

University of California Regents' Meeting
Update on Los Alamos National Laboratory
January 15, 2003
Bruce B. Darling
Senior Vice President, University Affairs
and
Interim Vice President, Laboratory Management

Mr. Chairman and Members of the Board, I would like to give you a brief but thorough update on the developments at Los Alamos National Laboratory and the steps the University is taking to address them.

As President Atkinson said, in August the University launched an investigation of the Lab's purchase card program by ordering an independent review by two former Department of Energy and Treasury Department Inspectors General and PricewaterhouseCoopers, the University's external auditor.

My involvement began on Thursday, November 21, when President Atkinson asked me to convene a team of University officials to travel to Los Alamos to review the Laboratory's business practices.

The special review team was composed of Anne Broome, the University's Vice President for Financial Management; Bob Van Ness, Assistant Vice President in the University's Laboratory Management Office; Ron Cochran, Executive Officer of the Lawrence Livermore National Laboratory; and myself.

On Monday November 25, we interviewed a number of Los Alamos National Laboratory managers about the Lab's purchase card, procurement and property management programs, as well as related business programs. We also interviewed John Layton, the head of the external review team commissioned to examine purchase card irregularities.

In a letter to President Atkinson dated December 6, we recommended nine actions to improve Laboratory business practices. We provided copies of our report to the Livermore and Berkeley Lab Directors and urged them to examine their Laboratory practices in each of the nine areas of concern. A copy of our letter is at each of your places.

To provide some context for this discussion, the Los Alamos budget in fiscal year 2002 was \$1.78 billion. Its procurement obligations totaled \$1.27 billion. Purchase card expenditures totaled \$36.2 million that same fiscal year. Laboratory property had a cumulative acquisition value of \$943 million in fiscal year 2002.

We have not yet concluded our examination at Los Alamos, but as a fraction of the Laboratory budget and financial transactions, the amount of expenditures being questioned is not large. However, they are unacceptable nonetheless. They demonstrate that the Lab does not have proper financial controls. This requires strong management action, which we are taking.

While our team was at Los Alamos, we were informed during lunch that early that morning the Lab had terminated and escorted off Lab property two Security Division employees who were investigating theft and misuse of government property and funds at the Lab. Our report encouraged the Department of Energy Inspector General to review the termination of these two employees in order to address allegations that these individuals were fired in retaliation for their role in the investigations. We also urged the University to make its own assessment without interfering with the Inspector General's review.

We provided copies of our report to DOE Secretary Abraham, National Nuclear Security Administration Acting Administrator Brooks and DOE Inspector General Friedman. It was sent to The Regents on December 10.

On December 12, President Atkinson and Director Browne met with Secretary Abraham. During the meeting, the President was troubled by questions that the Lab Director was unable to answer. He asked me to convene another special review team to examine the termination of the two Lab investigators.

This second special review team included Bob Van Ness and Ron Cochran, who were part of the first review team; John Lundberg, UC's Deputy General Counsel; Joe Mullinix, UC's Senior Vice President for Business and Finance; and me.

We spent December 18 at the Lab interviewing 10 Lab managers and conducted 4 additional interviews by telephone during the following two days.

On December 20, the General Counsel's office contacted the attorney for the two fired investigators to request that our special review team be able to interview them to understand their perspective on property theft and misuse of funds, and their terminations. We also hired a former U.S. Attorney to interview the U.S. Attorney in Albuquerque and the FBI in New Mexico about the Laboratory's interactions with those offices about the investigations. We took these steps to try to determine whether there is truth to the allegations that Lab management attempted to obstruct and cover up theft and misuse of government property.

The interview with the two investigators will take place this coming Friday.

The second special review team gave its recommendations to President Atkinson and we briefed Chairman Moores and the Chairs of the Regents' Lab Oversight, Finance and Audit Committees.

On December 23, the Director and Principal Deputy Director of Los Alamos resigned their positions at the Lab.

On January 2, the University announced: 1) these two resignations; 2) the issuance of an RFP on December 20 soliciting firms to review the Lab's business processes and controls as well as the organization of the business and financial functions; 3) the appointment of Dr. Nanos as Interim Director of the Lab; and 4) that for the interim:

- The Lab's financial and business operations will report to the University's Vice President for Financial Management.
- The Lab's Auditor will report to the University Auditor.
- The Lab's communications and federal relations offices will report to the University's Assistant Vice Presidents for Communications and Federal Governmental Relations respectively.

