

# OFFICE OF INSPECTOR GENERAL



U.S. DEPARTMENT OF  
**ENERGY**

## *Semiannual Report to Congress*

APRIL 1, 2010 — SEPTEMBER 30, 2010



# *Table of Contents*

|   |           |
|---|-----------|
| <b>Message from the Inspector General .....</b>                                       | <b>1</b>  |
| <b>Key Accomplishments .....</b>  | <b>3</b>  |
| <b>Implementation of the American Recovery and<br/>Reinvestment Act of 2009 .....</b> | <b>5</b>  |
| <b>Other Significant Audits, Inspections, and Reviews.....</b>                        | <b>17</b> |
| <b>Investigative Outcomes.....</b>  | <b>29</b> |
| <b>Positive Outcomes.....</b>   | <b>37</b> |
| Highlights Based on Office of Inspector General Work .....                            | 37        |
| Congressional Responses .....   | 39        |
| Legislative and Regulatory Review .....   | 39        |
| Hotline System.....   | 40        |
| Management Referral System .....  | 40        |
| Qui Tams .....  | 41        |
| <b>Appendix 1 – Reports .....</b>   | <b>43</b> |
| Recovery Act Reports Issued.....  | 43        |
| Other Audit Reports Issued .....  | 46        |
| Inspection Reports Issued .....   | 49        |
| <b>Appendix 2 – Tables.....</b>   | <b>51</b> |
| OIG Issued Audit Reports with Recommendations for Better<br>Use of Funds.....         | 51        |
| OIG Issued Audit and Inspection Reports with Questioned Costs .....                   | 52        |
| Reports Lacking Management Decision .....   | 53        |
| Prior Significant Recommendations Not Implemented .....                               | 53        |
| Summary of Inspections and Special Inquiries Activities .....                         | 54        |
| Summary of Inspections and Special Inquiries  |           |
| Recovery Act Section 1553 Retaliation Complaints.....                                 | 55        |
| Summary of Investigative Activities.....  | 56        |
| Peer Reviews.....   | 57        |

THIS PAGE INTENTIONALLY LEFT BLANK



## Message from the Inspector General



The Department of Energy's Office of Inspector General is pleased to submit its Semiannual Report to Congress for the period ending September 30, 2010. This report highlights key accomplishments of the Office, particularly pertaining to our efforts to work with agency management to ensure the economy, efficiency, and effectiveness of Department of Energy operations.

During this reporting period, much of our focus centered on the Department's implementation of the *American Recovery and Reinvestment Act (Recovery*

*Act) of 2009*. Under the Recovery Act, the Department of Energy received \$36.7 billion for various science, energy and environmental programs and initiatives. As a result, the Office of Inspector General has issued a number of reports associated with the Department's implementation and execution of its Recovery Act responsibilities, which are summarized in the body of this document.

In addition to our Recovery Act-related work, the Office of Inspector General continues its efforts in other vital Department sectors, including areas such as environmental remediation, stockpile stewardship, worker and community safety, cyber security and various aspects of contract and program management. This Semiannual Report describes many of our activities in these and related areas.

We look forward to working with the Department's senior management and program officials in our mutual effort to ensure that the interests of U.S. taxpayers are a priority as the Department of Energy undertakes its critically important mission.

Gregory H. Friedman  
Inspector General

SEMIANNUAL REPORT TO CONGRESS

THIS PAGE INTENTIONALLY LEFT BLANK



# *Key Accomplishments*

For the Period of April 1, 2010 – September 30, 2010

|   |                     |
|---|---------------------|
| <b>Reports Issued:</b>                                      |                     |
| Recovery Act Audit Reports                                  | 20                  |
| Other Audit Reports   | 28                  |
| Inspection Reports (includes non-public reports)            | 6                   |
| <br><b>Dollars Put to Better Use</b>                        | <br>\$28.7 million  |
| <br><b>Questioned Costs</b>                                 | <br>\$186.4 million |
| <br><b>Hotline Complaints and Inquiries</b>                 | <br>1,137           |
| <br><b>Recovery Act Retaliation Complaints</b>              | <br>10              |
| <br><b>Criminal Convictions</b>                             | <br>9               |
| <br><b>Suspensions/Debarments</b>                           | <br>8               |
| <br><b>Civil/Administrative Actions Taken</b>               | <br>50              |
| <br><b>Open Qui Tam Investigations</b>                      | <br>15              |
| <br><b>Potential Recoveries from Qui Tams</b>               | <br>\$466.5 million |
| <br><b>Dollars Recovered (Fines/Settlements/Recoveries)</b> | <br>\$195.2 million |

SEMIANNUAL REPORT TO CONGRESS

THIS PAGE INTENTIONALLY LEFT BLANK



# *Implementation of the American Recovery and Reinvestment Act of 2009*

## REPORTS

### **The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act: A Status Report**

The Recovery Act provided \$3.2 billion for the Energy Efficiency and Conservation Block Grant Program (Program) which provides funding for projects that improve energy efficiency and reduce energy use and fossil fuel emissions. The Department of Energy (Department) distributed about \$2.7 billion authorized for the Program to State Energy Offices and U.S. territories; cities and counties; and, Indian tribes. The balance of the funding was directed to competitive grant awards and technical assistance activities.

Our review of Department data disclosed that as of August 2010, grant recipients had expended only about 8.4 percent of the \$3.2 billion authorized for the Program. Specifically, the grant recipients, as of August 2010, had:

- Spent \$269.7 million for energy efficiency activities and/or projects. That was significantly less than the \$675 million anticipated in the Department's initial Project Operating Plans. Three of the U.S. territories had not spent any grant money at all, even though funding had been awarded and was available for use; and,
- Reported in their Second Quarter 2010 filing that grant money had resulted in creating or saving 2,265 jobs, or about 1 job per grant award.

In spite of recent actions by the Department and grantees to overcome impediments associated with the establishment of a new program, the slow rate of spending Program funds had not met initial Departmental targets. To their credit, both the Department and grant recipients had taken a number of positive actions to implement the Program.

We believe that our findings in this area suggest lessons learned and best practices which will prove useful in implementing similar grant programs in the future or

in continuing this Program should it be reauthorized. Management fundamentally disagreed with the report's conclusion that the Program had not achieved its economic stimulus and job creation goals. Specifically, management stated that obligations by the grant recipients are a better measure of the Program's economic impact than spending since the obligation of funds shows that the recipients have contracts in place upon which contractors based their hiring decisions. (OAS-RA-10-16)

### **The Department's State Energy Program Formula Grants Awarded under the Recovery Act**

Under the Recovery Act, the Office of Energy Efficiency and Renewable Energy (EERE) received \$3.1 billion to be distributed through the State Energy Program (SEP) to stimulate the economy by creating and preserving jobs while increasing energy efficiency and the use of renewable energy. In response to an EERE solicitation, the 50 states, 5 territories, and the District of Columbia prepared plans summarizing energy related programs and projects planned for the SEP Recovery Act Funds. After reviewing those plans, EERE awarded funding to states for approved projects consistent with the goals of the program.

Our audit revealed that the Department had taken a reasonable, risk-based approach to the award and management of SEP grants. However, compliance with various regulatory requirements had slowed spending. As of July 9, 2010, 74 percent of the \$3.1 billion in SEP Recovery Act funding had been approved for spending,

but of that amount, only about 7.2 percent had actually been expended. We also found that the Department experienced issues and challenges with preparing projected and reported energy savings for the SEP and, due to insufficient staffing, the Department had not monitored State activities as required.

Management officials partially concurred with our audit results, asserting that obligations are a better indicator of program success under the Recovery Act than expenditures. EERE management added that they have undertaken several actions to accelerate project implementation including the development of new tools; guidance and training; dedication of Federal resources to environmental review requirements; and, implementation of a robust State monitoring plan. (OAS-RA-10-17)

### **The Department's Program to Assist Federal Buyers in the Purchasing of Energy Efficient Products**

The Department's Federal Energy Management Program (FEMP) helps Federal agencies achieve energy efficiency and conservation goals by developing and publishing energy efficiency specifications. Our audit disclosed that the Department had not adequately pursued these goals and that FEMP:

- Had not always maintained up-to-date energy efficiency specifications. For some products, FEMP had not updated its specifications for as long as nine years despite well-known, demonstrated efficiency gains in the intervening period;

- Could not demonstrate that it had adequately pursued the development of new energy efficiency specifications; and,
- Had not effectively managed relevant contractor efforts essential to the program.

Given FEMP's responsibility to assist Federal buyers in procuring the most energy efficient products, the \$10 billion in government expenditures each year on energy consuming products, and the national imperative to reduce energy demand, we concluded that FEMP needs to be adequately resourced and effectively managed to meet these challenges.

Management agreed with the audit findings and recommendations and agreed to implement corrective actions that, if successfully implemented, should improve the Department's ability to provide up-to-date product energy efficiency information to the Federal procurement community.  
**(OAS-RA-10-08)**

#### **The Department's Use of the Weatherization Assistance Program Formula for Allocating Funds under the American Recovery and Reinvestment Act**

The Department's EERE manages the Weatherization Program with support from field offices. Through these offices, the Department awarded, based on an allocation formula, weatherization funding to all 50 states, the 5 territories, and the District of Columbia.

Our audit identified problems with the allocation of funds to territories and updating Federal regulations to reflect grant formulas. We also found that the Department had not modified the Code of Federal Regulations (CFR) to reflect updated Energy Information Administration (EIA) data. As a result of not updating the formula and not providing notice to grantees of the basis for funding decisions, the Department's ability to maintain transparency under the Recovery Act was compromised.

We recommended that the Department review the basis for allocating Recovery Act funding to the territories to determine if adjustments are warranted and revise the Weatherization grant allocation formula in the CFR to reflect current EIA data. The Department provided a response to our report that included planned actions to address our recommendations.

**(OAS-RA-10-13)**

#### **The Department's Recovery Act – State Energy Programs**

The Department's EERE provides grants to the 50 states, 5 territories and the District of Columbia to support their energy priorities through the SEP. As part of the Office of Inspector General's (OIG) strategy for reviewing the Department's implementation of the Recovery Act, we initiated a series of reviews of SEPs to determine whether the following states had internal controls in place to efficiently and effectively administer Recovery Act funds provided for its SEP program:

**Georgia**

The State of Georgia received \$82.5 million in SEP Recovery Act funds; a 78-fold increase over its FY 2009 SEP grant of approximately \$1.1 million. Georgia's SEP is managed by the Energy Division of the Georgia Environmental Facilities Authority (GEFA). Our audit revealed that GEFA was substantially in compliance with major Recovery Act requirements for SEP projects. For example, we found that GEFA had established a SEP funding strategy, was generally in compliance with Recovery Act reporting guidelines, had segregated Recovery Act costs and had ensured that Recovery Act requirements were included in subcontracts. In addition, we determined that GEFA had established technical and fiscal monitoring plans for its SEP Recovery Act funded projects. **(OAS-RA-L-10-06)**

**Michigan**

Our review found that Michigan had established adequate internal controls over selecting Recovery Act projects and accounting for related expenditures. However, the accomplishment of Recovery Act goals could be impeded by Michigan's lack of effective procedures for assessing and monitoring high-risk SEP projects. We also found that although EERE is required to perform monitoring of each state's SEP activities annually, EERE had not performed monitoring of Michigan's SEP activities since 2005. Management concurred with our recommendations to ensure that (1) annual on-site monitoring of Michigan's SEP activities is performed; and, (2) Michigan put in place internal controls and procedures to prevent inappropriate expenditures of Recovery Act funds. **(OAS-RA-10-18)**

**Louisiana**

Our review identified certain risks associated with Louisiana's SEP strategy that could impact the State's ability to meet the program and Recovery Act goals. Specifically, the State had not:

- Established controls to prevent double payments for Recovery Act energy conservation rebates to individuals who may have been approved or received payment under an existing State rebate program;
- Developed contingency plans to replace projects in the event that they do not receive timely National Environmental Policy Act approval to enable the expenditure of Recovery Act funds before the April 2012 performance deadline specified in the grant agreement; and,
- Fully documented and monitored, the status of internally managed SEP projects as required by both EERE and Louisiana policies and procedures.

