



U.S. DEPARTMENT OF
ENERGY

**Inspector General
Semiannual Report to Congress**

IG

October 1, 2011 – March 31, 2012

**U.S. Department of Energy
Office of Inspector General**



Department of Energy
Washington, DC 20585

April 26, 2012

The Honorable Dr. Steven Chu
Secretary of Energy
Washington, DC 20585

Dear Secretary Chu:

I am pleased to submit the Office of Inspector General's (OIG) *Semiannual Report to Congress*. This report summarizes significant OIG activities and accomplishments during the six month period ending March 31, 2012. This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to you, the Administration, the Congress, and the taxpayer.

We look forward to working with you on matters of mutual interest.

Sincerely,

A handwritten signature in cursive script that reads "Greg Friedman".

Gregory H. Friedman
Inspector General

Enclosure



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Message from the Inspector General



On behalf of the Department of Energy's Office of Inspector General, I am pleased to submit our Semiannual Report to Congress for the period ending March 31, 2012. This report highlights significant accomplishments of the Inspector General's Office relative to our efforts, while working with management, to ensure the efficiency and effectiveness of Department of Energy operations.

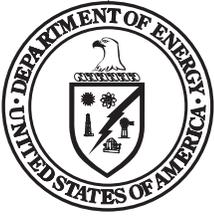
During this reporting period, we continued to focus on our monitoring and oversight responsibilities related to expenditures of Recovery Act funds. Our charge was to concentrate on ensuring proper and appropriate expenditures, and reducing the potential for fraud, waste, or abuse. A total of 11 Recovery Act-related reports were issued and are summarized in this document. During this period, the Office of Inspector General also issued numerous reports addressing other vital Department missions and functions. This included our annual "*Management Challenges*" report which identified risks inherent in the Department's wide ranging and complex operations. As part of the Management Challenge process for 2012, we provided the Department's management with five major proposals for consideration as steps to enhance economy and efficiency.

This has been an eventful six month period requiring a great deal of hard work on the part of the Inspector General staff. I applaud their service on behalf of U.S. taxpayers.



A handwritten signature in cursive script that reads "Greg Friedman".

Gregory H. Friedman
Inspector General



Key Accomplishments

For the Period of October 1, 2011 – March 31, 2012

Total Reports Issued:	39
<i>Recovery Act Reports</i>	11
<i>Audit Reports</i>	24
<i>Inspection Reports (includes non-public reports)</i>	4
Funds Put to Better Use	\$ 10.3 million
Questioned Costs	\$ 0.5 million
Dollars Recovered (Fines, Settlements, and Recoveries)	\$ 5.8 million
Criminal Convictions	9
Suspensions and Debarments	23
Potential Recoveries from Open False Claims Act Investigations	\$ 94.5 million
Civil and Administrative Actions	45
Hotline Complaints and Inquiries	
Received	3,118
Processed Immediately/Redirected/No further Action	2,813
Processed for Further Review and Adjudicated	305
Recovery Act Whistleblower Retaliation Complaints Received	4



Implementation of the American Recovery and Reinvestment Act of 2009

Reports

Lessons Learned/Best Practices during the Department of Energy's (Department) Implementation of the Recovery Act

As of December 31, 2011, the Department had obligated \$34.6 billion (98 percent) of the Recovery Act funding, but had spent just over \$21 billion. The goal of rapidly deploying funds of this magnitude and ensuring that the funds were expended efficiently and effectively, created a number of challenges for the Department. For instance, resources were strained and new programs were established on an expedited basis.

Based on a body of work over nearly 3 years, including more than 70 completed Recovery Act reviews, the OIG observed that there were a number of lessons learned and insights as to best practices that could help improve ongoing and future operations in the Department. Examples include:

- Risk Management Practices – Effective management of risk depends on a rigorous system of controls such as the use of performance metrics and trend analysis to help ensure that programs are meeting intended objectives;
- Financial Management and Accounting and Reporting – The use of spending plans and performance baselines are essential to appropriately manage and account for changes to financial resources;
- Human Capital Management – Continuous evaluation of staffing and employee skill sets help ensure that the skill sets are commensurate with the demands of work being performed;
- Regulatory Compliance – Anticipating and planning for the impact of regulatory requirements on operations can help the Department and its grant and contract recipients achieve the desired level of program performance; and,
- Delivery of Public Services – Clear communications with the public is essential to avoid gaps between recipient expectations of services rendered by grantees on behalf of the Department and those actually available.

The Department concurred with the report and commented that it had made significant progress in addressing the findings and recommendations of OIG reports through implementation and completion of corrective actions. The Department also indicated that it will continue to implement strong business practices to facilitate timely, accurate and complete reporting of both Recovery Act and program activities. (OAS-RA-12-03)

Saratoga County Economic Opportunity Council, Inc. - Weatherization Assistance Program Funds Provided by the Recovery Act

The Department awarded a Recovery Act Weatherization Program grant of \$394 million to the State of New York. New York allocated about \$6.9 million of the grant to Saratoga County Economic Opportunity Council, Inc. (SARA) to weatherize 982 homes.

The examination found that documentation supporting the evaluation of subcontractors was not available from SARA, and purchases made did not comply with New York's and SARA's policies and procedures. Also, a lack of adequate segregation of duties existed in Weatherization Program administration and adequate records were not maintained by SARA to support quarterly reports, as required by the Weatherization Program. In addition, a cash advance received by SARA for the Weatherization Program was not properly recorded in the accounting system and cash advances were not deposited in an interest bearing account, as required. Finally, vehicle and equipment usage, maintenance and repair records were not maintained by SARA. The Department concurred with the report recommendation, and provided planned actions to address issues identified. (OAS-RA-12-05)

The Department's Recovery Act – Arizona State Energy Program (SEP)

The Department allocated \$55.4 million in SEP funds under the Recovery Act to the State of Arizona, which allocated \$25.2 million in grants for energy savings and renewable energy projects in schools. The remaining \$30.2 million was to fund other energy savings and renewable energy projects, such as retrofits for public buildings and non-profit organizations, and renewable energy products manufactured in Arizona. As specified by the Department in its grant agreement and program guidance, SEP funding was to be obligated by September 30, 2010, and spent by April 30, 2012. Arizona met the obligation deadline and reported that, as of December 2011, it had spent \$38.2 million (69 percent) of its SEP Recovery Act funds.

We found that Arizona had developed a number of processes and controls to accomplish the objectives of the SEP and the Recovery Act. For example, Arizona established a plan to select projects that would save energy and increase renewable energy sources; leveraged Recovery Act funds to increase economic stimulus and reduce project risk; and, tracked the number of jobs created by projects. However, we identified several concerns that could impact Arizona's success in accomplishing SEP and Recovery Act objectives. Specifically, we noted that Arizona had not always ensured timely commencement of project work at schools. In addition, it had not always ensured applicable Recovery Act provisions were included in sub-recipient agreements, and that historic preservation office approvals were obtained prior to spending Federal funds to alter structures or sites. Actions are ongoing by Arizona to mitigate the impact of the concerns on SEP and Recovery Act objectives. Therefore, we made several suggestions to the Department and Arizona relating to the concerns. (OAS-RA-L-12-03)

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The State of Nevada's Implementation of the Energy Efficiency and Conservation Block Grant (EECBG) Program

The EECBG Program provides grants to U.S. local governments, states, territories and Indian tribes to fund projects that reduce energy use and fossil fuel emissions and improve energy efficiency. The Department awarded the Nevada State Office of Energy (Nevada) approximately \$9.6 million to develop and implement the EECBG Program, of which about \$8.8 million was awarded to 23 state and local government entities or sub-recipients. Nevada retained approximately \$800,000 for administrative and monitoring costs. Grant recipients are responsible for ensuring sub-recipients comply with requirements and achieve goals.

