



Contractor Internal Audit Directors (CIAD) Conference
"Speak Up In Spokane"

The Role of Internal Audit in the CHG Time Card Fraud Prosecution

TYLER H.L. TORNABENE, ASSISTANT U.S. ATTORNEY
KARRISA OTERO, SPECIAL AGENT, DOE OFFICE OF INSPECTOR GENERAL

Overview

- ▶ The CHG Time Card Fraud Prosecution
- ▶ Resulting False Claims Act Liability
- ▶ CHG Internal Audit's Role
- ▶ Questions?

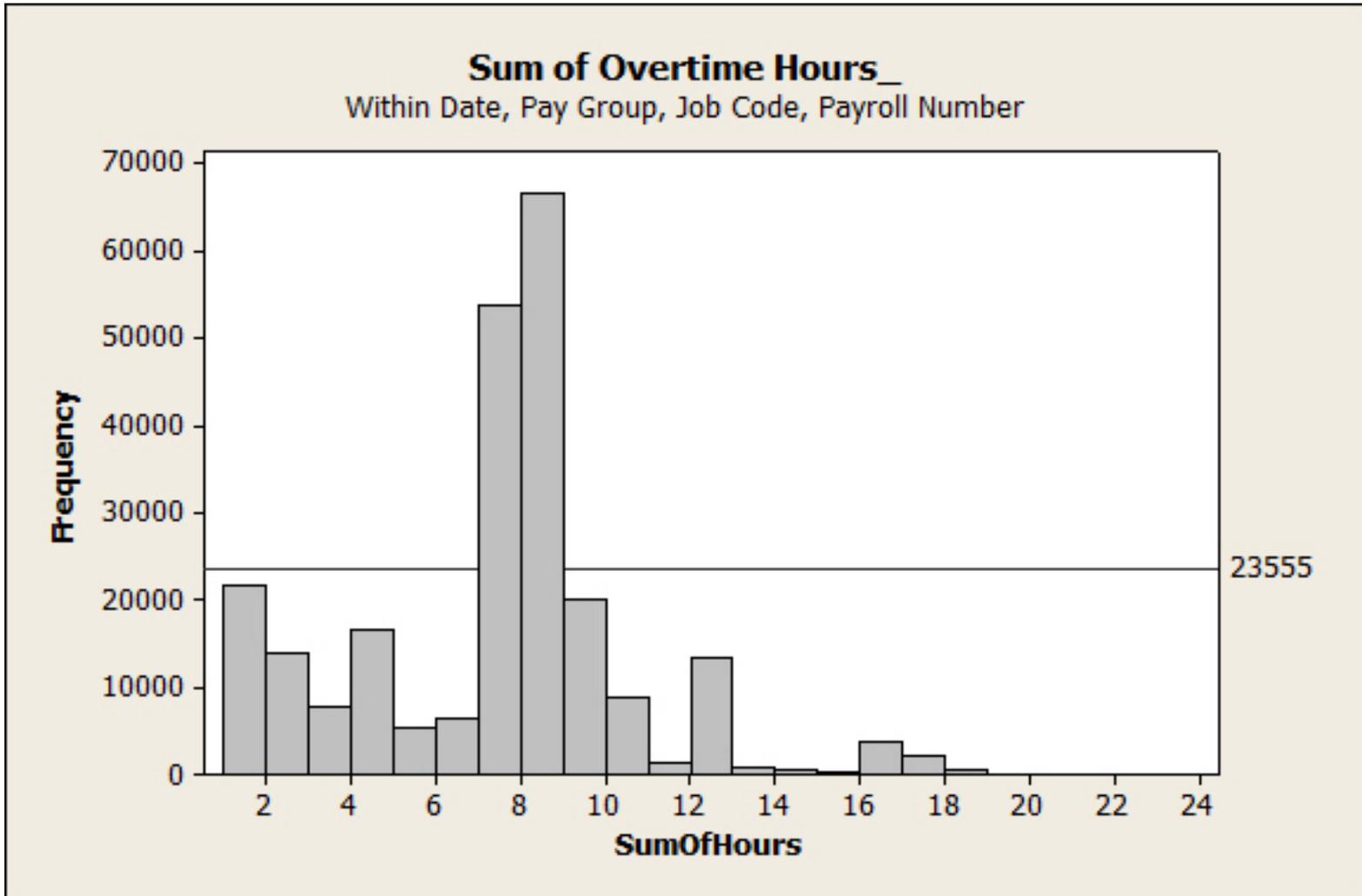
The CHG Time Card Fraud Prosecution

- ▶ In April 2003, CHG internal auditors became aware of numerous allegations that CHG employees were committing “substantial overtime abuse” over the past two years.
- ▶ The allegations stated it was routine for CHG to call out 8-hour shifts of overtime and that CHG employees would leave the site after only “a few hours” of overtime.
- ▶ The allegations further stated that these workers, would then falsely report on their time cards that they had worked a full 8-hour shift, and CHG management would routinely approve their time cards.