Louisiana's ability to meet the SEP Recovery Act objectives in a transparent manner could be hindered unless it successfully addresses the above risks. Management concurred with each of our recommendations to address these risks. EERE will continue to oversee the Louisiana Department of Natural Resources by conducting regular on-site visits, desk monitoring and frequent communication. **(OAS-RA-10-09)**

## **Florida**

Our review identified weaknesses in the implementation of Florida's SEP Recovery Act projects that have and will likely continue to impact Florida's ability to meet the goals of the SEP and the Recovery Act. Specifically:

- Florida used about \$8.3 million to pay for solar energy projects that did not meet the intent of the Recovery Act to create new or save existing jobs;
- State officials did not meet goals to obligate all Recovery Act funds by January 1, 2010, thus delaying projects and preventing them from achieving the desired stimulative, economic impact;
- Florida officials had not ensured that 7 of the 18 award requirements for Recovery Act funding promulgated by the Department had been passed down to sub-recipients of the award; and,
- Certain internal control weaknesses that could jeopardize the program and increase the risk of fraud, waste and abuse were identified in the Solar Energy System Incentives Program.

Florida's ability to meet the SEP Recovery Act goals is threatened unless it takes corrective action to address the above weaknesses. Management concurred with each of our recommendations and will continue to complete actions to better manage Recovery Act requirements.

**(OAS-RA-10-12)**

## **Preliminary Audit Report on Management Controls over the Commonwealth of Virginia's Efforts to Implement the Recovery Act Weatherization Assistance Program**

The State of Virginia's Department of Housing and Community Development (DHCD) administers the Recovery Act grant through 22 local community action agencies. Our audit disclosed that DHCD had not implemented financial and reporting controls needed to ensure Weatherization Program funds are spent efficiently and effectively. Specifically, DHCD had not:

- Performed on-site financial monitoring of any of its sub-grantees under the Recovery Act;
- Reviewed documentation supporting sub-grantee requests for reimbursements to verify the accuracy of amount charged;
- Periodically reconciled amounts paid to sub-grantees to the actual cost to weatherize units;
- Maintained vehicle and equipment inventories as required by Federal regulations and state and Federal program directives; and,
- Accurately reported Weatherization Program results to the Department.

The Department's 2008 program monitoring visit did not include a required financial review; hence, the financial control weaknesses discussed above were

not detected and had not been addressed. We made recommendations designed to ensure that Virginia establishes financial and reporting controls and that Federal project officers include financial reviews and evaluations of reporting capability in their on-site monitoring visits. Management provided a response to our report that included planned actions to address our recommendations. (**OAS-RA-10-11**)

### **Waste Processing and Recovery Act Acceleration Efforts for Contact-Handled Transuranic Waste at the Hanford Site**

The Department's Office of Environmental Management (EM), Richland Operations Office (Richland) is responsible for disposing of the Hanford Site's transuranic (TRU) waste. As such, Richland developed a Record of Decision outlining its plan to ship contact-handled TRU waste from Hanford to the Advanced Mixed Waste Treatment Project (AMWTP). Subsequent to the completion of that plan, EM allocated \$229 million of the Recovery Act funds to support Hanford's Solid Waste Program, including Hanford's contact-handled TRU waste.

Our audit revealed that the Department had not yet implemented its plan to process Hanford's contact-handled TRU waste. Instead, relying on the availability of Recovery Act funds, the Department changed course and approved an alternative plan for processing Hanford TRU waste on-site rather than at the AMWTP. We determined that this alternative approach could increase costs by about \$25 million and would fail to achieve the previously anticipated reductions in volume associated

with the original plan to process the waste at AMWTP.

We recommended that the Department: 1) determine the amount of Hanford contact-handled TRU waste that is suitable for processing at the AMWTP and ultimate disposal at the Waste Isolation Pilot Plant; and, 2) fully analyze the cost implications of processing Hanford's contact-handled TRU waste on-site, as opposed to processing it at the AMWTP. Management concurred with the recommendations in the report but disagreed with the estimated cost increase for Richland to prepare the TRU waste for disposal as opposed to using AMWTP. Richland agreed to re-evaluate its life-cycle baseline by September 30, 2010, as outlined in our recommendations. (**OAS-RA-10-10**)

### **The Department's Management of the NSLS-II Project**

The Department's Office of Science (Science) is currently constructing the National Synchrotron Light Source II at Brookhaven National Laboratory (Brookhaven) in Upton, NY. To help accelerate completion, Science allocated \$150 million in funding from the Recovery Act.

Although specifically required, we found that Brookhaven did not always segregate Recovery Act and non-Recovery Act costs. Even though the general contractor accurately reported these activities as non-Recovery Act funded on its invoices, Brookhaven chose to accrue the costs to Recovery Act accounts. The costs were correctly charged to non-Recovery Act accounts when they were ultimately paid, however, errors resulting from the improper accrual were not corrected and resulted in

inaccurate information being reported to [www.FederalReporting.gov](http://www.FederalReporting.gov). We also found that the general contractor did not always segregate Recovery Act and non-Recovery Act costs.

We suggested that the Brookhaven Site Office Contracting Officer direct Brookhaven to improve coordination with the general contractor to ensure sufficient funding has been allocated for work that will be performed ahead of schedule; and, reconcile the accrual accounts periodically to ensure that the amount spent under the Recovery Act is accurately reported to [www.FederalReporting.gov](http://www.FederalReporting.gov). (OAS-RA-L-10-01)

### **Department's Environmental Management's Select Strategy for Disposition of Savannah River Site Depleted Uranium Oxides**

During April 2009, the Department chose to use funds provided under the Recovery Act to accelerate final disposition of the Savannah River Site (Savannah River) inventory of Depleted Uranium (DU) oxides. After coordination with State of Utah regulators, elected officials and the U.S. Nuclear Regulatory Commission, the Department initiated a campaign to ship the material to a facility in Clive, Utah.

Because of objections by state officials, the Department outlined an alternative for temporary storage until the final disposition issues could be resolved. Under the terms of the proposed option, the remaining shipments are to be sent to an interim storage facility. Clearly, this choice carries with it a number of significant logistical burdens, including substantial additional costs for, among several items, repackaging

at Savannah River, transportation to an interim site, storage at the interim site, and, repackaging and transportation to the yet to be determined final disposition point.

We suggested that the Department consider the expressed concerns as it evaluates the economic feasibility and programmatic impact of the planned or pending move of the Savannah River DU oxides to an interim storage facility in Texas. Management stated that although a final decision on the storage and disposal of the DU oxides has not been made, they are aware of the concerns that a decision to pursue interim storage may result in increased cost to the Department. They concluded that the Department intends to permanently dispose of the DU oxides off-site while delivering the overall best value to the taxpayers, considering both cost and non-cost factors. (OAS-RA-10-07)

### **The Fermi National Accelerator Laboratory's NOvA Project**

The NuMI Off-Axis electron neutrino ( $\nu_e$ ) Appearance (NOvA) experiment is a neutrino physics research project conducted by the Office of Science's Fermi National Accelerator Laboratory (Fermilab). The University of Minnesota received \$40 million in Recovery Act funding through a cooperative agreement administered by the Department's Chicago Office to accelerate construction of an accelerator and detector system needed for the NOvA experiment.

Our audit identified issues with the administration of the NOvA cooperative agreement and related reporting on jobs funded under the Recovery Act. At the time of our field work, the Chicago Office had not

implemented additional oversight controls specific to the University of Minnesota's use of Recovery Act funds. Also, the Chicago Office had not, in a timely manner, incorporated revisions to the Special Terms and Conditions written to capture Recovery Act requirements into the cooperative agreement.

We suggested that planned additional monitoring and oversight activities be performed over financial assistance recipients to ensure compliance with Recovery Act requirements.

(OAS-RA-L-10-02)

### **Moab Mill Tailings Cleanup Project**

Under the terms of the Recovery Act, the Department allocated an additional \$108 million to the Moab Uranium Mill Tailings Remedial Action Project (Moab Project) to accelerate work and create jobs. With the additional funding, a contractor plans to relocate an additional two million tons of tailings by September 30, 2011.

Our audit noted certain weaknesses in the management of the performance baseline for the Moab Project. These issues relate specifically to the baseline change control process and increased the risk that the contractor's performance rating may be inflated. The weaknesses occurred because the Department did not ensure that the project's baselines could be traced to project work scope or that they were properly supported and appropriately managed.

To address these issues, we suggested that Department officials:

- Revise the project baseline to correct the problems identified in this report;
- Ensure that the contractor's Earned Value Management System is accurately tracking performance against valid baseline estimates; and,
- Ensure that baseline changes are not retroactively made based on actual costs. (OAS-RA-L-10-03)

### **The Department's Progress in Implementing the Advanced Batteries and Hybrid Components Program under the Recovery Act**

The Department's Advanced Battery and Hybrid Components Program (Program) received almost \$2 billion to support the construction of U.S.-based manufacturing plants to produce batteries and electric drive components. Our audit revealed that the Department had made significant progress in implementing the Program. It also had established conditions as part of the grant awards and designed a monitoring program to mitigate risks associated with the Program.

We noted, however, that success of these measures will depend on the effectiveness of their enforcement and implementation. In the past, we have observed that the Department had not always enforced conditions placed on financial assistance awards and had not effectively monitored project performance. As a result, continued vigilance is necessary to avoid the same or similar problems with this grant program.

(OAS-RA-L-10-04)

## **Accounting and Reporting of the Recovery Act by the Department's Funding Recipients**

The Office of Management and Budget (OMB) issued guidance for carrying out stimulus-related activities which requires, among other things, that recipients ensure funds provided by the Recovery Act are clearly distinguishable from non-Recovery Act funds in all reporting systems and that recipients' actions are transparent to the public. While our review revealed that the Department had taken a number of actions designed to ensure the accuracy and transparency of reported Recovery Act results, opportunities exist to strengthen the process. In particular:

- Site officials did not always ensure that anomalies, once identified during the quality assurance process, were actually resolved;
- The Department did not always utilize the correct basis when evaluating the accuracy of "funds provided" data submitted by grant recipients; and,
- Management did not correct duplicate reports by certain recipients, resulting in overstatements of as much as \$137 million of the more than \$18 billion obligated.

We observed that the Department had taken prompt action to ensure that its prime facility management contractors could properly report Recovery Act information. Notably, the seven contractors

in this category included in our review had modified their accounting systems, as necessary, to ensure that they could accurately track and report on Recovery Act activities.

We recommended that the Department adjust the quality assurance process and ensure that all officials responsible for Recovery Act recipient reporting are adequately trained. Management agreed with our recommendations and indicated that it had taken corrective actions.  
**(OAS-RA-10-06)**

## **Management Controls over the Development and Implementation of EERE's Performance and Accountability for Grants in Energy System**

To help manage the Energy Efficiency and Conservation Block Grant (Block Grant) Program, EERE plans to spend approximately \$9.5 million, nearly all of which is Recovery Act funding, for development and operation of the web-based Performance and Accountability for Grants in Energy (PAGE) System. In addition to block grant tracking, PAGE will replace the Windows System Approach to Grants Administration legacy system for tracking grant recipients' performance under the State Energy and Weatherization Assistance Programs.

Our audit revealed that although PAGE had been partially deployed and was being used by EERE and grant recipients, it did not satisfy a number of important cyber security requirements. In addition, the development of the system was not conducted in accordance with Federal requirements.

EERE's decisions to not perform these cyber security and project management tasks placed the PAGE system and the network on which it resides at increased risk that the confidentiality, integrity, and availability of the Department's information systems and data could be compromised.

We made several recommendations, which if fully implemented, should help improve future system development efforts and enhance the Department's cyber security posture. Management generally concurred with the recommendations in the report and indicated that corrective actions were underway. (OAS-RA-10-14)

### **Office of Science's Energy Frontier Research Centers**

Science established 46 Energy Frontier Research Centers (EFRCs) to integrate the talent and expertise of leading scientists to accelerate the rate of scientific breakthroughs needed to create advanced energy technologies for the 21st century. Sixteen EFRCs were funded by the Recovery Act in the amount of \$277 million.