We identified monitoring and oversight issues that increase the risk Recovery Act goals may not be met. Specifically, Nevada had not ensured that sub-recipient projects were on track to meet the January 2012 completion date. In addition, it had not ensured compliance with the Davis-Bacon Act and Buy American provisions of the Recovery Act, as well as terms and conditions of its grant awards. The issues occurred because Nevada had not taken a comprehensive approach to grants management. Specifically, we noted that Nevada did not have the tools necessary to manage sub-recipient progress. We made a number of recommendations designed to improve Nevada's monitoring of its EECBG Program. The Department concurred with the recommendations and indicated it would work with Nevada to ensure the report recommendations were implemented. (OAS-RA-12-02)

The Department's Management of the Smart Grid Investment Grant Program

The Recovery Act provided the Department's Office of Electricity Delivery and Energy Reliability with \$3.5 billion to fund the Smart Grid Investment Grant (SGIG) Program and to assist in modernizing the Nation's power grid. The SGIG Program was established to facilitate the installation of state-of-the-art information technologies and, ultimately, improve grid reliability and enable consumers to reduce the amount of energy used. The program required that the portion of a recipient's project paid for with Federal funds not exceed 50 percent of the total project cost. Reliability of the grid, specifically ensuring that it is adequately protected from malicious cyber attacks, has been and continues to be an area of concern.

Our audit revealed several opportunities to enhance management of the SGIG Program. In particular, we found that Department officials approved Smart Grid projects that used Federally-sourced funds to meet cost-share requirements. One grantee inappropriately used \$1.8 million in Federal funds to meet grant cost-share obligations. In addition, three of the five cyber security plans (required to be submitted by grantees) reviewed were incomplete, and did not always sufficiently describe security controls and how the controls were implemented. The issues found were due, in part, to the accelerated planning, development, and deployment approach adopted by the Department for the SGIG Program. In particular, the Department had not always ensured that certain elements of the SGIG Program were adequately monitored. The Department generally concurred with the recommendations and indicated that it will take corrective action. (OAS-RA-12-04)

Alleged Misuse of Recovery Act Grant Funds by the Western Arizona Council of Governments (WACOG)

The OIG received a complaint alleging a pattern of wasteful spending of Recovery Act Weatherization Program funds and mismanagement of the Weatherization Program at the WACOG. The State of Arizona awarded WACOG approximately \$5.9 million of the Department's Recovery Act grant funds to weatherize homes in the western Arizona counties of Yuma, Mohave and La Paz.

We were unable to substantiate the allegations that WACOG engaged in a pattern of wasteful spending or that it mismanaged the Weatherization Program. However, we observed several issues related to procurement of goods and services and the accuracy of Recovery Act reporting that should be addressed. For instance, we observed that WACOG expended approximately \$133,000 for building improvements, office furnishings, software upgrades and a telephone system without obtaining required approvals from Arizona. Also, WACOG's purchase records did not always contain documentation showing evidence that a cost or price analysis was performed to determine if the best value was obtained. In addition, neither WACOG nor Arizona accurately reported completed housing units. Further, WACOG had not always provided Arizona with accurate information regarding work performed on completed weatherized houses. The weaknesses identified occurred, in part, because of a lack of understanding and execution of Federal grant requirements, Department Weatherization Program policy and Arizona Weatherization Program requirements. Management agreed with our recommendations and provided corrective actions that will be taken to address the recommendations. (INS-RA-12-01)

Western Area Power Administration's (WAPA) Control and Administration of the Recovery Act Borrowing Authority

Under the Recovery Act, WAPA was granted \$3.25 billion in borrowing authority to help build transmission infrastructure. To meet the Recovery Act's goals of promoting job creation and economic recovery, WAPA's Transmission Infrastructure Program first used its borrowing authority to execute a financing agreement with Montana Alberta Tie Ltd. and MATL LLP (MATL) in October 2009, to construct a "shovel-ready" 214-mile transmission line intended to provide interconnection for proposed wind power generation farms in Montana. WAPA financed \$161 million of the original \$213 million transmission project's estimated cost.

We found that WAPA had not implemented the necessary safeguards to ensure its commitment of funding was optimally protected. Specifically, WAPA had not initially required MATL to establish an earned value management system to provide timely, integrated cost and schedule information and a risk-based management reserve to fund unanticipated cost overruns. WAPA has significant financial exposure on the project, having permitted MATL to expend \$152 million of WAPA's committed funding of \$161 million on a project encountering significant delays and cost overruns. In addition to these project management issues, we also noted an impending gap in funding available to operate the Program. WAPA is currently working on financing projects which dwarf MATL. We provided recommendations to help assist WAPA ensure that it provides adequate oversight, limits taxpayer risk and exposure, and successfully meets the intent of its Recovery Act borrowing authority. The Department concurred with the recommendations and indicated that plans are being executed to address the issues identified. (OAS-RA-12-01)

The Management of Post-Recovery Act Workforce Transition at Office of Environmental Management (EM) Sites

Under the Recovery Act, \$6 billion was received by the Department to promote economic recovery through job creation and retention, while accelerating environmental cleanup activities across EM sites. As Recovery Act projects are completed, sites are reducing the workforce to levels needed to perform remaining base work. The Department estimates that, with the end of Recovery Act funding and other known budget reductions, as many as 4,450 Recovery Act and base program workers at EM sites will be displaced. At the time of our review, more than 3,600 workers at EM sites had been displaced. As required by statute and Department regulation, displaced workers subject to involuntary separation must be given notice or payment in lieu of notice.

At 2 major EM managed sites, we found that the transition approach adopted at Savannah River has resulted in unnecessary payments of nearly \$7.7 million to separated contractor employees. Specifically, Savannah River, even though not required by statute or Departmental Order, elected to provide separating employees with 60 days of pay rather than giving them the required advance termination notices. While in sharp contrast, transitioning employees at Hanford were to be provided with advance notice of termination and, as a result, were to continue performing their assigned tasks during the notice period. The Savannah River approach, if adopted elsewhere or if considered precedent-setting, could materially impact upcoming restructuring efforts at other Department facilities. Inconsistencies in treatment occurred because the sites did not receive formal guidance from Headquarters on implementation. The Department concurred with recommendations and indicated that it would initiate action to address the issues identified. (OAS-RA-12-06)

Special Inquiry on the Office of the Chief Financial Officer's Information Technology Expenditures

A complaint was received through the OIG Hotline alleging the waste of appropriated Fiscal Year (FY) 2010 and Recovery Act funds by senior officials within the Office of the Chief Financial Officer (OCFO). In particular, the complainant stated that the Office of Program Analysis and Evaluation (PA&E) had mismanaged over \$6 million worth of software contracts and related user licenses. PA&E, within the OCFO, provides independent analysis and advice to the Secretary regarding planning, execution, measurement and evaluation of the Department's programs and activities.

We did not identify material issues or obtain sufficient evidence to support the allegations concerning PA&E's management of software contracts and licenses. However, we did find that the software in question was costly and, that in some cases, it was not as useful or productive as expected. For instance, expenditures for the Multi-Attribute Decision Model totaled approximately \$785,000 in software and contractor support costs. However, PA&E officials were unable to provide Federal employee salaries and benefit costs attributable to the project. Also, the Performance Manager Module was initially a more

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complex application, and users indicated that supplementary steps were required to input data, creating a more cumbersome process. Further, areas were identified where the Department could improve its efforts to plan for and acquire software. For instance, the Department continued to maintain two types of document storage applications and had not performed an analysis to determine potential areas of duplication or opportunities for consolidation. We suggested that the Chief Financial Officer, in conjunction with other Department officials, examine the use of document storage applications, and ensure that requirements and needs are fully analyzed prior to software acquisition, as appropriate. The Department concurred with the suggestions. (OAS-RA-L-12-01)

Recovery Act Funded Projects at the Lawrence Berkeley National Laboratory (Berkeley)

The Department's Office of Science (Science) received \$1.6 billion through the Recovery Act, which it used to invest in various projects. Berkeley received approximately \$333.4 million in Recovery Act funds, primarily from the Department through Science, for infrastructure upgrades and a broad array of research efforts. These funds were allocated to 130 projects related to infrastructure, energy, science, computing and health.

