



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

Audit Report

The Department of Energy's Energy Innovation Hubs

OAS-M-13-08

September 2013



Department of Energy
Washington, DC 20585

September 30, 2013

MEMORANDUM FOR THE ASSISTANT SECRETARY FOR ENERGY EFFICIENCY AND
RENEWABLE ENERGY
ASSISTANT SECRETARY FOR NUCLEAR ENERGY
ACTING DIRECTOR, OFFICE OF SCIENCE

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass
Deputy Inspector General
for Audits and Inspections
Office of Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's
Energy Innovation Hubs"

BACKGROUND

The Department of Energy's (Department) Energy Innovation Hubs (Hubs) initiative addresses research challenges with potentially high impact on our national energy security. Such challenges have proved the most resistant to solution by conventional research and development management structures. Each Hub focuses on a single topic, with work ranging from basic research, through engineering development, to facilitating commercialization by industry. The balance of these activities differs from one Hub to the next, depending on technology readiness. The Hubs are composed of highly collaborative teams integrating expertise in multiple scientific disciplines, engineering fields and technology areas. Each Hub is expected to become a world-leading research and development center in its topical area by bringing together top talent across the full spectrum of research and development performers, including universities, private industry, non-profits and Government laboratories.

From Fiscal Years (FY) 2010 through 2012, there were three active Hubs: (1) the Energy Efficient Buildings Hub (Buildings Hub); (2) the Modeling and Simulation Hub (Modeling Hub); and (3) the Fuels from Sunlight Hub (Sunlight Hub). The Department recently awarded funding for the Batteries and Energy Storage Hub and the Critical Materials Hub. The Department has committed to investing a total of \$606 million in the Hubs. Since FY 2010, Congress has appropriated a total of \$226.9 million to the Hubs. The Department requested \$136 million for FY 2013 to operate five Hubs and add another Hub on electricity systems.

Due to the significant level of funding, we initiated this audit to determine whether the Department was effectively managing its Hubs program. Our work focused on the three Hubs established at the time of our review.

RESULTS OF AUDIT

Generally, the Hubs initiative was satisfying the specific Federal, Department and programmatic requirements that we evaluated during our review. Most notably, the Department selected each

Hub following a rigorous merit review process using criteria described in the Funding Opportunity Announcement. Federal officials had also reviewed and approved management plans for each Hub. Additionally, the Hubs were reporting meeting performance goals within scheduled time frames. Finally, a number of Hubs had been externally reviewed and corrective action plans had been developed to improve performance in areas such as the establishment of deliverables and milestones. Although our review did not identify material concerns regarding Hub operations, we identified several areas warranting management attention by the Department. Specifically, for the three Hubs we reviewed, the Department had not:

- Effectively managed conference and meeting costs. The Hubs claimed costs for "working" meals and meeting refreshments that were unreasonable when considered in light of recent attempts to reduce and control travel and conference-related spending. For example, the Buildings and Modeling Hubs frequently provided group meals and refreshments at meetings and conferences, spending \$103,472 through May 2012. Although not as frequent, the Sunlight Hub spent \$123,808 on two annual "all-hands" conferences where meals and refreshments were served.
- Always ensured conflict of interest certifications were obtained and/or retained for all external merit reviewers and Federal employees participating in the Hub selection process as required by Federal Regulation 10 CFR 600.13, *Merit Review*, and the Department's *Merit Review Guide*.

Excessive conference and meeting costs occurred because the Department had not provided sufficient oversight over these costs. In fact, officials at one Hub conveyed to us that they had received advance approval to provide meals and refreshments based on correspondence received from the responsible contract specialist. We confirmed that this advance approval was provided without an estimated total cost of providing meals and refreshments. The missing conflict of interest certifications were due to poor recordkeeping practices. Although Department officials stated that they had obtained the certifications, they did not ensure that the certifications were maintained in the award files.

During this period of budget austerity and emphasis on spending reductions, it is important for Federal entities to control travel and conference-related costs. Additionally, although we did not identify any specific conflicts of interest, the Department's failure to retain conflict of interest certifications prevents it from ensuring that individuals involved in the award process were free of personal monetary interests or relationships that could impair their impartiality. Without improvement in controls over these areas, the Department is at risk of reimbursing unreasonable costs and compromising the integrity and impartiality of the selection process.

