

University of California Regents' Meeting
Update on Los Alamos National Laboratory Management Issues
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Good morning, Mr. Chairman.

I am very pleased that Ambassador Linton Brooks is with us this morning and I will introduce him to you in a few minutes.

As you well know, at the end of April, the Secretary of the Department of Energy announced his intention to conduct a competition to manage Los Alamos National Laboratory when the University's contract expires on September 30, 2005.

The University faces two tasks in the months ahead: First, we must continue the management improvements that have been underway since late last year, we must sustain these changes over time, and we should further extend them into additional business areas at the Lab; and second, we will need to make a decision about whether to compete for the contract to manage Los Alamos.

Today I will report on the management actions taken by the University since the last Regents meeting and we will hear from Ambassador Brooks about the Secretary's decision and the rationale for it.

On May 1, President Atkinson, Vice President Broome, University Auditor Reed and I testified before the Subcommittee on Oversight & Investigations of the House Energy & Commerce Committee. It was my third appearance before the Subcommittee this year. I testified about the progress we have made on a number of fronts, from nearing completion of the comprehensive property inventory to addressing the backlog of property identified as missing, lost or stolen. Let me focus on just a few items:

In recent weeks we released the findings from two independent reviews. After two months of work by twenty Ernst & Young consultants, we released seven reports containing 90 recommendations that cover the full

range of Los Alamos business practices including property management. The Laboratory is already implementing these recommendations.

Procurement practices were the subject of a separate review conducted by the External Review Team chaired by former DOE Inspector General John Layton and assisted by forensic accountants from PricewaterhouseCoopers.

The External Review Team's report identified internal control weaknesses in Lab procurement practices and recommended a number of corrective actions, which are being implemented. These are in addition to corrective actions already underway at the Lab.

The team also identified \$14,530 in potentially inappropriate transactions, out of a total of \$2.3 billion in procurement transactions. This information has been brought to the attention of the Inspector General. Los Alamos management is also investigating five lists of transactions that required additional documentation and review.

In the last month we have responded to two Department of Energy Inspector General reports. One questioned the allowability of costs for business travel and meals. We believe the majority of these costs are allowable under the contract and federal guidelines. Even so, we will review our guidelines with the National Nuclear Security Administration and make appropriate policy revisions.

The Inspector General also criticized the performance of the Los Alamos Audits and Assessments office. As you have heard in previous presentations to the Regents, the Internal Audit function is one that we have pursued very aggressively. As a result, the recommendations have already been implemented.

The second Inspector General report questioned internal controls over personal computers. We agree that the administrative processes that account for classified computers are flawed in ways that made verification of the computers difficult. The Laboratory is correcting these procedures. But let me emphasize an important point: Los Alamos has verified that all classified computers have been properly secured, and at no time was classified information at risk as a result of these records deficiencies.

I have also been questioned about specific whistleblower cases at the Los Alamos and Livermore national laboratories. In response, I sent a letter to Subcommittee Chairman James Greenwood addressing the University's whistleblower policies and the cases in question. My letter also addresses our practice related to reimbursement for legal costs, and it reports that I have seen no evidence to support the assertion of a culture of retaliation against whistleblowers. On the contrary, the University has redoubled its efforts to ensure that employees know that comprehensive whistleblower policies are in place and that they are encouraged to express concerns without fear of retaliation. In addition, I have personally met with attorneys for a number of the whistleblowers, and have arranged for them to meet with the University's General Counsel to discuss ways to settle the cases through alternative dispute resolution.

We are also working to resolve a number of outstanding personnel matters. University representatives met with representatives of the U.S. Attorney's Office in Albuquerque to obtain crucial information about the attempt to fraudulently purchase a Ford Mustang automobile. However, the U.S. Attorney's Office did not wish to engage in substantive discussions at that time. The University will continue to pursue this as soon as the U.S. Attorney's Office is willing to do so.

Similarly, in regard to the "Mustang case," the U.S. Attorney is not pursuing prosecution of this matter and the FBI investigative file has been closed. On April 30 we were denied our Freedom of Information Act request to obtain the FBI investigative file. Our attorneys are reviewing the basis for the denial to determine how best to bring the matter to a satisfactory conclusion.

Finally, the Regents Audit Committee yesterday approved additional audit procedures for the national laboratories. The purpose is to expand the scope of the external auditors' review of the three UC-managed national laboratories to include a more in-depth review of the labs' financial controls. We want to be sure that the financial controls are functioning effectively.

Unrelated to Los Alamos, but of critical concern to the University are the recent indictments in an FBI case that revealed the association of a Lawrence Livermore National Laboratory employee with one of the individuals indicted. In response, the Lab and the University moved quickly to deny the employee access to his offices; to place him on investigative leave; to relieve him of his Laboratory badge; to deny him

physical and computer access to the Lab; to change the locks on his offices, and seal them, so that his offices, files and computers were immediately secured; and to request the suspension of his clearance, which DOE acted on immediately. The University also initiated a classified “administrative inquiry,” which is now under the direction of the National Nuclear Security Administration. The Lab and the University are providing full support and cooperation to the NNSA. The employee has since resigned.

In a more recent development at Livermore, laboratory management reported this week that keys assigned to a Protective Force Officer were discovered missing during a routine key reconciliation period.

Let me assure you that the keys alone would not have allowed access into any buildings containing national security assets and classified materials. Many additional safeguards exist to prevent unauthorized access into these facilities, including electronic key card locks, computer controlled access systems, vaults, alarms, intrusion detection systems and the physical presence of security personnel at key locations. So let me repeat: national security assets were at no time subject to increased risk due to this incident.

The Laboratory has taken appropriate action by changing security locks and instituting additional security safeguards. It has also modified the checkout procedures for security keys and has launched internal investigations to resolve the situation. In addition, Director Anastasio has asked for an independent, external review.

Before I turn to Ambassador Brooks, I want to thank the people who have worked tirelessly to address the issues at Los Alamos. I would like them to stand and receive your recognition.

Let me introduce Ambassador Brooks by saying that he has earned the University’s highest respect during the past six challenging months. His experience includes a military career as a nuclear submarine captain, extensive government service as chief Strategic Arms Reduction negotiator, and as vice president and assistant to the president of the Center for Naval Analyses. He was confirmed in early May as the Undersecretary of the Department of Energy and Administrator of the National Nuclear Security Administration.

Ambassador Brooks has agreed to brief you on the Secretary’s decision and to take any questions you might have. His trip to San Francisco follows one

he made last week to Los Alamos, where he met with employees, and precedes a visit this afternoon with Livermore employees. This attests to the importance Ambassador Brooks places on the University of California and to its many innovative and dedicated laboratory employees.

Ambassador Brooks –