The five Berkeley Recovery Act funded projects we reviewed were on schedule and within budget. In addition, we noted that Berkeley's project managers generally employed project management practices required by the Department. We also found that Berkeley was generally in compliance with selected Recovery Act requirements, including the segregation of funds. However, one instance was identified where Berkeley's actions did not comply with Recovery Act requirements to ensure that subcontractor invoices were always clearly identified as Recovery Act funded work. Specifically, based on our review of 71 invoices, we identified 48 that did not clearly delineate the work was Recovery Act funded. Yet, the subcontractor costs were appropriately segregated for the items tested, in part, because the invoices were linked to purchase orders that were specific and clearly designated as funded by the Recovery Act. Therefore, it appeared that Berkeley reduced the potential for comingling of Recovery Act and non-Recovery Act funding, as required by Department regulations. As a result, no recommendations were made to Department management. (OAS-RA-L-12-02)

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Waste Disposal and Recovery Act Efforts at the Oak Ridge Reservation

The Department's Oak Ridge Office (ORO) is responsible for processing and disposing of the Transuranic waste on the Oak Ridge Reservation (ORR), including approximately 3,500 cubic meters of legacy remote-handled and contact-handled Transuranic waste from more than 50 years of energy research and weapons production. ORR was selected to receive \$755 million in Recovery Act funds, of which \$143.5 million was allocated for the Transuranic Waste Processing Center (TWPC). The Department selected the TWPC project for Recovery Act funding because it was deemed to be "shovel-ready" and was set for immediate implementation.

Our inspection did not identify significant issues with the use of Recovery Act funds. However, we noted that the TWPC project encountered a number of obstacles in processing and disposing of ORR's Transuranic waste. Because of technical problems, including significant ground water infiltration in remote-handled waste storage casks, the TWPC project was behind schedule and at risk of not achieving its accelerated waste disposal goals. In response, Department officials initiated a number of program changes designed to ensure that new, realistic Transuranic waste processing goals are developed and achieved. We believe that ORO's planned actions, if successfully implemented, should help mitigate the schedule issues identified. However, we suggested that management closely monitor implementation of planned actions. (INS-RA-L-12-01)

Whistleblower Retaliation

Section 1553 of the Recovery Act extends whistleblower protection to employees who believe they are, or have been, 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 information that the employee reasonably believes is evidence of 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. Unless the Inspector General determines that the complaint is frivolous, does not relate to covered funds, or another Federal or State judicial or administrative proceeding has previously been invoked to resolve such complaint, the Inspector General shall investigate the complaint and issue a report of findings within 180 days.

The activity of the office is summarized in the chart on page 37.

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Other Significant Audits, Inspections, and Reviews

Management Challenges

The OIG identifies annually what it considers the most significant management challenges facing the Department. This effort identified risks inherent in the Department's wide ranging and complex operations, as well as those related to problems with specific management processes. Thus, the FY 2012 management challenges are:

- Operational Efficiency and Cost Savings
- Contract and Financial Assistance Award Management
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Human Capital Management
- Nuclear Waste Disposal
- Stockpile Stewardship

In addition, we designated a "watch list," consisting of issues that do not currently meet our threshold of being classified as management challenges, but warrant continued attention by Department officials. For FY 2012, the "watch list" issues are Infrastructure Modernization; Safeguards and Security; Loan Guarantee Program; and, Worker and Community Safety.

Also, we developed a series of operational efficiency and cost reduction ideas for consideration by Department management with the intent to highlight possible ways in which the Department can reduce the overall cost of operations and become more efficient. The ideas for consideration were:

- Extending the reach of the Quadrennial Technology Review concept by applying it to the Department's entire science and technology portfolio;
- Eliminating duplicative NNSA functions;
- Establishing a "Base Realignment and Closure" style commission to analyze the Department's laboratory and technology complex;
- Reprioritizing the Department's environmental remediation efforts; and,
- Re-evaluating the current structure of the Department's physical security apparatus. (DOE/IG-0858)

The Department's Unclassified Cyber Security Program - 2011

The Federal Information Security Management Act of 2002 (FISMA) established requirements for all Federal agencies to develop and implement agency-wide information security programs. FISMA also directed Federal agencies to provide appropriate levels of security for the information and systems that support the operations and assets of the agency, including those managed by another agency or contractors. As required by FISMA, an independent evaluation was conducted to determine whether the Department's unclassified cyber security program adequately protected its data and information systems.

The Department had taken steps over the past year to address previously identified cyber security weaknesses and enhance its unclassified cyber security program. However, additional action was

needed to further strengthen the unclassified cyber security program and help address threats to information and systems. For example, the evaluation disclosed that corrective actions had been completed for only 11 of the 35 cyber security weaknesses identified in our FY 2010 review. In addition, numerous weaknesses were identified in the areas of access controls, vulnerability management, web application integrity, contingency planning, change control management, and cyber security training. The weaknesses occurred, in part, because Departmental elements had not ensured that cyber security requirements included all necessary elements and were properly implemented. Also, program elements did not always utilize effective performance monitoring activities to ensure that appropriate security controls were in place. We made several recommendations to help the Department strengthen its unclassified cyber security program for protecting its systems and data from the threat of compromise, loss or modification. Management concurred with the recommendations and indicated that it had initiated or already completed actions to address issues identified. (DOE/IG-0856)

The Federal Energy Regulatory Commission's Unclassified Cyber Security Program - 2011

The Federal Energy Regulatory Commission relies on a wide range of information technology (IT) resources in achieving its mission of assisting consumers in obtaining reliable, efficient and sustainable energy services. To help protect against cyber security threats such as these, the Commission estimated that it would expend approximately \$3.8 million during FY 2011 to secure its IT assets. As directed by FISMA, an independent evaluation was conducted of the

Commission's unclassified cyber security program to determine whether it adequately protected data and information systems

The Commission had taken actions to improve its cyber security posture and mitigate risks associated with certain issues identified during our FY 2010 evaluation. However, this evaluation disclosed that additional action is needed to further protect information systems and data. In particular, we continued to identify weaknesses related to the Commission's timely remediation of software vulnerabilities. Specifically, our testing found that additional opportunities existed for the Commission to ensure that all servers and workstations were patched in a timely manner. The problems were due, in part, to less than fully effective implementation of cyber security policies and procedures. As such, we recommended that the Commission ensure that existing vulnerability management procedures are fully implemented. Commission management concurred with the recommendation and indicated that corrective actions had been initiated. (OAS-M-12-01)

The Department's Configuration Management of Non-Financial Systems

The Department utilizes many types of IT systems to support its various missions related to environmental cleanup, national security, energy and scientific research. Protecting these systems has become increasingly challenging as the frequency and sophistication of cyber attacks continues to rise. A key component of helping to ensure an adequate information security posture is the implementation of an effective configuration management program. Configuration management helps to protect the confidentiality, integrity and availability of IT resources through

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controls over the processes for initializing, changing and monitoring information systems.

We found that the Department had not implemented sufficient controls over its configuration management processes for non-financial systems. The issues we identified were similar to what we observed with financial systems in our most recent evaluation report on *The Department's Unclassified Cyber Security Program - 2011* (DOE/IG-0856, October 2011). Security patches designed to mitigate system vulnerabilities had not been applied in a timely manner for desktops, applications and servers. In addition, organizations and sites reviewed had not always followed effective procedures to ensure that changes to systems and applications were properly tested and approved prior to implementation. The weaknesses occurred because procedures were not adequate for identifying and remediating vulnerabilities in a timely manner. In addition, change control weaknesses occurred because procedures were not always adequate for addressing approval, testing or evaluation for security risk prior to implementation. Management concurred with our recommendation and indicated that corrective action will be taken to address the issues identified. (OAS-M-12-02)

The Department's Office of Environmental Management Budget Allocation Plan

EM is tasked with managing the technically challenging risks posed by the world's largest nuclear cleanup effort. EM received approximately \$6 billion in traditional base appropriations for FY 2010, and requested approximately \$6 billion for FY 2011. However, under the Continuing Resolution for FY 2011, EM was appropriated \$5.7 billion, representing approximately \$358 million in cuts from the

Department's FY 2011 budget request and a \$317 million reduction from the Department's FY 2010 enacted budget, reductions of about 5 percent of the base amount. Given the current budget uncertainties and increasingly scarce funding resources, we wanted to determine whether EM was effectively managing and planning for declining budget allocations.