The CHG Time Card Fraud Prosecution

- ▶ In April 2008, the Department of Energy Office of Inspector General received an anonymous complaint nearly identical to the allegations raised to CHG in 2003.
- ▶ The complaint alleged that CHG employees were fraudulently claiming overtime for hours not worked-- specifically, that CHG hourly workers (including but not limited to Radiological Control Technicians) who worked “swing shift” overtime would routinely leave the Hanford Site only a few hours into an overtime shift but falsely report on their time cards that they had worked a complete 8-hour shift.

The CHG Time Card Fraud Prosecution



The CHG Time Card Fraud Prosecution

| | | | |
|----|----------------------------------|--|--|
| 1 | Michael C. Ormsby | | |
| 2 | United States Attorney | | |
| 3 | Eastern District of Washington | | |
| 4 | Tyler H.L. Tornabene | | |
| 5 | Assistant United States Attorney | | |
| 6 | Post Office Box 1494 | | |
| 7 | Spokane, WA 99210-1494 | | |
| 8 | Telephone: (509) 353-2767 | | |
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FILED IN THE
U.S. DISTRICT COURT
EASTERN DISTRICT OF WASHINGTON

NOV 03 2011
JAMES R. LARSEN, CLERK
YAKIMA, WASHINGTON DEPUTY

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WASHINGTON

| | | |
|---------------------------|---|----------------|
| UNITED STATES OF AMERICA, |) | |
| Plaintiff, |) | |
| vs. |) | CR-11-6067-LRS |
| CARL SCHROEDER, |) | Plea Agreement |
| Defendant. |) | |

Plaintiff, United States of America, by and through Michael C. Ormsby, United States Attorney for the Eastern District of Washington, and Tyler H.L. Tornabene, Assistant United States Attorney for the Eastern District of Washington, and Defendant CARL SCHROEDER and the Defendant's counsel, John Cline, agree to the following Plea Agreement:

1. Guilty Plea and Maximum Statutory Penalties:

The Defendant, CARL SCHROEDER, agrees to waive indictment by a grand jury and agrees to plead guilty to an Information, filed on September 28, 2011, charging the Defendant with Conspiracy to Defraud the Government with Respect to Claims, in violation of 18 U.S.C. § 286. The Defendant understands that this is a Class D felony which carries a maximum penalty of: not more than a 10 year term of imprisonment; a fine not to exceed \$250,000; not more than a 3

Plea Agreement - 1



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The CHG Time Card Fraud Prosecution

CARL SCHROEDER learned of this accepted practice through a variety of means. The accepted practice was so widespread that CARL SCHROEDER could easily observe that none of his fellow RCTs, or other CH2M Hill hourly employees at the Tank Farms, stayed for a full eight hour overtime shift. However, the time cards for these employees falsely claiming a full eight hour shift were nonetheless routinely approved by CH2M Hill supervisory employees who had themselves observed the hourly employees routinely leaving well prior to the end of an eight hour shift. Moreover, many of these approving CH2M Hill

The CHG Time Card Fraud Prosecution

In addition, direct supervisors would routinely indicate to the RCTs that they supervised when they were leaving in order to signal to the RCTs that it would soon be alright for them to leave early and yet claim a full eight hours. In this manner, **direct supervisors were able to facilitate the time card fraud scheme and conspiracy while at the same time attempting to retain the ability to plausibly deny actual knowledge of the time card fraud being committed. Specifically, direct supervisors of the RCTs would say particular phrases such as “don’t pass me on the way home,” or ask, “what are you still doing here,” or would simply make it a point to state, “I’m leaving now.”**



The CHG Time Card Fraud Prosecution

CARL SCHROEDER learned, in part through the behavior of others, that once the direct supervisor had left the Tank Farms and the job being worked was completed, he could leave and claim payment for the full eight hours rather than the actual time worked. In fact the same direct supervisors providing the information of when they were leaving prior to the end of an overtime shift were the same direct supervisors who would continually approve false RCT time cards claiming full overtime shifts.

In addition, it was common knowledge among supervisory personnel at CH2M Hill that overtime jobs were of varying lengths, that many jobs would often take substantially less than eight hours to complete, and that employees, including RCTs, routinely left the Tank Farms at the completion of those jobs. CARL

The CHG Time Card Fraud Prosecution

enforcement. In fact, CARL SCHROEDER's time cards clearly and routinely showing a consistent leave time of 12:00 or 12:30 am on swing shift overtime, were always approved by his direct supervisor and other supervisory personnel allowing him to get paid for his falsely claimed hours. Additionally, despite the known reality of varying overtime job lengths, and the fact that many of the jobs would often take substantially less than eight hours, overtime shifts were nearly always offered by CH2M Hill management in eight hour blocks further encouraging employees to claim the full eight hours even if they did not work the full eight hours.



