

# U.S. DEPARTMENT OF ENERGY

## OFFICE OF INSPECTOR GENERAL

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DURING THIS REPORTING PERIOD, WE ISSUED 39 REPORTS; IDENTIFIED \$12.6 MILLION IN FUNDS PUT TO BETTER USE AND \$19.3 MILLION IN QUESTIONED COSTS; OBTAINED \$6.2 MILLION IN FINES, SETTLEMENTS, AND RECOVERIES, 6 CRIMINAL CONVICTIONS, 20 SUSPENSIONS AND DEBARMENTS, AND 51 CIVIL AND ADMINISTRATIVE ACTIONS; AND RECEIVED 1,679 HOTLINE CONTACTS. DURING THIS REPORTING PERIOD, WE ISSUED 39 REPORTS; IDENTIFIED \$12.6 MILLION IN FUNDS PUT TO BETTER USE AND \$19.3 MILLION IN QUESTIONED COSTS; OBTAINED \$6.2 MILLION IN FINES, SETTLEMENTS, AND RECOVERIES, 6 CRIMINAL CONVICTIONS, 20 SUSPENSIONS AND DEBARMENTS, AND 51 CIVIL AND ADMINISTRATIVE ACTIONS; AND RECEIVED 1,679 HOTLINE CONTACTS. DURING THIS REPORTING PERIOD, WE ISSUED 39 REPORTS; IDENTIFIED \$12.6 MILLION IN FUNDS PUT TO BETTER USE AND \$19.3 MILLION IN QUESTIONED COSTS; OBTAINED \$6.2 MILLION IN FINES, SETTLEMENTS, AND RECOVERIES, 6 CRIMINAL CONVICTIONS, 20 SUSPENSIONS AND DEBARMENTS, AND 51 CIVIL AND ADMINISTRATIVE ACTIONS; AND RECEIVED 1,679 HOTLINE CONTACTS.

The seal of the U.S. Department of Energy, Office of Inspector General, is a circular emblem. It features a central shield with a white eagle perched atop it. The shield is divided into four quadrants, each containing a different symbol: a sun, a lightning bolt, a gear, and a leaf. The shield is set against a blue background. The outer ring of the seal is gold and contains the text "U.S. DEPARTMENT OF ENERGY" at the top and "UNITED STATES OF AMERICA" at the bottom, separated by small dots.

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## SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2013 – MARCH 31, 2014



Department of Energy  
Washington, DC 20585

April 28, 2014

The Honorable Dr. Ernest Moniz  
Secretary of Energy  
Washington, DC 20585

Dear Secretary Moniz:

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 of October 1, 2013, through March 31, 2014. This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to the Department, the Congress, and the taxpayer.

Please do not hesitate to contact me if you have any questions about the report.

Sincerely,

A handwritten signature in black ink that reads "Gregory H. Friedman".

Gregory H. Friedman  
Inspector General

Enclosure



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### *Message from the Inspector General*

I am pleased to present the Office of Inspector General's Semiannual Report to Congress for the period ending March 31, 2014. This report highlights our efforts to identify and address those areas within Department of Energy programs and operations that are most vulnerable to fraud, waste and abuse.

During this reporting period, we continued our efforts to assist the Department in identifying opportunities for cost savings, enhanced programmatic performance, and operational efficiencies. We issued a total of 39 reports that addressed prominent concerns pertaining to the Department's mission-related priorities. For example, a Special Inquiry entitled, "[\*Review of Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration\*](#)," found widespread improper hiring practices that adversely impacted veterans, subjected individuals to economic consequences, disrupted Department and Bonneville operations, and exposed the Department to a variety of legal challenges. In our report entitled, "[\*Department of Energy's July 2013 Cyber Security Breach\*](#)," we determined that, in spite of a number of early warning signs that certain personnel-related information systems were at risk, the Department had not taken necessary action to protect the Personally Identifiable Information of a large number of its present and former employees, their dependents, and many contractor employees. Finally, our report on, "[\*NNSA's Management of the \\$245 million Nuclear Materials Safeguards and Security Upgrades Project Phase II at Los Alamos National Laboratory\*](#)," found that, as a result of a number of project management weaknesses, completion of the project was delayed by nearly a year and costs increased by as much as \$41 million.

During this reporting period, the Office of Inspector General also conducted a number of criminal investigations that resulted in significant convictions and monetary recoveries. In one such case, we determined that a former employee of a California non-profit agency submitted false claims and accepted bribes from a subcontractor on a weatherization contract funded under the American Reinvestment and Recovery Act (Recovery Act). Our work on this investigation resulted in the former employee's conviction and order to pay restitution. This case highlights the fact that although the Department has awarded the \$30 billion it received under the Recovery Act, our office continues to expend significant resources to ensure that the funds are used appropriately.

I commend the efforts of my staff for their work. We appreciate the opportunity to work with Department management, program officials, and others to increase transparency while deterring fraud, waste, abuse, and mismanagement throughout the Department.



Gregory H. Friedman  
Inspector General

**IMPACTS**

**KEY ACCOMPLISHMENTS**

<i>Total Reports Issued</i>	39
<i>Audit Reports Issued</i>	32
<i>Inspection Reports Issued</i>	4
<i>Recovery Act Reports Issued</i>	3
Funds Put to Better Use	\$12.6 million
Questioned Costs	\$19.3 million
Dollars Recovered (Fines, Settlements, Recoveries)	\$6.2 million
Criminal Convictions	6
Suspensions and Debarments	20
Civil and Administrative Actions	51
Hotline Contacts	1,679 <sup>1</sup>

<sup>1</sup>In prior reporting periods, this number included all contacts with the Hotline regardless of the nature or subject of the contact. Beginning with this reporting period, this number only includes contacts which require action by OIG employees.

### Positive Outcomes

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:

- Section 317 of the Consolidated Appropriations Act, 2014 reduced the appropriated amounts for non-defense programs by \$7 million to reflect savings from reducing foreign travel for Department contractors. This reduction is consistent with our recommendation of extending current Federal workforce travel reduction requirements to contractor employees in our Management Alert on [The Department's Management of Foreign Travel \(DOE/IG-0872, October 2012\)](#).
- Our report on [Lawrence Livermore National Laboratory's Use of Time-and-Materials Subcontracts \(OAS-M-13-06, August 2013\)](#) found that Lawrence Livermore National Laboratory (LLNL) had incurred excess costs under two of its time-and-materials subcontracts and made excessive use of non-competitive subcontract awards. Using these audit results, Livermore Field Office's Contracting Officer negotiated a \$489,280 recovery from Lawrence Livermore National Security, LLC. The Livermore Field Office also established a new performance measure in LLNL's 2014 Procurement Objectives Matrix to reduce non-competitive time-and-materials subcontract awards. In response, LLNL implemented new cost analysis policies and techniques.
- The Idaho Operations Office issued a final fee determination letter to the cleanup contractor at the Idaho National Laboratory site on October 31, 2013. The contracting officer relied, in part, upon our work in [Cost Incentives for the Department's Cleanup Contract in Idaho \(OAS-RA-13-20, May 2013\)](#), to disallow certain cost reallocations that ultimately reduced the fee claimed by the contractor by more than \$20 million.
- Our audit report on [The Department's Hydrogen and Fuel Cells Program \(OAS-RA-13-31, September 2013\)](#), identified concerns with the financial management of the Hydrogen and Fuel Cells Program, including the Program's reimbursement of \$5.3 million in unsupported and/or potentially unallowable costs. As of December 31, 2013, the Office of Energy Efficiency and Renewable Energy (EERE) established a Central Invoice Review Unit to assist offices with the review and approval of detailed invoices, of which the Fuel Cell Technologies Office was one of the first offices to participate. Additionally, the Office of Fossil Energy (Fossil Energy) improved its invoice review and documentation retention requirements by formalizing an invoice review procedure that is consistent with Federal Project Management Center guidance. Fossil Energy/National Energy Technology Laboratory has also incorporated lessons learned into the invoice review process. Finally, EERE is incorporating a new Subaward/Subcontract Change Notification clause into the terms and conditions for all new awards and is also requiring

applicants to complete a section for conflicts of interest prior to award execution.