During our audit, nothing came to our attention which indicated that Science had not substantially complied with Recovery Act requirements in expending funds for the EFRCs. For example, we found that the EFRCs were generally in compliance with reporting guidelines, had segregated funds, and had ensured that Recovery Act requirements were included in subcontracts. Further, nothing came to our attention which indicated that Science had not established controls over the award

and monitoring of EFRC research awards. Science had approved management plans for the grants and had performed site visits, held monthly teleconferences to review scientific progress, and maintained frequent communication with the EFRCs. Because the EFRCs are newly established and display characteristics that increase complexity and risk, Science will need to provide continued oversight and monitoring.

(OAS-RA-L-10-09)

### **The Department's Plan for Obligating Remaining Recovery Act Contract and Grant Funding**

A majority of the Department's Recovery Act funds (\$32.7 billion) were provided in the form of contract and grant authority. Obligating such a significant amount of funds by September 30, 2010, is a challenging task, which has and will continue to require a significant, labor intensive effort by the Department.

Our review disclosed that as of July 9, 2010, \$3.4 billion remains to be obligated in less than 3 months, mostly in the form of financial assistance grants, cooperative agreements, and contracts. Efforts to meet current deadlines must overcome a number of challenges and risks. To its credit, the Department has recognized these challenges, has concluded that its plan is sufficient to address the risks, and is prepared to obligate remaining funds prior to expiration. While we respect the intensity of the Department's work effort, we have identified significant challenges that must be addressed if the

September 30, 2010, deadline is to be met. We consider all of these concerns to be material in nature. However, nothing came to our attention to indicate that the Department's plan to obligate remaining Recovery Act funding by September 30, 2010, will not be effective, at least for most of its funds at risk.

We suggested that the Recovery Act Team and Office of Chief Financial Officer (OCFO) intensify planned monitoring and oversight activities with a particular concentration on projects: (1) experiencing delays in the selection of financial assistance awardees; (2) containing conditional awards; and, (3) requiring regulatory approval.

Management expressed its view that the overall content and tone of the report were fair and accurate, and that our suggested actions were logical and consistent with current plans to address risks in obligating the remaining Recovery Act contract and grant funding. (**OAS-RA-10-15**)

### **Decommissioning and Demolition Activities at Office of Science Sites**

The Department's Office of Environmental Management allocated \$140 million of Recovery Act funds to decommission and demolish (D&D) Science's facilities at Argonne National Laboratory (Argonne) and to accelerate ongoing D&D activities at Brookhaven.

During our audit, nothing came to our attention which indicated that Science had not substantially complied with Recovery Act requirements in expending funds for the Argonne and Brookhaven D&D projects.

For example, we found that the laboratories were generally in compliance with reporting guidelines, had segregated costs, and had ensured that Recovery Act requirements were included in subcontracts. While we noted some concerns with the Graphite Research Reactor project at Brookhaven and the Building 310 project at Argonne, we also determined that the Department had taken actions to mitigate the concerns.

**(OAS-RA-L-10-05)**

### **Whistle Blower Retaliation**

Section 1553 of the Recovery Act extends whistleblower protection to employees who reasonably believe they are being retaliated against for reporting misuse of Recovery Act funds received by their non-Federal employers. Specifically, an employee of any non-federal employer, such as a private company or a state or local agency, who reports waste, fraud or abuse connected to the use of Recovery Act funds may not be discharged, demoted or otherwise discriminated against because of his or her disclosure. During this reporting period, the OIG received 10 Recovery Act Retaliation complaints. None of our complaints were required to be completed by the end of this period.

If you have a whistleblower complaint related to Department Recovery Act funds, please report it to the OIG at **1-800-541-1625** or **1-202-586-4073**.

THIS PAGE INTENTIONALLY LEFT BLANK



## *Other Significant Audits, Inspections, and Reviews*

### **Allegations Involving the National Nuclear Security Administration's National Security Vaults**

We received a complaint alleging that improvements and clarifications were needed in both the Department's and National Nuclear Security Administration's (NNSA) site-specific policies and procedures regarding visitor access to nuclear weapons data and displays within certain NNSA national security vaults. Also included in the complaint was an allegation regarding the need to improve the accountability of nuclear weapon models displayed within the national security vaults. We did substantiate the allegation that improvements and clarifications were needed in the site-specific policies and procedures regarding visitor access and made certain recommendations for improvement. Our review could not substantiate the allegation concerning a need for improvements in the accountability of nuclear weapons displays. **(INS-L-10-02)**

### **Nuclear Safety: Safety Basis and Quality Assurance at the Los Alamos National Laboratory**

To meet its mission, Los Alamos National Laboratory (Los Alamos) employees and subcontractors operate in close proximity to or in contact with special nuclear materials, explosives and hazardous chemicals. The Department considers safety an integral part of its mission, operating in compliance with nuclear safety requirements that require contractors to complete Documented Safety Analyses that identify hazards associated with relevant work processes and to design and implement controls over such hazards. Further, contractors are required to develop and implement a Quality Assurance Program to prevent or detect safety problems in the workplace.

Our review disclosed that despite repeated efforts by Los Alamos to address nuclear safety issues, past actions had not been successful in ensuring that all nuclear safety management requirements were fully implemented. We concluded that management had not focused sufficient attention in the past on implementing the

nuclear safety Quality Assurance Program throughout Los Alamos. We noted that Los Alamos has recently taken some positive steps designed to address weaknesses in nuclear safety. Yet, it had not developed and approved a corrective action plan establishing milestones and identifying the resources needed to address enhanced processes and procedures.

Until Los Alamos corrects weaknesses in the analysis of hazards, establishes compensating internal controls, identifies and addresses all unresolved quality assurance issues, and completes implementation of its ongoing initiatives, there is no assurance that safety risks associated with work processes are minimized. These corrective actions are critical to maximizing the reliability and performance of Los Alamos' safety systems. Management generally agreed with the report and stated that although the operations at Los Alamos are safe, continued improvement is needed to meet expectations for NNSA's nuclear facilities. Management further stated that work is underway to pursue those expectations and address the concerns raised in the report.

(DOE/IG-0837)

### **Insufficient Internal Controls over Computer Hard Drives at the Oak Ridge National Laboratory**

We initiated an inspection to review the facts surrounding an allegation that computer hard drives were being removed by unauthorized individuals at the Oak Ridge National Laboratory (ORNL). We determined that ORNL did not have adequate internal controls to effectively track

and control hard drives which potentially contain sensitive unclassified information. We recommended that ORNL management:

- Implement the Department's requirements concerning storage of media no longer in use and previously used to process sensitive unclassified information; and,
- Ensure ORNL trains employees on its policy and procedures regarding removal of computer hard drives.

**(INS-O-10-03)**

### **The Department's Opportunity for Energy Savings Through Improved Management of Facility Lighting**

The Department spends nearly \$190 million per year in electricity costs, with roughly 40 percent of those costs attributable to the cost of lighting. New lighting technologies and advanced lighting systems offer the Department the opportunity to significantly reduce energy consumption; decrease operating costs at its sites; and, demonstrate the benefits of using new lighting technologies that are currently being developed in its laboratories and by other sources.

Our audit revealed that the seven sites included in our review had not always taken advantage of lighting technology opportunities to reduce energy consumption and save taxpayer dollars. While the sites had, to varying degrees, begun to update lighting, significant opportunities for conservation remain. Specifically, we noted that the sites had not always:

- Used the most efficient lighting. In fact, each of the sites used outdated fluorescent lights when more energy and cost efficient alternatives were available;
- Implemented, to the extent practical, energy efficient lighting technologies, such as spectrally enhanced lighting (SEL) and solid state lighting (SSL), whose research and development had actually been funded by the Department; and,
- Maximized the energy savings associated with installing automated lighting control systems.

By not capitalizing on opportunities to improve lighting efficiency, the Department uses and will continue to use more energy than necessary, impacting its ability to achieve its mission to advance the energy security of the United States. We made several recommendations designed to assist the Department in its effort to save energy and reduce costs. Department management generally agreed with our findings and recommendations. (DOE/IG-0835)

### **Questioned Severance Repayments at Savannah River**

We received a hotline allegation that employees of the Washington Savannah River Company (WSRC), a former management and operating contractor, had inappropriately received severance payments under the 2007 Savannah River workforce restructuring plan. Specifically, it was alleged that certain employees were

subsequently rehired to perform the same or similar jobs but were not required to repay severance money. We found that 37 former WSRC employees who participated in the 2007 workforce restructuring inappropriately received about \$1.1 million in severance payments. We believe that these costs were unallowable and that they should be recovered by the Department. Savannah River Operations Office management officials agreed to conduct reviews to determine how much severance money should be disallowed. (INS-O-10-02)

### **The Department's Information Technology Capital Planning and Investment Control Activities**

The Department spends approximately \$2.2 billion annually on information technology (IT) resources to help accomplish its science, security, energy supply and environmental mission objectives. The Department's capital planning and investment control (CPIC) process is an essential tool for managing IT investments. OMB requires that agencies implement a well-managed CPIC process to enhance the ability to properly set spending priorities, control investments and evaluate the success of those investments once completed.

Our review found that the Department had not effectively implemented a CPIC process for controlling and managing IT spending. Specifically, management tools required by OMB, such as IT investment portfolios and capital asset plans, which enable the Department to select and control its IT investments, had not been properly implemented. As a result, IT capital planning activities did not provide

Department senior management with timely and accurate information essential for making informed decisions about investments that compete for limited resources.

We made several recommendations, which if fully implemented, should help the Department improve its CPIC process. Management concurred with the recommendations in the report and indicated that corrective actions were underway.

(DOE/IG-0841)

### **Alleged Procurement Irregularities Relating to the Clean Coal Power Initiative Gil伯ton Coal-to-Clean Fuels and Power Project**

We initiated a preliminary review regarding alleged procurement irregularities concerning the Gil伯ton Coal-to-Clean Fuels Project. Specifically, it was claimed that at a March 2008 meeting Departmental officials inappropriately encouraged one of the major participants to withdraw from the project and that this action effectively was the impetus for terminating the Gil伯ton Project through the reprogramming of the Department's \$100 million contribution to the Project. Based on our review, we found no evidence to support the contention that the aforementioned meeting was the impetus for the reprogramming of funding.

(S10IS007)

### **Environment and Worker Safety Control Systems at NNSA's Kansas City Plant**

The NNSA's Kansas City Plant (Plant) is a government-owned, contractor-

operated facility that manufactures nonnuclear components for the nuclear weapons stockpile. The Plant, which is located within the Bannister Federal Complex (Complex), was built in 1942 to manufacture airplane engines and in 1949 began producing electrical and mechanical weapon components for the nuclear weapons stockpile. From the 1940s to the 1960s, parts of the Complex were used as an industrial and sanitary dumping ground. This resulted in significant groundwater and soil contamination. Current and former employees and families of former employees of the Complex have recently raised concerns about serious illnesses, in some cases leading to death, resulting from exposure to toxins at the Complex.

Our review disclosed that the Plant had what appeared to be appropriate environmental and worker health and safety systems in place at given points in time covered by our review. We also noted that our review was not and should not be viewed as an epidemiological study of the health consequences or the long-term effects of exposure to contaminants at the Plant.

(DOE/IG-0839)

### **The Department's Freedom of Information Act Request Process**

The Freedom of Information Act (FOIA) specifies a government-wide document disclosure process. Recently, Senator Grassley and Congressman Issa requested that the OIG perform an inquiry to determine whether political appointees were made aware of information requests and had a role in reviews or decision-making regarding FOIA requests.

Our review did not identify evidence of political interference or intervention into the FOIA process. While political appointees, in some cases, may have been aware of FOIA requests, we were unable to identify any instances when these individuals had a role in the information release or decision-making processes. Specifically, we observed that FOIA requests are processed as they are received by the Headquarters FOIA Officers and the program and field-level FOIA Officers, all career Federal employees. We did, however, identify several opportunities to improve the efficiency of the Department's FOIA program. We noted areas where improvements in electronic request processing, policy and procedures, and fee determination could help reduce processing times and improve the general efficiency of the Department's FOIA process.