We made several recommendations that, if implemented, should help improve controls over the Hubs program.

MANAGEMENT REACTION AND AUDITOR COMMENTS

Management concurred with our recommendations and indicated that it had completed or initiated corrective actions designed to address our concerns. We found that reported corrective actions were responsive to our recommendations. Management's comments are discussed in more detail in the body of the report and are included in Appendix 3.

Attachment

cc: Deputy Secretary
Acting Under Secretary for Science and Energy
Chief of Staff

REPORT ON THE DEPARTMENT OF ENERGY'S ENERGY INNOVATION HUBS

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DEPARTMENT OF ENERGY'S ENERGY INNOVATION HUBS

Background

From Fiscal Years (FY) 2010 to 2012, the Department of Energy (Department) had three active Energy Innovation Hubs (Hubs) as part of its initiative to address research challenges with potentially high impact on our national energy security. Such challenges have proved the most resistant to solution by conventional research and development management structures. The Department had awarded cooperative agreements to Pennsylvania State University for the Energy Efficient Buildings Hub (Buildings Hub) and to California Institute of Technology for the Fuels from Sunlight Hub (Sunlight Hub). The Department also awarded the Modeling and Simulation Hub (Modeling Hub) to the Consortium for Advanced Simulation of Light Water Reactors, led by Oak Ridge National Laboratory, managed and operated by UT-Battelle, LLC. The Hubs are large-scale, multi-disciplinary, highly collaborative teams of scientists and engineers working to achieve a specific high priority goal. Federal oversight and program management of each Hub is the responsibility of the Department's program office with budget authority for that Hub. The Office of Energy Efficiency and Renewable Energy (EERE) had responsibility for the Buildings Hub; the Office of Nuclear Energy (Nuclear Energy) had responsibility for the Modeling Hub; and the Office of Science (Science) had responsibility for the Sunlight Hub. Moreover, the Department established a working group of senior technical program managers that met regularly to coordinate the Hubs program across these program offices.

Hub Management

Generally, the Hubs initiative was satisfying the specific Federal, Departmental and programmatic requirements that we evaluated in our review. We found that each Hub was selected following a rigorous merit review process using established criteria. Federal officials had also reviewed and approved management plans for each Hub and the Hubs were reporting meeting performance goals within scheduled time frames. Finally, a number of Hubs had been externally reviewed and corrective action plans had been developed to improve performance in areas such as the establishment of deliverables and milestones. During our review, however, we identified areas of potential cost savings related to conferences and meetings, as well as weaknesses in the internal controls over conflict of interest disclosure procedures for merit reviewers during the award selection process.

Conference and Meeting Cost Savings

Our review of the three Hubs identified an opportunity for the Department to reduce conference and meeting costs, particularly expenses for "working" meals and refreshments. The Hubs claimed costs for meals and refreshments that we considered unreasonable.

Federal policy generally prohibits the use of Federal funds to pay for meals and refreshments unless a person is on official travel, it relates to a gathering to disseminate information, or improves productivity. The Federal Travel Regulation allows agencies managing a conference to provide light refreshments using appropriated funds but only if the majority of the conference attendees are on official travel status. The Federal Acquisition Regulation does not specifically

address working meals and refreshments but does contemplate that such costs could be allowed if associated with certain meetings, conferences, and symposia where productivity would be improved. The Office of Inspector General has completed a number of reviews in which we reported unreasonable and inappropriate meal and refreshment costs. Appendix 2 contains a list of these reviews, which, in some instances, identified the need to develop specific policies and guidance related to conference management.

Of particular concern, the Buildings and Modeling Hubs frequently provided group meals and refreshments at meetings and conferences, expenditures that amounted to \$103,472 through May 2012. To illustrate the frequency and cost of these claims, we noted that the:

- Buildings Hub spent \$50,157 to provide working lunches on 52 occasions and meeting refreshments on 48 additional occasions during an 18-month period. Meals during one major conference event accounted for \$12,780 of this amount.
- Modeling Hub provided meals for 38 events and spent \$53,315 on group meals and refreshments during a 23-month period. Meals for two meeting events during this timeframe accounted for \$24,589 of the total amount spent.