- Since our special report on the [Inquiry into the Security Breach at the National Nuclear Security Administration's \(NNSA\) Y-12 National Security Complex \(DOE/IG-0868, August 2012\)](#) was issued, the Y-12 National Security Complex re-classified security equipment components to ensure that maintenance on critical elements is completed within a 24-hour period. In addition, equipment status is tracked by both the site's management and operating contractor and Federal managers. Further, NNSA established a "limited-notice, limited-scope" security assessment concept that was implemented in late FY 2013. Finally, the Office of Defense Nuclear Security also actively participates in NNSA's quarterly Corporate Performance Evaluation Program reviews, which evaluate the contractors' safeguards and security performance.
- Our inspection on [Concerns with Consulting Contract Administration at Various Department Sites \(DOE/IG-0889, June 2013\)](#), recommended that the Fee Determination Official determine whether adjustments to previously awarded performance fees are

appropriate to address the consulting administration and management issues we observed relative to the Heather Wilson and Company, LLC agreements. In January 2014, we were advised by National Nuclear Security Administration Officials that the Fee Determining Official took actions in response to this failure by the laboratory leadership and reduced the "Leadership" component of the FY 2013 fee in lieu of seeking a retroactive fee reduction.

- In order to ensure that Department personnel are aware of the Federal nepotism statute and prohibited personnel practices, a Department-wide notification was sent to all employees explaining the various statutes and regulations that prohibit a Federal employee from using his or her official position to secure employment for relatives. This action is consistent with the recommendations in our report on [Alleged Nepotism and Wasteful Spending in the Office of Energy Efficiency and Renewable Energy \(DOE/IG-0888, June 2013\)](#). Additional emphasis on these matters occurred during the 2013 annual ethics training provided to senior executives and other senior employees. A greater emphasis on these topics also occurs during ethics training routinely provided to new supervisors.

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## Semiannual Report to Congress

### Audits

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Oct. 8, 2013	Assessment of Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC07-05ID14517 during FY 2012 (OAS-V-14-01)				Summary Not Publicly Available – Official Use Only
Oct. 23, 2013	<a href="#">The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2013</a> (OAS-M-14-01)				<a href="#">33</a>
Oct. 24, 2013	<a href="#">The Department's Fleet Vehicle Sustainability Initiatives at Selected Locations</a> (DOE/IG-0896)	\$700,000			<a href="#">33</a>
Oct. 29, 2013	<a href="#">The Department of Energy's Unclassified Cyber Security Program – 2013</a> (DOE/IG-0897)				<a href="#">34</a>
Nov. 4, 2013	Assessment of Audit Coverage of Cost Allowability for Babcock & Wilcox Technical Services Pantex, LLC for the period October 1, 2009 through September 30, 2012 under Department of Energy Contract No. DE-AC54-00AL66620 (OAS-V-14-02)		\$94,922		Summary Not Publicly Available – Official Use Only
Nov. 18, 2013	<a href="#">Management of Tritium within the National Nuclear Security Administration</a> (OAS-L-14-01)				<a href="#">34</a>
Nov. 20, 2013	<a href="#">Contract Awards to Small Businesses Under the Mentor-Protégé Program</a> (DOE/IG-0898)				<a href="#">35</a>
Nov. 25, 2013	<a href="#">Federal Energy Regulatory Commission's FY 2013 Financial Statement Audit</a> (OAS-FS-14-01)				<a href="#">35</a>
Nov. 26, 2013	Assessment of Audit Coverage of Cost Allowability for National Renewable Energy Laboratory during Fiscal Years 2009 through 2011 under Department of Energy Contract No. DE-AC36-08GO28308 (OAS-V-14-03)		\$17,933,584		Summary Not Publicly Available – Official Use Only
Nov. 26, 2013	<a href="#">Management Challenges at the Department of Energy – FY 2014</a> (DOE/IG-0899)				<a href="#">36</a>
Dec. 6, 2013	<a href="#">The Department of Energy's July 2013 Cyber Security Breach</a> (DOE/IG-0900)	\$3,718,652			<a href="#">36</a>
Dec. 11, 2013	<a href="#">Department of Energy's Nuclear Waste Fund's FY 2013 Financial Statement Audit</a> (OAS-FS-14-02)				<a href="#">36</a>
Dec. 12, 2013	<a href="#">Department of Energy's FY 2013 Consolidated Financial Statements</a> (OAS-FS-14-03)				<a href="#">37</a>

## Semiannual Report to Congress

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Dec 18, 2013	Management Letter on the Federal Energy Regulatory Commission's FY 2013 Financial Statement Audit (OAS-FS-14-04)				Summary Not Publicly Available - Official Use Only
Jan. 2, 2014	<a href="#">NNSA's Management of the \$245 Million Nuclear Materials Safeguards and Security Upgrades Project Phase II</a> (DOE/IG-0901)				<a href="#">37</a>
Jan. 6, 2014	Assessment of Audit Coverage of Cost Allowability for Pacific Northwest National Laboratory under Department of Energy Contract No. DE-AC05-76RL01830 during FYs 2010 and 2011 (OAS-V-14-04)		\$75,576		Summary Not Publicly Available - Official Use Only
Jan. 6, 2014	Assessment of Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory under Department of Energy Contract No. DE-AC02-05CH11231 during FY 2011 (OAS-V-14-05)		1,142,908		Summary Not Publicly Available - Official Use Only
Jan. 6, 2014	Assessment of Audit Coverage of Cost Allowability for B&W Technical Services Y-12, LLC under Department of Energy Contract No. DE-AC05-00OR22800 during FYs 2011 and 2012 (OAS-V-14-06)		\$53,857		Summary Not Publicly Available - Official Use Only
Jan. 9, 2014	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for FY 2013 (OAS-FS-14-05)				Summary Not Publicly Available - Official Use Only
Jan. 28, 2014	Assessment of Audit Coverage of Cost Allowability for Ames Laboratory during FYs 2009 through 2012 under Department of Energy Contract No. DE-AC02-07CH11358 (OAS-V-14-07)				Summary Not Publicly Available - Official Use Only
Feb. 5, 2014	<a href="#">The Department's Management of Scientific User Facilities</a> (OAS-L-14-02)				<a href="#">38</a>
Feb. 14, 2014	<a href="#">Technology Transfer and Commercialization Efforts at the Department of Energy's National Laboratories</a> (OAS-M-14-02)				<a href="#">38</a>

## Semiannual Report to Congress

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Feb. 20, 2014	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for FY 2013</a> (OAS-FS-14-06)				<a href="#">39</a>
Mar. 12, 2014	<a href="#">FY 2012 Work Performed Under the Work for Others Program at Los Alamos National Laboratory</a> (OAS-M-14-03)	\$2,000,000			<a href="#">39</a>
Mar. 12, 2014	<a href="#">Evaluation of Costs Charged to the Washington Savannah River Company Contract No. DE-AC09-96SR18500 during FYs 2010 and 2011</a> (OAS-L-14-03)				<a href="#">40</a>
Mar. 20, 2014	<a href="#">Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's FY 2012 Financial Statement Audit</a> (OAS-FS-14-07)				<a href="#">40</a>
Mar. 24, 2014	Assessment of Audit Coverage of Cost Allowability for Bechtel Marine Propulsion Corporation during October 1, 2011 through September 30, 2012 under Department of Energy Contract No. DE-NR0000031 (OAS-V-14-08)				Summary Not Publicly Available - Official Use Only
Mar. 26, 2014	<a href="#">National Nuclear Security Administration Nuclear Weapons Systems Configuration Management</a> (DOE/IG-0902)				<a href="#">41</a>
Mar. 26, 2014	<a href="#">Long-Term Storage of Cesium and Strontium at the Hanford Site</a> (OAS-L-14-04)	\$6,200,000			<a href="#">41</a>
Mar. 26, 2014	Assessment of Audit Coverage of Cost Allowability for Princeton Plasma Physics Laboratory during FYs 2011 and 2012 under Department of Energy Contract No. DE-AC02-09CH11466 (OAS-V-14-09)				Summary Not Publicly Available - Official Use Only
Mar. 31, 2014	<a href="#">Bonneville Power Administration's Transmission Vegetation Management Program</a> (OAS-L-14-05)				<a href="#">42</a>
Mar. 31, 2014	<a href="#">Western Area Power Administration's Rocky Mountain Regional Office's Transmission Vegetation Management Program</a> (OAS-L-14-06)				<a href="#">42</a>

## Semiannual Report to Congress

### Inspections

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Oct. 3, 2013	<a href="#">Special Inquiry Report – Review of Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration</a> (DOE/IG-0895)				<a href="#">44</a>
Jan. 29, 2014	<a href="#">Performance of Work for a Non-Department Entity at Lawrence Livermore National Laboratory</a> (INS-O-14-01)		\$81,746		<a href="#">44</a>
Mar. 26, 2014	<a href="#">Procurement Internal Control at Los Alamos National Laboratory</a> (DOE/IG-0903)				<a href="#">45</a>
Mar. 27, 2014	<a href="#">Review of Controls Over the Department’s Classification of National Security Information</a> (DOE/IG-0904)				<a href="#">45</a>

## Semiannual Report to Congress

### Recovery Act

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Oct. 31, 2013	<a href="#">Recent Events Related to Ecotality, Inc.</a> (OAS-RA-14-01)				<a href="#">47</a>
Nov. 25, 2013	<a href="#">The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – District of Columbia</a> (OAS-RA-14-02)			\$3,999	<a href="#">47</a>
Feb. 19, 2014	<a href="#">Allegations of Potential Fraud and Mismanagement of a Smart Grid Investment Grant Program Award</a> (OAS-RA-14-03)				<a href="#">48</a>

### RESULTS

#### 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. During this reporting period, the OIG reviewed (and collaborated with Department program offices, when appropriate) 16 pieces of proposed legislation/regulations.

