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MANAGEMENT, UNIVERSITY OF CALIFORNIA  
BEFORE  
THE CALIFORNIA STATE LEGISLATURE SELECT COMMITTEE ON  
OVERSIGHT OF THE DEPARTMENT OF ENERGY LABORATORIES  
OPERATED BY THE UNIVERSITY OF CALIFORNIA  
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Madame Chairman, Senator Aragon, Senator Payne, and members of the Committee, thank you for this opportunity to address the management problems at Los Alamos National Laboratory. I would like to expand on President Atkinson's remarks to describe the actions the University of California has taken to resolve the business, property management and procurement problems at the Laboratory.

The Committee no doubt has heard serious allegations concerning the lack of internal controls and effective management oversight at Los Alamos. You have probably also heard that a Laboratory employee attempted to use a government "purchase card" to buy an automobile for personal use and that the property management system at Los Alamos is vulnerable to theft and fraud.

Without addressing each allegation of weakness in the business systems and financial controls at Los Alamos, let me say that the general thrust of the allegations are valid. It is clear, for example, that the purchase card program at Los Alamos, which differed from the program used at the University's ten campuses and two other UC-managed national laboratories, lacked strong controls. And the controls that did exist were not adequately enforced. It is also clear that Los Alamos did not impose the kinds of sanctions and accountability that would have encouraged employees to keep track of property for which they were responsible. And it is clear that the dismissals of investigators Glenn Walp and Steven Doran by former laboratory management were unwarranted.

Those are our general conclusions. Now let me describe how we got there and the steps we have taken – and are taking – to restore confidence in Los Alamos' business and administrative practices.

Immediately upon learning last August of allegations involving procurement card abuse, the University directed the Lab to establish an External Review Team composed of two distinguished former federal Inspectors General and the accounting firm of PricewaterhouseCoopers to examine the Lab's purchase card program. That review has been completed and, after verification by the University Auditor, we have identified \$320,000 in questionable costs. These charges, including some that cannot be documented because of records lost in the 2000 Cerro Grande fire, will be fully reimbursed to the Department of Energy immediately upon a determination by the DOE contracting officer that this represents a full and fair accounting.

At the same time that the External Review Team was doing its work, President Atkinson directed me on November 21, 2002, to lead a Special Review Team of senior University administrators to assess first-hand the problems at the Lab. During our visit to Los Alamos four days later – we found significant weaknesses in the Laboratory's purchasing, property management, audits and assessments, financial management, security, and public communications programs and issued a report with nine findings and recommendations. We also learned during that visit that Mr. Walp and Mr. Doran had been dismissed earlier that day.

On December 16, President Atkinson directed me to lead a second Special Review Team to explore the circumstances related to the dismissals of Mr. Walp and Mr. Doran. After two days of interviews with 14 Los Alamos and University officials about the events leading to, and the judgments exercised in, terminating their employment, it was clear to us – given what we had learned during our previous visit – that sweeping changes needed to be made at Los Alamos. As a result, in late December we appointed Admiral Nanos as Interim Director based on his strong management background as Commander of the Naval nuclear weapons program and of the Naval Sea Systems Command with four nuclear repair shipyards, seven Navy laboratories, 40,000 employees, and a \$20 billion budget.

To date, 17 employees and senior managers have been terminated, removed from management positions and/or reassigned to new positions. These include the Laboratory's Director, the Principal Deputy Director, the Chief Financial Officer, the Security Office Director and Deputy Director, and the Audit Director. In addition, Steven Doran and Glenn Walp have been rehired by the University, retroactive to the date of their dismissals by former Laboratory management. Mr. Doran now serves as Director of Security for the University's Office of the President.

At the same time, senior University administrators – including the Vice President for Financial Management and the University Auditor – are directly managing Los Alamos business functions. They have strengthened the independence of the audit function, rescinded the Audit Division’s so-called “loyalty oath,” activated an independent whistleblower hotline to encourage employees to report improper activities without fear of retaliation, and deployed a high-level “red team” to review the Procurement Office’s organizational structure, business procedures and financial systems.

Meanwhile, the University has directed the External Review Team – made up of two distinguished former federal Inspectors General and more than a dozen forensic accountants from PricewaterhouseCoopers – to expand its recently completed review of the Lab’s purchase card system to include all procurement practices at the Laboratory. In addition, the University currently has on the ground at Los Alamos more than 30 Ernst & Young consultants conducting a comprehensive review and validation of the Laboratory’s key financial processes and organization structure.

Because property management is such a high priority, we have initiated the first comprehensive property inventory since 1998 and conducted a survey of all Laboratory property delivery sites – known as “drop points” – in order to assess vulnerabilities in security. We will implement any additional property management controls that our outside experts might recommend.

To sustain these changes, President Atkinson has established an interim Oversight Board for Los Alamos while we work on a larger revamping of the University’s governance structure for the three UC-managed national laboratories. We are also designing an improved internal University structure that will integrate a broader array of University management expertise into the oversight of the Laboratories and create a clear set of expectations and a culture of accountability.

I want to assure you that, while we have been identifying and remedying the problems, we have also been focused on fulfilling the Lab’s and the University’s mission to the nation, especially at this critical time in world events. We are particularly focused on ensuring that the scientific and weapons programs continue to meet their objectives and that the security operations of the Laboratory meet the nation’s expectations.

As you heard from President Atkinson, the University of California remains committed to managing the national laboratories, and we offer you this pledge:

We are determined to raise the level of our business practices to the same quality as the science and weapons programs. We owe this to the American people, who are paying for – and whose security is dependent on – the work of the Lab.

Finally, I would be remiss not to mention the dedication and commitment with which Interim Director Nanos has tackled his responsibilities at such a difficult time. He and many honest and hardworking Los Alamos employees are working diligently to bring about a change in the culture of the Lab. The challenge now is to solidify his efforts and sustain them over the long-term.

At the same time, Directors Anastasio and Shank have been full partners in our efforts. They have lent their expertise and that of their employees to help at Los Alamos, shared their Laboratories' best practices, and worked overtime to ensure that their own business and administrative procedures do not suffer the same control weaknesses as those at Los Alamos.

Thank you again for this opportunity to address the Committee. I would be pleased to answer your questions.