(OAS-SR-10-03)

### **Review of Allegations Regarding Hiring and Contracting in EERE**

In April 2010, we began receiving allegations concerning hiring and contracting within EERE. These allegations included:

- Improprieties in the hiring of a contract employee to a senior Federal career position, including concerns that the contract employee was pre-selected or otherwise had an unfair advantage;
- Performance of inherently governmental duties, including the supervision of Federal employees, by the same contract employee; and,

- Award of work to a contractor without adequate competition.

Our review concluded that the allegation of pre-selection of a senior EERE official was substantiated. We identified a number of actions by management officials that contributed to a concern expressed by many in the EERE career workforce that the contract employee in this case performed a number of inherently governmental functions. We were unable to substantiate the allegation regarding lack of adequate competition in contractor work awards. We also found evidence that EERE officials requested support service contractors to hire specific individuals.

Because of the significance of the Recovery Act and the relevance of the Department's hiring and contracting practices to the success of the Recovery Act's energy components, the Department should take prompt action to ensure that the issues raised in our report are thoroughly reviewed and addressed. We made several recommendations designed to help improve the integrity of the hiring and contractor management process. (OAS-SR-10-04)

### **Precious Metals at NNSA Sites**

The NNSA uses precious metals, such as gold, silver, and platinum at its National Laboratories and production sites for research and development and to construct weapon components. Due to their value, Federal Regulation requires Department organizations and contractors to establish effective procedures and practices for their administrative and physical control.

Our audit determined that existing controls at the NNSA sites we visited provided reasonable assurance that precious metals were adequately accounted for and safeguarded. However, we noted that the sites we visited did not always efficiently manage their precious metal resources. For example, sites did not always identify idle and excess metals. In addition, one site disposed of, as waste, \$1.2 million of contaminated precious metals that could have been held for future decontamination and recycling.

We suggested that NNSA management (1) develop guidance for site offices to follow in determining whether to store or dispose of precious metals held under a July 2000 Secretary of Energy suspension; and, (2) direct site offices to enforce requirements for conducting annual reviews to determine idle and excess quantities on hand and obtaining justifications and management approval for the retention of precious metals. (OAS-L-10-10)

### **Subcontract Auditing at Lawrence Livermore National Laboratory**

Lawrence Livermore National Security, LLC, manages and operates the Lawrence Livermore National Laboratory (Livermore) under a contract with NNSA. In each Fiscal Year (FY) from 2006 to 2008, Livermore incurred approximately \$1.3 billion of costs on behalf of the Department.

During our review, we found that Livermore's subcontract reviews did not always meet, among other things, the quality requirements established by the Institute of Internal Auditors (IIA) Standards. Further, the absence of a functional

reporting relationship between the analysts and Livermore's Audit Committee also contributed to nonconformance with standards. In addition, NNSA's Livermore Site Office did not enforce the Department's requirements for auditing subcontract incurred costs. Livermore's contract Statement of Work, for example, did not require subcontract audits. Additionally, the Livermore Site Office approved Livermore's approach to performing subcontract reviews rather than requiring it to perform subcontract audits in accordance with professional auditing standards.

We suggested that the NNSA Senior Procurement Executive provide guidance to the Livermore Site Office that establishes risk-based criteria for when the Contracting Officer should require subcontract audits that comply with IIA standards. (OAS-L-10-09)

### **NNSA's Contracts for the Down-Blending of Highly Enriched Uranium**

The NNSA awarded two fixed-price contracts, with a combined value of \$314 million, to a contractor to down-blend 29.5 metric tons of highly enriched uranium (HEU) and store the resulting low enriched uranium (LEU) at a private sector facility. In total, the contracts are expected to generate about 510 metric tons of LEU, approximately 397 metric tons of which will be Government-owned. The remainder will be bartered to the contractor as payment.

Our review revealed that NNSA's management of certain insurance and financial guarantees associated with the contracts may not fully protect the Government from potential losses. For

example, NNSA had not ensured that insurance coverage provided by the contractor was adequate to protect the Government's financial interest in LEU. Further, NNSA did not obtain a corporate financial assurance guarantee for one of the down-blending contracts. Also, neither contract contained a Federal Acquisition Regulation provision requiring that the contracting officer be notified before any changes to insurance policies adversely impacting Government interests take effect. Finally, NNSA did not have any formal policies or procedures in place to periodically reassess the adequacy of insurance coverage. While the amount of insurance coverage in effect may be sufficient during the early stages of the two contracts, it may become insufficient as the volume of LEU in storage increases.

We suggested that management work with the contracting officer to modify both contracts to incorporate the requirement that procurement officials be notified prior to any cancellation of, or material change to, insurance policies protecting Government interests. In addition, we also suggested that formal procedures be developed for reviewing the adequacy of insurance policies protecting high value Government assets. (OAS-L-10-08)

### **Need for Enhanced Surveillance and the Resolution of Questioned, Unresolved and Potentially Unallowable Costs Incurred for the Yucca Mountain Project**

The Nuclear Waste Policy Act Amendments of 1987 designated Yucca Mountain as the site for a national geologic repository for high-level nuclear waste. The Department

assigned management of the program to the Office of Civilian Nuclear Waste Management (OCRWM) and formally designated the project as the Yucca Mountain Project (Project). Bechtel SAIC Company, LLC (BSC) was the management and operating contractor for the Project from April 1, 2001, until its contract with the Department ended on March 31, 2009. In early 2009, the Department indicated that it intended to terminate the Project and is moving to shut down all activities by September 30, 2010.

Although we take no position regarding the policy judgment to terminate the Project, we have been and remain concerned that any shutdown be consummated in a way that protects the national interest, including the interests of the ratepayers and taxpayers who financed the Project. In recent years, we have been involved in a number of Departmental actions with attributes and characteristics similar to those that will be encountered during the Yucca Mountain shutdown. In the interest of helping to assure an orderly Project termination, we provided the Department's decision-makers with several of the most important lessons learned from these events.

The Department has taken a number of actions designed to bring the Project to closure. However, given the lack of an approved master plan to manage this process and the press of a very ambitious shut down schedule, special attention by senior level Department management will be necessary if the process is to be an orderly one. (OAS-SR-10-01)

Another OIG report identified specific contractor-incurred costs questioned in a previous contract audit report that will need to be resolved as part of the Project shut down

and contract close-out. We identified over \$175 million in questioned and unresolved costs claimed by BSC during Fiscal Years 2001 through 2009. Specifically,

- \$19,024,410 in questioned costs that had been identified in audits and reviews and had not been resolved; and,
- \$159,955,538 in subcontract costs that we considered unresolved because necessary audits had not been requested or performed.

In connection with our audit, OCRWM indicated that it is in the process of reviewing the:

- Subcontracts which the OIG identified as requiring an audit; and
- Questioned costs identified in the report in order for the Contracting Officer to make a determination of allowability for those costs.

(OAS-SR-10-02)

### **Former Uranium Enrichment Workers: Questions Regarding Equity in Pension Benefits**

On June 8, 2010, we received a request from Henry Waxman, Chairman, Committee on Energy and Commerce (Committee), United States House of Representatives, soliciting our opinion on matters related to legislation being considered by the Committee that would provide increases in annuities equal to those received by ORNL contractor employees to certain retirees who worked at

the former Departmental sites at Portsmouth and Paducah.

We addressed four specific issues raised by the Chairman. We concluded that the Department's decision to not provide a portion of the surplus assets to these former contractor employees was not unreasonable. Under the circumstances, however, the concern of these retirees is understandable. We also opined that if Congress were to enact special legislation, the Department appears capable of administering a lump-sum settlement program. (OAS-L-10-06)

### **The Interim Treatment of Salt Waste at Savannah River**

The Department named Savannah River Remediation, LLC (SRR) as the contractor to manage the radioactive liquid waste operations at Savannah River. The Salt Waste Processing Facility (SWPF), which is being designed and constructed by a different contractor, is a new Savannah River Site facility designed to utilize advanced technologies to treat the salt portion of the liquid radioactive waste inventory. Until the SWPF is completed and to address interim needs, two existing facilities and one newly constructed facility were utilized to form the Integrated Salt Disposition Project (ISDP). The ISDP began radioactive operations in April 2008 and was designed to operate for three years until the SWPF was originally expected to be operational.

Our audit revealed that the ISDP will likely operate well beyond its 3-year design life. To address this situation, the Department commissioned an ISDP life extension evaluation which concluded that the ISDP will require some active process

equipment replacement beginning in 2011, but can likely operate until 2015 before major equipment or infrastructure failure is anticipated.

We also noted that SRR's performance baseline for high-level liquid waste operations was found to be deficient. In response to this issue, the Savannah River Operations Office Contracting Officer signed a memorandum citing expectations for scope execution for Liquid Waste operations and to concur with the Liquid Waste Scope Description.

We believe management's actions, if fully implemented, are responsive to mitigating the challenges posed by extending the ISDP's life cycle and will enable SRS to measure the contractor's performance. (**OAS-L-10-04**)

### **The NNSA's Management of the Product Realization Integrated Digital Enterprise Program**

To respond effectively to changing requirements and share and exchange weapon product information among sites, the NNSA established its Product Realization Integrated Digital Enterprise (PRIDE) Program in FY 2007. PRIDE was established to develop and deploy a modernized, integrated suite of enhanced IT capabilities to securely deliver weapon product life-cycle information to users across sites. The NNSA anticipates that PRIDE will result in a reduction in weapon development cycle times and associated expenses as site-level information systems are consolidated and modernized.

Our audit revealed that PRIDE had not been well-planned and adequately managed

as an IT investment. In particular, program officials had not always applied sound capital planning and investment control practices as required for an effort of this magnitude and complexity. These weaknesses occurred primarily due to inadequate management guidance and direction and ineffective program monitoring.

We made recommendations, which if fully implemented, should: (1) help increase the likelihood of accomplishing and sustaining PRIDE's long-term goals; (2) assist the Department in its general efforts to improve contract and project administration; and, (3) advance the President's commitment to promote transparency and accountability.

Management generally concurred with our recommendations and stated its intention to initiate corrective actions to address the recommendations. (**DOE/IG-0836**)

### **NNSA's Site Office Training and Staffing**

To meet its mission, the NNSA uses Federally-run site offices to oversee the management and operating contractors that operate each of NNSA's eight nuclear weapons research and production sites. As recognized by NNSA leadership, people are the most important resource for meeting critical mission objectives including maintaining the stockpile and performing nonproliferation and nuclear counterterrorism work.

Our audit found that NNSA had not always ensured that staff training requirements were defined nor had it fully planned to meet staffing needs. Specifically:

- NNSA had not determined the continuing education training requirements for site office personnel who provide assistance, guidance, direction, oversight, or evaluation of contractor activities that could affect the safe operation of defense nuclear facilities; and,
- Site offices had not always prepared succession plans to ensure the effective transfer of knowledge that will be necessary if NNSA is to successfully address potential retirement losses.

To address these issues, we suggested that NNSA officials:

- Ensure that continuing education training requirements are defined for the Technical Qualification Program qualifications;
- Ensure that comprehensive succession plans are developed for each NNSA site office; and,
- Determine whether NNSA site offices are sufficiently staffed to meet future mission needs. (**OAS-L-10-05**)

### **Management Controls over Warranties Involving Newly Constructed and Renovated Facilities at National Defense Laboratories**

Between FY 2004 and 2008, Congress provided over \$1 billion to construct and renovate facilities at Livermore, Sandia, and

Los Alamos Laboratories. The NNSA plans to spend an additional \$18 billion over the next 10 years to complete construction of facilities. To ensure quality, NNSA required these laboratories to have construction contractors provide warranties for their equipment and work.