#### Reports Lacking Management Decision

The Department has a system in place to track 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 is one audit report over six months old that was issued before the beginning of the reporting period 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 by which a management decision will be made is described in the table below.

DATE ISSUED	REPORT TITLE	STATUS OF MANAGEMENT DECISION
Apr. 10, 2012	<a href="#">Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site</a> (DOE/IG-0862)	The OIG has requested the Department temporarily delay submitting a Management Decision on the recommendations in this report, pending the outcome of an ongoing related review.

## Semiannual Report to Congress

### Prior Significant Recommendations Not Implemented

As of March 31, 2014, closure actions on recommendations in 44 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. Further, the Department has closed 171 recommendations in the past six months. Information on the status of any report recommendation can be obtained through the OIG's Office of Audits and Inspections.

DATE ISSUED	REPORT TITLE	# OF OPEN RECOMMENDATIONS
Dec. 17, 2007	<a href="#">Beryllium Surface Contamination at the Y-12 National Security Complex (IG-0783)</a>	1
Apr 11, 2008	<a href="#">The Department's Progress in Meeting Los Alamos National Laboratory Consent Order Milestones (IG-0793)</a>	1
Sep 3, 2010	<a href="#">Follow-up Audit on Retention and Management of the Department of Energy's Electronic Records (IG-0838)</a>	2
Sep 22, 2010	<a href="#">The Department of Energy's Audit Resolution and Follow-up Process (IG-0840)</a>	2
Mar 3, 2011	<a href="#">The Department of Energy's Loan Guarantee Program for Clean Energy Technologies (IG-0849)</a>	1
Jul 13, 2011	<a href="#">Organizational Conflicts of Interest Program at Sandia National Laboratories (IG-0853)</a>	1
Oct 20, 2011	<a href="#">The Department Unclassified Cyber Security Program-2011 (IG-0856)</a>	3
Mar 26, 2012	<a href="#">Management of Bonneville Power Administration's Information Technology Program (IG-0861)</a>	1
Apr 25, 2012	<a href="#">The Department of Energy's \$12.2 Billion Waste Treatment and Immobilization Plant- Quality Assurance of Black Cells Vessels (IG-0863)</a>	2
May 25, 2012	<a href="#">Efforts by the Department of Energy to Ensure Energy-Efficient Management of Its Data Centers (IG-0865)</a>	2
May 31, 2012	<a href="#">Integrated Safety Management at Sandia National Laboratories (IG-0866)</a>	5
Jun 18, 2012	<a href="#">The National Nuclear Security Administration (NNSA) Contractors' Disability Compensation and Return-to-Work Programs (IG-0867)</a>	4
Oct 26, 2012	<a href="#">Review of the Compromise of Security Test Materials at the Y-12 National Security Complex (IG-0875)</a>	2
Nov 6, 2012	<a href="#">The Department of Energy's Small Business Innovation Research and Small Business Technology Transfer Programs (IG-0876)</a>	1

## Semiannual Report to Congress

DATE ISSUED	REPORT TITLE	# OF OPEN RECOMMENDATIONS
Nov 8, 2012	<a href="#">The Department's Unclassified Cyber Security Program - 2012</a> (IG-0877)	5
Dec 11, 2012	<a href="#">Follow-up Audit of the Department's Cyber Security Incident Management Program</a> (IG-0878)	8
Mar 22, 2013	<a href="#">Approval of Contractor Executive Salaries by Department of Energy Personnel</a> (IG-0882)	1
Sep 28, 2007	Sandia National Laboratory's Safety Practices (INS-L-07-11, Summary Not Publically Available - Official Use Only )	1
Jul 29, 2010	<a href="#">Severance Repayments at the Savannah River Site</a> (INS-O-10-02)	1
Nov 5, 2012	<a href="#">Allegations of Organizational Conflicts of Interest at Portsmouth and Oak Ridge</a> (INS-O-13-01)	4
Nov 30, 2012	<a href="#">Tactical Response Force Pursuit Operations at Idaho National Laboratory</a> (INS-O-13-02)	2
Dec 22, 2009	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2009</a> (OAS-FS-10-03)	1
Dec 21, 2010	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2010</a> (OAS-FS-11-04, Summary Not Publically Available - Official Use Only)	2
Dec 21, 2011	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2011</a> (OAS-FS-12-04, Summary Not Publically Available - Official Use Only )	10
Feb 6, 2012	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2011</a> (OAS-FS-12-05)	7
Dec 17, 2012	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statement for Fiscal Year 2012</a> (OAS-FS-13-08)	10
Jan 15, 2013	<a href="#">Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2010 Balance Sheet Audit</a> (OAS-FS-13-09)	2
Jan 10, 2013	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2012</a> (OAS-FS-13-10, Summary Not Publically Available - Official Use Only )	8
Feb 26, 2013	<a href="#">Management Letter on the Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2010 Balance Sheet Audit</a> (OAS-FS-13-11)	1
Jul 14, 2008	<a href="#">Management Controls over Monitoring and Closeout of Small Business Innovation Research Phase II Grants</a> (OAS-M-08-09)	1
Nov 13, 2009	<a href="#">Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program</a> (OAS-M-10-01)	2
Apr 15, 2011	<a href="#">Security Planning for National Security Information Systems at Lawrence Livermore National Laboratory</a> (OAS-M-11-03)	1

## Semiannual Report to Congress

DATE ISSUED	REPORT TITLE	# OF OPEN RECOMMENDATIONS
Jun 29, 2012	<a href="#">Office of Secure Transportation Capabilities</a> (OAS-M-12-05)	2
Mar 15, 2013	<a href="#">Cooperative Research and Development Agreements at National Nuclear Security Administration Laboratories</a> (OAS-M-13-02)	1
Sep 19, 2011	<a href="#">The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee</a> (OAS-RA-11-17)	1
Dec 20, 2005	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation Under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-06-06, Summary Not Publically Available - Official Use Only)	1
Jan 16, 2007	Assessment of Changes to the Internal Control Structure and their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation under Department of Energy Contract No.DE-AC04-94AL85000 (OAS-V-07-05, Summary Not Publically Available - Official Use Only)	1
May 7, 2008	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation, under the Department of Energy Contract, DE-AC04-94AL85000 for FY 2006 (OAS-V-08-09, Summary Not Publically Available - Official Use Only)	1
Aug 24, 2009	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory under Department of Energy Contract No. DE-AC52-06NA25396 from June 1, 2006 to September 30, 2007 (OAS-V-09-10, Summary Not Publically Available - Official Use Only)	1
Jul 29, 2010	Audit Coverage of Cost Allowability for Bechtel SAIC Company, LLC during Fiscal Years 2004 through 2009 Under Contract No. DE-AC28-01RW12101 (OAS-V-10-15, Summary Not Publically Available - Official Use Only)	2
Oct 5, 2010	Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Years 2007 AND 2008 under Department of Energy Contract NO. DE-AC04-94AL85000 (OAS-V-11-01, Summary Not Publically Available - Official Use Only )	1
Nov 19, 2012	Assessment of Audit Coverage of Cost Allowability for Los Alamos National Laboratory during Fiscal Year 2010 under Department of Energy Contract No. DE-AC52-06NA25396 (OAS-V-13-01, Summary Not Publically Available - Official Use Only )	1
Feb 20 2013	Assessment of Audit Coverage of Cost Allowability Sandia Corporation during Fiscal Years 2009 and 2010 under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-13-07, Summary Not Publically Available - Official Use Only)	4

## Semiannual Report to Congress

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DATE ISSUED	REPORT TITLE	# OF OPEN RECOMMENDATIONS
Mar 12, 2002	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Cost Claimed by and Reimbursed to TRW Environmental Safety Systems, Inc. Under Department of Energy Contracts No. DE-AC01-91RW00134 and No. DE-AC08-RW00134 (WR-V-02-03, Summary Not Publically Available - Official Use Only )	2

Total Open Recommendations      113

## Semiannual Report to Congress

### AUDIT AND INSPECTION REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS OCTOBER 1, 2013 – MARCH 31, 2014

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

	TOTAL NUMBER	BETTER USE OF FUNDS
Reports issued before the reporting period that included recommendations for better use of funds for which decisions on dollars had not been made as of September 30, 2013:	17 <sup>1</sup>	\$535,976,873 <sup>2</sup>
Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made):	4	\$12,618,652
Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period:	1 <sup>3</sup>	\$1,103,608
(i) Agreed to by management:		\$0
(ii) Not agreed to by management:		\$1,103,608 <sup>4</sup>
Reports that include recommendations for better use of funds for which decisions on dollars have not been made at the end of the reporting period:	20	\$547,491,917

**Better Use of Funds:** Funds that could be used more efficiently by implementing recommended actions.

**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.

<sup>1</sup>Includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

<sup>2</sup> Dollar amount includes an administrative correction by the Department for \$16,618 from a previous reporting period.