We found that EM had implemented a risk-based process to manage and plan for declining budget allocations that incorporates the myriad factors that must be considered. Also, EM's budget formulation and allocation process was based on site needs and requirements. Although EM's current annual budget planning process appeared to be adequate to address the nearly five percent decline in budget allocations that we tested, more extensive reductions could put future regulatory and agreement milestones at risk. To address such shortfalls, we suggested in our report on *Management Challenges at the Department of Energy - Fiscal Year 2012* (DOE/IG-0858, November 2011) that the Department may need to revise its current environmental remediation strategy and instead address environmental concerns on a national, complex-wide risk-driven basis. As a result, no recommendations or further suggestions were made to the Department in this report. (OAS-L-12-03)

The Department's Implementation of Homeland Security Presidential Directive 12

Homeland Security Presidential Directive 12 (HSPD-12), "Policies for a Common Identification Standard for Federal Employees and Contractors", was established in August 2004 to enhance national security and mandate the use of a Federal government-wide standard for secure and reliable

forms of identification for Federal employees and contractors. The Department initiated its HSPD-12 efforts in 2004 and has spent more than \$15 million, most of which was dedicated to issuance and maintenance of badges. However, recent Office of Management and Budget guidance directed that Federal agencies should have physical and logical access controls fully installed and that policy be issued by each agency to ensure all new systems under development be enabled to use HSPD-12 credentials.

We found that, despite 7 years of effort and expenditures of more than \$15 million, the Department had yet to meet all HSPD-12 requirements. In particular, the Department had not fully implemented physical and logical access controls in accordance with HSPD-12. Furthermore, the Department had not issued HSPD-12 credentials to many uncleared contractor personnel at its field sites. We noted what we considered to be a lack of a coordinated approach among programs and sites related to implementation of HSPD-12 requirements. In particular, we found that guidance provided by management was fragmented and often inadequate to meet the goals of the initiative. Until physical and logical access controls are fully implemented in accordance with HSPD-12, the Department will continue to pay significant maintenance costs for credentials without realizing the full benefits. Management concurred with the report's recommendations and indicated that it had initiated corrective action to address issues identified in our report. (DOE/IG-0860)

Non-Facility Contractor Prior Performance

The Department obligated approximately \$89 billion during FYs 2009 and 2010, through various contracts and financial assistance awards, including contracts funded by the Recovery Act. Holding contractors accountable for past performance is an important tool for making sure the Federal government receives good value from its contracts. Thus, contracting officials are required to consider the prospective awardees past performance, to determine whether an offeror is responsible. Also, agencies are required to submit an evaluation of contractor performance for each contract that exceeds the simplified acquisition threshold.

The Department had not always considered prior contractor performance nor completed contractor performance assessments in a timely manner. In particular, we found at 3 sites that the Department could not demonstrate that it had: (1) evaluated contractor prior performance before making 104 of the 519 (20 percent) contracts and financial assistance awards; (2) reviewed the Government-wide Excluded Parties List System to ensure that offerors and applicants were not debarred from doing business with the Federal government for 42 of 519 (8 percent) of our sample items; or, (3) completed post award contractor performance evaluations within the required 120 calendar days after the evaluation period for 323 of the 881 (37 percent) contracts requiring such an evaluation. These actions were not always conducted primarily because procurement officials and contracting personnel did not follow or apply Federal and Departmental requirements and procedures. Also Department officials revealed that contracting officers' representatives did not place sufficient emphasis on completing the post award evaluation

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requirement. Management generally concurred with our recommendations and indicated that corrective action will be taken to address the issues identified in the report. (DOE/IG-0857)

Property Accountability and Protection of Federal Sensitive Unclassified Information Under the Cooperative Agreement with the Incorporated County of Los Alamos

The OIG received a complaint alleging that Federal government property, including computers, was missing from the Los Alamos County Fire Department (Fire Department). During our initial evaluation of the complaint, we also became aware that Sensitive Unclassified Information provided to the Fire Department by Los Alamos National Laboratory (Los Alamos) may not have been adequately protected. The National Nuclear Security Administration (NNSA) entered into a Cooperative Agreement with the County of Los Alamos. Under the Cooperative Agreement, the Fire Department was to provide an enhanced level of services to support Los Alamos. The Cooperative Agreement also contains provisions for the management of Federally-owned personal property provided to the Fire Department by NNSA.

We substantiated the allegation that property, including computers, was missing. Despite Department requirements, effective processes and procedures were not in place to ensure the proper control and accountability of Federally-owned personal property in possession of the Fire Department. For instance, the Fire Department had not reported lost or stolen items to Los Alamos, and had not maintained an up-to-date listing of all Federally-owned personal property in

the custody of the County. These problems occurred, in part, because the Department's Los Alamos Site Office did not ensure that property management provisions had been effectively implemented. Also, we noted that Los Alamos Site Office did not require the Fire Department to strengthen protective measures, and NNSA had not ensured that all requisite provisions for cyber security were incorporated into the Cooperative Agreement. Management generally agreed with our recommendations and indicated that corrective action will be taken. (DOE/IG-0859)

Follow-up Review of Security at the Strategic Petroleum Reserve

The Department is required to ensure adequate security is provided to safeguard the Strategic Petroleum Reserve (SPR), one of our Nation's critical infrastructures. SPR has the largest stockpile of Government-owned emergency crude oil in the world and exists foremost as an emergency response tool the President can use should the U.S. be confronted with an economically-threatening disruption in oil supplies. In June 2005, we issued a report on *Review of Security at the Strategic Petroleum Reserve*, (DOE/IG-0693). At that time, Department management concurred with the report's recommendations.

In our follow-up inspection, we determined that SPR officials had generally taken corrective actions to improve SPR's security processes. In particular, we confirmed that corrective actions had generally been taken to improve SPR's processes regarding the insider threat, deadly force authorities and protective force performance test realism; and a comprehensive security review had been performed. However, a concern was revealed regarding Security Police Officers' understanding of situations in which the use of deadly force was

permitted at three of the four SPR sites visited. Specifically, 9 of 36 Security Police Officers interviewed mistakenly believed that they should use deadly force to protect SPR infrastructure, contrary to the Federal regulation which limits the use of deadly force to the protection of personnel from imminent death or serious bodily harm. The weakness identified occurred, in part, because Department management had not concentrated its attention on ensuring that responsible facilities contractors appropriately applied the Department's deadly force policy. Management concurred with our recommendation and indicated that corrective action had been taken. (INS-O-12-01)

Management of Bonneville Power Administration's (Bonneville) IT Program

Bonneville makes extensive use of various information systems in its daily operations, including electricity transmission systems, systems that enable the marketing and transferring of electrical power, as well as administrative and financial systems. Should any of these information systems be compromised or otherwise rendered inoperable, the impact on Bonneville's customers could be significant. Prior reviews have identified weaknesses related to Bonneville's IT program. For instance, our report on *Cyber Security Risk Management Practices at the Bonneville Power Administration* (DOE/IG-0807, December 2008) identified risk management weaknesses related to Bonneville's Federal requirement to certify and accredit its information systems for operation.

Our audit found that Bonneville had taken steps to address the cyber security concerns raised in our prior review. For instance, officials had performed detailed assessments of security controls on various

general support systems. However, our current review identified new concerns in the areas of cyber security, project management and procurement of IT resources. The issues identified were due, at least in part, to inadequate implementation of policies and procedures related to security and project management. Management concurred with the report's recommendations and indicated that corrective action would be taken. (DOE/IG-0861)

Purchase of Computers for the U.S. Department of Agriculture Forest Service at the Savannah River Site

Savannah River Operations Office entered into an Interagency Agreement with the U.S. Department of Agriculture Forest Service (Forest Service) to conduct a natural resource stewardship program at Savannah River Site. The OIG received a complaint that the Forest Service had purchased a number of computers that were not placed into use and the computers were stored in a manner that left them vulnerable to theft or misuse.

We substantiated the allegation that out of the 17 computers purchased, 16 had not been placed into use and that the computers were not stored in a secure location, making them vulnerable to theft or diversion. Furthermore, we determined that, contrary to property management guidelines, none of the computers had been recorded in a property accountability system. Management agreed with our recommendations regarding the need for an effective protocol for coordination of computers and network connectivity issues, and for appropriately safeguarding computers. However, management still needs to further address planned corrective actions relating to appropriately

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safeguarding computers, and to consider whether increasing accountability over this sensitive equipment is beneficial and could help reduce the risk of loss/theft. (OAS-M-12-03)

NNSA Global Threat Reduction Initiative's Contract Administration

NNSA's Office of Defense Nuclear Nonproliferation established the Global Threat Reduction Initiative (GTRI) in May 2004 as a vital part of the efforts to combat nuclear and radiological terrorism. GTRI's mission is to reduce and protect vulnerable nuclear and radiological material located at civilian sites worldwide. Although much of the GTRI mission and scope is performed by the Department's national laboratories, NNSA also executes a portion of its GTRI mission directly through small business and foreign contracts. As of January 2011, the GTRI program had 20 active small business and foreign contracts totaling \$272 million.