Our audit revealed that NNSA laboratories had not always adequately managed contract warranties. Rather, these laboratories performed work to correct defects in equipment, material, workmanship or design in the construction of facilities even though these items were covered by a warranty. The laboratories had not implemented effective controls to ensure that the warranty provisions specified in contracts were enforced. Specifically, we found that Project Managers did not provide warranty documentation, including warranty start dates or points of contacts from which to seek remedy, to personnel responsible for requesting, planning and performing work orders. In addition, the laboratories did not have accurate or complete information to request warranty repairs. Warranties that were not exercised during the warranty period resulted in unnecessary repair costs. Based on a projection of our statistical sample of work orders, the laboratories likely incurred at least \$1.5 million by performing repairs that were covered by a warranty between FYs 2004 and 2008. To reduce unnecessary expenses, we made recommendations to improve the use of warranties to protect the Government's interest. Management concurred with our recommendations and will take appropriate corrective actions. (**OAS-M-10-02**)

## **Integrated Safety Management at the Office of River Protection**

The Department's Office of River Protection (ORP) has responsibility for the storage, treatment, and disposal of over 53 million gallons of highly radioactive and hazardous waste generated during 4 decades of plutonium production. This waste is currently stored in 177 large underground tanks while it awaits construction of the Waste Treatment Plant; a facility that will treat and immobilize the waste.

Aware of the risks involved in safely managing this waste, in February 2009, ORP officials suggested that we review compliance with high radiation area requirements. We found that ORP had not always ensured that effective Integrated Safety Management (ISM) systems were maintained by its contractor. Even though its own reviews and those performed by external oversight organizations revealed a number of problems with contractor safety systems, ORP had not always ensured that corrective actions were effective and that predictive analyses such as trending of findings were performed.

To help ensure the development of an effective system of controls for oversight and corrective action management, we suggested that the Manager, ORP:

- (1) evaluate and implement the proposed corrective actions being developed; and,
- (2) take necessary actions to ensure that senior ORP management is actively involved in all phases of the corrective action management process, including corrective action plan review and verification and trending of data. **(OAS-L-10-07)**

## **The Department's Audit Resolution and Follow-up Process**

The Department's audit resolution and follow-up process provides an important mechanism for assisting management in improving the performance of its programs. Over the last 5 years, we have completed over 350 audits – many of which demonstrated that significant funds could be saved or costs avoided and operational efficiencies achieved by implementing our audit recommendations. Ensuring that effective corrective actions are timely and address these recommendations is a critical component of the audit process.

Our review found that the Department had taken steps to improve its follow-up process by issuing guidance and ensuring target closure dates were revised to reflect latest estimates for the completion of corrective actions. However, additional efforts are needed to ensure prompt and effective corrective actions are taken to resolve weaknesses identified by audits. Corrective actions taken by Departmental elements were not always complete, effective or timely because of insufficient guidance and inadequate monitoring and oversight of the audit resolution and follow-up process. Consequently, the Department had not always realized potential programmatic savings and operational efficiencies that could be achieved through a strong audit resolution process.

We made several recommendations which, if fully implemented, will help correct the problems observed and strengthen the audit resolution process. Management concurred with the majority of the report's recommendations and proposed corrective actions. **(DOE/IG-0840)**

## Follow-up Audit on Retention and Management of the Department's Electronic Records

The Department is required to establish and maintain an effective records management program that comports with regulations established by the National Archives and Records Administration. In February 2006 the Department developed policies to guide the implementation and maintenance of a cost-effective records management program.

Although officials reported that the findings identified in our 2005 audit had been addressed, we continued to identify weaknesses with the Department's ability to retain and manage electronic records. In particular, we noted that Department programs, including NNSA and field sites, had not ensured that electronic records, including email, were identified, stored, and disposed of properly. The problems identified occurred, in part, because Department officials (1) had not effectively implemented electronic records management practices; (2) records management was generally considered a low priority by management; and, (3) Department and contractor employees were not always trained to identify, preserve, and dispose of electronic records.

We made several recommendations that, if fully implemented, should improve the overall efficiency and effectiveness of the Department's electronic records management program. Management concurred with the report's recommendations and disclosed that it had initiated or already completed actions to address issues identified in our report.

(DOE/IG-0838)

## Audit Coverage of Cost Allowability

During the period April 1, 2010 to September 30, 2010, we issued eight Statement of Costs Incurred and Claimed audit reports to assess internal controls over costs claimed by the Department's major contractors. With a few minor exceptions, nothing came to our attention to indicate that the allowable cost related audit work performed by Internal Audit did not meet Institute of Internal Auditors Standards and could not be relied upon. While we did not identify any material internal control weaknesses, we noted concerns which need to be addressed to ensure that only allowable costs are claimed by and reimbursed to the contractor. We questioned costs totaling \$184,719,880.



## *Investigative Outcomes*

### **Settlement Agreement Reached in the Sale of Defective Body Armor**

As previously reported, a joint investigation was conducted into allegations that a body armor manufacturer knowingly participated in the manufacturing and sale of defective body armor containing Zylon. The body armor company sold this defective body armor to the Department as well as to other Federal, state, local, and tribal law enforcement agencies. Seven separate companies that provided component parts of the armor, or the armor itself, previously agreed to pay a total of \$58 million to resolve allegations that they violated the False Claims Act. During this reporting period, an eighth company agreed to pay \$988,222 to avoid civil, contractual, and/or administrative claims by the U.S. Government concerning sale of defective Zylon body armor to the U.S. Government. This remains an ongoing investigation with the Department of Justice Civil Division, and several other Federal law enforcement agencies.

### **Civil Settlement Agreement in Investigation of Kickbacks and Defective Pricing**

As previously reported, a joint investigation with various law enforcement agencies determined that multiple contractors received or provided benefits such as rebates, influence fees, referral fees, finder's fees, discounts, and/or development funds as a result of alliance agreements. Until now, the investigation resulted in 2 defendant companies agreeing to civil settlements totaling \$3.7 million; however, during this reporting period, another 4 defendant companies/distributors agreed to civil settlements totaling \$190.5 million. This investigation is being conducted with the Department of Justice Civil Division, Defense Criminal Investigative Service, General Services Administration OIG (Audits and Investigations), U.S. Postal Service OIG, and the Defense Contract Audit Agency and remains ongoing.

## **Department Contractor Enters Civil Settlement**

The security services contractor at Savannah River entered into a civil settlement for \$650,000 related to violations of the False Claims Act (FCA) and Federal Acquisition Regulations (FAR). The investigation determined the contractor fraudulently certified five incurred cost submissions which included expressly unallowable costs. The settlement amount included \$122,598 in single FCA damages and \$527,402 in FAR penalties, all of which will be returned to the Department.

## **Settlement Agreement Reached with Former Managing and Operating (M&O) Contractor at Savannah River**

As previously reported, our investigation determined that the Savannah River M&O contractor, the Washington Savannah River Company, failed to administer a utility tire subcontract that resulted in a subcontractor supplying the Department with inferior brand tires at inflated prices. During this period, Savannah River and the U.S. Attorney's Office for the District of South Carolina entered into a settlement agreement with the former Savannah River M&O contractor which agreed to pay the Department \$367,000.

## **Two Individuals Ordered to Pay Restitution and Sentenced for Theft of Department Property**

As previously reported, an investigation determined that an individual, while

employed at the Federal Aviation Administration (FAA), misused a Government computer system to improperly obtain surplus items from other Federal agencies for the employee's and a family member's personal use. The surplus items included a backhoe from Los Alamos and other items from Sandia and Western Area Power Administration. The family member was convicted of Mail and Wire Fraud, Theft, and Unlawful Monetary Transactions. The FAA employee pled guilty to Wire Fraud and Theft of Honest Services.

During this reporting period, the former FAA employee was sentenced in U.S. District Court in Tacoma, WA, to 42 months imprisonment and 3 years supervised release. Both individuals were ordered to pay a total of \$240,187 in restitution and special assessment fees. The family member was previously sentenced to 54 months imprisonment and 3 years supervised release.

## **\$190,000 Recovery in Housing Allowance Investigation**

Two separate OIG investigations resulted in monetary recoveries totaling \$190,000 from a Department subcontractor. The investigations determined that two Department subcontractor employees inappropriately received housing allowances by falsely claiming permanent residence outside of the state while living near Livermore. The investigation remains ongoing.

## **Program Fraud Civil Remedies Act (PFCRA) Settlement**

As previously reported, the Department's Office of General Counsel (OGC) filed a complaint against York County Community Action Corporation (York County), PA under the PFCRA. The PFCRA action was the result of an Investigative Report to Management issued to the OGC recommending the Department take appropriate action to recover monies from York County. The investigation determined that York County submitted claims under the Weatherization Assistance for Low Income Persons Program which they knew, or had reason to know were false, fictitious, or fraudulent. During this reporting period, OGC reached a settlement in the amount of \$133,028 with York County.

## **Former NNSA Subcontractor Employee Sentenced For False Statements**

As previously reported, a former NNSA Savannah River subcontractor employee pled guilty in Federal District Court of South Carolina to one count of False Statements. The investigation determined the employee made false statements to support his eligibility to receive long-term temporary assignment benefits (per diem) while working as a NNSA subcontractor employee on the Mixed Oxide Fuel Fabrication Facility project. The false statements resulted in the individual fraudulently receiving \$87,646 in benefits he was not entitled to receive. The individual resigned from his employment.

During this reporting period, the former subcontractor employee was sentenced to 6 months home detention and 5 years probation, ordered to pay restitution in the amount of \$51,259 and a \$100 special assessment fee and was debarred from doing work for the Government for 3 years.

## **Sandia Returns Monies to the Department**

The OIG was notified that Sandia had returned \$48,061 to the Department resulting from a joint investigation with the U.S. Air Force (USAF) OIG that determined that a former Sandia employee had submitted fraudulent time and attendance records for payment. Specifically, while only working on USAF projects, the former Sandia employee had charged both Sandia and USAF for the time. The former employee repaid Sandia for the mischarged time; Sandia then returned the funds to the Department.

## **Proceeds from Seized Vehicles Auction Returned to the Department**

As previously reported, an OIG investigation determined that a former Los Alamos subcontractor employee falsely requested three checks payable to a fictitious entity totaling \$55,000. The former subcontractor employee was able to personally pick up the checks, which were then deposited into the former subcontractor employee's credit union account. The former subcontractor employee pled guilty in U.S. District Court for the District of New Mexico to violations

of False Statements, False Claims, and Theft of Government Property involving the embezzlement of funds from Los Alamos and was sentenced to 4 months incarceration, 3 years of supervised release, 4 months home confinement, \$300 assessment, and \$35,489 in restitution. During this reporting period, pursuant to a preliminary Order of Forfeiture issued by the U.S. District Court for the District of New Mexico, 2 vehicles were sold at auction for \$8,400, of which the Department will receive \$2,403. The two vehicles were among several items purchased with the stolen Department funds.

### **Three Savannah River Subcontractors' Employment Terminated**

Two separate OIG investigations resulted in three Savannah River Nuclear Solutions (SRNS) subcontractors' employment being terminated for making False Statements. In the first investigation, 2 employees admitted to the OIG that they conspired to make false statements in order to receive Long Term Temporary Assignment Benefits (per diem) totaling approximately \$54,000. The second investigation determined that an employee submitted fraudulent documents in order to receive per diem benefits totaling \$22,561. When SRNS learned of the OIG's investigation it initiated its own review, resulting in the employees' termination. These investigations are ongoing.

### **Former Los Alamos Contractor Employee Placed Into Pre-Prosecution Diversion Program**

We were notified that a former Los Alamos contractor employee was placed into the State of New Mexico's Pre-Prosecution Diversion Program by the 1<sup>st</sup> Judicial District Attorney's Office, Santa Fe, NM. The investigation determined that while employed at Los Alamos, the former contractor employee submitted fraudulent documents and received \$17,885 in subsistence allowance he was not entitled to receive. The former contractor employee subsequently resigned from his position and has repaid \$17,885 to the Department.

### **Former Subcontractor Employees Placed Into Pre-Prosecution Diversion Program**

The OIG was notified that four Los Alamos subcontractor employees were placed into the State of New Mexico's Pre-Prosecution Diversion Program by the 1<sup>st</sup> Judicial District Attorney's Office, Santa Fe. This action resulted from an investigation that determined that the 4 employees stole approximately 5,253 pounds of specialized copper wire and sold it for their own personal gain. The subcontractor employees were also required to pay restitution to the Department totaling \$11,469.