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In this manner, CARL SCHROEDER agreed, combined, and conspired with others, including his direct supervisor, to provide time cards falsely claiming payment for hours not worked. In providing the false information intending to be paid for hours not worked CARL SCHROEDER acted with the intent to defraud. The false information in CARL SCHROEDER's time cards was utilized by CH2M Hill to justify receiving money from the United States. The money paid to CARL SCHROEDER for hours he did not work but falsely claimed were ultimately paid by the United States.

The CHG Time Card Fraud Prosecution



The CHG Time Card Fraud Prosecution



U.S. Department of Justice

United States Attorney

Eastern District of Washington

Attachment A to the CH2M Hill Hanford Group Non-Prosecution Agreement

CHG understood that it could not seek reimbursement of labor costs from DOE that were not allocable, allowable, and reasonable to the Tank Farms Contract and were the product of the falsities described herein. CHG further understood that the inflated labor costs claimed were material to DOE's decision to provide reimbursement of those costs. In addition, as a result of the falsities described herein, CHG was able to earn fee and additional profit under the Tank Farms Contract that it otherwise would not have earned and its upper managers received corresponding corporate bonuses to which they were not entitled.

In this manner, CHG, through certain members of its upper management, certain of its direct supervisors, and certain other supervisory personnel, all acting within the course and scope of their employment with CHG, knowingly, willfully, and with intent to defraud, facilitated CHG's hourly workers routinely getting paid for hours they did not work and combined, conspired, and agreed with CHG hourly workers to accomplish the same, all at the sole expense of the citizens of the United States through DOE.

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Dear Mr
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The CHG Time Card Fraud Prosecution

SETTLEMENT AGREEMENT

TERMS AND CONDITIONS

1. CHG shall pay to the United States \$16,550,000 (the Settlement Amount) by electronic funds transfer, pursuant to written instructions to be provided by the United States Attorney's Office for the Eastern District of Washington, no later than 3 days after the Effective Date of this Agreement.

2. Subject to the exceptions in Paragraphs 2 through 5 (concerning excluded

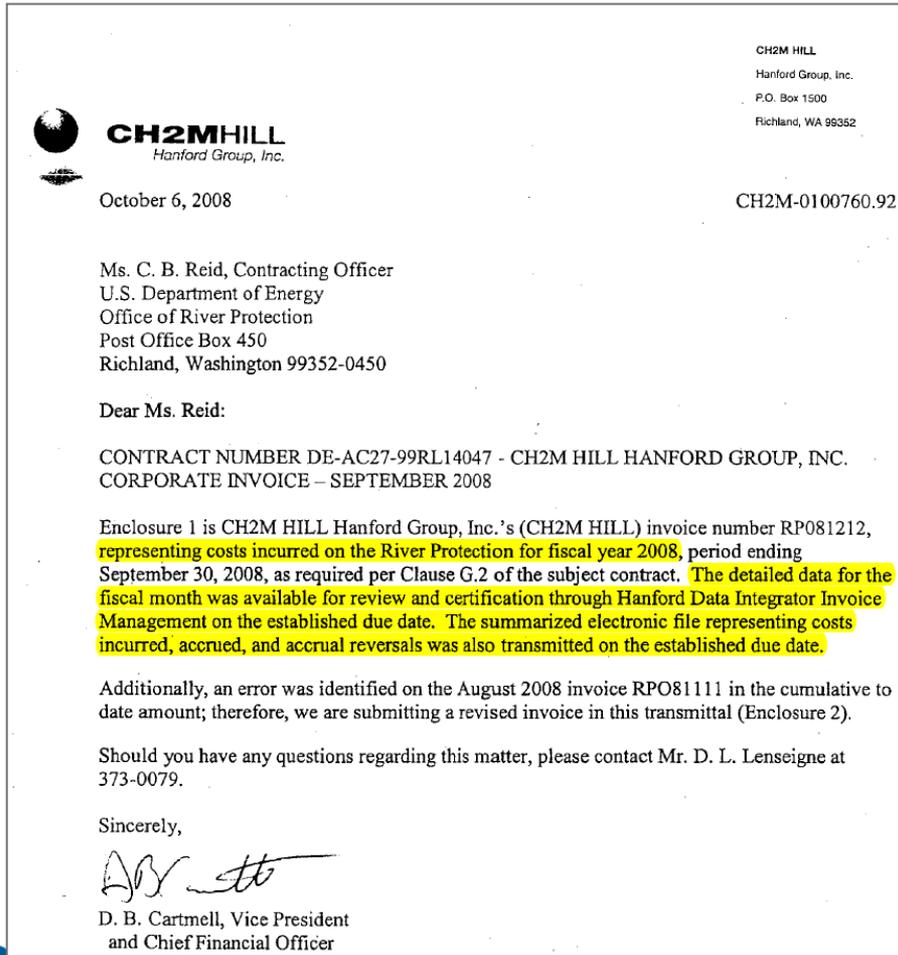
The False Claims Act

- ▶ The False Claims Act, 31 U.S.C. §§ 3729-3733, prohibits one from presenting or causing to be presented a false or fraudulent claim to the United States, OR making or using a false record or statement material to the payment of a false claim.
- ▶ The defendant must act with “knowledge” under the FCA, which is defined as: (1) actual knowledge of the falsity of the claim or statement; (2) deliberate ignorance of the falsity; or (3) reckless disregard as to the truth or falsity. The FCA further provides that the “specific intent to defraud is not required.” 31 U.S.C. 3729(b).
- ▶ A statement or claim must be “material” under the false claims, meaning that it has the tendency to influence, or is capable of influencing, an agency’s decision to award a contract or pay a claim.