Overall, we found that NNSA established a system of controls to manage its GTRI contracts. In particular, GTRI personnel verified contract deliverables, employed multiple monitoring techniques, and reviewed contract costs. For example, GTRI representatives stated that they conducted site visits approximately every 6 weeks for one of the large foreign contracts we reviewed. We also concluded that NNSA had a process in place to review contract costs for allowability, allocability and reasonableness. We sampled invoices from the 12 contracts we reviewed and noted that GTRI technical representatives and contract office staff performed joint reviews upon receipt of contractor invoices for firm-fixed-price contracts. Also, we verified contract specialist reviews of cost-reimbursement and time-and-

material contract invoices for any unallowable costs and noted instances where costs were disallowed when noncompliant with the negotiated rates. As a result, no recommendations were made to management in the report. (OAS-L-12-01)

Follow-up Inspection on Security Clearance Terminations and Badge Retrieval at the Lawrence Livermore National Laboratory (Livermore)

Livermore is managed and operated under contract by Lawrence Livermore National Security, LLC, for NNSA. The Livermore Site Office is the NNSA Federal entity responsible for administering the contract. Livermore is contractually obligated to follow the Department's security policies when individuals terminate employment. These policies include: (1) collecting and locally deactivating security badges; (2) providing security briefings and ensuring a Security Termination Statement is signed; and, (3) sending requests for security clearance terminations to NNSA Personnel Security Division.

In January 2006, we issued a report on *Security Clearance Terminations and Badge Retrieval at Lawrence Livermore National Laboratory*, (DOE/IG-0716). The follow-up inspection revealed that Livermore and NNSA have generally taken corrective actions with regard to recovery of security badges, conducting security termination briefings and timely termination of security clearances. For instance, Livermore developed and implemented the Vital Information System Interactive Online Network, improving the employee termination process to include the retrieval of security badges, the security termination briefing procedures and the sending of clearance termination requests through an encrypted email system to NNSA Personnel

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Security Division. Also, NNSA Personnel Security Division improved the timeliness of security clearance terminations in the Department's Central Personnel Clearance Index. However, we did identify opportunities for further improvements regarding Livermore's security termination briefing procedures and NNSA's full utilization of the encrypted email system. Therefore, we made several suggestions to management for improvement. (INS-L-12-02)

Idaho Operations Office's Radiological and Environmental Sciences Laboratory

A complaint was received through the OIG Hotline alleging improprieties with the construction and operation of the Radiological and Environmental Sciences Laboratory (RESL). In particular, the complainant stated that the construction, relocation and operation of RESL violated a number of Federal policy and procedural requirements. RESL is a reference measurements laboratory specializing in analytical chemistry, radiation measurements and calibrations, and quality assurance.

We did not identify material issues or obtain sufficient evidence to substantiate the allegations concerning RESL's operation and relocation. However, we did identify an internal control weakness that the Department should consider relating to accounting for renovation costs. Specifically, the Department may not have appropriately capitalized costs associated with the renovation of the office facility. Project management officials did not provide the data needed by accounting personnel to make an appropriate determination. Rather, the project manager determined whether costs would be capitalized or expensed. To address the internal

control issue, we made suggestions to the Idaho Operations Office relating to capitalizing costs, as appropriate; ensuring proper categorization; and documentation retention. (OAS-L-12-02)

Follow-up Review of Control and Accountability of Emergency Communication Network Equipment

The Department's Emergency Communication Network (ECN) mission is to enable the exchange of classified and unclassified voice, data and video capabilities during national or Department emergencies. NNSA's Office of Emergency Operations manages the ECN program for the Department. NNSA contracted with National Security Technologies, LLC (NSTec) for administration, maintenance and operation of ECN at NNSA's Nevada Site Office and managing ECN property of about 1,100 pieces, including computers, laptops, servers and switches.

In September 2004, we issued a report on *Control and Accountability of Emergency Communication Network Equipment*, (DOE/IG-0663). Our follow-up inspection revealed that the Department had taken positive steps in response to the 2004 report to improve ECN property control and accountability. For instance, Department and NSTec officials consolidated ECN equipment inventories for Headquarters and Nevada into a centralized property management system. Also, they developed procedures to improve the process for increased property accountability. Although minor issues were identified, we generally confirmed that the Department had addressed previous findings and was adequately accounting for ECN property. As a result, no recommendations were made to management. (INS-L-12-01)

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Investigative Outcomes

Purchase Card Fraud Investigations

The OIG conducted a number of investigations involving the improper use of Government purchase cards by contractor employees at the Department's Hanford Site. As previously reported, several contractor employees were convicted, sentenced and ordered to pay over \$1 million in restitution. Additionally, 3 companies previously agreed to pay over \$6 million in civil settlements. During this reporting period, a former contractor employee was sentenced to 46 months incarceration, 3 years probation and was ordered to pay \$487,000 in restitution for committing wire fraud. Additionally, a vehicle that was refurbished using the embezzled funds was seized by the Government. The former contractor employee was debarred from doing business with the Federal government for 3 years. Also during this reporting period, 7 former Hanford Site contractor employees entered into civil settlement agreements with the Department of Justice and agreed to pay \$83,637 in restitution to settle Anti-Kickback Act allegations.

Per Diem Fraud Investigations

The OIG conducted a number of investigations involving the improper payment of per diem by Savannah River Nuclear Solutions. Many of these payments involved Recovery Act funds. During this reporting period, six subcontractor employees were convicted for receiving per diem payments to

which they were not entitled and two individuals were terminated from employment. In addition, five subcontractor employees were debarred from doing business with the Federal Government for 3 years. To date, over \$2.3 million in fines, restitution and civil settlement agreements have been paid by contractors and their employees.

Time Card Fraud Investigations

Three former Department contractor employees at the Hanford Site pled guilty in U.S. District Court for the Eastern District of Washington to conspiracy to defraud the Government. The investigation determined that between May 2004 and October 2008, several contractor employees routinely falsified timecards and received pay for hours they did not work. The amount received by each employee ranged from \$50,000 to \$166,000. Sentencing is pending in each case.

Settlement Agreement in Defective Body Armor Investigation

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. Several individual companies that provided component parts of the

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armor, or the armor itself, previously agreed to pay a total of \$59 million to resolve allegations of violating the False Claims Act. During this reporting period, another company, with the approval of U.S. Bankruptcy Court for the District of Delaware, agreed to pay \$1 million in settlement of claims by the U.S. Government. This remains an ongoing investigation with the Department of Justice Civil Division and several other Federal law enforcement agencies.

Funds Returned to the Department in Grant Fraud Investigation

An EECBG recipient returned \$2,491,090 to the Department. The OIG investigation determined that the recipient failed to produce proper substantiation for the funds despite repeated requests from Department program staff. The investigation also determined the recipient intended to use the funds for activities beyond the approved scope of work. The grant funds were awarded under the Recovery Act. This is a joint investigation with the Federal Bureau of Investigation (FBI).

Actions in Weatherization Fraud Investigation

Two senior members of a Community Action Program in Rhode Island were terminated from employment for allegedly attempting to destroy evidence related to an OIG investigation into the misappropriation of over \$2 million in Recovery Act weatherization grant funds. A third senior member was suspended from employment. This is an ongoing joint investigation between State and Federal agencies.

Termination Letter Issued in Grant Fraud Investigation

The Department issued a termination letter to a recipient of a \$1.1 million EECBG, which includes Recovery Act funds. The termination letter was issued for serious mismanagement and misuse of financial assistance award funds. The Department issued the letter after reviewing grant recipient documents obtained by the OIG during the course of an investigation. The documents revealed the recipient failed to follow approved procurement policies and procedures, incurred unallowable costs and pursued activities beyond the approved scope of work.