## **Former Employee of Department Grantee Pled Guilty to Theft of Government Property**

A joint OIG investigation with the Federal Bureau of Investigation (FBI) determined that a former employee of a Department grantee stole computer equipment valued at \$24,290 while employed at a university. The former employee pled guilty to 1 count of Theft of Government Property in U.S. District Court, Dayton, OH and was sentenced to 2 years probation, 100 hours community service, and was required to pay a \$100 special assessment fee and \$12,614 in restitution to the Department. In response to an Investigative Report to Management (IRM), the former employee and his company were suspended and are pending debarment from doing business with the Federal Government.

## **Former Department Manager Sentenced in Conflict of Interest Investigation**

As previously reported, an OIG investigation determined that a former mid-level Department manager and her spouse pled guilty to Conflict of Interest and False Statements. While employed with the Department, the former manager improperly directed Government furniture and other contracts to companies affiliated with her spouse. During this reporting period, they both were sentenced in the U.S. District Court of Maryland to 36 months probation, 50 hours of community service and a \$5,000

fine. They were also ordered not to obtain Government employment or Government business for three years.

## **President of Department Subcontractor Pleads Guilty to Making False Statements**

As a result of a joint investigation, the President of a former subcontractor at the Department's Nevada Site Office pled guilty in U.S. District Court, Central District of California, to two counts of making a false statement. The investigation determined that \$120,000 worth of computers purchased by the Department were not made in the United States and were not laboratory certified, in violation of a Department contract. This is a joint investigation with the Defense Criminal Investigative Service, National Aeronautics and Space Administration OIG, Air Force Office of Special Investigations, Naval Criminal Investigative Service and General Services Administration OIG. Sentencing is scheduled for January 2011.

## **Former Sandia Subcontractor Employee Sentenced for Possession of Child Pornography**

As previously reported, a former Sandia subcontractor employee was indicted and pled guilty to one count of Possession of Child Pornography. The investigation determined the employee misused his Government computer by viewing child pornography images on a personal thumb drive and used his Government computer to

communicate with a known child molester. During this reporting period, the former subcontractor employee was sentenced in the U. S. District Court of New Mexico to 128 months incarceration, followed by a life-time of supervised release. This was a joint investigation with Immigrations and Customs Enforcement, the FBI, and the New Mexico Internet Crimes Against Children Task Force.

#### **Former Los Alamos Contractor Employee Pled Guilty to Theft**

A former Los Alamos contractor employee pled guilty in U.S. District Court, Albuquerque, NM to one count of Theft of Government Property. The investigation determined that the former employee falsified time sheets and was paid approximately \$11,000 to which she was not entitled. A sentencing hearing is pending.

#### **Former Contractor Employee Pled Guilty in Purchase Card Investigation**

A former Hanford site contractor employee pled guilty in U.S. District Court for the Eastern District of Washington to 15 counts of Wire Fraud in connection with a purchase card fraud investigation. The investigation determined that the former contractor employee, a purchase card holder, made 219 fraudulent Government funded purchase card transactions for personal items totaling \$564,326. This investigation remains open.

#### **Former Los Alamos Contractor Employee Sentenced**

As previously reported, a former contractor employee pled guilty to one count of Theft of Government Property for stealing two ounces of radioactive gold from the Los Alamos plutonium processing facility. During this period, the former contractor employee was sentenced to 366 days incarceration and 3 years supervised release in U.S. District Court, Albuquerque, NM. This was a joint investigation with the FBI.

#### **Administrative Action Taken Against Department Contractor Employee**

As a result of an OIG investigation, the National Renewable Energy Laboratory took administrative action against one of its employees. The investigation determined that the employee used Government time and resources to perform consulting work for a private company. The employee was placed on a 30 day unpaid suspension, forfeited \$16,256 in pay and benefits and was informed not to participate in outside business activities for a period of 2 years. The investigation remains on-going.

#### **Investigative Report to Management Issued in Conflict of Interest Investigation**

An IRM was issued to the Manager of the Berkeley Site Office that summarized the results of an investigation into conflicts of interest by senior employees at the

Lawrence Berkeley National Laboratory (Berkeley). The investigation determined that two senior Berkeley employees failed to disclose a conflict of interest relating to their outside financial interest in a private company during the period they had a supervisor/subordinate relationship at Berkeley. One of the employees also failed to obtain the necessary approval to engage in outside employment. The IRM made four recommendations for corrective action which the Laboratory implemented.

### **Former National Energy Technology Laboratory (NETL) Subcontractor Employee Sentenced**

A former NETL subcontractor employee pled guilty and was sentenced to one year of probation for receiving stolen property in Allegheny County Court, Pittsburgh, PA. The investigation, conducted with the Allegheny County Police Department, determined the employee attempted to sell a stolen NETL computer to an area pawn shop. This sentence is to be served concurrently with a sentence of 18 months to 3 years imprisonment and 5 years of probation on other unrelated charges.

### **Department Contractor Employee Sentenced for Criminal Copyright Infringement**

As previously reported, a Department contractor employee pled guilty to one count of criminal copyright infringement in the U.S. District Court of Maryland. The

investigation determined that the contractor employee used his Department computer and email address to buy and sell thousands of dollars worth of fraudulent iTunes gift card access codes, Rosetta Stone Software, and pirated DVDs. During this reporting period, the Department contractor employee was sentenced to 3 years probation. The investigation was coordinated with Immigrations and Customs Enforcement, U.S. Secret Service, and the U.S. Attorney's Office for the District of Maryland.

### **Guilty Plea in Bonneville Power Administration Check Fraud Scheme**

A private citizen, with no official affiliation to the Department, pled guilty in Benton County, WA, Superior Court to three counts of Forgery. The investigation determined that in late April 2009, the civilian created and passed five fraudulent checks in Washington's Tri-Cities area that contained Bonneville Power Administration convenience checking account information.

### **Report to Management Summarized Results of Allegations into Potential Irregularities in Loan Guarantee Program**

A report was issued to the Department summarizing the results of an investigation into an allegation that an engineering firm was inappropriately influenced during its evaluation of a loan guarantee application. We were unable to substantiate the allegation.

THIS PAGE INTENTIONALLY LEFT BLANK



## *Positive Outcomes*

### Highlights Based on Office of Inspector General Work

During this reporting period, the Department took positive actions as a result of OIG work conducted during the current or previous periods. Consistent with our findings and recommendations:

- The State of Florida took corrective action to add the necessary award requirements in sub-recipient documents and to correct the identified internal control weaknesses. The Department also took steps to strengthen its oversight of states' Recovery Act activities. (**OAS-RA-10-12**)
- EM (1) determined the amount of Hanford contact-handled transuranic waste that is suitable for processing at the AMWTP and ultimate disposal at the Waste Isolation Pilot Plant; and, (2) fully analyzed the cost implications of processing Hanford's contact-handled transuranic waste on-site, as opposed to processing it at the AMWTP. (**OAS-RA-10-10**)
- ORP implemented a number of actions to strengthen corrective action oversight of contractor Integrated Safety Management. (**OAS-L-10-07**)
- NNSA revised policies and internal controls to improve their performance in transferring warranty information between project management and facilities operations personnel. In addition, contractors are now actively pursuing warranty remedies for faulty repairs. (**OAS-M-10-02**)
- The State of Louisiana took action to establish protocols and a database with its general contractor to ensure there will be no duplicate payments between the state's existing SEP and Recovery Act funds. Louisiana also began developing contingency plans to replace projects in the event that they do not receive timely National Environmental Policy Act approval. (**OAS-RA-10-09**)
- Los Alamos took positive steps to correct systemic weaknesses in quality assurance. During the course of our audit, Los Alamos established a Quality Implementation Council to, among other things, "drive" implementation of the Quality Assurance Program throughout the Laboratory. (**DOE/IG-0837**)

- One Department site updated its precious metals policy to conform with Federal Regulations and reflect the required justifications and management approvals. Another site suspended all disposal activities associated with contaminated precious metals in order to develop a process that will address the disposition of contaminated precious metals. **(OAS-L-10-10)**
- The OCFO completed numerous training initiatives and conducted an outreach campaign to ensure all relevant officials were trained in multiple areas. In addition, enhancements were made to the Department's quality assurance process, including additional comparisons between data elements. **(OAS-RA-10-06)**
- Subsequent to our review, management indicated that the Department was able to get agreement from the State of Nevada to allow the Savannah River DU oxides to be disposed at the Nevada National Security Site. As such, the Department was canceling efforts to store the waste on an interim basis at an off-site location and was preparing the waste for shipment to Nevada National Security Site for disposal. **(OAS-RA-10-07)**
- Based on our report findings, the Department recalculated the Weatherization Assistance Program award allocations for the U.S. territories and awarded additional funding as appropriate. **(OAS-RA-10-13)**
- As a result of our report, the Department implemented a number of positive measures, including the development of a mentoring program and monitoring reference manual, to enhance the effectiveness of the Energy Efficiency and Conservation Block Grant Program. **(OAS-RA-10-16)**
- Immediately following the release of our report, the Department's General Counsel issued a letter to senior Department officials, providing guidance on Federal hiring and working with contractors. **(OAS-SR-10-04)**
- Management at the Livermore Site Office concurred with our recommendation to review the allowability of payments made for undocumented and physical fitness overtime. In a "Certificate of Closure," the Site Office Manager indicated that the Contracting Officer determined that a total amount of \$581,194 (labor and associated burdens) was unallowable and that the site contractor had agreed to repay the Government. **(INS-O-07-03)**

- The Savannah River Operations Office, Acquisition Operations Division, Contractor Industrial Relations Team, along with a Contract Specialist from the Contracts Management Division, coordinated with our office to review records and determine whether severance money totaling approximately \$1.1 million should be identified as a disallowed cost and repaid to the Federal government. **(INS-O-10-02)**
- The ORNL established a Six Sigma Team to address the disposition and disposal of hard drives. The Team is currently working on a method to track hard drives when they are removed from computers, as well as employee awareness. Awareness bulletins have been issued and the site plans to continue this effort on a routine basis. **(INS-O-10-03)**
- The enactment of the Recovery Act has afforded the OIG with yet another opportunity to collaborate with Department management in the detection and prevention of fraud waste and abuse concerning Recovery Act funds. No where has that collaboration been more apparent than with EERE. Through our concerted efforts, the OIG and EERE have established a strong working relationship which has been evidenced by the OIG's participation in two webinars

designed to familiarize EERE staff with the OIG's mission. Additionally, through the OIG Hotline, the OIG has received an increased number of weatherization complaints resulting from the influx of stimulus funds. In our capacity and through ongoing coordination with EERE leadership, EERE has reviewed the weatherization complaints and other potential systemic matters that we have brought to its attention. We understand EERE has utilized the information to strengthen its operational oversight of EERE Recovery Act programs.

## Congressional Responses

During this reporting period, the OIG provided information at the request of Congress in 66 instances and briefed congressional staff on 8 occasions.

## Legislative and Regulatory Reviews

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on departmental economy and efficiency. The OIG coordinated and reviewed 59 items during this reporting period.

## Hotline System

The OIG operates a Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. During this reporting period, the Hotline received 2,668 contacts (calls, letters, emails, walk-ins, and Qui Tams), of which 1,137 were processed as complaints. The OIG Hotline System can be reached by calling **1-800-541-1625** or **1-202-586-4073**.

## Management Referral System

The OIG referred 174 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 59 of these complaints. Otherwise, Department management was asked to respond only if it developed information or took action that it believed should be reported. The following referrals demonstrate management's use of OIG-provided information to promote positive change or to take decisive action:

- A complaint raised allegations of potential procurement irregularities at the Rocky Mountain Oilfield Testing Center. In response to the complaint, the Office of Fossil Energy initiated an "in-depth internal" review. Department management subsequently concluded that the facts and circumstances disproved the

allegations. However, management instructed personnel to: (1) ensure that safeguards in place are adequate to secure procurement sensitive information; and, (2) review policies related to procurement integrity and use of support services contractors to ensure compliance with applicable laws and regulations. In addition, a Procurement Management Review was completed as a follow-up to ensure compliance with a planned final report date of mid-October 2010.