<sup>3</sup> Does not include reports for which the Department has made decisions on some aspects of the report but not all.

<sup>4</sup>Includes \$16,618 previously reported by the Department as "agreed to by management." During this reporting period, the Department amended its decision and notified the OIG that these funds are "not agreed to by management."

## Semiannual Report to Congress

### AUDIT AND INSPECTION REPORTS WITH QUESTIONED AND/OR UNSUPPORTED COSTS OCTOBER 1, 2013 – MARCH 31, 2014

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

	TOTAL NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS	TOTAL COSTS
Reports issued before the reporting period that included questioned and/or unsupported costs for which decisions on dollars had not been made as of September 30, 2013:	48 <sup>1</sup>	\$1,413,370,585 <sup>2</sup>	\$17,737,060	\$1,431,107,645
Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	7	\$19,382,593	\$3,999	\$19,386,592
Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period:	6 <sup>3</sup>	\$13,620,368	\$0	\$13,620,368
(i) Value of disallowed costs:		\$1,539,243	\$0	\$1,539,243
(ii) Value of costs not disallowed:		\$12,081,125	\$0	\$12,081,125
Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period:	49	\$1,419,132,810	\$17,741,059	\$1,436,873,869

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

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

**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.

<sup>1</sup>Includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

<sup>2</sup>Dollar amount includes an administrative correction by the Department of \$7,514,486 from a previous reporting period.

<sup>3</sup>Does not include reports for which the Department has made decisions on some aspects of the report but not all.

## Semiannual Report to Congress

### INVESTIGATIVE ACTIVITY OCTOBER 1, 2013 – MARCH 31, 2014

#### CASE ACTIVITY

Cases open as of October 1, 2013	236
<i>Cases opened during period</i>	47
<i>Cases closed during period</i>	57
Multi-Agency Task Force Cases Opened	16
Qui Tam <sup>1</sup> investigations opened during period	3
<i>Total Open Qui Tam investigations as of March 31, 2014</i>	15
Cases currently open as of March 31, 2014	226

#### IMPACT OF INVESTIGATIONS

Administrative discipline and other management actions	46
Recommendations to management for positive change and other actions	36
Suspensions/Debarments	20
Accepted for prosecution <sup>2</sup>	14
Indictments	13
Criminal convictions	6
Pre-trial diversions	1
Civil actions	5
<b>TOTAL DOLLAR IMPACT<sup>3</sup> (FINES, SETTLEMENTS, RECOVERIES)</b>	<b>\$6,185,841.78</b>

<sup>1</sup>For more information on Qui Tams, go to: [http://www.justice.gov/usao/eousa/foia\\_reading\\_room/usam/title9/crm00932.htm](http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm00932.htm)

<sup>2</sup>Some of the investigations accepted during the 6-month period were referred for prosecution during a previous reporting period.

<sup>3</sup>Some of the money collected was the result of investigations involving multiple agencies.

## Semiannual Report to Congress

### HOTLINE ACTIVITY OCTOBER 1, 2013 – MARCH 31, 2014

<b>TOTAL HOTLINE CONTACTS</b>	<b>1,679<sup>1</sup></b>
Hotline contacts resolved immediately/redirected/no further action	1,454
Hotline contacts predicated for evaluation	225
<b>TOTAL HOTLINE PREDICATIONS PROCESSED THIS REPORTING PERIOD</b>	<b>231</b>
Hotline predications transferred to OIG Program Office	26
Hotline predications referred to Department management or other entity for information/action	95
Hotline predications closed based upon preliminary OIG activity and review	103
Hotline predications open at the end of the reporting period	7

<sup>1</sup>In prior reporting periods, this number included all contacts with the Hotline regardless of the nature or subject of the contact. Beginning with this reporting period, this number only includes contacts which require action by OIG employees.

## Semiannual Report to Congress

### WHISTLEBLOWER RETALIATION COMPLAINTS OCTOBER 1, 2013 – MARCH 31, 2014

Recovery Act Whistleblower Retaliation Complaints received	2
Accepted complaints carried over from prior period(s)	2
<b>DISPOSITION OF WHISTLEBLOWER RETALIATION COMPLAINTS</b>	
Reports Issued	1
<b>Complaints Dismissed</b>	
Elected another forum	0
Complaints withdrawn	1
Upon receipt of Complaint, determined not related to covered funds at the outset	0
After investigation, determined not related to covered funds after investigation	0
Recovery Act Complaints that received extensions	1

## Semiannual Report to Congress

### PEER REVIEWS CONDUCTED BY OIG OCTOBER 1, 2013 – MARCH 31, 2014

TYPE OF REVIEW	DATE OF PEER REVIEW	OIG REVIEWED	OUTSTANDING RECOMMENDATIONS
<b>Audits</b>	<i>None this reporting period.</i>		
<b>Investigations</b>	<i>None this reporting period.</i>		

### PEER REVIEWS CONDUCTED OF OIG OCTOBER 1, 2013 – MARCH 31, 2014

TYPE OF REVIEW	DATE OF PEER REVIEW	REVIEWING OIG	FREQUENCY REQUIREMENT	OUTSTANDING RECOMMENDATIONS
<b>Audits</b>	<i>None this reporting period.</i>			
<b>Investigations</b>	<i>None this reporting period.</i>			

### **SUMMARIES**

#### **Investigative Outcomes**

##### **Former Department Contractor Enters into Repayment Agreement**

A contractor employee entered into a repayment agreement to pay the Department \$13,382.72 as a result of an investigation. The investigation revealed the contractor employee was paid for 354 hours of sick leave that was taken while the contractor employee was performing outside employment.

##### **Department Employee Resigns in Lieu of Termination**

As a result of an investigation, a Department Program Manager resigned from employment in lieu of termination. In addition, a target letter was issued by the U.S. Attorney's Office in the Eastern District of Tennessee. The investigation determined the former employee submitted multiple fraudulent travel vouchers totaling \$21,000, and fraudulent time and attendance documents for work not performed totaling approximately \$75,000. This is a joint investigation with the Nuclear Regulatory Commission OIG.

##### **Former Western Area Power Administration Employee Sentenced**

A former Western Area Power Administration employee was sentenced in U.S. District Court, District of Montana, to 4 years probation and ordered to pay restitution to the Department in the amount of \$83,700. The investigation determined the former employee defrauded the Department of Labor's Workers Compensation Program by not reporting self-employment income, resulting in long-term disability overpayments of approximately \$275,000. This is a joint investigation with the Department of Labor OIG.

##### **Settlement Agreement with Energy Efficiency and Conservation Block Grant Recipient**

In response to an Investigative Report to Management, the Department signed a \$31,783 settlement agreement with an Energy Efficiency and Conservation Block Grant (EECBG) recipient. The OIG investigation determined the EECBG recipient hired consultants to assist in awarding an EECBG project that was subsequently awarded to another company employing the same consultants. These actions violated an EECBG provision concerning conflicts of interest.

##### **Guilty Plea in Savannah River Site False Statements Investigation**

A former contractor employee pleaded guilty to one count of False Statements in U.S. District Court in the District of South Carolina. As previously reported, a Federal Grand Jury indicted the former contractor employee after the investigation determined the former contractor employee used another family member's personally identifiable information to obtain a Savannah River Site badge to prevent disclosure of a previous bankruptcy and to receive per diem payments for which the individual was not entitled.

### **Five Former Contractor Employees Indicted and Arrested**

As the result of an investigation, five former contractor employees were indicted by a Federal Grand Jury in the District of South Dakota and were subsequently arrested for conspiracy to commit theft. The investigation determined the individuals used a scheme to generate false vouchers and were paid for work not performed. The individuals received in excess of \$80,000 and admitted to using the money for illegal drugs and personal hotel stays. This is a joint investigation with Health and Human Services OIG.

