.
- Reviews of all building projects to improve their likelihood of completion within the desired time schedule and budget.
- Enhanced nuclear facilities stewardship, including meeting with the Department of Energy to resolve longstanding issues at the laboratory.
- Defining the roles of group leaders in order to strengthen their role and provide them with the tools to fulfill their responsibilities.
- Opening up regular communication with laboratory employees, the community, and elected officials.

University Governance and Oversight

At the same time, work continues on a larger revamping of the University's governance structure for the three national laboratories it operates for the federal government.

External Oversight. The administration is examining various national laboratory management models for elements that can be drawn upon to improve oversight, including Sandia National Laboratories, Argonne National Laboratory, Oak Ridge National Laboratory, and Brookhaven National Laboratory. The University's goal is stronger oversight by people with expertise in science and weapons, technology businesses, and corporate governance who will hold the laboratories and the University accountable.

A list of candidates with experience relevant to national security laboratories is being developed for the new governance board. There will be a charter and a definition of the roles and responsibilities for this oversight structure and its relationship to the Board of Regents, to the President and Vice President for Laboratory Management, and to the laboratory directors.

Internal Oversight. To ensure that the University remains fully engaged in oversight, an improved internal University oversight structure is being developed that will integrate a broader array of University management expertise into the oversight of the laboratories, create a strong support function and staff for the external oversight body, integrate external expertise into the University's oversight, and create a clear set of expectations and culture of accountability.

Congressional Hearings and Public Support

University personnel have participated in investigations of the Los Alamos National Laboratory by the General Accounting Office, the Department of Energy Inspector General, the Congressional Investigations and Oversight Subcommittee, and by the California Legislature's Select Committee on Oversight of the UC-Managed National Laboratories.

There has been support from many people and organizations for the University's continued management of the laboratories. Employee petitions of support have been sent to Secretary Abraham with the signatures of 3,000 Livermore employees and 2,500 Los Alamos employees. Senator Feinstein issued a statement recognizing the changes that have been put in place and supporting the University's continued role in managing the laboratories. The Governor of New Mexico issued a strong public statement of support for continued UC management of Los Alamos, and both houses of the New Mexico Legislature unanimously passed a memorial in support of the Laboratory and the University.

Mr. Darling continued that he, President Atkinson, Admiral Nanos, and Director Anastasio had made numerous trips to Washington, both to testify at Congressional hearings and to meet with members of the California and New Mexico delegations and with Secretary Abraham and his leadership team at the Department of Energy.

This month there will likely be an audit report from the General Accounting Office and five audit reports from the Department of Energy Inspector General. These may well affect the Secretary's decision with respect to the University's management of Los Alamos.

Several Regents commended Senior Vice President Darling for his outstanding work on behalf of the University.

(For speakers' comments, see the minutes of the April 3, 2003 meeting of the Committee of the Whole.)

The meeting adjourned at 11:55 a.m.

Attest:

Secretary