- Reportedly, a Los Alamos employee was observed delivering guns to buyers in the Laboratory's parking lot and taking money from individuals interested in purchasing guns from the employee during official duty hours. In response to an OIG referral to Department management, the Los Alamos' Human Resources Labor Relations Group was tasked to investigate the allegations. They determined that the employee owns a gun business and is a licensed gun dealer. When interviewed during the investigation, the employee stated that he was familiar with Los Alamos' policy prohibiting firearms on site. He also stated that he had neither brought guns on site nor did he accept them from customers. Although the employee was not found to have actively solicited customers for his business on Los Alamos property, it was confirmed that while onsite, the employee

collects monies for amounts owed for gun-related transactions. As a result of management's review, the employee was provided with an Outside Activity Permission request and associated Laboratory policy on Outside Activities. The employee was also instructed not to accept gun-related transaction monies from customers on Los Alamos property.

- A number of weatherization-related cases were referred to EERE, which took appropriate actions to resolve the complaints. For example, in response to a complaint concerning incomplete weatherization services performed on a residence in Ohio, the EERE's Office of Weatherization and Intergovernmental Programs, working with the Project Management Center staff at the Department's Golden Field Office, took actions to ensure that all approved weatherization work would be completed and appropriate follow-up monitoring provided.
- A complaint was received concerning an alleged work place violence incident at Savannah River which had allegedly been reported to management but no action taken. Based on the OIG referral, the Savannah River Operations Office, in conjunction with the Office of Civil Rights, conducted a review of the incident and found that while the alleged work place violence incident was not as severe as reported,

based on the results of the review a supervisor was suspended for one week without pay and placed on probation for one year.

## Qui Tams

Since 1996, the OIG has been instrumental in working with the Department of Justice in *Qui Tam* cases. The OIG is currently working on 15 *Qui Tam* lawsuits involving alleged fraud against the Government with potential liability in the amount of approximately \$466,470,000. These cases are highly resource intensive, requiring the active participation of OIG investigative and audit assets. However, they have proven to result in a high return on our investment of resources.

To highlight our Qui Tam investigative work, an ongoing joint investigation with various law enforcement agencies resulted in 6 different companies entering into civil settlements totaling \$194.2 million to resolve allegations of kickbacks and defective pricing.

THIS PAGE INTENTIONALLY LEFT BLANK



## Appendix 1 - Reports

### Recovery Act Reports Issued

April 1, 2010 – September 30, 2010

| Report Number | Title   | Date Issued | Savings      | Questioned Costs |
|---------------|---|-------------|--------------|------------------|
| OAS-RA-10-06  | Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy's Funding Recipients                                  | 04-01-10    |              |                  |
| OAS-RA-10-07  | Management Alert on Environmental Management's Select Strategy for Disposition of Savannah River Site Depleted Uranium Oxides                             | 04-09-10    |              |                  |
| OAS-RA-10-08  | The Department of Energy's Program to Assist Federal Buyers in the Purchasing of Energy Efficient Products  | 04-27-10    |              |                  |
| OAS-RA-10-09  | Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Louisiana State Energy Program                               | 05-03-10    |              |                  |
| OAS-RA-10-10  | Waste Processing and Recovery Act Acceleration Efforts for Contact-Handled Transuranic Waste at the Hanford Site  | 05-25-10    | \$25,000,000 |                  |
| OAS-RA-10-11  | Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program | 05-26-10    |              |                  |
| OAS-RA-10-12  | The Department of Energy's American Recovery and Reinvestment Act – Florida State Energy Program  | 06-07-10    |              |                  |

## Recovery Act Reports Issued

April 1, 2010 – September 30, 2010

| Report Number  | Title  | Date Issued | Savings | Questioned Costs |
|----------------|--|-------------|---------|------------------|
| OAS-RA-10-13   | The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds under the American Recovery and Reinvestment Act                            | 06-11-10    |         |                  |
| OAS-RA-10-14   | Management Controls over the Development and Implementation of the Office of Energy Efficiency and Renewable Energy's Performance and Accountability for Grants in Energy System | 07-22-10    |         |                  |
| OAS-RA-10-15   | Review of the Department of Energy's Plan for Obligating Remaining Recovery Act Contract and Grant Funding   | 08-04-10    |         |                  |
| OAS-RA-10-16   | The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the Recovery and Reinvestment Act: A Status Report                 | 08-11-10    |         |                  |
| OAS-RA-10-17   | Status Report: The Department of Energy's State Energy Program Formula Grants Awarded under the American Recovery and Reinvestment Act   | 09-21-10    |         |                  |
| OAS-RA-10-18   | Management Controls over the Department of Energy's American Recovery and Reinvestment Act – Michigan State Energy Program   | 09-29-10    |         |                  |
| OAS-RA-L-10-01 | The Department of Energy's Management of the NSLS-II Project   | 04-06-10    |         |                  |

## Recovery Act Reports Issued

April 1, 2010 – September 30, 2010

| Report Number  | Title  | Date Issued | Savings | Questioned Costs |
|----------------|--|-------------|---------|------------------|
| OAS-RA-L-10-02 | Audit of Fermi National Accelerator Laboratory's NOvA Project  | 04-16-10    |         |                  |
| OAS-RA-L-10-03 | Moab Mill Tailings Cleanup Project   | 04-23-10    |         |                  |
| OAS-RA-L-10-04 | Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act | 04-27-10    |         |                  |
| OAS-RA-L-10-05 | Decommissioning and Demolition Activities at Office of Science Sites   | 08-12-10    |         |                  |
| OAS-RA-L-10-06 | The Department of Energy's American Recovery and Reinvestment Act – Georgia State Energy Program                               | 09-15-10    |         |                  |
| OAS-RA-L-10-09 | Office of Science's Energy Frontier Research Centers   | 08-27-10    |         |                  |

## Other Audit Reports Issued

April 1, 2010 – September 30, 2010

| Report Number | Title  | Date Issued | Savings     | Questioned Costs |
|---------------|--|-------------|-------------|------------------|
| IG-0835       | The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting                 | 07-01-10    | \$2,200,000 |                  |
| IG-0836       | The National Nuclear Security Administration's Management of the Product Realization Integrated Digital Enterprise Program | 07-22-10    |             |                  |
| IG-0837       | Nuclear Safety: Safety Basis and Quality Assurance at the Los Alamos National Laboratory                                   | 08-10-10    |             |                  |
| IG-0838       | Follow-up Audit on Retention and Management of the Department of Energy's Electronic Records                               | 09-03-10    |             |                  |
| IG-0839       | Environment and Worker Safety Control Systems at the National Nuclear Security Administration's Kansas City Plant          | 09-20-10    |             |                  |
| IG-0840       | The Department of Energy's Audit Resolution and Follow-up Process  | 09-23-10    |             |                  |
| IG-0841       | The Department's Information Technology Capital Planning and Investment Control Activities                                 | 09-30-10    |             |                  |
| OAS-M-10-02   | Management Controls over Warranties Involving Newly Constructed and Renovated Facilities at National Defense Laboratories  | 06-15-10    | \$1,500,000 |                  |
| OAS-L-10-04   | The Interim Treatment of Salt Waste at the Savannah River Site   | 05-03-10    |             |                  |
| OAS-L-10-05   | The National Nuclear Security Administration's Site Office Training and Staffing   | 06-08-10    |             |                  |

## Other Audit Reports Issued

April 1, 2010 – September 30, 2010

| Report Number | Title  | Date Issued | Savings | Questioned Costs |
|---------------|--|-------------|---------|------------------|
| OAS-L-10-06   | Former Uranium Enrichment Workers: Questions Regarding Equity in Pension Benefits  | 07-09-10    |         |                  |
| OAS-L-10-07   | Integrated Safety Management at the Office of River Protection   | 07-21-10    |         |                  |
| OAS-L-10-08   | National Nuclear Security Administration's Contracts for the Down-Blending of Highly Enriched Uranium                    | 08-23-10    |         |                  |
| OAS-L-10-09   | Subcontract Auditing at Lawrence Livermore National Laboratory   | 09-30-10    |         |                  |
| OAS-L-10-10   | The Audit of Precious Metals at National Nuclear Security Administration Sites   | 09-08-10    |         |                  |
| OAS-FS-10-06  | Uranium Enrichment Decontamination and Decommissioning Fund's FY 2009 Financial Statement Audit                          | 04-21-10    |         |                  |
| OAS-SR-10-01  | Need for Enhanced Surveillance During the Yucca Mountain Project Shut Down   | 07-21-10    |         |                  |
| OAS-SR-10-02  | Resolution of Questioned, Unresolved and Potentially Unallowable Costs Incurred in Support of the Yucca Mountain Project | 07-29-10    |         |                  |
| OAS-SR-10-03  | Department's Freedom of Information Act Request Process  | 09-14-10    |         |                  |
| OAS-SR-10-04  | Review of Allegations Regarding Hiring and Contracting in the Office of Energy Efficiency and Renewable Energy           | 09-22-10    |         |                  |

## Other Audit Reports Issued

April 1, 2010 – September 30, 2010

| Report Number | Title  | Date Issued | Savings | Questioned Costs |
|---------------|--|-------------|---------|------------------|
| OAS-V-10-10   | Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory for the period June 1, 2005 thru September 30, 2008 Under Department of Energy Contract No. DE-AC02-05-CH11231 | 04-20-10    |         | \$5,728,879      |
| OAS-V-10-11   | Audit Coverage of Cost Allowability for Honeywell Federal Manufacturing & Technologies, LLC under Department of Energy Contract No. DE-AC04-01AL66850 for FYs 2007 and 2008                  | 05-19-10    |         |                  |
| OAS-V-10-12   | Audit Coverage of Cost Allowability for Midwest Research Institute under Department of Energy Contract No. DE-AC36-99GO10337 during FYs 2007 and 2008  | 06-10-10    |         |                  |
| OAS-V-10-13   | Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC07-05ID14517 during FY 2008   | 06-17-10    |         |                  |
| OAS-V-10-14   | Audit Coverage of Cost Allowability for Bechtel BWXT Idaho, LLC under Department of Energy Contract No. DE-AC07-99ID13727 during FYs 2007 – 2009   | 06-21-10    |         |                  |
| OAS-V-10-15   | Audit Coverage of Cost Allowability for Bechtel SAIC Company, LLC during FYs 2004 through 2009 under Department of Energy Contract No. DE-AC28-01RW12101                                     | 07-29-10    |         | \$178,979,948    |
| OAS-V-10-16   | Audit Coverage of Cost Allowability for Lawrence Livermore National Laboratory during FY 2008 under Department of Energy Contract No. DE-AC52-07NA27344                                      | 08-24-10    |         |                  |
| OAS-V-10-17   | Audit Coverage of Cost Allowability for Battelle Memorial Institute under Department of Energy Contract No. DE-AC05-76RL01830 during FYs 2007 and 2008                                       | 08-31-10    |         | \$11,053         |

## Inspection Reports Issued

April 1, 2010 – September 30, 2010

| Report Number | Title  | Date Issued | Savings | Questioned Costs |
|---------------|--|-------------|---------|------------------|
| INS-O-10-02   | Severance Repayments at the Savannah River Site  | 07-29-10    |         | \$1,100,000      |
| INS-O-10-03   | Internal Controls over Computer Hard Drives at the Oak Ridge National Laboratory   | 08-16-10    |         |                  |
| INS-L-10-02   | Review of Allegations Involving the National Nuclear Security Administration's National Security Vaults                                  | 07-28-10    |         |                  |
| INS-L-10-03   | Review of Allegations of Retaliation at a Department Site (non-public report)  | 08-12-10    |         |                  |
| S10IS007      | Review of Alleged Procurement Irregularities Relating to the Clean Coal Power Initiative Gilberton Coal-to-Clean Fuels and Power Project | 05-04-10    |         |                  |
| S10IS013      | Review of Allegations of Retaliation at a Department Site (non-public report)  | 09-29-10    |         |                  |

THIS PAGE INTENTIONALLY LEFT BLANK



## Appendix 2 - Tables

### OIG Issued Audit Reports with Recommendations for Better Use of Funds

April 1, 2010 – September 30, 2010  
 (Dollars in Thousands)

The following table shows the total number of audit reports and the total dollar value of the recommendations that funds be put to better use by management:

|  | Total Number | One Time Savings | Recurring Savings | Total Savings   |
|--|--------------|------------------|-------------------|-----------------|
| A. Those issued before the reporting period for which no management decision has been made:* | 3            | \$1,024,479,522  | \$0               | \$1,024,479,522 |
| B. Those issued during the reporting period:   | 45           | \$28,700,000     | \$0               | \$28,700,000    |
| Subtotals (A + B)  | 48           | \$1,053,179,522  | \$0               | \$1,053,179,522 |
| C. Those for which a management decision was made during the reporting period:               | 27           | \$456,500,000    | \$0               | \$456,500,000   |
| (i) Agreed to by management:   |              | \$2,900,000      | \$0               | \$2,900,000     |
| (ii) Not agreed by management:   |              | \$453,600,000    | \$0               | \$453,600,000   |
| D. Those for which a management decision is not required:                                    | 16           | \$0              | \$0               | \$0             |
| E. Those for which no management decision has been made at the end of the reporting period:  | 5            | \$596,679,522    | \$0               | \$596,679,522   |

#### DEFINITION OF TERMS USED IN THE TABLE

**Funds put to better use:** Funds that could be used more efficiently by implementing recommended actions.

**Unsupported costs:** A cost that is not supported by adequate documentation. Questioned costs include unsupported costs.