The False Claims Act

- ▶ The monthly invoices CHG submitted to DOE were claims within the meaning of the FCA.
- ▶ The monthly invoices were false in a material way because they overstated the labor hours and labor costs of CHG hourly employees and therefore the amount of money to which CHG was entitled.
- ▶ CHG was permitted to invoice DOE only for actual labor hours performed by CHG hourly employees in furtherance of CHG's scope of work and further restricted regarding overtime work to invoice DOE only for overtime that was necessary in furtherance of the contract.

The False Claims Act



The False Claims Act

| | | | | |
|---------------------------------|--------------|--------------|-----------|----------------|
| C-104 Project Management | NOT ASSIGNED | Dodd, Ryan A | 38.00 | (\$2,026.37) |
| C-104 Design and Engineering | NOT ASSIGNED | Dodd, Ryan A | 115.00 | \$12,948.41 |
| C-104 Procurement | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$160,727.53 |
| C-104 Construction | NOT ASSIGNED | Dodd, Ryan A | 98.00 | (\$108,221.39) |
| C-104 Startup and Readiness | NOT ASSIGNED | Dodd, Ryan A | 41.60 | \$474.16 |
| C-104 Tank Retrieval Operation | NOT ASSIGNED | Dodd, Ryan A | 0.00 | (\$319.63) |
| C-108 Retrieval Project Managem | NOT ASSIGNED | Dodd, Ryan A | 0.00 | (\$252.00) |
| C-108 Retrieval Procurement | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$18,156.77 |
| C-108 Tank Retrieval Operation | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$6,878.88 |
| C-108 Hard Heel Removal | NOT ASSIGNED | Dodd, Ryan A | 46.10 | (\$397.57) |
| C-109 Retrieval Project Managem | NOT ASSIGNED | Dodd, Ryan A | 4.00 | (\$4,674.51) |
| C-109 Retrieval Design and Engi | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$0.00 |
| C-109 Retrieval Procurement | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$18,156.77 |
| C-109 Retrieval System Installa | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$134.26 |
| C-109 Tank Retrieval Operation | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$42,066.77 |
| C-109 Hard Heel Removal | NOT ASSIGNED | Dodd, Ryan A | 331.70 | (\$119,251.39) |
| Hard Heel Readiness Assessment | NOT ASSIGNED | Dodd, Ryan A | 175.00 | \$6,408.26 |
| C-110 Retrieval Project Managem | NOT ASSIGNED | Dodd, Ryan A | 713.00 | \$45,190.64 |
| C-110 Retrieval Design and Engi | NOT ASSIGNED | Dodd, Ryan A | 3,002.30 | \$256,521.22 |
| C-110 Retrieval Procurement | NOT ASSIGNED | Dodd, Ryan A | 118.00 | \$492,142.70 |
| C-110 Retrieval System Installa | NOT ASSIGNED | Dodd, Ryan A | 14,093.80 | \$1,764,865.95 |
| C-110 Retrieval Startup and Rea | NOT ASSIGNED | Dodd, Ryan A | 812.00 | \$83,645.60 |
| C-110 Tank Retrieval Operation | NOT ASSIGNED | Dodd, Ryan A | 5,191.60 | \$327,734.74 |
| C-201-204 Retrieval Procurement | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$396.38 |
| C-201-204 Tank Retrieval Operat | NOT ASSIGNED | Dodd, Ryan A | 0.00 | (\$630.77) |
| C-Farm Infrastructure Design & | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$104.94 |
| C-Farm Infrastructure Construct | NOT ASSIGNED | Dodd, Ryan A | 101.00 | (\$50,846.83) |
| S-102 Design and Engineering | NOT ASSIGNED | Dodd, Ryan A | 8.00 | (\$1,634.63) |
| S-102 Procurement | NOT ASSIGNED | Dodd, Ryan A | 0.00 | (\$810.79) |
| S-102 Tank Retrieval Operation | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$2,714.23 |
| Project Management (Accelerated | NOT ASSIGNED | Dodd, Ryan A | 12.00 | (\$3,099.38) |
| S-102 Retrieval Operations (Acc | NOT ASSIGNED | Dodd, Ryan A | 318.60 | \$21,384.83 |
| S-102 Event Investigation | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$92.75 |
| S-102 Type A Investigation Supp | NOT ASSIGNED | Dodd, Ryan A | 0.00 | \$3.42 |



TITLE

TOTAL

| | |
|---------------------------------------|---------------------|
| Nuclear Waste Process Operator | 1,776,130.80 |
| Utilities System Operators | 171,935.44 |
| Chemists | 267,992.69 |
| Environmental Scientists | 53,555.16 |
| Geologists/geophysicists/Hydro | 77,715.34 |
| Mathematicians | 13,228.78 |
| Physicists | 30,907.99 |
| Other Scientists | 63,450.93 |
| Drafters | 19,219.29 |
| Engineering Technicians | 43,596.02 |
| Health Physics Technicians | 1,717,263.52 |



The False Claims Act

970.5222-2 Overtime management.