While the Sunlight Hub (a Hub split between two locations) provided meals and refreshments less frequently, this Hub organized larger, more costly conferences. Through May 2012, the Sunlight Hub spent \$157,991 on conferences and meetings where meals and refreshments were served. Of this amount, \$123,808 was spent to host two annual all-hands conferences and another \$11,411 was spent on an annual performance review.

Also of note, two Hubs returned \$14,933 when presented with the results of our review of transactions, including \$2,494 from the Buildings Hub and \$12,439 from the Sunlight Hub. These costs primarily related to meals served at the end of the day, social events, or charges exceeding cost benchmarks. Further, we found that two Federal employees failed to reduce per diem or otherwise contribute towards meals provided by the Hubs while on travel status. The Federal Travel Regulation requires travelers to deduct the appropriate amount from their travel reimbursement when meals are furnished at conferences. Information regarding this matter was provided to appropriate officials.

Conflict of Interest Certifications

The EERE and Nuclear Energy Program Offices did not have conflict of interest certifications for some of their merit reviewers involved in the Hub selection processes. Federal Regulation 10 CFR 600.13, *Merit Review*, and the Department's *Merit Review Guide* require that all discretionary financial assistance awards be awarded through a merit-based selection process which involves a merit review process. Additionally, the Department's *Merit Review Guide* requires that all merit reviewers sign conflict of interest certificates prior to their participation to certify they will not review applications for which they have a conflict of interest or in which a reasonable person may question their impartiality. Despite these documentation requirements, Nuclear Energy did not have signed conflict of interest certifications for one external technical reviewer and three members of its Federal Merit Review Panel that oversaw the selection of the

Modeling Hub award. EERE did not have conflict of interest certifications for any of its Federal employees and three external merit reviewers involved in the selection of the Buildings Hub.

Although the certifications were not available for our review, we did not identify any signs of conflicts of interest during our review of the selection processes.

Department and Hub Oversight

Neither the Department nor the Hubs had always provided sufficient oversight of costs. In particular, although responsible for ensuring Federal resources are used efficiently and effectively to achieve intended program results per Department Order 413.1b, *Internal Control Program*, the Department had not taken sufficient action to limit the costs of meals and conference costs incurred by the Hubs. For example, we noted that the Department was not always aware of the extent of such costs. In at least one case, the Contract Specialist associated with the Buildings Hub provided advance approval to charge meals and refreshments to the agreement and assumed that lunches would be provided during multiple meetings. This advance approval was provided without obtaining an estimate of the total costs of providing the meals and refreshments, although the Department had issued guidance to Contracting Officers designed to control these types of costs.

Additionally, the Department had not required the Hubs to detail the estimated costs for conferences in proposed budgets, the point at which this type of cost analysis should be performed according to the Department's *Guide to Financial Assistance*. The working meals and refreshments were justified as being an inseparable part of planned events and because they increased productivity by allowing for collaboration and interaction of the members. We concluded, however, that the Department needs to put more emphasis on containing such costs during the current period of budget austerity throughout the Government. Furthermore, although the Department had financial oversight procedures, we found the financial oversight was not always sufficient to ensure the accuracy and integrity of amounts paid. Specifically, Program officials were not always aware what the Hubs were claiming because they reviewed summary-level cost information typical of these agreements and had not obtained or reviewed detailed costs, such as invoices supporting expenditures.

Finally, the absence of conflict of interest certifications was the result of poor recordkeeping practices by the Department. Although Department officials stated that they had obtained the certifications, they did not ensure that the certifications were maintained in the award files. Nuclear Energy officials recalled obtaining the signed conflict of interest certifications; however, the forms were not included in the official award file and could not be found. Because of our inquiries, Nuclear Energy requested four individuals sign new conflict of interest certifications attesting to their lack of conflicts and added them to the award file. EERE officials could not explain why the certifications were missing from their files.