Former SLAC National Accelerator Laboratory Employee Debarred from Government Contracting

In response to an Investigative Report to Management (IRM), the Office of Procurement and Assistance Management debarred a former SLAC National Accelerator Laboratory (SLAC) employee from doing business with the Government for a period of 3 years. The former employee previously pled guilty to one count of willful injury and depredation of Government property. The investigation determined that the former employee intentionally destroyed 5,000 protein crystals utilized for scientific research at SLAC by removing them from subzero storage. The estimated loss to the Government was approximately \$500,000. This was a joint investigation with the FBI.

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Civil Settlement Agreement in Fire Investigation

An investigation determined that a fire, caused by an equipment failure on a dump truck owned by a subcontractor, burned approximately 13,000 acres on the Idaho National Laboratory (INL) site and approximately 36 acres of U.S. Bureau of Land Management (BLM) land. The U.S. Department of Justice entered into a civil settlement with an INL subcontractor. The subcontractor agreed to pay \$270,000 to settle allegations that it violated fire trespass laws and was negligent in its maintenance of vehicles. This is a joint investigation with BLM.

Civil Judgment Reached in Workers' Compensation Fraud Investigation

In the U.S. District Court for the Middle District of Tennessee, a Civil Judgment for \$125,000 was entered against a family member of a former Department employee. The investigation determined that the individual submitted a fraudulent claim for a \$125,000 death benefit under the Energy Employees' Occupational Illness Compensation Program Act after her mother, the authorized recipient, had died.

Former Professor Pled Guilty in Duplicate Research Grant Fraud Investigation

A former Pennsylvania State University professor pled guilty in U.S. District Court for the Middle District of Pennsylvania to wire fraud, false statements and money laundering. The OIG

investigation determined that the professor applied for and received a \$1.9 million research grant from the Advanced Research Projects Agency – Energy, after already receiving a grant from the National Science Foundation to perform the same work. Additionally, the University reimbursed the Department \$93,000 and the Department terminated the remainder of the award.

Former Department Contractor Employee Pled Guilty to Theft of Federal Funds

A former Bonneville contractor employee pled guilty to one count of theft of Federal funds. The investigation determined that the individual embezzled approximately \$36,000 in Department funds for personal use. Specifically, the former employee used a bank debit card to purchase items such as electronics, gym memberships and vacations. The debit card was intended to make purchases for the Bonneville contract the employee was overseeing.

Individuals Pled Guilty in Copper Theft Investigations

An individual with no Department affiliation pled guilty in Morgan County District Court, Colorado, for criminal violations related to theft of copper from the WAPA Hoyt substation. The individual was sentenced to 3 years incarceration and 2 years of mandatory parole and was ordered to pay \$14,044 in restitution to the Department. This was a joint investigation with the Weld and Morgan County Sheriffs' Offices and the Denver Police Department. In a related investigation, another individual with no Department affiliation

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pled guilty to burglary in the theft of copper from WAPA's Ault substation and was sentenced in Weld County Colorado District Court to 3 years incarceration. A determination of restitution is pending. This is a joint investigation with the Weld County Sheriff's Office.

Former Contractor Employee Debarred from Government Contracting

As a result of an OIG investigation, a former contractor employee of Livermore was debarred from Government contracting for a period of 3 years. The investigation determined that the former contractor employee, while employed at Livermore, stole high-end printer cartridges and sold them to a supply company and online wholesalers. The stolen cartridges were valued at approximately \$12,000. As previously reported, the former contractor employee was sentenced to 1 day incarceration and 5 years probation. The individual was also ordered to pay \$9,640 in restitution, court fees and assessments.

Individual Sentenced for Possession of Child Pornography

An individual with no affiliation to the Department who pled guilty to one count of possession of sexually exploitative material of children, was sentenced in U.S. District Court of Idaho to 6 years incarceration and 10 years of supervised released. The individual will also be required to register as a sex offender. The investigation was initiated upon receipt of

allegations that an IT employee at INL may have been involved in downloading and distributing child pornography. Further investigation exonerated the employee and determined that the employee's roommate was the person responsible for the illegal activity.

Former Contractor Employee Debarred

As a result of an OIG investigation, a former contractor employee of the Argonne National Laboratory was debarred from Government contracting for a period of 3 years. As previously reported, the investigation determined that employees at a non-profit organization created a false billing scheme that diverted funds to multiple individuals for work that was not performed. The former employee previously pled guilty to one count of mail fraud and was sentenced to 18 months probation or 150 hours of community service.

IRM Issued to Oak Ridge Office (ORO)

The OIG issued an IRM regarding tool management policies and accountability at the Department's East Tennessee Technology Park. In response, ORO implemented corrective action to improve internal control deficiencies. The investigation determined that former and current prime contractors had not properly maintained property management and accountability controls and did not effectively utilize an available electronic management system.

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Weatherization Funds Returned to the Department

As a result of an OIG investigation, a Community Action Agency (CAA) reimbursed the Maine State Housing Authority \$81,121. The investigation determined that the CAA intentionally mismanaged Department Weatherization Assistance Program funds, to include directing employees to charge hours worked on non-DOE programs to the Department. The Maine State Housing Authority is in the process of returning the funds to the Department. Both Federal and State prosecutors declined to prosecute in lieu of administrative remedies. This investigation did not involve Recovery Act funds.

Department Employee Sentenced for Travel Voucher Fraud

An investigation determined that the director of a Headquarters' program office submitted and was reimbursed for fraudulent travel vouchers in connection with official Department travel. The employee was sentenced to 6 months probation in U.S. District Court for the District of Columbia for conversion of public money and was also ordered to pay restitution to the Department, a fine and a special assessment fee.

Three Department Employees Disciplined in Response to an IRM

In response to an IRM, the Department suspended one employee and reprimanded two other employees. The OIG investigation determined that the three Department employees engaged in unprofessional conduct while on official overseas Department travel.

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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:

- Science and the Office of Energy Efficiency and Renewable Energy (EERE) updated and began implementing program guidance to ensure that systems are secure and Plans of Action and Milestones are properly used to track corrective actions for known cyber security weaknesses. Also, Science, EERE and NNSA implemented additional processes related to oversight of site cyber security programs.
- At the National Energy Technology Laboratory (NETL), analysis was performed on the site's data center needs that resulted in the consolidation of computational equipment and a plan to convert more than 1,400 square feet of recovered space for other uses. Also, an extensive engineering and economic analysis of candidate sites was performed that incorporated actual costs and allowed for a consistent assessment of costs across the alternatives.
- Department programs and sites had taken corrective action to address previously identified cyber security weaknesses in the areas of access control, configuration and vulnerability management, and integrity of web applications, resulting in the closure of 22 findings.
- The Office of the Chief Information Officer (OCIO) issued Department Order 243.1A, "Records Management Program." The revised policy covers additional aspects of records management, particularly management of electronic records, and requires mandatory training for all Federal personnel. In addition, the Department updated, as appropriate, the records management guidance currently available on the OCIO records management website.
- A Department contracting officer formally determined that \$142,665 in costs claimed was unallowable under Federal regulation and the terms and conditions of a Cooperative Agreement for Fire Department services.
- EERE conducted a comprehensive analysis relating to the inaccurate reporting of completed housing units by the State of Arizona under Department Weatherization Program guidelines and required Arizona to correct the reporting error in its Weatherization Program database.
- NNSA took action necessary to ensure that the management and operating contractor for a national laboratory was not given an unfair competitive advantage over other contractors, and proprietary data and technology was appropriately protected by providing essential laboratory personnel with Organizational Conflicts of Interest (OCI) training for identifying and mitigating OCI issues or concerns.

- The Department issued a delegation of authority requiring specific review and approval of certain workforce restructuring actions by senior management.
- NNSA's Office of Secure Transportation and the Pantex Site Office conducted an analysis of combined needs, determining that a joint use facility is required to meet all protective training needs. Anticipating cost savings of \$500,000, the Office of Defense Nuclear Security agreed to commit \$1.5 million to the new facility.
- A Department contracting officer formally notified a contractor of the intent to disallow a \$1 million fee payment relating to the K Basins Sludge Treatment Project at the Hanford Site.
- SPR management provided training to ensure that each Security Police Officer understands when the use of deadly force is justified.
- Arizona committed to ensuring that sub-recipients of SEP funds incorporate required regulatory provisions and Federal financial assistance rules into all open sub-agreements.
- Livermore updated policies and procedures to re-enforce roles and responsibilities associated with the removal or transfer of equipment in beryllium areas, ensuring proper labeling, sampling or control of access. In addition, Livermore ensured that standardized beryllium signs and labels were used as required. Beryllium is a metal essential for nuclear operations and processes.