### **Interim Distribution of Bankruptcy Proceeds in Defective Body Armor Case**

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. The manufacturer 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 armor, or the armor itself, previously agreed to pay a total of \$60 million to resolve allegations that they violated the False Claims Act. During this reporting period, the U.S. Bankruptcy Court for the District of Delaware approved a second interim distribution order filed by the Trustee in Bankruptcy for Second Chance Body Armor, a corporation involved in the manufacture and sale of defective Zylon body armor to the U.S. Government. The order allowed an interim distribution of \$20 million to be divided among the general unsecured creditors, including the U.S. Government which received \$384,429.07. This is an ongoing joint investigation with the U.S. Department of Justice Civil Division and several other Federal law enforcement agencies.

### **Settlement Reached with Department Grantee**

As the result of an investigation, a Department grantee agreed to pay \$1.23 million to resolve False Claims Act allegations. The investigation determined the grantee submitted claims to the Department to obtain wages and benefits paid to workers who were engaged in non-work activities such as watching movies, playing games, and performing volunteer work.

### **Former University of Kentucky Professor Enters Pretrial Diversion Agreement**

As part of a pretrial diversion agreement entered in U.S. District Court in the District of South Carolina, a former University of Kentucky professor will serve 18 months supervised release, make restitution to the Department in the amount of \$111,664, and complete 100 hours of community service. As previously reported, the former professor was indicted for Theft of Government Property after an investigation determined the former professor cannibalized, destroyed, and failed to return certain Government-owned scientific equipment, books, and supplies. The OIG has recovered all of the known missing equipment.

### **Former Subcontractor Employee Debarred in Weatherization Program Investigation**

In response to an Investigative Report to Management, the Department debarred a former weatherization subcontractor from doing business with the Federal Government for a period of 3 years. The investigation determined two officers of a community-based organization

converted approximately \$150,000 of Recovery Act grant monies for their personal use. This is a continuing investigation and is being considered for prosecution by the U.S. Attorney's Office in the District of Columbia.

### **Weatherization Expenditures Disallowed**

As the result of an Investigative Report to Management, the Department disallowed \$486,192 in weatherization funds to the State of West Virginia. The investigation determined that a West Virginia sub-grantee had been reimbursed for unallowable and unsubstantiated weatherization costs.

### **Action Taken in Response to an Investigative Report to Management Involving the Control and Accountability of Precious Metals**

In response to an Investigative Report to Management, the Department complied with recommendations made concerning the storage and accountability of precious metals. The investigation determined that a Department laboratory had internal control weaknesses in its accountability and controls of precious metals and established Department policies were not being followed. The investigation was initiated after Department laboratory staff reported to the OIG that they could not account for over \$12,000 worth of precious metals, and the possibility existed that the metals were stolen. The metals were eventually located at the Department laboratory.

### **Sentencing in Weatherization Fraud and Bribery Investigation**

A former employee of a California non-profit agency was sentenced to 24 months imprisonment; however, 16 months were suspended with the remaining 8 months to be served by electronic monitoring. The former employee of the non-profit agency was also sentenced to 3 years probation, ordered to pay \$323,991 in restitution and \$630 in fines and assessment fees. The investigation determined the former employee of the non-profit agency submitted false claims on weatherization contract work and solicited and accepted bribes from a subcontractor totaling approximately \$1.2 million. The former employee also submitted inflated claims to the State of California that resulted in overbilling to the Department and the U.S. Department of Health and Human Services by approximately \$440,000.

### **Suspension in False Claims Investigation**

In response to a referral by the OIG, the Department suspended a former Lawrence Livermore National Laboratory employee for submitting inaccurate timecards and receiving unjustified compensation based on the inaccurate submissions.

### **Administrative Actions Taken Against Former Social Security Administration Beneficiary**

As a result of a joint investigation with the Social Security Administration (SSA) OIG, the Government recovered \$18,282 in fraudulent benefits paid to a Savannah River Site contractor employee's spouse. Additionally, this investigation prevented future fraudulent benefits from being paid to the contractor employee's spouse resulting in a cost savings of \$141,917. The

investigation determined the contractor employee and their spouse submitted false documents to SSA making it appear the spouse was eligible to receive SSA benefits when in fact the spouse was ineligible.

### **Funds Put to Better Use in False Claims Investigation**

As a result of an ongoing OIG investigation, Sandia National Laboratories (Sandia) did not extend the final option year of a subcontractor's contract. Sandia estimated a cost savings to the Department of approximately \$2.2 million, which will be put to better use.

### **Former National Energy Technology Laboratory Director Indicted**

The former Director of the National Energy Technology Laboratory was indicted on a charge of obstruction of justice for attempting to alter documents and influence witness testimony in connection with an inquiry into allegations that he had misused his position. After being interviewed by the OIG, the former Director resigned from employment with the Department. This is an ongoing investigation.

### **Settlement Agreement Reached in Cost Mischarging Investigation**

As the result of an investigation, a Department contractor agreed to reimburse the United States \$414,828 for mischarges submitted to the Department and the Department of Defense. The mischarges were revealed by the contractor in a Contractor Disclosure Report pursuant to Federal Acquisition Regulations. The OIG joint investigation with the Defense Criminal Investigative Service determined that the contractor's employees were instructed by a former Director of the company to change timekeeping entries to match internal financial projections rather than reflect their actual hours worked.

### **Administrative Actions Taken Against Former Department Contractor Employee**

As a result of an investigation, a contractor employee at the Idaho National Laboratory was terminated for the improper use of Government property. Property valued at approximately \$67,703 was recovered from the contractor employee's residence. In addition to the recovery of Government property, the contractor employee was denied a year-end award valued at approximately \$68,000.

### **Guilty Plea by Former State of Texas Official in Recovery Act Grant Fraud Investigation**

A former State of Texas grant administrator pled guilty to one count of Misuse of Official Information. The administrator will serve 3 years probation, pay \$2,500 in restitution, and cannot be employed in a position that manages grant funds. The investigation determined the owner of a Department subcontractor company and the former administrator conspired to submit fraudulent documents and make false claims to obtain approximately \$2 million in Recovery Act funds. The owner of the company was previously found guilty and sentenced to 15 years incarceration.

### **Former Lawrence Livermore National Laboratory Employee Arraigned**

A former Lawrence Livermore National Laboratory employee was arrested on two felony warrants for Grand Theft and Possession of Stolen Property and was arraigned in the Superior

Court of California. An investigation determined the former employee stole optical devices, toner cartridges, and computer parts valued at approximately \$58,000 and sold them on eBay.

### **Employee Terminated at Los Alamos National Laboratory for Misuse of Gas Card**

A Los Alamos National Laboratory employee was terminated as a result of misusing several General Services Administration fuel cards on multiple occasions. The investigation determined the employee used several fuel cards to purchase gasoline for personal use. This investigation is being coordinated with the First Judicial District Attorney's Office for the State of New Mexico.

### **Civil Complaint Filed Against Department Contractors in Connection with False Claims Violations**

The U.S. Attorney's Office for the Eastern District of Washington filed a civil complaint under the False Claims Act. The complaint alleged three Department contractors and company owner falsely claimed credit for awarding tens of millions of dollars in Federal subcontracting business to qualified small businesses. The investigation substantiated that a Department prime contractor claimed small businesses were performing subcontract work, but the work was actually performed by another Department subcontractor that does not qualify as a small business.

### **Monetary Recovery in Kickback Investigation**

As a result of an investigation, the management and operating contractor for the Pantex Plant agreed to reimburse the Department \$40,942. The investigation involves allegations that a procurement official accepted gratuities in exchange for awarding a \$228,000 contract for outside legal services. This is an ongoing investigation and is being coordinated with the U.S. Attorney's Office for the Northern District of Texas.

### **Former State of Texas Official Sentenced in Recovery Act Grant Fraud Investigation**

A former State of Texas Grant Administrator was sentenced to 3 years probation, ordered to pay \$2,500 in restitution and is barred from being employed in a position that manages Federal grant funds. The investigation determined the owner of a Department subcontractor company and the former State of Texas official conspired to submit fraudulent documents and make false claims to obtain approximately \$2 million in Recovery Act funds. As previously reported, the owner of the subcontractor company was convicted of fraud and an unrelated weapons violation and is currently serving a 15-year prison sentence.

### **Individual Pleads Guilty in Computers for Learning Program Fraud Investigation**

An individual who created multiple fraudulent not-for-profit entities and made false representations to obtain computers and related equipment from the General Services Administration's (GSA) Computers for Learning program pleaded guilty to wire fraud, aggravated identity theft, and filing a false tax return. The investigation determined the individual fraudulently obtained the computers and related equipment and sold them for personal gain. It was determined the original acquisition value of the equipment totaled

more than \$30 million. This was a joint investigation with the Federal Bureau of Investigation, GSA OIG, Internal Revenue Service, and the Department of Transportation OIG.

### **Contractor Settles with the Department in False Claims Investigation**

A Department contractor complied with the terms of a previous civil settlement and paid the U.S. Government \$1.23 million to resolve its potential False Claims Act liability. The Department received \$200,403 of this amount. As previously reported, the OIG investigation determined the contractor submitted claims to the Department to obtain wage and benefit reimbursements for workers who were engaged in unallowable activities.