OVERTIME MANAGEMENT (DEC 2000)

(a) The contractor shall maintain adequate internal controls to ensure that employee overtime is authorized only if cost effective and necessary to ensure performance of work under this contract.

The False Claims Act

- ▶ 31 U.S.C. 3729(a)(1)(B)
 - Any person who “knowingly makes, uses, or causes to be made or used, a false record or statement material to a false or fraudulent claim,” violates the FCA.
- ▶ Each of the electronic time cards submitted by a CHG hourly employee overstating his hours was a false record and statement material to payment of CHG’s claims and made and used by CHG in support of its claims and to get its claims paid.

CH2M HILL Hanford Group, Inc.

Manual
Document
PageBusiness Services
TFC-BSM-AC-C-01, REV A-9

TIME KEEPING

Issue Date
Effective Date1 of 11
March 19, 2008
March 19, 2008

This procedure establishes time charging practices for CH2M HILL employees', including guidance on the preparation and use of work charging authorizations to ensure employee time is accurately recorded to reflect the work actually performed and charged to the correct cost account charge number (CACN).

Labor costs are a substantial portion of the total expenses for CH2M HILL each year and, consequently, time recording is, and will continue to be, under intense scrutiny by Internal Audit, the Office of the Inspector General (OIG), the Defense Contract Audit Agency (DCAA), and by the Office of River Protection (ORP). Time cards are CH2M HILL business records and must represent actual work performed clearly and accurately.

All employees should be aware that falsifying your time card is a federal crime. Per 18 USC False Claims, it is illegal to present or make any false, fictitious, or fraudulent claim against any department or agency of the United States. The crime is complete when the claim is presented. Falsification of time cards is a deliberate action intended to defraud the government, not an honest mistake. Employees are required to charge where they work for the hours they work to prevent any possible allegations of fraud or time card falsifications.



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CH2M HILL Hanford Group, Inc.

TIME KEEPING

Manual
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Business Services
TFC-BSM-AC-C-01, REV A-9
1 of 11
March 19, 2008
March 19, 2008

The False Statements Act (18 USC 1001) is part of the United States Code and makes it illegal to engage in any of the three types of activity listed below in any matter within the jurisdiction of any department or agency of the United States:

- Falsifying, concealing, or covering up a material fact by any trick, scheme, or device
- Making false, fictitious, or fraudulent statements or representations
- Making or using any false documents or writing. Any certification in a contract that contains false, fictitious, or fraudulent information may be a violation of this statute.

Employees are also responsible for reporting falsification of time cards in accordance with TFC-BSM-IA-C-01 reporting fraud, waste and abuse).



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Idaho National Laboratory

The False Claims Act

Printable Timecards Page 4 of 1

Employee Name: Careaga, Christian D
Week Ending: 09-14-2008 **PayNo: 85634**

Paygroup: HAM Company: CH2M Hill Shift Code: EN700A Org Code: 71C1A Version: 1

| Charge Number | Description | COA | Attendance Code | Fri 09/05 | Sat 09/06 | Sun 09/07 | Mon 09/08 | Tue 09/09 | Wed 09/10 | Thu 09/11 | Fri 09/12 | Totals |
|---------------------------------|--------------------------------|------|-----------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| 501959 | CP SAFE STORAGE SURV/MONITORIN | CB10 | OD | | | | | 5.0 | | 5.0 | | 10.0 |
| 501959 | CP SAFE STORAGE SURV/MONITORIN | CB10 | QJ | 5.0 | 9.0 | | 0.6 | 3.0 | 0.6 | 3.0 | | 21.2 |
| 501959 | CP SAFE STORAGE SURV/MONITORIN | CB10 | RW | | | | 9.0 | 9.0 | 9.0 | 9.0 | 4.0 | 40.0 |
| Total: | | | | 5.0 | 9.0 | | 9.6 | 17.0 | 9.6 | 17.0 | 4.0 | 71.2 |
| In | | | | 11:00am | 07:00am | | 07:00am | 07:00am | 07:00am | 07:00am | 07:00am | |
| Out | | | | 04:30pm | 04:30pm | | 04:30pm | 12:30am | 04:30pm | 12:30am | 11:00am | |
| NTO | | | | | | | Y | | Y | | | |
| ECI | | | | | | | | | | | | |
| HO | | | | | | | | Y | | Y | | |
| SO | | | | Y | Y | | | | | | | |
| Shift | | | | | | | | | | | | |
| Deviate Shift | | | | | | | | | | | | |
| Change Shift | | | | | | | | | | | | |
| Shift Hours | | | | | | | | | | | | |
| Errors / Warnings / Information | | | | WARNING - Total In/Out Time For 09/09/2008 Does Not Equal Total Hours Recorded by Attendance Code WARNING - Total In/Out Time For 09/11/2008 Does Not Equal Total Hours Recorded by Attendance Code WARNING - More Than 20 Hours Charged To Overtime, Please Be Sure This Is Accurate | | | | | | | | |
| Total Regular Hours | | | | 40.0 | | | | | | | | |
| Total Overtime Hours | | | | 31.2 | | | | | | | | |
| Total Absence Hours | | | | 0.0 | | | | | | | | |
| Last Update | | | | 09/15/2008 11:11AM by Administrator, System | | | | | | | | |
| Submitted | | | | 09/15/2008 7:54AM by Davis, Glenda M | | | | | | | | |
| Approved | | | | 09/15/2008 8:09AM by Livesey, Stephanie H | | | | | | | | |