Congressional Responses

During this reporting period, the OIG provided information at the request of Congress in 44 instances and briefed congressional staff on 11 occasions. In addition, the OIG testified at three congressional hearings before the following:

- 1) Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending, House Committee on Oversight and Government Reform, on November 2, 2011. The hearing was entitled, "Use of Taxpayer Funds at the Department of Energy Aimed at Advancing Obama's Green Energy Agenda;"
- 2) Subcommittee on Investigations and Oversight, House Committee on Committee on Science, Space, and Technology, on November 30, 2011. The hearing was entitled, "Stimulus Oversight: An Update on Accountability, Transparency, and Performance;" and,
- 3) Subcommittee on Investigations and Oversight, House Committee on Committee on Science, Space, and Technology, on January 24, 2012. The hearing was entitled, "A Review of the Advanced Research Projects Agency – Energy."

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 35 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 3,118 contacts (calls, letters, e-mails, walk-ins, and *Qui Tams*); 2,813 of these were immediately resolved, redirected, or required no further action. In addition, 305 complaints were processed for further review and adjudication. The OIG Hotline System can be reached by calling **1-800-541-1625** or **1-202-586-4073**.

Management Referral System

The OIG referred 179 complaints to Department management and other government agencies during the reporting period and specifically requested Department management to respond concerning the actions taken on 64 of these complaints. Otherwise, Department management and others were asked to reply only if wrongdoing or misconduct was confirmed or indicators of fraud involving Department programs, operations or personnel were identified in response to an OIG referral. The following referrals for which responses were received during this reporting period are examples that demonstrate management's use of OIG provided information to stimulate positive change or to take corrective action.

- A New Hampshire resident complained to the OIG about substandard weatherization work performed by a local CCA and its contractors. In response to an OIG referral, EERE worked with State officials to conduct a site visit and identify work that needed to be performed. The work was completed and the matter resolved to the resident's satisfaction.

- The OIG referred to the Department allegations relating to the lack of qualifications of contractor fire protection engineering staff at the Savannah River Site. In response to the OIG referral, one individual was removed from the list of qualified fire protection engineers.
- In response to an OIG referral, Department management at the Hanford facility identified inconsistencies between a contractor's data logs and the program office's progress reports for work on the Draining Reconstitution Team project. Department management determined that corporate employees did not receive any personal incentive or explicit benefit based on the inconsistencies. However, management implemented procedures to prevent future reporting inconsistencies.
- In response to an OIG referral, the Portsmouth/Paducah Project Office and its infrastructure contractor at the Portsmouth Gaseous Diffusion Plant replaced damaged or missing signs and erected an additional 31 new signs to alert the public when driving onto a Federal facility.
- The OIG was advised of potential procurement irregularities relating to the cancellation of NETL pre-solicitation for exam preparation for the Project Management Institute's Project Management Profession (PMP) exam. In response to the OIG referral, the Department conducted a review, which determined that the pre-solicitation was cancelled after NETL officials learned that the Department had a nationwide master contract that offered the required PMP exam preparation training.

- The OIG was advised that a Florida company was improperly using the Department of Energy seal in an advertisement. In response to the OIG referral, Department management contacted a company representative and instructed the individual that all future requests for use of the seal must be submitted to the Department.

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 16 *Qui Tam* lawsuits involving alleged fraud against the Government with potential liability in the amount of approximately \$94,530,000. While these cases are highly resource intensive, requiring extensive OIG investigative and audit effort, they have proven to result in a high return on our investment.



Appendix 1 - Reports



Recovery Act and Recovery Act-Related Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-RA-12-01	<i>Western Area Power Administration's Control and Administration of American Recovery and Reinvestment Act Borrowing Authority</i>	11-04-11		
OAS-RA-12-02	<i>The State of Nevada's Implementation of the Energy Efficiency and Conservation Block Grant Program</i>	11-09-11		
OAS-RA-12-03	<i>Lessons Learned/Best Practices during the Department of Energy's Implementation of the American Recovery and Reinvestment Act of 2009</i>	01-18-12		
OAS-RA-12-04	<i>The Department's Management of the Smart Grid Investment Grant Program</i>	01-20-12	\$2,000,000	
OAS-RA-12-05	<i>Examination Report "Saratoga County Economic Opportunity Council, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009"</i>	01-20-12		\$33,104
OAS-RA-12-06	<i>The Management of Post-Recovery Act Workforce Transition at Office of Environmental Management Sites</i>	02-22-12	\$7,700,000	
OAS-RA-L-12-01	<i>Special Inquiry on the Office of the Chief Financial Officer's Information Technology Expenditures</i>	11-28-11		



Recovery Act and Recovery Act-Related Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-RA-L-12-02	<i>Recovery Act Funded Projects at the Lawrence Berkeley National Laboratory</i>	01-12-12		
OAS-RA-L-12-03	<i>The Department of Energy's American Recovery and Reinvestment Act – Arizona State Energy Program</i>	01-26-12		
INS-RA-12-01	<i>Alleged Misuse of American Recovery and Reinvestment Act Grant Funds by the Western Arizona Council of Governments</i>	02-09-12		
INS-RA-L-12-01	<i>Waste Disposal and Recovery Act Efforts at the Oak Ridge Reservation</i>	12-16-11		

Other Audit Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
IG-0856	<i>The Department's Unclassified Cyber Security Program – 2011</i>	10-20-11		
IG-0857	<i>Non-Facility Contractor Prior Performance</i>	10-28-11		
IG-0858	<i>Management Challenges at the Department of Energy</i>	11-10-11		
IG-0860	<i>The Department of Energy's Implementation of Homeland Security Presidential Directive 12</i>	02-28-12	\$600,000	
IG-0861	<i>Management of Bonneville Power Administration's Information Technology Program</i>	03-26-12		

Other Audit Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-M-12-01	<i>The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2011</i>	11-15-11		
OAS-M-12-02	<i>The Department's Configuration Management of Non-Financial Systems</i>	02-23-12		
OAS-M-12-03	<i>Purchase of Computers for the U.S. Department of Agriculture Forest Service at the Savannah River Site</i>	03-23-12		
OAS-L-12-01	<i>The National Nuclear Security Administration Global Threat Reduction Initiative's Contract Administration</i>	10-25-11		
OAS-L-12-02	<i>Idaho's Radiological and Environmental Sciences Laboratory</i>	02-21-12		
OAS-L-12-03	<i>The Department of Energy's Office of Environmental Management's Budget Allocation Plan</i>	03-15-12		
OAS-FS-12-01	<i>Federal Energy Regulatory Commission's Fiscal Year 2011 Financial Statement Audit</i>	11-15-11		
OAS-FS-12-02	<i>Department of Energy's Fiscal Year 2011 Consolidated Financial Statements</i>	11-15-11		
OAS-FS-12-03	<i>The Department of Energy's Nuclear Waste Fund's Fiscal Year 2011 Financial Statements</i>	11-21-11		
OAS-FS-12-04	<i>Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2011</i>	12-21-11		
OAS-FS-12-05	<i>Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2011</i>	02-06-12		

Other Audit Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-FS-12-06	<i>Southwestern Federal Power System's Fiscal Year 2006, 2007, 2008 and 2009 Financial Statement Audits</i>	03-08-12		
OAS-FS-12-07	<i>Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2011 Agency Financial Report</i>	03-15-12		
OAS-FS-12-08	<i>Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2009 Balance Sheet</i>	03-23-12		
OAS-V-12-01	<i>Audit Coverage of Cost Allowability for Bechtel Marine Propulsion Corporation, during February 1, 2009 through September 30, 2010, under Department of Energy Contract No. DE-NR0000031</i>	10-31-11		
OAS-V-12-02	<i>Audit Coverage of Cost Allowability for Bechtel Jacobs Company, LLC under Department of Energy Contract No. DE-AC05-98OR22700 for Fiscal Years 2008-2010</i>	11-03-11		
OAS-V-12-03	<i>Audit Coverage of Cost Allowability for Savannah River Nuclear Solutions, LLC under Department of Energy Contract No. DE-AC09-08SR22470 during Fiscal Year 2009</i>	01-20-12		\$471,807
OAS-V-12-04	<i>Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory for the period October 1, 2008 thru September 30, 2010 under Department of Energy Contract No. DE-AC02-05CH11231</i>	02-28-12		\$303
OAS-SR-12-01	<i>Supplemental Special Inquiry on Office of Special Counsel Whistleblower Disclosure File No. DI-10-1231: Allegations Regarding Western Area Power Administration's Desert Southwest Region</i>	10-12-11		