### **Contract Employee's Site Access Revoked**

A contract employee's access to a Department site was revoked after an investigation found that the employee was attempting to steal Government property. The investigation determined the employee was attempting to steal industrial equipment by placing the items in a personally owned vehicle and leaving the site. The employee was stopped by site security and interviewed by OIG investigators. After interviewing the employee and inspecting the equipment, it was determined the items were the property of the U.S. Government. Prosecution is pending in this investigation.

### **Former Community Action Agency Director Sentenced and Debarred**

As a result of an OIG investigation, the former Director of a Community Action Agency was sentenced to 12 months and 1 day imprisonment and 12 months supervised release after pleading guilty to embezzling more than \$50,000 in Federal Recovery Act funds and using the funds for personal gain. In addition, the former Director was debarred from Federal Government contracting.

### **Individual Pleads Guilty in Access Device Investigation**

Following a joint investigation with the FBI and the Office of Personnel Management OIG, an individual pleaded guilty to multiple violations of access device fraud and aggravated identity theft. The investigation determined the individual gained access to multiple Defense Finance and Accounting Service "MyPay" accounts of Department employees and altered the direct deposit information to have paychecks diverted to suspect bank accounts.

### **Sentencing in False Statements Investigation**

A former contractor employee was sentenced to 3 years probation after pleading guilty to making false statements. The investigation determined the former employee made false statements by providing personally identifiable information of another person in an attempt to obtain an access badge to a Department site.

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

In response to an Investigative Report to Management, a Department Site Manager reassigned a Small Business Program Manager (Manager) and sanctioned the individual with 10 days of leave without pay. The investigation determined the Manager's brother worked for a Department subcontractor that received a Department Mentor-Protégé award. This award

allowed the subcontractor to obtain a sole-source \$24 million contract. The Manager did not disclose cohabitation with the brother or that the brother's paychecks were deposited directly into the Manager's bank account. In addition, the Manager solicited and obtained \$5,000 from the subcontractor for a charity event the Manager helped organize. This is an ongoing investigation.

### **Guilty Plea in Solar Rebate Program Investigation**

A subcontractor pleaded guilty to one count of theft of Government funds in connection with fraudulently applying for Recovery Act incentive rebate monies that were designated for the purchase of energy efficient thermal heating systems. The investigation determined the subcontractor violated Recovery Act rules by utilizing repurposed solar panels on Recovery Act projects and used the program to install a heating system on a swimming pool. Additionally, the subcontractor submitted inflated claims regarding Recovery Act work, thus overbilling the Department by approximately \$23,000.

### **Sentencing in Y-12 Destruction Case**

As a result of an OIG investigation, three individuals previously convicted of damaging property at the Y-12 National Security Complex were sentenced in the Eastern District of Tennessee. One individual was sentenced to 35 months incarceration, while the other two individuals were each sentenced to 62 months incarceration. In addition, the individuals will serve 3 years supervised release upon their release from prison, and will jointly be responsible for \$52,953 in restitution to the Department. As previously reported, the individuals illegally entered the Y-12 complex, cut through fences, and caused damaged to the Highly Enriched Uranium Materials Facility.

### **Subcontractors Debarred in Weatherization Program Investigation**

In response to an Investigative Report to Management, the Department debarred a former weatherization subcontracting agency and its Executive Director from doing business with the Federal Government for a period of 3 years. As previously reported, the investigation determined two officers of a community-based organization converted approximately \$150,000 of Recovery Act grant monies for their personal use. This is an ongoing investigation.

### **Response to Investigative Report to Management Issued in Misuse of Position Investigation**

In response to an Investigative Report to Management, a formal letter of reprimand was issued and a Department official was ordered to undergo training and counseling. The other Department official involved in the investigation retired from Federal service following proposed disciplinary action. The investigation determined that a senior Department official facilitated the employment of another official's child with a Department contractor.

### **Grantee Settles False Claims Case**

As a result of an OIG investigation, the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of North Carolina, reached a settlement agreement with a Department grantee. The grantee agreed to pay \$2.7 million to settle allegations that they violated the False Claims Act by making false statements and claims to the Department and the Nuclear

Regulatory Commission concerning an advanced nuclear reactor design. The investigation determined the grantee concealed known flaws in its steam dryer analysis and falsely represented they had properly analyzed the steam dryer in accordance with applicable standards. This was a joint investigation with the Nuclear Regulatory Commission OIG.

### **Department Manager Suspended for Misuse of Position**

As a result of an OIG investigation, a Department Manager was issued a formal letter of reprimand and suspended for a period of 7 days. The investigation determined the Department Manager misused his position by facilitating the employment of a family friend with a Department contractor.

### **Sentencing in Child Pornography Investigation**

A former Lawrence Berkeley National Laboratory employee was sentenced in U.S. District Court for the Northern District of California to 10 years of incarceration, followed by 10 years supervised release for downloading and viewing child pornography. The investigation determined the former employee viewed and downloaded numerous images of child pornography onto his Department-issued computer. A search warrant at his residence resulted in the discovery of a larger child pornography collection. As previously reported, a jury convicted the former employee, a convicted and registered sex offender, of possessing and accessing child pornography with the intent to view.

### **Former Department Contractor Employee Sentenced in OIG Bribery Case**

As a result of an OIG investigation, a former Department contractor employee was sentenced in U.S. District Court for the District of Minnesota to 3 years probation and ordered to forfeit \$20,000 as a result of the conviction. The investigation determined the former employee received cash bribes from subcontractors in Taiwan who were working on a National Nuclear Security Administration project, and he transported as much as \$70,000 in cash back to the United States without declaring it to Customs and Border Protection. As previously reported, the former Department contractor employee pled guilty to one count of bulk cash smuggling.

### **Sentencing in North Carolina Weatherization Assistance Program Investigation**

After pleading guilty to embezzlement and conspiracy to commit embezzlement, a former Director of the Weatherization Assistance Program for a local community action agency was sentenced to 24 months incarceration; 3 years supervised release; and ordered to pay \$386,291.50 in restitution. The investigation determined the former Director received monetary kickbacks from relatives who presented themselves as local contractors in order to be selected for weatherization work. This is a joint investigation with the Federal Bureau of Investigation and the North Carolina State Bureau of Investigation.

### Audit Reports

#### [The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2013](#)

The Federal Energy Regulatory Commission (Commission) is an independent agency within the Department responsible for, among other things, regulating the interstate transmission of the Nation's electricity, natural gas and oil. To help protect against continuing cyber security threats, the Commission estimated that it would spend approximately \$5.8 million during FY 2013 to secure its information technology assets, a 9 percent increase compared to FY 2012.

The *Federal Information Security Management Act of 2002* (FISMA) established requirements for Federal agencies related to the management and oversight of information security risks and to ensure that information technology resources were adequately protected. As directed by FISMA, the OIG conducted an independent evaluation of the Commission's unclassified cyber security program to determine whether it adequately protected data and information systems. This report presents the results of our evaluation for FY 2013.

The Commission had taken action to improve its cyber security posture and mitigate risks associated with the weaknesses identified during our FY 2012 evaluation. Our current evaluation, however, disclosed that additional opportunities existed to better protect information systems and data. In particular, we continued to identify weaknesses related to the Commission's timely remediation of software vulnerabilities. Due to security considerations, information on specific vulnerabilities has been omitted from this report; however, management was provided with detailed information regarding identified vulnerabilities. The Commission concurred with the report's recommended action and stated that it had initiated corrective action to address weaknesses identified in the report. (OAS-M-14-01)

#### [The Department's Fleet Vehicle Sustainability Initiatives at Selected Locations](#)

In FY 2012, the Department's fleet consisted of 14,457 vehicles operated at an annual cost of approximately \$131 million. Nearly 72 percent of the vehicles were leased through the General Services Administration, with the remaining Department-owned and commercially leased.

While Los Alamos National Laboratory and the Bonneville Power Administration had taken steps designed to improve economy and reduce emissions, they had not always managed their substantial vehicle fleets in a cost-effective or efficient manner, nor did they take all prudent steps to advance the use of alternative fuels. Specifically, these organizations leased flex-fuel vehicles that were routinely fueled with gasoline instead of alternative fuels and did not optimize the size of their fleets.