The False Claims Act

- ▶ Under the False Claims Act, damages are “liberally calculated to ensure that they afford the Government complete indemnity for the injuries done it.” *U.S. ex. rel. Compton v. Midwest Specialties, Inc.*, 142 F.3d 296 (6th Cir. 1998), quoting *U.S. ex. rel. Marcus v. Hess*, 317 U.S. 537 (1943)
- ▶ Under the False Claims Act, single damages are measured by the amount that the United States paid out because of the false claim or statement.
- ▶ Under the False Claims Act, single damages must be trebled as a matter of law.
- ▶ The False Claims Act also imposes mandatory penalties of between \$5,500 and \$11,000 for each false claim and each false statement or record.

The False Claims Act

- ▶ In order to calculate the damages related to overtime fraud, the United States used a sample of CHG employees who confessed to substantial time card fraud.
- ▶ The United States used a combination of GPS data and the employees' own statements in order to estimate the amount of overtime fraud committed between 2004 and 2008 by this sampled group based on their total overtime hours claimed for that time period.
- ▶ The United States then estimated that 50% of the fraudulent hours were at the 1.5x the employees' hourly rate, and the remaining 50% were at 2x the hourly rate.

The False Claims Act

- ▶ Using this methodology, the United States calculated that the 10 employees that made up the sample were responsible for \$883,630.63, based on total overtime hours worked between 2004 and 2008 of 22,068.8.
- ▶ Using the damages model for the sampled employees and extrapolating it out:
- ▶ Single damages for RCT OT hours between 2004 and 2008 = \$8,794,949.

The False Claims Act

FACB's website
www.facb.org
Battelle's website
www.battelle.com

The Role of CHG Internal Audit

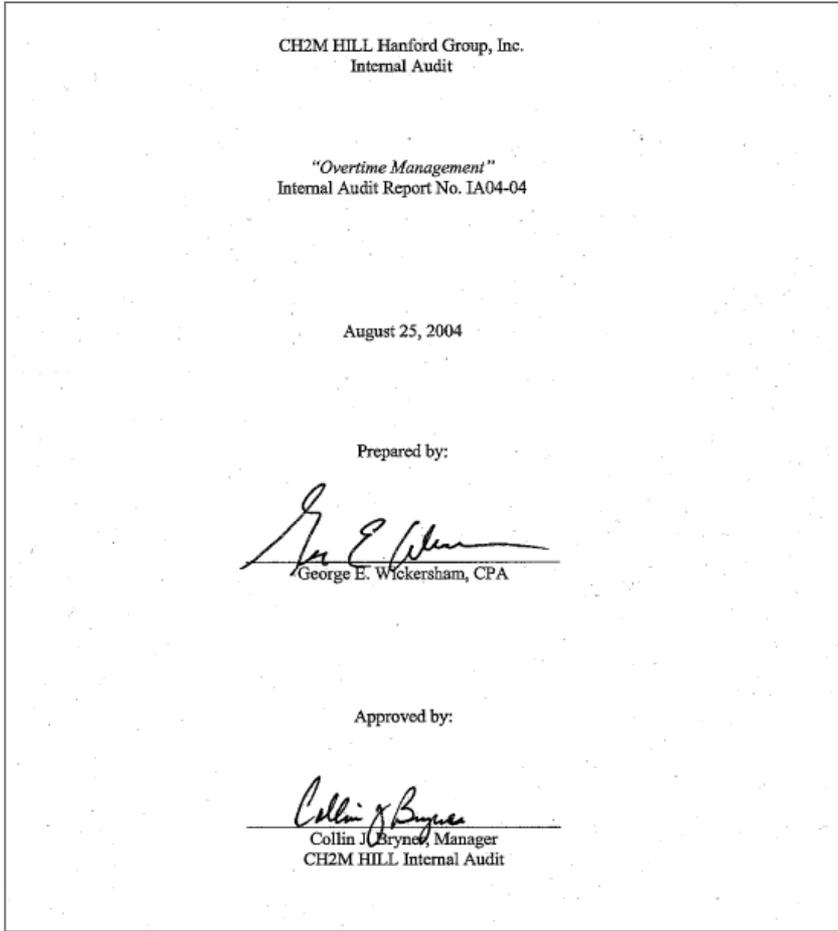
▶ The Good:

- CHG IA was the first to attempt to meaningfully look at the issue of OT abuse.
- CHG IA's Internal Audit (IA04-04) provided great evidence of the conspiracy and CHG's knowledge.
- CHG IA worked closely with OIG.