Furthermore, Nuclear Energy did not utilize an electronic merit review management system during the selection process, a practice which would have provided additional assurance conflicts did not exist. Both EERE and Science utilized the Proposal Evaluation and Electronic Review Network (PeerNet) developed by the Oak Ridge Institute for Science and Education, but are

developing office-specific systems. A Nuclear Energy official stated that PeerNet was not part of Nuclear Energy's standard selection process or part of the merit review plan approved for the Hub selection. PeerNet is a web-based application that helps the Department monitor its merit reviewers for conflict of interest and bias throughout the peer review process. In addition to capturing signed conflict of interest certifications at the beginning and end of an application review, merit reviewers must acknowledge electronically that they do not have conflicts every time they access a proposal in PeerNet. Accordingly, an electronic system such as PeerNet would have provided some assurance that merit reviewers were impartial and free of conflicts should merit reviewers fail to sign the required disclosure statements.

Impact

Without improvement in controls over the areas we identified, the Department is at risk of reimbursing unreasonable costs and compromising the integrity and impartiality in its selection process. During this period of budget austerity with an emphasis on reducing spending within the Federal community, conferences, meals, and refreshments are logical places to control costs. While there are benefits in bringing all members together at conferences and meetings, the Department must carefully balance when and how often to allow Hubs to provide them. Although we did not identify any signs of conflicts of interest during the Hub selection process, the failure to obtain conflict of interest certifications means that the Department cannot prove its merit reviewers were free of personal monetary interests or relationships in which a reasonable person may question the reviewer's impartiality.

RECOMMENDATIONS

To address the issues noted in this report and ensure that the Energy Innovation Hubs maximize their pursuit of science, we recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy, the Assistant Secretary for Nuclear Energy, and the Acting Director of the Office of Science:

1. Explore cost reduction opportunities related to conferences, meals and refreshment costs;
2. Direct the Contracting Officers to make official determinations regarding the reasonableness and allowability of costs incurred for conferences, meals and refreshments; and
3. Ensure use of a merit review management system with ability to capture conflict of interest acknowledgements, such as the PeerNet system, during future selection processes.

We also recommend that the Assistant Secretary for Energy Efficiency and Renewable Energy and the Assistant Secretary for Nuclear Energy:

4. Take action to recover travel funds from Federal employees that did not reduce per diem for meals provided at Hub conferences; and

-
5. Take action to address internal control weaknesses related to recordkeeping/document retention of merit reviewers' Conflict of Interest/Nondisclosure Statements.

MANAGEMENT REACTION

Nuclear Energy, Science, and EERE concurred with our recommendations and indicated that corrective actions designed to address our concerns had been completed or initiated. The three program offices supported exploring cost reduction opportunities with regard to conferences, meals, and refreshment costs, and stated either in official comments attached to our report or in separate communications that contracting officers would make official determinations regarding the reasonableness and allowability of costs we questioned. Additionally, the program offices either had merit review management systems in place or were exploring the use of such systems to manage conflict of interest issues and help with recordkeeping. Further, EERE and Nuclear Energy agreed to issue notices to Federal travelers reminding them of meal per diem requirements, including the requirement to deduct meals provided while on travel from their per diem claims on travel vouchers. The Federal employees who failed to reduce per diem for meals provided by the Hub agreed to reimburse the Department.

Science disagreed with a statement in the draft audit report that it felt implied that the Sunlight Hub should not have held its annual all-hands meetings. While it agreed that video conferencing is an essential tool to facilitate long-distance meetings at low marginal cost, it stated that there was still a need for researchers to gather in large groups for in-person meetings. Science stated that the tacit knowledge transferences and spontaneous interpersonal exchanges of such meetings are essential to scientific collaboration.

AUDITOR COMMENTS

The reported corrective actions were responsive to our recommendations. We made changes to the final report in response to comments we received from Science concerning the Sunlight Hub's all-hands conferences and the availability of video conferencing capabilities. It was not our intent to imply that face-to-face meetings should not be held. We intended to illustrate the costs of such conferences and point out an area in which cost savings might be possible. Nuclear Energy's management, for instance, stated that the Modeling Hub had already realized savings using collaboration technologies to reduce the number of face-to-face meetings. Formal comments from EERE, Nuclear Energy, and Science comments are included in Appendix 3.