The issues we identified occurred primarily because Departmental policies and procedures had not incorporated changes necessary to achieve optimal fleet inventory with regard to the type and number of vehicles. Further, the policies did not reflect the need for procedures to locate alternative fuel vehicles near alternative fueling stations. We also noted that fleet vehicles were effectively managed and appropriately updated to achieve sustainability at the Savannah

River Site. The Office of Management and the National Nuclear Security Administration generally agreed with our findings and recommendations and submitted planned corrective actions that are fully responsive to our recommendations. (DOE/IG-0896)

### The Department of Energy's Unclassified Cyber Security Program – 2013

Cyber security threats are a major concern for all Federal entities, including the Department of Energy. The *Federal Information Security Management Act of 2002* (FISMA) established the requirement for Federal agencies to develop, implement and manage agency-wide information security programs, and provide acceptable levels of security for the information and systems that support the operations and assets of the agency. As part of our responsibilities under FISMA, the OIG conducts an annual independent evaluation to determine whether the Department's unclassified cyber security program adequately protected its unclassified data and information systems.

The Department had taken a number of positive steps over the past year to correct cyber security weaknesses related to its unclassified information systems, including corrective actions to resolve 28 of the 38 conditions we identified during our FY 2012 evaluation. In spite of these efforts, we found that significant weaknesses and associated vulnerabilities continued to expose the Department's unclassified information systems to a higher than necessary risk of compromise. Our testing revealed various weaknesses related to security reporting, access controls, patch management, system integrity, configuration management, segregation of duties and security management. In total, we discovered 29 new weaknesses and confirmed that 10 weaknesses from the prior year's review had not been resolved. These problems were spread across 11 of the 26 Department locations where we performed testing.

The weaknesses identified occurred, in part, because Department elements had not ensured that cyber security requirements were fully developed and implemented. Management concurred with our findings and recommendations and has taken and/or initiated corrective actions. (DOE/IG-0897)

### Management of Tritium within the National Nuclear Security Administration

The National Nuclear Security Administration (NNSA) is responsible for producing tritium, a key component necessary for maintaining the Nation's nuclear weapons stockpile. NNSA's nuclear weapons Readiness Campaign coordinates with the Department of Defense to determine stockpile requirements and provide annual updates on tritium production and inventory status. The Tritium Readiness subprogram provides the capability for producing tritium needed for the Nation's nuclear weapons mission.

Based on our review, we determined that NNSA is effectively managing tritium supplies to meet nuclear weapons needs. NNSA currently maintains tritium supply levels slightly above demand levels and projects that future supplies will be maintained at similar levels. At the time of our review, NNSA had developed plans to increase the number of tritium-producing burnable absorber rods (TPBARs) irradiated per reactor cycle as the demand for tritium increases. NNSA plans called for a steady increase in the number of TPBARs irradiated per reactor cycle to a

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maximum of 2,000 TPBARs in 1 reactor. Should future demands require more than 2,500 TPBARs per reactor cycle, Tennessee Valley Authority will have to use more than 1 reactor to irradiate the TPBARs.

While NNSA is effectively managing tritium supplies to meet nuclear weapons needs in the near term, we found that several key actions should be completed to ensure that future tritium supplies are not disrupted. We provided suggested actions to ensure the long-term supply of tritium for the Nation's nuclear weapons mission. (OAS-L-14-01)

### Contract Awards to Small Businesses Under the Mentor-Protégé Program

The goal of the Department's Mentor-Protégé Program is to provide an opportunity for eligible small businesses to receive developmental assistance in business and technical areas. The Department utilizes the Program to increase the participation of small businesses as prime contractors, as well as subcontractors to prime contractors. During calendar years 2010, 2011 and 2012, the Department had over 100 mentor-protégé agreements in place.

Our audit disclosed that the Department had not always effectively managed the Program. Specifically, we identified 13 protégés that, prior to entering the program, appeared to possess the capabilities typically developed by small businesses through participation in the Program. Additionally, we identified six mentor-protégé agreements with durations that appeared excessive. Further, we identified four protégés that successfully graduated from the Program at one Department site and subsequently entered into mentor-protégé agreements at other sites.

These issues occurred because the Department did not have an adequate control structure in place for effective oversight of the Program. Specifically, the Department lacked sufficient policies to assist mentors in the solicitation and selection of protégés, did not monitor the progress of each protégé throughout the duration of the agreement, and did not maintain an adequate tracking system to accurately account for all protégés. Management concurred with the report's recommendations and identified planned actions that are responsive to our recommendations. (DOE/IG-0898)

### Federal Energy Regulatory Commission's FY 2013 Financial Statement Audit

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on the Commission's financial statements and reporting on applicable internal controls and compliance with laws and regulations. We monitored audit progress and reviewed the audit report and related documentation.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the Commission as of and for the years ended September 30, 2013 and 2012, and its net costs, changes in net position, budgetary resources and custodial activities for the years then ended, in conformity with generally accepted accounting principles. (OAS-FS-14-01)

### Management Challenges at the Department of Energy – FY 2014

With its critically important missions in mind, we identify what it considers to be the most significant management challenges facing the Department each year. The purpose of this effort is to identify challenges to the Department's wide-ranging operations as well as problems with specific management processes. The overall goal is to focus attention on key issues with the objective of aiding Department managers in their efforts to enhance the effectiveness of agency programs and operations.

Based on the results of our body of work over the past year, in our judgment, the management challenges list for FY 2014 remains largely consistent with that of the previous year. These challenges include: operational efficiency and cost savings, contract and financial assistance award management, cyber security, environmental cleanup, human capital management, nuclear waste disposal, safeguards and security, and stockpile stewardship. (DOE/IG-0899)

### Department of Energy's July 2013 Cyber Security Breach

To facilitate its administrative and operational needs, the Department maintains a substantial amount of personally identifiable information (PII). The Department's Management Information System (MIS) provides a gateway for users to access a system known as the DOE Employee Data Repository (DOEInfo) database. Because of the importance of ensuring the security of the Department's systems and sensitive information and at the request of the Chief Information Officer, we commenced a special review into the circumstances surrounding the MIS/DOEInfo breach.

In spite of a number of early warning signs that certain personnel-related information systems were at risk, the Department had not taken action necessary to protect the PII of a large number of its past and present employees, their dependents and many contractors. We concluded that the July 2013 incident resulted in the exfiltration of a variety of PII on over 104,000 individuals. Our review identified a number of technical and management issues that contributed to an environment in which this breach was possible. We also identified numerous contributing factors related to inadequate management processes. We also found that the extent of PII stolen was much more extensive than that originally reported by the Department.

These issues created an environment in which the cyber security weaknesses we observed could go undetected and/or uncorrected. While we did not identify a single point of failure that led to the MIS/DOEInfo breach, the combination of the technical and managerial problems we observed set the stage for individuals with malicious intent to access the system with what appeared to be relative ease. Management concurred with our recommendations and indicated that it had taken and/or initiated corrective actions. (DOE/IG-0900)

### Department of Energy's Nuclear Waste Fund's FY 2013 Financial Statement Audit

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to conduct an audit of the Department's Nuclear Waste Fund's FY 2013 balance sheet and the related statements of net cost, changes in net position and combined statements of budgetary resources.

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KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles.

The auditors' review of the Fund's internal control structure and compliance with certain laws and regulations disclosed no deficiencies or instances of noncompliance required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance. (OAS-FS-14-02)

### Department of Energy's FY 2013 Consolidated Financial Statements

Pursuant to requirements established by the *Government Management Reform Act of 1994*, we engaged the independent public accounting firm of KPMG, LLP (KPMG) to perform the audit of the Department's FY 2013 Consolidated Financial Statements. KPMG audited the consolidated financial statements of the Department as of September 30, 2013 and 2012, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources for the years then ended.

The audit revealed certain deficiencies in internal control related to unclassified network and information systems security that were considered to be a significant deficiency. A significant deficiency was identified regarding Unclassified Network and Information Systems Security in the Department's system of internal controls, and is not considered a material weakness. The audit disclosed no instances of noncompliance or other matters that are required to be reported under applicable audit standards and requirements. We appreciated the cooperation of Department elements during the review. (OAS-FS-14-03)

### NNSA's Management of the \$245 million Nuclear Materials Safeguards and Security Upgrades Project Phase II at Los Alamos National Laboratory

To address aging security infrastructure, the National Nuclear Security Administration (NNSA) is now in the final phase of a project to upgrade security at the Los Alamos National Laboratory's (LANL) Technical Area-55. These upgrades, known collectively as the Nuclear Materials Safeguards and Security Upgrades Project - Phase II (NMSSUP), began in 2009. LANL divided the bulk of the project into five firm-fixed price subcontracts that were awarded to one design company and three construction contractors. Due to favorable contract bids in April 2011, NNSA reduced the estimated total project cost from \$245 million to \$213 million. The project consisted of more than 2,200 scheduled activities and was expected to be completed in January 2013. Los Alamos National Security, LLC (LANS) is the management and operating contractor for LANL.