On January 6, I accompanied President Atkinson to Los Alamos to introduce Dr. Nanos to the Laboratory community as the Interim Director. We met with the Lab's Executive team, Scientific and Administrative Division Leaders, 700 Lab employees, and the local media.

On January 8, President Atkinson asked me to serve as Interim Vice President for Laboratory Management in addition to my current responsibilities.

The Lab Administration Office has a strong staff headed by Bob Van Ness. Bob Kuckuck has agreed to return from his recent retirement to serve as a Senior Advisor to me in this interim role. Some of you know Bob. He headed Lawrence Livermore National Laboratory's underground nuclear test program. He created and led the Laboratory Administration Office in the Office of the President. He served as Deputy Director of the Livermore Lab, and most recently served as Deputy Administrator of the National Nuclear Security Administration. [He was the #2 person at Livermore and the NNSA]. Bob, please stand up.

Throughout this period we have communicated actively with the NNSA Administrator, the leadership of the Department of Energy, New Mexico's two Senators and many others.

A copy of our most recent progress report, dated January 10, 2003, outlining the actions taken by the University was sent to you on that date.

We expect Congressional hearings in February or March.

The Secretary of Energy has informed President Atkinson that he intends to evaluate the University's capacity to manage Los Alamos. He has asked the DOE Deputy Secretary and NNSA Administrator to evaluate the University's capabilities and performance, and to provide him with a recommendation by April 30.

We are bringing the full resources of the University to bear on resolving these matters and no one should doubt our commitment to resolve them. We are vigorously pursuing seven matters:

First, we are focused on ensuring that the scientific and weapons programs at the Lab continue without interruption.

Second, the security operations of both weapons Labs must meet the nation's expectations.

Third, we are assessing the situation at Los Alamos so that we can put in place the organization, business systems, financial controls, and people to achieve a high standard of business operations.

Fourth, we are assessing the situation at the Livermore and Berkeley Labs with the intention of taking any necessary corrective actions.

Fifth, we are assessing the University's current governance and oversight of the Labs, and we will recommend changes.

Sixth, we are pursuing the issues associated with the termination of the two Lab investigators.

And lastly, we are communicating openly with the Labs, the Regents, NNSA, DOE, Congress and the media to keep them apprised of our findings and actions.

I know that you will have many questions. I would like to ask Dr. Nanos to review the steps he has taken since his appointment as Interim Director on January 6.

I should also note that Drs. Anastasio and Shank are here, along with their auditors, to answer questions about the actions they have taken at the Livermore and Berkeley Labs.

In introducing Dr. Nanos, I want to comment that in the darkest days of the Second World War, our nation turned to the University of California to lend its scientific strengths to the allied war effort. The University responded with vigor and provided its leadership to the development of radar; expertise in weather forecasting and near-shore wave action to guide allied amphibious landings in North Africa, Europe and the Pacific Islands; and the development of the atomic bomb. Our nation's scientific and policy leaders feared that Nazi Germany might develop an atomic weapon first. Pause for a moment and imagine what the world might be like today if the Nazis had won the race to develop the first atomic bomb.

Dr. Nanos continues this tradition of science in support of national security. He is a scientist and a retired Vice Admiral in the U.S. Navy. He has the scientific, weapons, and management expertise that is crucial for his new assignment. He graduated from the Naval Academy, where he was a Trident

Scholar. He then went on to receive a Ph.D. in Physics from Princeton University. He was director of the strategic weapons program for the navies of the United States and the United Kingdom. He became well known to Los Alamos at that time as the purchaser of the weapons systems for the Trident I and Trident II. These were developed by Los Alamos. He commanded the Naval Sea Systems Command with four nuclear repair shipyards, seven Navy laboratories, 40,000 employees, and an annual budget of \$20 billion. He joined Los Alamos in August 2002 as Deputy Associate Director for Threat Reduction. He is a great leader, who made this evident on his very first day in office. Following Dr. Nanos' remarks, we will be pleased to answer your questions and to provide a greater level of detail than I have given you in these opening remarks.