OBJECTIVE, SCOPE AND METHODOLOGY

OBJECTIVE

The objective of this audit was to determine whether the Department of Energy (Department) was effectively managing the Energy Innovation Hubs (Hubs) Program.

SCOPE

We conducted the audit from June 2012 to September 2013, at the Offices of Energy Efficiency and Renewable Energy, Nuclear Energy, and Science in the Washington, DC, area. We also visited each of the Hubs – the Energy Efficient Buildings Hub located at Pennsylvania State University in University Park and at the Navy Yard in Philadelphia, Pennsylvania; the Modeling and Simulation Hub at the Oak Ridge National Laboratory in Oak Ridge, Tennessee; and the Fuels from Sunlight Hub located at California Institute of Technology in Pasadena, California and at Lawrence Berkeley National Laboratory in Berkeley, California. The scope of the audit covered the three Hubs active during Fiscal Years 2010 through 2012.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed and evaluated relevant laws and regulations related to the Hubs, including financial assistance awards administration.
- Interviewed personnel from each of the program offices responsible for Hub management.
- Reviewed the Funding Opportunity Announcement, merit review information and selection process and documentation, including the Department's processes for identifying conflicts of interest. We reviewed conflicts of interest that had been identified by the program offices, including any situations in which reviewers acknowledged having conflicts and the mitigating actions taken by the program. We also looked for the appearance of conflicts of interest among merit reviewers.
- Conducted site visits to the three Hubs located in Philadelphia, Pennsylvania, Oak Ridge, Tennessee, and Berkeley and Pasadena, California, to observe the facilities and observe assets purchased.
- Held discussions with management personnel at each of the Hubs.
- Selected and reviewed a judgmental sample of financial transactions recorded by each of the Hubs to ensure the transactions were appropriate and sufficiently documented. At the time of our review, the Fuels from Sunlight Hub and Modeling and Simulation Hub could provide financial transactions recorded through June 2012. The Energy Efficient

Appendix 1 (continued)

Buildings Hub could provide financial transactions recorded through April 2012. There were 53,237 financial transactions totaling over \$88 million at the three Hubs. We judgmentally selected transactions based on the dollar amount and description, attempting to choose at least one transaction from each of the Hub's cost categories. As a result, we sampled 292 transactions totaling nearly \$17 million. Because our sample was not statistical, we could not project to the population. For our review, we traced the costs to supporting invoices and tested compliance with financial assistance requirements as prescribed by the terms and conditions of the awards.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations necessary to satisfy the audit objective. In particular, we assessed the implementation of the *GPRA Modernization Act of 2010* and found that the Office of Nuclear Energy had established performance measures related to its Hub, but the Offices of Science and Energy Efficiency and Renewable Energy had not established performance measures for the Hubs. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Finally, we conducted an assessment of computer-processed data relevant to our audit objective and found it to be reliable.

Management waived an exit conference.

PRIOR REPORTS

- Audit Report on [*Management Controls over Meal Expenses at Management and Operating Contractors*](#) (OAS-M-05-04, April 2005). The Department of Energy reimbursed four contractors for \$255,000 for local meal costs in Fiscal Year 2003 that could have been better used for mission-related activities.
- Audit Report on [*University of California's Costs Claimed and Related Internal Controls for Operation of the Los Alamos National Laboratory*](#) (DOE/IG-0596, April 2003). This audit projected \$3.7 million out of \$4.2 million claimed in Fiscal Years 2000 through 2002 represented questionable costs for local meals provided to employees.
- Inspection Report on [*Office of Science Laboratory Conferences*](#) (DOE/IG-0794, May 2008). The Oak Ridge National Laboratory incurred unreasonable costs associated with conference-provided meals when it spent \$230,000 for upscale and elaborate meals for 318 persons during a 4-day conference in 2007.
- Inspection Report on [*Sandia National Laboratory-California Procurement Card Program*](#) (DOE/IG-0754, January 2007). The inspection found that Sandia National Laboratory-California had incurred \$89,649 during an 11-month period for 218 catered meals for in-house team celebrations, business meetings, and guest visits.

MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

September 6, 2013

MEMORANDUM FOR: RICKEY R. HAAS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: KATHLEEN B. HOGAN
DEPUTY ASSISTANT SECRETARY
FOR ENERGY EFFICIENCY

SUBJECT: The Office of Energy Efficiency and Renewable Energy
Response to Draft Audit Report on "The Department of
Energy's Energy Innovation Hubs"

The Office of Energy Efficiency and Renewable Energy (EERE) appreciates the opportunity to review and comment on the Office of Inspector General's (OIG) July 2013 Draft Audit Report on "The Department of Energy's Energy Innovation Hubs." EERE provides guidance and support to all grantees pursuant to Code of Federal Regulations. EERE seeks to ensure compliance with Federal regulations through ongoing monitoring and communications with grantees.

The OIG made five recommendations for EERE's oversight of the Energy Innovation Hubs. EERE concurs with the OIG's recommendations and is committed to resolving all issues addressed in the audit report.

Background

The Office of Inspector General found the Hub initiative was generally satisfying the specific Federal, Departmental and programmatic requirements evaluated during its review. The OIG found that each Hub was selected following a rigorous merit review process using criteria described in the respective Funding Opportunity Announcement. Federal officials also reviewed and approved management plans for each Hub. The OIG also found the Hubs were reporting meeting performance goals within scheduled time frames. Finally, a number of Hubs were externally reviewed and corrective action plans developed to improve performance in areas such as the establishment of deliverables and milestones. During the review, however, the OIG identified areas of potential cost savings related to conferences and meetings, as well as weaknesses in the internal controls over conflicts of interest disclosure procedures for merit reviewers during the award selection process. The responses below are the corrective actions EERE will take or has taken to resolve the OIG's recommendations:

RECOMMENDATION #1: Explore cost reduction opportunities related to conferences, meals, and refreshment costs.

EERE RESPONSE: **CONCUR.** EERE will explore cost reduction opportunities related to conferences, meals and refreshment costs. EERE acknowledges its oversight role in



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Appendix 3 (continued)

evaluating conference budgets during the pre-award phase to determine whether there are significant benefits in bringing all Hub members together at conferences and meetings. Overall, EERE is committed to working with the recipients to consider alternatives to conferences and meetings for exchanging information and coordinating work to control cost. EERE has implemented a conference management process that requires conference organizers to explore and document cost reduction opportunities related to each conference prior to approval. Thus, this action is complete.

RECOMMENDATION #2: Direct the Contracting Officers to make official determinations regarding the reasonableness and allowability of costs incurred for conferences, meals, and refreshments.

EERE RESPONSE: **CONCUR.** EERE, in conjunction with the Contracting Officers, will conduct a review of costs incurred for conferences, meals, and refreshments to determine if the costs are reasonable and allowable in accordance with the provisions of the Energy Efficient Buildings Hub assistance agreement. The estimated completion date for this action is December 31, 2013. In addition, EERE Contracting Offices will vigilantly review and appropriately determine the allowability of future conference, meal, and refreshment costs.

RECOMMENDATION #3: Ensure use of a merit review management system with ability to capture conflict of interest acknowledgements, such as the PeerNet system, during future selection processes.

EERE RESPONSE: **CONCUR.** EERE has developed and is using its own enhanced software, based on the ARPA-e Exchange tool, called EERE eXCHANGE, which combines application submission, reviewer selection, and merit review in one comprehensive system. EERE eXCHANGE has the ability to capture conflict of interest acknowledgements. Thus, this action is complete.

RECOMMENDATION #4: Take action to recover travel claims from Federal employees who did not reduce per diem for meals provided at Hub conferences.

EERE RESPONSE: **CONCUR.** The Federal traveler involved in the situation that gave rise to this finding does not remember whether he ate the lunch provided at the Energy Efficient Buildings Hub conference because he was occupied with other DOE duties during the lunch hour. If the Federal traveler did not eat the lunch, he would not be required to deduct the lunch portion of his per diem from his travel expenses. In this particular instance, the Federal traveler is willing to repay the portion of per diem associated with the lunchtime meal provided at the conference. EERE will remind employees of the requirement to deduct meals provided while on travel from per diem claims on travel vouchers. The estimated completion date is September 30, 2013.