▶ Hindsight:

- Better work papers needed (sub-contractor).
- IA04-04 contained some unnecessarily equivocal/ambiguous language.
- Lack of additional audits.

The Role of CHG Internal Audit



The Role of CHG Internal Audit

Overtime Management

Audit Report IA04-04

I. OBJECTIVE AND SCOPE

CH2M HILL Hanford Group, Inc. (CH2M HILL) Internal Audit completed the *Overtime Management* audit fieldwork on June 3, 2004. The audit was performed in accordance with generally accepted government auditing standards (GAGAS) for performance audits and included tests of internal controls and compliance with applicable laws, regulations, and contract requirements to the extent necessary to satisfy the audit objective. However, due to limited resources, the large geographical area of the site, numerous work locations, and the difficulty of direct observation, we were not able to perform sufficient tests to determine whether or not significant overtime abuse was occurring.

The audit was performed as part of the *Fiscal Year 2004 Internal Audit Plan* to comply with the CH2M HILL and the U.S. Department of Energy - Office of River Protection (DOE-ORP) Contract, DE-AC27-99RL14047. The subject area corresponds with the DOE-Office of Inspector General's *Overtime Management* audit.

The objectives of the audit were to assess the effectiveness of overtime controls and determine whether or not significant overtime abuse was occurring.

The scope primarily focused on the overtime controls in place in April and May 2004. We also selected a judgmental sample of overtime performed during those months and verified it to attendance.



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The Role of CHG Internal Audit

II. AUDIT METHODOLOGY

In April 2003 we interviewed a judgmental sample of CH2M HILL managers and first line supervisors to obtain an understanding of overtime controls. At that time, significant overtime control changes were being implemented. In April, May, and June 2004 we reviewed the current procedures and policies, conducted additional interviews, and observed overtime work being performed, focusing on when employees left the work site. We identified some personal vehicles to individual employees, and compared their observed departure from the work area to their attendance records.

III. BACKGROUND

Several allegations have been made during the past two years claiming substantial overtime abuse. For example, in April 2003, Internal Audit was informed that some CH2M HILL employees were being called out to perform 8 hours of overtime, but that they would only work for a few hours then leave, and that they would then record that they had worked for the entire 8 hours, thus defrauding the Government.



The Role of CHG Internal Audit

In April 2003, we first attempted to verify whether or not the allegations had merit by conducting interviews of CH2M HILL managers and supervisors. After some changes implemented by management, we performed additional work in this area a year later beginning in April 2004. During these reviews, we found the following:

Overtime Approvals

April 2003 Condition: Overtime approvals were informal. There were no records of overtime requests or approvals.

Current Condition: There are no formal records maintained. Overtime is usually requested and approved via email, but no centralized or standard approval logs are maintained.

Discussion: CH2M HILL took steps to reduce overtime by requiring departmental vice presidents, or their deputies, to approve in advance overtime in excess of 4 hours per day. However, without a formal system to request and approve or disapprove overtime, the controls may not be effective, and can not be audited for compliance.



The Role of CHG Internal Audit

Matrixed Reporting

April 2003 Condition: No system was in place to let first line managers know when individuals reporting to them worked for another manager on overtime.

Current Condition: No change from April 2003.

Discussion: Several managers told us that they sign timecards based on faith. Often they don't know for certain whether or not their workers provided overtime support for another organization, but they assume so when it is indicated on the time card.

The Role of CHG Internal Audit

Verification of Hours Worked

April 2003 Condition: Supervisors did not believe they had a requirement to verify the accuracy of overtime worked; but only the accuracy of cost codes charged.

Current Condition: Senior management expects first line managers to verify accuracy of timecards.

Discussion: In April 2003, one manager said he was not required to verify the accuracy of the number of hours charged, only that the correct cost codes were charged. During May 2004, Internal Audit spoke with senior management and they indicated that they expect first line managers to verify the accuracy of the timecards prior to approving them for payment



The Role of CHG Internal Audit

Adequacy of Supervision

April 2003 Condition: Structured internal controls, designed to ensure that workers accurately reported their time, were nonexistent.

Current Condition: Internal controls for overtime appear to be some what improved. However, we do not believe they are adequate. Although some first line managers stay when overtime is performed, they indicate that they are frequently at locations other than the overtime job site, catching up on their own work, rather than verifying the amount of time or supervising the work that is performed on overtime.

