

FACT SHEET

INDEPENDENT RECOMMENDATIONS ON IMPROVEMENTS IN LOS ALAMOS NATIONAL LABORATORY BUSINESS PRACTICES

BACKGROUND

The University of California announced in January 2003 that it would commission an independent review of key business practices at Los Alamos National Laboratory exclusive of procurement, which was the subject of a separate study. After a submission of proposals by independent firms, the University retained Ernst & Young LLP to conduct an independent compliance and operational analysis of processes and internal controls in the following areas:

- Accounts Payable
- Banking, Including DOE Funding
- Budget Execution
- Cash Receipts and Work for Others
- Information Technologies General and Selected Application
- Payroll
- Property Management and Property Accounting

After two months of observation and analysis by a team of over 20 consultants, Ernst & Young LLP has provided the University with seven reports containing approximately 90 observations and recommendations. The full reports will be available on the web at <http://www.universityofcalifornia.edu/news/losalamos/>. A summary of key recommendations follows:

KEY RECOMMENDATIONS

Accounts Payable

- Establish procedures to properly code all vendors in the Vendor Master File. Obtain IRS W-9 Forms from all new vendors providing services to LANL. Issue IRS 1099 Forms to all non-Corporations.
- Reduce the number of check runs to twice weekly.
- Secure signed checks in a lockable drawer or safe prior to distribution to reduce risk of misappropriation of funds. LANL should also consider eliminating the practice of allowing vendors to “pick up” checks; either mail all checks or develop a direct deposit capability.
- Eliminate the use of cash advances for employee morale-related transactions and only make payment upon the submission of properly approved requests and supporting receipts.
- Hold all processed purchase order invoices until required approvals are obtained.
- Eliminate manual checks, except for extraordinary circumstances, to increase efficiency, reduce the risk of misappropriation of funds and reduce duplicate payment to vendors.

- Update system software to eliminate unnecessary system voids.
- Require Supervisor-level approval on non-standard invoice numbers in order to avoid duplicate payments.

Banking, Including DOE Funding

- Work with Los Alamos National Bank – the Laboratory’s principal banker – to develop a fully electronic interface that relies on state-of-the-art delivery and authentication tools to increase efficiency as well as provide protection against loss of data.
- Implement procedures and controls to more accurately estimate daily check transactions to prevent daily negative balances.
- Update the Banking Instruction Agreement to prevent the potential unauthorized use in establishing checking account authorization and to include requirements that appropriate UC approvals be obtained as required by the Standing Orders of The Regents of the University of California.

Budget Execution

- Limit adjustments to original budgets to changes in the scope of planned work authorized and documented by management.
- Develop a system-generated warning report when project orders approach 75 percent of the obligation threshold.
- Consider implementing a single General and Administrative rate and simplifying the overall indirect rate structure.
- Replace the different types of computer software currently used for budget estimating, monitoring and project management with a single standardized off-the-shelf product to reduce maintenance costs and increase consistency of performance and control activities.

Cash Receipts and Work for Others

- Obtain a lockbox account or single point for cash receipts to enhance control over the receipt of cash.
- Separate duties associated with cash receipt functions, including receipt of checks, processing checks for deposit, recording cash receipts and performing the reconciliation of cash accounts.
- Establish a standard procedure for researching outstanding checks greater than 180 days and develop a practice for crediting the amounts back, where possible, to the appropriate accounts for items that are written off.
- Develop procedures to de-obligate and/or return funds associated with completed Work For Others projects.

Information Technologies General and Selected Application

- Re-engineer business process controls and security to the greatest extent possible to eliminate potential for risk during transition to the new Oracle Financial reporting system, which is expected to replace several old technologies.
- Develop a strategic plan to migrate from the currently used “end of life” technologies.
- Allocate funding to execute the Laboratory’s “Disaster Recovery Plan.”
- Limit ability to batch payroll process to the Production Unit only.
- Require that Line Managers for each business unit validate and sign-off on the reasonableness of access rights granted to users in their groups in order to reduce risk of an employee compromising funds.
- Implement a consistent security standard to prevent unauthorized access to key financial applications.
- Limit the number of users who are directly responsible for maintaining the Sunflower property management system.
- Create a process for reviewing information systems processes and procedures in order to ensure the incorporation of practices and conformity with government regulations.

Payroll

- Perform a study to determine whether or not the level of unrecorded overtime is significant.
- Institute periodic timekeeping awareness training.

Property Management and Property Accounting

- Improve controls over the recording of property as follows:
 - o Develop procurement system “edit checks” to prompt buyers, including vendors, to enter such data as whether items require bar codes and provide lists of appropriate account listings. LANL should consider incorporating penalty language for vendor non-compliance.
 - o Develop improved training for buyers, including identification procedures for items requiring property codes.
 - o Review and approve all new items prior to a Just-in-Time vendor modifying the catalog of allowable purchases.
- Consider consolidating the Local Vendor Agreement (LVA) program within the Purchase Card program; perform independent review of LVA statements monthly or develop/generate system exception reports for items that should require property tags but are not posted to the Sunflower system; implement a policy defining consequences of violating LANL purchasing policies; and implement a property audit/review process that has procedures to review for possible misuse of LVA contracts.

- For the Purchase Card program, require additional training on account coding and asset classification; implement a property audit/review process; develop a database to track violators of Purchase Card policies; and explore options with the Purchase Card vendor to automatically deny the purchase of certain items.
- Periodically update the master “attractive” items list to include new items that can be readily converted to cash.
- Develop control process for assets received outside of the central receiving area that would include the identification, location, authorization and appropriate tagging of property.
- Determine whether dollars are being spent on maintenance and repairs that should be recovered under a warranty/service agreement and expand the Sunflower system to track warranty information on assets purchased.

CONCLUSION AND NEXT STEPS

The Ernst & Young LLP review, in conjunction with recommendations provided by other external and internal review teams, provides a valuable road map for use by the Laboratory in strengthening internal controls surrounding core business practices. A number of business processes have been re-engineered, including some of those highlighted in this report. These business process and internal control improvements will enhance the Enterprise Resource Planning project, an extensive effort to replace outdated technologies and procedures throughout the business operations at the Laboratory.

The University of California intends to fully implement all control recommendations developed by Ernst & Young LLP to enhance the system of internal controls at Los Alamos National Laboratory.