RECOMMENDATION #5: Take action to address internal control weaknesses related to recordkeeping/document retention of merit reviewers' Conflict of Interest/Nondisclosure Statements.

EERE RESPONSE: **CONCUR.** EERE will work with the Contracting Officers for all Funding Opportunity Announcements, to ensure that Conflict of Interest (COI) and Non-

Appendix 3 (continued)

Disclosure Agreement (NDA) statements are properly endorsed and retained. The procuring office is responsible for ensuring all COI documentation is received prior to the dissemination of applications for review. Within the EERE eXCHANGE system, all reviewers must certify prior to gaining access to the applications that they do not have any conflicts with the proposer or the subject matter described in the title of the application. For all NDAs, EERE will ensure all statements are endorsed and forwarded to the Contracting Officers for retention. EERE installed conflict of interest safeguards in EERE eXCHANGE to prevent access to applications until each reviewer certifies the absence of a COI with the applicant or application subject area. EERE will ensure all NDAs are signed and forwarded to the CO prior to commencement of review. Thus, this action is complete.



Department of Energy

Washington, DC 20585

August 20, 2013

MEMORANDUM FOR RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: PETER B. LYONS *Peter B. Lyons*
ASSISTANT SECRETARY
OFFICE OF NUCLEAR ENERGY

SUBJECT: Response to Inspector General's Draft Report,
"The Department of Energy's Energy Innovation Hubs"

Thank you for the opportunity to review and comment on the subject report. The following are our responses to the specific recommendations:

Recommendation 1: Explore cost reduction opportunities related to conferences, meals and refreshment costs;

Management Response: Concur. Since its start in 2010, the Modeling Hub has installed and makes extensive use of its "one roof" collaboration technologies. This has significantly reduced the number of face-to-face, onsite meetings and has already realized savings in conferences, meals, and refreshment costs. Two good examples of this were the fact that 2012 and 2013 principal investigator meetings were held "virtually" using the collaboration technology. These meetings each involved about 100 participants in about 25 different locations.

Recommendation 2: Direct the Contracting Officers to make official determinations regarding the reasonableness and allowability of costs incurred for conferences, meals and refreshments;

Management Response: Concur. The Office of Nuclear Energy (NE) will reinforce to the DOE Operations Offices Contracting Officers to be vigilant in their oversight of the reasonableness and allowability of costs incurred for conferences, meals and refreshments.

Recommendation 3: Ensure use of a merit review management system with ability to capture conflict of interest acknowledgements, such as the PeerNet system, during future selection processes.



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Management Response: Concur. For future merit reviews, NE will ensure that proper records are kept and maintained of reviewers' acknowledgement of their conflict of interest responsibilities. In order to automate that process, for future reviews, NE will explore the use of PeerNet, or a similar system currently being used by NE for the peer review of applications to the NE Universities Programs.

Recommendation 4: Take action to recover travel claims from Federal employees that did not reduce per diem for meals provided at Hub conferences;

Management Response: Concur. The federal employee does not recall whether he participated in provided meal services; however, in order to dispel any perception of wrongdoing, he has submitted amended travel vouchers and has fully reimbursed the government for the charges in question. In addition, NE will issue a notice to federal travelers reminding them of the meal per diem requirements and policies.

Recommendation 5: Take action to address internal control weaknesses related to recordkeeping/document retention of merit reviewers' Conflict of Interest/Nondisclosure Statements.

Management Response: Concur. Managers at the NE Idaho Operations Office are aware of the administrative error that caused the issue with the missing conflict of interest forms and they have taken corrective action.

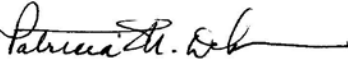
If you have questions on these comments, please contact Kelly Glanz at 202-586-4288.