Discussion: In April 2003 there appeared to be inadequate supervision of the bargaining members at night and on weekends. None of the managers interviewed were able to say they had first-hand knowledge that the workers were always present at the job and working the hours as recorded on their timecards. This condition appears to have improved somewhat since April 2003, with increased emphasis on having a first line manager hold over when overtime work is assigned.



The Role of CHG Internal Audit

Combining Critical and Non-critical Work

April 2003 Condition: Routine work was combined with critical work that was used to justify the overtime in order to let the workers get a full shift of overtime.

Current Condition: No change from April 2003.

Discussion: In order to reduce overtime, senior management has implemented controls such as requiring a departmental vice president's approval for more than 4 hours of overtime and the Senior Vice President's approval to work on weekends. We were told that in order to get the bargaining unit employees to agree to work overtime, it was often necessary to bundle less important work with the important work to give the workers a full shift of overtime.



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The Role of CHG Internal Audit

IV. SUMMARY OF COMMENTS

As stated in the Scope paragraph, due to limited resources, the large geographical area of the site, numerous work locations, and the difficulty of direct observation, we were not able to perform sufficient tests to determine whether or not significant overtime abuse was occurring. Based on a very small sample, we did not find evidence of significant overtime abuse during our audit. However, because our sample was limited and not statically valid, we can not determine whether or not significant overtime abuse was occurring. We did determine that the internal control environment was weak and can not be relied on to ensure that overtime paid was actually worked. In fact, we question that it was. On May 3, 2004, we observed an automobile belonging to a CH2M HILL employee leaving the work area at approximately 10:30 pm, yet the employee claimed payment for work until 12:00 am. Again on May 4th, we observed two employees' vehicles leaving the work area around 10:30 pm. Those employees also claimed they worked until 12:00 am. Although we doubt that the employees worked the hours that they claimed, it was possible, as they conceivably could have gone to a different building or work area, or someone else could have used their automobiles.



The Role of CHG Internal Audit

V. QUESTIONABLE OR UNSUPPORTED COSTS

This audit did not disclose any questionable or unsupported cost.

The Role of CHG Internal Audit

V. EXIT MEETING

A meeting was held on Monday, July 12, 2004, with the following individuals in attendance: Kevin Dorwick, Closure Projects; Brad Smith, Waste Feed Operations; Bill Engel, Industrial Relations; Kevin Adamson, Business Services; and George Wickersham, Internal Audit. The consensus of the meeting, although not unanimous, was that some type of affirmative monitoring system, such as a proximity (proxy) card reading system, would best address the control issues raised by the audit.



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VII. DETAILED COMMENTS

As stated in the background section, overtime approvals were informal. There were no records of overtime requests or approvals. However, we did find that overtime was being requested and approved via email. We did not find a system to let managers know when people reporting to them had worked overtime for another manager. Often, managers sign timecards approving overtime based on faith, even though they may not know for certain whether or not the workers had provided support for another organization, or for what length of time. Management improved controls by requiring first line managers to remain (in some instances) while the work was performed. However, it is reportedly common for first line managers to work at different locations, catching up on their paper-work, rather than supervising the work performed on overtime. We also found routine work was combined with critical work to allow workers a full shift on premium pay.



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CH2M HILL Hanford Group, Inc.
Internal Audit
Overtime Allegation Review

Reported to (prior to reorganization): K. DeWard

Reports to (currently): Hissong / Eckert

When you sign off on a timecard, how do you know if the individual(s) worked OT?

Take on faith - don't verify ←

Do you verify overtime work performed before approving the timecard? How?

→ *take on faith*



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CH2M HILL Hanford Group, Inc
Internal Audit
Overtime Allegation Review

Date of Supervisor Interview: 4/16/03 15:40

Supervisor's Name: K. Sheffield

Title: West Lead
Manager, Safety & Health

When you sign off on a timecard, how do you know if the individual(s) worked OT?

Signature assurance - they were assigned the position.

Did the work last for the entire overtime shift?

doesn't know unless we get input from Fid with Supr



Are you aware of the crafts "dictating the amount of OT worked" by restraining productivity during the regular shift in order to assure OT?

Highly suspect due to # of stop work activities



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Recommendation:

It is recommend that Business Services take the lead to install an affirmative monitoring system, such as proximity card readers at various site locations, and require all employees to “proxy” in and out of job locations on a daily basis for purposes of time recording validation and providing emergency/event location information.

9/29/05: Received e-mail from Joyce Etheridge, Finance, stating the following:

“At this time, management has decided it is not feasible to install an affirmative monitoring system requiring employees to prox in and out due to significant reductions in budget and labor relations issues. However, an overtime report has been developed which is run weekly and distributed to the vice-presidents. Vice-presidents are expected to monitor overtime and take necessary action to reduce overtime whenever possible. Since implementation in July, there has been a significant reduction in overtime for August. At a later date, an affirmative monitoring system will be reviewed again for possible future implementation.”



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Conclusion

- ▶ Lessons Learned?
- ▶ Questions?