Other Inspection Reports Issued

October 1, 2011 – March 31, 2012

Report Number	Title	Date Issued	Savings	Questioned Costs
IG-0859	<i>Property Accountability and Protection of Federal Sensitive Unclassified Information Under the Cooperative Agreement with the Incorporated County of Los Alamos</i>	02-17-12		\$143,000
INS-O-12-01	<i>Follow-up Review of Security at the Strategic Petroleum Reserve</i>	10-25-11		
INS-L-12-01	<i>Follow-up Review of Control and Accountability of Emergency Communications Network (ECN) Equipment</i>	12-21-11		
INS-L-12-02	<i>Follow-up Inspection on Security Clearance Terminations and Badge Retrieval at the Lawrence Livermore National Laboratory</i>	03-06-12		



Appendix 2 - Tables

Audit and Inspection Reports with Recommendations for Better Use of Funds

October 1, 2011 – March 31, 2012

(Dollars in Thousands)

The following table shows the total number of 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	\$602,997,657	\$0	\$602,997,657
B. Those issued during the reporting period:	30	\$10,300,000	\$0	\$10,300,000
Subtotals (A + B)	33	\$613,297,657	\$0	\$613,297,657
C. Those for which a management decision was made during the reporting period: *	21	\$12,300,000	\$0	\$12,300,000
(i) Agreed to by management:		\$2,000,000	\$0	\$2,000,000
(ii) Not agreed by management:		\$0	\$0	\$0
D. Those for which a management decision is not required:	10	\$0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period: *	3	\$611,297,657	\$0	\$611,297,657

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 included sums for which management decisions on the savings were deferred and, in some cases, awaiting determination by the Contracting Officer.*

Audit and Inspection Reports with Questioned Costs

October 1, 2011 – March 31, 2012

(Dollars in Thousands)

The following table shows the total number of 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	\$215,259,065	\$441,697
B. Those issued during the reporting period:	3	\$472,110	\$33,104
Subtotals (A + B)	3	\$215,731,175	\$474,801
C. Those for which a management decision was made during the reporting period:*	3	\$128,488,553	\$106,104
(i) Value of disallowed costs:		\$2,773,851**	\$73,000
(ii) Value of costs not disallowed:		\$125,385,592	\$0
D. Those for which a management decision is not required:	0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	0	\$87,714,732	\$401,801

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 included sums for which management decisions on the savings were deferred and, in some cases, awaiting determination by the Contracting Officer.

**Included disallowed costs from DOE/OIG-0859; Costs claimed were unallowable pursuant to 2 CFR Part 225, 10 CFR 600 and the terms and conditions of a Cooperative Agreement for Fire Department services due to a lack of support demonstrating that these costs were allowable, allocable and/or reasonable.

Reports Lacking Management Decision

DOE's Departmental Audit Report Tracking System (DARTS) tracks audit and inspection 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 6 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 achieving management decision is described below.

Management Audit

- **IG-0831: *The Office of Science's Management of Information Technology Resources, November 20, 2009*** - The finalization of the management decision is dependent upon resolution of complex cost allocation issues and coordination with senior Departmental leadership. A revised management decision has been prepared and is in the concurrence process within the Department. Anticipated completion date of a final Management Decision is June 30, 2012.

- **IG-0835: *The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting, July 1, 2010*** - The Department of Energy, in support of the Department's implementation of Executive Order 13514, "Federal Leadership in Environmental, Energy, and Economic Performance", established a Strategic Sustainability Office.

The finalization of the management decision is pending coordination with the newly established office; a final management decision is expected by April 30, 2012.

Prior Significant Recommendations Not Implemented

As of March 31, 2012, closure actions on recommendations in 40 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 has closed 155 recommendations in the past 6 months. Management updates the DARTS on a quarterly basis, most recently in March 31, 2012. Information on the status of any report recommendation can be obtained through the OIG's Office of Audits and Inspections.

Summary of Investigative Activities

October 1, 2011 – March 31, 2012

Cases open as of October 1, 2011	254
Cases opened during period	70
Cases closed during period	72
Multi-Agency Task Force Cases Opened	23
<i>Qui Tam</i> investigations opened	3
Total Open <i>Qui Tam</i> investigations as of March 31, 2012	16
Cases currently open as of March 31, 2012	252
IMPACT OF INVESTIGATIONS:	
Administrative discipline and other management actions	26
Recommendations to management for positive change and other actions	27
Suspensions/Debarments	23
Accepted for prosecution*	18
Indictments	21
Criminal convictions	9
Pre-trial diversions	3
Civil actions	19
TOTAL DOLLAR IMPACT** (Fines, settlements, recoveries)	\$5,846,408

* 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 involving multiple agencies.

Summary of Investigative Activities

HOTLINE ACTIVITY

October 1, 2011 – March 31, 2012

Total Hotline calls, emails, letters, and other complaints (contacts)	3,118
<ul style="list-style-type: none"> • Hotline contacts resolved immediately/redirected/no further action 	2,813
<ul style="list-style-type: none"> • Hotline contacts predicated for evaluation 	305
<ul style="list-style-type: none"> • Hotline predications pending disposition 	72
Total Hotline predications processed this reporting period	364
<ul style="list-style-type: none"> • Hotline predications transferred to OIG Program Office 	31
<ul style="list-style-type: none"> • Hotline predications referred to Department management or other entity for information/action 	179
<ul style="list-style-type: none"> • Hotline predications closed based upon preliminary OIG activity and review 	145
<ul style="list-style-type: none"> • Hotline predications awaiting referral (March 31, 2012) 	9
Hotline predications open at the end of the reporting period	13

Summary of Recovery Act Section 1553 Retaliation Complaints

October 1, 2011 – March 31, 2012

Recovery Act Whistleblower Retaliation Complaints received	4
Complaints carried over from prior period(s)	5
Disposition of Whistleblower Retaliation Complaints:	
<ul style="list-style-type: none"> • Reports issued 	1
<ul style="list-style-type: none"> • Complaints Dismissed: 	
<ul style="list-style-type: none"> - Discontinued review 	1
<ul style="list-style-type: none"> - Complaints withdrawn 	2
<ul style="list-style-type: none"> - Complainant lacked standing 	1
<ul style="list-style-type: none"> - Complainant's contact information invalid/unable to contact complainant 	1
Recovery Act Complaints that received extensions	3

Peer Reviews

October 1, 2011 – March 31, 2012

Results of Reviews Conducted by DOE/OIG: *Office of Audits and Inspections*

Date of Recent Peer Review(s)	Reviewed OIG	Outstanding Recommendations
N/A		

Results of Reviews Conducted by DOE/OIG: *Office of Investigations*

Date of Recent Peer Review(s)	Reviewed OIG	Outstanding Recommendations
N/A		

There are no outstanding recommendations from any previous peer reviews.

Results of Reviews Conducted by Other OIGs: *Office of Audits Services*

Date of Recent Peer Review(s)	Reviewing OIG	Requirements For Review Frequency	Outstanding Recommendations/Link
N/A			

Results of Reviews Conducted by Other OIGs: *Office of Investigations*

Date of Recent Peer Review(s)	Reviewing OIG	Requirements For Review Frequency	Outstanding Recommendations/Link
N/A			

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

Feedback Sheet

The contents of the March 2011 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 General (IG-10)
1000 Independence Avenue, SW
Washington, D.C. 20585

ATTN: **Linda Snider**

Name: _____

Daytime Telephone Number: _____

Comments/Suggestions/Feedback:

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

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U.S. Department of Energy Office of Inspector General

Call the HOTLINE if you suspect:

- **Fraud,**
- **Waste,**
- **Abuse,**
- **Mismanagement by a DOE Employee, Contractor, or Grant Recipient; or have a**
- **Whistleblower Retaliation Complaint related to American Reinvestment and Recovery Act funds**

Call

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

Additional information on the OIG and reports can be found at
<http://energy.gov/ig>

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



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