**Management decision:** Management's evaluation of the finding and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

\*The figures for dollar items include sums for which management decisions on the savings were deferred.

## OIG Issued Audit and Inspection Reports with Questioned Costs

April 1, 2010 – September 30, 2010  
(Dollars in Thousands)

The following table shows the total number of audit and inspection reports and the total dollar value of questioned and unsupported costs

|  | Total Number | Questioned Costs           | Unsupported Costs |
|--|--------------|----------------------------|-------------------|
| A. Those issued before the reporting period for which no management decision has been made:* | 0            | \$55,526,814               | \$123,000         |
| B. Those issued during the reporting period:   | 5            | \$186,401,880 <sup>1</sup> | \$0               |
| Subtotals (A + B)  | 5            | \$241,928,694              | \$123,000         |
| C. Those for which a management decision was made during the reporting period:*              | 3            | \$200,341,494              | \$0               |
| (i) Value of disallowed costs:   |              | \$16,197,837 <sup>2</sup>  | \$0               |
| (ii) Value of costs not disallowed:  |              | \$16,830                   | \$0               |
| D. Those for which a management decision is not required:                                    | 1            | \$11,053                   | \$0               |
| E. Those for which no management decision has been made at the end of the reporting period:  | 1            | \$225,714,027 <sup>3</sup> | \$123,000         |

### DEFINITION OF TERMS USED IN THE TABLE

**Questioned costs:** A cost that is (1) unnecessary; (2) unreasonable; (3) unsupported; (4) or an alleged violation of law, regulation, contract, etc.

**Unsupported costs:** A cost that is not supported by adequate documentation. Questioned costs include unsupported costs.

**Management decision:** Management's evaluation of the finding and recommendations included in the audit and inspection report and the issuance of a final decision by management concerning its response.

\*The figures for dollar items include sums for which management decisions on the savings were deferred.

<sup>1</sup> Includes 3 Audit Reports totaling \$184,719,880; 2 Inspection Reports totaling \$1,682,000

<sup>2</sup> Audits-\$15,615,837; Inspections - \$582,000

<sup>3</sup> Decisions affecting Audit Reports total \$224,614,027; Inspection Report totals \$1,100,000

## **Reports Lacking Management Decision**

The Department has a system in place to track audit reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are addressed as efficiently and expeditiously as possible. Listed below are the audit reports over six months old that were issued before the beginning of the reporting period and for which no management decision had been made by the end of the reporting period. The reason a management decision had not been made and the estimated date for obtaining a management decision is described below.

### **Management Audit**

**IG-0753: Recovery Costs for the Proprietary Use of the Advanced Photon Source, January 11, 2007** – *The OCFO is working with the Department to address a complex accounting issue raised by the report. A final management decision is expected before December 31, 2010.*

**IG-0831: The Office of Science's Management of Information Technology Resources, November 20, 2009** - *The finalization of the management decision is pending the resolution of complex issues and coordination with senior Departmental leadership. This should occur by January 31, 2011.*

## **Prior Significant Recommendations Not Implemented**

As of September 2010, closure actions on recommendations in 34 OIG reports had not been fully implemented within 12 months from the date of report issuance. The OIG is committed to working with management to expeditiously address the management decision and corrective action process, recognizing that certain initiatives will require long-term, sustained, and concerted efforts. The Department closed 96 recommendations in the past 6 months. Management updates the Departmental Audit Report Tracking System on a quarterly basis, most recently in March 2010.

Information on the status of any report recommendation can be obtained through the OIG's Office of Audit Services and Office of Inspections and Special Inquiries.

## Summary of Inspections and Special Inquiries Activities

April 1, 2010 – September 30, 2010

|  |            |
|--|------------|
| Inspections/Special Inquiries open as of April 1, 2010                     | 17         |
| Inspections/Special Inquiries opened during this reporting period          | 4          |
| Inspections/Special Inquiries closed during this reporting period          | 3          |
| Inspections/Special Inquiries open as of September 30, 2010                | 18         |
| Reports issued (includes non-public reports)                               | 6          |
| <b>Report Recommendations:</b>   |            |
| Issued this reporting period   | 4          |
| Accepted by management this reporting period                               | 4          |
| Implemented by management this reporting period                            | 3          |
| Complaints Referred to Department management/others                        | 174        |
| Referred to Department management requesting a response for OIG Evaluation | 59         |
| <b>HOTLINE ACTIVITY</b>  |            |
| Hotline calls, emails, letters, and other complaints                       | 1,137      |
| Hotline complaints resolved immediately or redirected <sup>1</sup>         | 807        |
| Total Hotline Complaints predicated  | 341        |
| Hotline calls, emails, letters, and other complaints predicated            | 341        |
| Unresolved Hotline predication from previous reporting period <sup>2</sup> | 42         |
| Total Hotline Complaints predicated  | 383        |
| Hotline predication transferred to the Management Referral System          | 241        |
| Hotline predication closed based upon preliminary OIG activity             | 122        |
| Hotline predication open at the end of the reporting period                | 20         |
| <b>Total Hotline predication</b>   | <b>383</b> |

<sup>1</sup>Includes complaints outside the purview of the Office of Inspector General; or the complainants were referred to the appropriate Federal, State, local, or private organization for assistance, if applicable.

<sup>2</sup>This figure was reported as "40" for the reporting period ending March 31, 2010. Upon further review, this figure was revised to reflect the current total.

## **Summary of Inspections and Special Inquiries Recovery Act Section 1553 Retaliation Complaints**

April 1, 2010 – September 30, 2010

|   |    |
|---|----|
| Recovery Act Retaliation Complaints received                                  | 10 |
| Recovery Act Retaliation Investigations dismissed during the reporting period | 2  |
| Recovery Act Retaliation Complaints that received extensions                  | 1  |
| Recovery Act Retaliation Complaints completed during the reporting period     | 0* |

\*No complaints were required to be completed by the end of this reporting period

## Summary of Investigative Activities

April 1, 2010 – September 30, 2010

|   |                      |
|---|----------------------|
| Cases open as of April 1, 2010                                      | 226                  |
| Cases opened during period  | 89                   |
| Cases closed during period  | 75                   |
| Multi-Agency Task Force cases opened                                | 34                   |
| Qui Tam investigations opened                                       | 3                    |
| Total Open Qui Tam Investigations as of September 30, 2010          | 15                   |
| Cases currently open as of September 30, 2010                       | 240                  |
| <b>IMPACT OF INVESTIGATIONS:</b>                                    |                      |
| Administrative discipline and other management actions              | 41                   |
| Recommendations to management for positive change and other actions | 41                   |
| Suspensions/Debarments  | 8                    |
| Accepted for prosecution*   | 22                   |
| Indictments   | 33                   |
| Criminal convictions  | 9                    |
| Pretrial diversions   | 6                    |
| Civil actions   | 9                    |
| <b>TOTAL DOLLAR IMPACT**</b><br>(Fines, settlements, recoveries)    | <b>\$195,225,067</b> |

\*Some of the investigations accepted during the 6-month period were referred for prosecution during a previous reporting period.

\*\*Some of the money collected was the result of task force investigations.

## Peer Reviews

April 1, 2010 – September 30, 2010

### Results of Reviews Conducted by DOE/OIG: OFFICE OF AUDIT SERVICES

| Date of Recent Peer Review | Reviewed OIG          | Outstanding Recommendations    |
|----------------------------|-----------------------|--------------------------------|
| 2/26/2010                  | Department of Justice | No outstanding recommendations |

### Results of Reviews Conducted by DOE/OIG: OFFICE OF INVESTIGATIONS

| Date of Recent Peer Review | Reviewed OIG           | Outstanding Recommendations    |
|----------------------------|------------------------|--------------------------------|
| 2/29/2008                  | Department of Interior | No outstanding recommendations |

There are no outstanding recommendations from any previous peer reviews.

No Peer Reviews were in progress or completed by DOE/OIG during this reporting period.

### Results of Reviews Conducted by Other OIGs: OFFICE OF AUDIT SERVICES

| Date of Recent Peer Review | Reviewing OIG                  | Requirements For Review Frequency | Outstanding Recommendations/Link   |
|----------------------------|--------------------------------|-----------------------------------|--|
| 3/05/2010                  | Social Security Administration | At least once every 3 years       | No outstanding recommendations<br><a href="http://www.ig.energy.gov/documents/DOE_Peer_Review_Ltr-Audit.pdf">www.ig.energy.gov/documents/DOE_Peer_Review_Ltr-Audit.pdf</a> |

### Results of Reviews Conducted by Other OIGs: OFFICE OF INVESTIGATIONS

| Date of Recent Peer Review | Reviewing OIG                 | Requirements For Review Frequency | Outstanding Recommendations/Link   |
|----------------------------|-------------------------------|-----------------------------------|--|
| 9/15/2008                  | Small Business Administration | At least once every 3 years       | No outstanding recommendations<br><a href="http://www.ig.energy.gov/documents/DOE_Peer_Review-2008_INV.pdf">www.ig.energy.gov/documents/DOE_Peer_Review-2008_INV.pdf</a> |

No Peer Reviews were in progress or completed by other OIGs during this reporting period.

THIS PAGE INTENTIONALLY LEFT BLANK

## Feedback Sheet

The contents of the September 2010 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. If you have any suggestions for making the report more responsive, please complete this feedback sheet and return it to:

**United States Department of Energy  
Office of Inspector (IG-10)  
1000 Independence Avenue, SW  
Washington, D.C. 20585**

ATTN: Douglas Gillam

Name: \_\_\_\_\_

Daytime Telephone Number: \_\_\_\_\_

Comments/Suggestions/Feedback:

For media inquiries, please dial (202) 253-2162 for assistance.

THIS PAGE INTENTIONALLY LEFT BLANK



## **U.S. DEPARTMENT OF ENERGY OFFICE OF INSPECTOR GENERAL**

### **HOTLINE**

**Call the HOTLINE if you suspect Fraud, Waste,  
Abuse, or Mismanagement by a DOE Employee,  
Contractor, or Grant Recipient**

**Call 1-800-541-1625 or (202) 586-4073**

**Additional information on the OIG and reports can be found at  
[www.ig.energy.gov](http://www.ig.energy.gov)**

**U.S. Department of Energy  
1000 Independence Ave., S. W.  
Washington, DC 20585**

THIS PAGE INTENTIONALLY LEFT BLANK



U.S. DEPARTMENT OF  
**ENERGY**

DEPARTMENT OF ENERGY, OFFICE OF INSPECTOR GENERAL