Department of Energy
Office of Science
Washington, DC 20585

AUG 19 2013

MEMORANDUM FOR RICKEY R. HASS
DEPUTY INSPECTOR GENERAL
FOR AUDITS AND INSPECTIONS
OFFICE OF INSPECTOR GENERAL

FROM: PATRICIA M. DEHMER 
DEPUTY DIRECTOR
FOR SCIENCE PROGRAMS
OFFICE OF SCIENCE

SUBJECT: Response to Inspector General's Draft Report, "The
Department of Energy's Energy Innovation Hubs"

Thank you for the opportunity to review and comment on the subject draft report. The Office of Science (SC) is pleased that the Inspector General found the Energy Innovation Hubs were meeting performance goals within scheduled time frames and that the Hubs initiative is satisfying specific programmatic requirements.

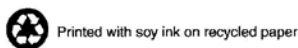
SC's response to the recommendations follows. The Office of Energy Efficiency and Renewable Energy and the Office of Nuclear Energy are submitting separate responses.

Recommendation 1: Explore cost reduction opportunities related to conferences, meals, and refreshment costs.

Management Response: Concur.

SC is committed to rigorous oversight and accounting of expenditures related to conferences, meetings, meals, and refreshments. Scrutiny of these expenditures has increased over the past year, and SC concurs that holding grantees and contractors accountable to the rules for allowable costs is important and vital to safeguarding against abuse of federal funds.

SC does not agree, however, on the report's statement implying that the Fuels from Sunlight Hub should not have held its annual all-hands meetings. The report states, "Of this amount, \$123,808 was spent to host two annual all-hands conferences and another \$11,411 was spent on an annual performance review. The all-hands conferences were held even though the Sunlight Hub invested in video-conferencing equipment to bring the two locations together under one virtual roof." This statement strongly implies that the all-hands meetings were held in spite of the availability of video-conferencing capabilities. While we agree that video-conferencing is an essential tool to facilitate



Appendix 3 (continued)

long-distance meetings at low marginal cost, its availability does not obviate the need for researchers to gather in large groups for in-person meetings. The tacit knowledge transferences and spontaneous interpersonal exchanges typified by large in-person scientific meetings are essential to stimulating vigorous scientific collaboration and bursts of new scientific insight.

Consistent with our emphasis that the Hub leadership must strive to ensure the Hub operates as a single organization, more than the sum of its constituent parts, SC expects the Hub to hold periodic all-hands meetings. Similarly, SC programs have long directly employed similar practices in holding (typically annual) principal investigator meetings that bring together the researchers in a particular funded research program. All-hands meetings and program principal investigator meetings serve a specific purpose in broadening exposure of the project/program participants to new perspectives on scientific problems and fostering collaboration and team approaches to research challenges. These management principles have been affirmed in a recent memorandum from White House Office of Science and Technology Policy Director John Holdren and an associated Office of Management and Budget Controller Alert in which Dr. Holdren writes, “OSTP and OMB realize that robust scientific and technical interchange between [scientists and engineers] inside and outside the Federal government is mission critical.”

Action Plan: SC’s Office of Basic Energy Sciences (BES) will provide teleconference and written communication to the Hub to urge that all conference/meeting expenditures be cost-conscious and that frugality be at the forefront during planning and execution of all-hands meetings, *e.g.*, selection of meeting location, meals, and refreshments. Additionally, BES will revise its Hub Oversight Plan to include oversight of conference/meeting costs and require that Hub quarterly reports provide an update on conference/meeting expenditures. SC anticipates this action to be completed by October 1, 2013.

Recommendation 2: Direct the Contracting Officers to make official determinations regarding the reasonableness and allowability of costs incurred for conferences, meals and refreshments.

Management Response: Concur.

Action Plan: The Chicago Contracting Officer will review the questioned costs and will make an official determination regarding the reasonableness and allowability of costs incurred for conferences, meals and refreshments by no later than November 12, 2013.

Recommendation 3: Ensure use of a merit review management system with ability to capture conflict of interest acknowledgements, such as the PeerNet system, during future selection processes.

Management Response: Concur.

Appendix 3 (continued)

Action Plan: Management of conflict of interest related to merit reviews has been a longstanding priority for the Office of Science. The merit review management systems that SC uses incorporate robust tools for tracking and managing conflict of interest issues. The draft audit report did not cite SC for problems related to management of conflict of interest. SC will continue to manage conflict of interest issues through our merit review management systems, and considers this recommendation completed.

If you have any questions on these comments, please contact Ben Brown at 301-903-7785.

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