Our review revealed that the NMSSUP suffered from a number of project management weaknesses. These issues ultimately resulted in cost increases of as much as \$41 million and delayed completion of the project by nearly a year. In addition, management information systems failed to provide accurate and complete information about the funds available to complete the remaining work scope. These project management issues created a series of

problems that collectively resulted in significant unanticipated cost and schedule impacts. Although it failed to take effective action to address project management weaknesses in NMSSUP, the Department implemented detective controls that identified many of the issues in this report and are key tools for holding Department contractors accountable for their performance. NNSA had taken a number of positive actions to hold LANS accountable for lack of performance; however, project management concerns remain despite these actions.

NNSA management generally concurred with our recommendations and acknowledged the problems that previously plagued the project; however, Management disagreed with our description of the evolution of NMSSUP's cost baseline and our conclusion that the project's costs exceeded its approved baseline. Management's existing and planned corrective actions are fully responsive to our recommendations. (DOE/IG-0901)

### **The Department's Management of Scientific User Facilities**

The Department's Office of Science operates 31 Scientific User Facilities (user facilities). These facilities provide scientific researchers with the most advanced tools of modern science and include accelerators, colliders, supercomputers, light sources and neutron sources, as well as facilities for studying the nanoworld, the environment and the atmosphere.

Nothing came to our attention to indicate that the Office of Science had not effectively maximized the utilization of its user facilities and monitored user facility performance. Our review of 2 Department laboratories that contained 8 of the Department's 31 user facilities found that 2 neutron science facilities at the Oak Ridge National Laboratory exceeded 2011 goals for operating hours, while the Oak Ridge Leadership Computing Facility achieved an utilization rate of over 95 percent of optimal hours. At Brookhaven National Laboratory (Brookhaven) the National Synchrotron Light Source exceeded its planned operating hours and the Relativistic Heavy Ion Collider achieved over 97 percent of its planned operating hours.

Although our review did not identify any major concerns, we did identify two areas in which performance improvement may be possible, and we provided suggestions to the Office of Science and Brookhaven National Laboratory to address these areas. (OAS-L-14-02)

### **Technology Transfer and Commercialization Efforts at the Department of Energy's National Laboratories**

Since the Department of Energy National Competitiveness Technology Transfer Act of 1989, the Department has encouraged its national laboratories to enter into technology partnering activities with non-Federal entities and has authorized its facilities to patent and license intellectual property that may arise from research and development activities. The Energy Policy Act of 2005 and the October 2011 Presidential Memorandum on Accelerating Technology Transfer and Commercialization of Federal Research in Support of High-Growth Businesses had specific requirements regarding the Department's technology transfer and commercialization efforts.

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Our review revealed opportunities to improve the effectiveness of the Department's management of its technology transfer and commercialization efforts. Specifically, we found that the Department had not finalized quantitative performance metrics necessary for it to determine the success of its technology transfer and commercialization efforts, developed a forward-looking approach for investing the Energy Technology Commercialization Fund required by the Energy Policy Act of 2005, and ensured the national laboratories were consistently treating their equity holdings in licensees received as part of their technology transfer efforts. Due to turnover in key staff, we were unable to definitively determine why the Department had failed to finalize and transmit its Execution Plan to Congress.

In the absence of finalized performance metrics and forward looking budgets, the Department is at increased risk of failing to maximize its return on investment of limited technology transfer and commercialization funds. Management concurred with our recommendations and identified planned actions to address our recommendations. (OAS-M-14-02)

### [Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for FY 2013](#)

During the audit, KPMG, LLP (KPMG), our contract auditors, noted certain matters involving internal control and other operational matters. These comments and recommendations are intended to improve internal control or result in other operating efficiencies. Additionally, KPMG identified certain deficiencies in internal controls that it considered a significant deficiency.

KPMG noted 12 new findings and 5 repeat findings that were issued during the course of the FY 2013 Audit of the Department's Consolidated Financial Statements. Management generally concurred with and provided planned corrective actions for most of the recommendations listed in the Management Letter and management's comments are included in each finding. (OAS-FS-14-06)

### [FY 2012 Work Performed Under the Work for Others Program at Los Alamos National Laboratory](#)

Our office contracted with an independent certified public accounting firm, KPMG, LLP (KPMG), to assess the internal control structure at Los Alamos National Laboratory (LANL) and determine whether it is effective in achieving the current goals and objectives of the Work for Others (WFO) Program for FY 2012.

KPMG concluded that, except for the finding detailed in the report, LANL implemented internal controls and compliance procedures in FY 2012 that met the Department's WFO Program requirements, as stated in Department regulations, guidance and applicable contract provisions. However, KPMG found that labor costs of certain personnel who primarily supported the WFO Program were not allocated to WFO projects. KPMG estimated that during FY 2012, the Department would have an annual savings of approximately \$2 million by implementing a separate indirect rate for these support organizations.

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Further, KPMG noted that LANL's Ethics and Audit Division performed audits of the LANL timekeeping policies in FY 2009 and FY 2011, and both audits identified employees who did not allocate time proportionately benefiting projects. Because LANL had taken corrective action and implemented additional policies and procedures for timekeeping, KPMG did not repeat the related findings and recommendations in its report. The National Nuclear Security Administration generally concurred with the finding and recommendation. (OAS-M-14-03)

### [Evaluation of Costs Charged to the Washington Savannah River Company Contract No. DE-AC09-96SR18500 during FY 2010 and 2011](#)

In August 1996, the Department's Savannah River Operations Office awarded the Savannah River Site management and operating contract to Washington Savannah River Company (WSRC). Subsequent to completion of work in June 2009, Savannah River Operations Office authorized WSRC to obtain accounting, auditing, legal and other administrative services from Savannah River Remediation to support the formal closeout of its contract. In December 2009, the Letter of Credit expired and Savannah River Operations Office required WSRC to provide invoices for reimbursement of the closeout costs. Savannah River Operations Office requested our office to review the invoices and supporting documentation for costs reimbursed to WSRC during FYs 2010 and 2011, including the closeout costs incurred by Savannah River Remediation.

During the course of our evaluation, nothing came to our attention to indicate that WSRC was reimbursed for costs that were not consistent with the terms of the contract. During FYs 2010 and 2011, WSRC was reimbursed a total of \$601,420 for costs incurred. Detailed invoices, along with supporting documentation, were submitted to the Savannah River Operations Office Contracting Officer for review and approval prior to payment. We did not make any recommendations in this report. (OAS-L-14-03)

### [Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund's FY 2012 Financial Statement Audit](#)

We contracted with the independent public accounting firm of KPMG, LLP (KPMG) to conduct the audit of the Department's Uranium Enrichment Decontamination and Decommissioning Fund's (D&D Fund) FY 2012 balance sheets and the related statements of net cost, changes in net position and budgetary resources.

KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the D&D Fund as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles. The auditors also considered the D&D Fund's internal controls over financial reporting. The audit identified a deficiency, related to recording of environmental liabilities that is considered to be a material weakness, and other deficiencies, related to unclassified network and information systems security that is considered to be a significant deficiency.

The auditors' tests of compliance with certain provisions of laws, regulations and contracts disclosed no instances of noncompliance or other matters that are required to be reported. (OAS-FS-14-07)

### National Nuclear Security Administration Nuclear Weapons Systems Configuration Management

We received multiple allegations regarding the National Nuclear Security Administration's (NNSA) management of configuration management (CM) information. The allegations related to incomplete product definitions for NNSA nuclear weapons, and ineffective management of classified nuclear weapons drawings, a situation that could lead to unauthorized changes to the drawings. In response, we initiated this audit to determine whether NNSA had maintained accurate and complete CM information for nuclear weapons and nuclear weapons components to support safe, sound and timely decisions related to these devices.

Our review substantiated the allegations and identified instances in which NNSA had not maintained accurate and complete CM information for its nuclear weapons and components. We also identified additional concerns with the use of nuclear weapons parts and components that did not conform to specifications. For instance, we found that NNSA sites could not always locate 'as-built' product definitions or associated drawings for nuclear weapons and components in its official records repositories, and sites did not always ensure that parts that did not conform to specifications were actually fit for use in a nuclear weapon.

Management concurred with our recommendations and stated that NNSA remains vigilant in configuration management information for its nuclear weapons and components as well as in supply chain management issues. Additionally, management's proposed and initiated corrective actions are responsive to our findings and recommendations. (DOE/IG-0902)

### Long-Term Storage of Cesium and Strontium at the Hanford Site

One of the many significant cleanup challenges faced by the Department is the ongoing management of stored cesium and strontium capsules at the Hanford Site's Waste Encapsulation and Storage Facility (WESF).

We found that the Richland Operations Office (Richland) has initiated action to begin to address some of the challenges posed by continued storage of cesium and strontium capsules in the WESF. Such action appears prudent in that continued storage of the capsules in WESF is not cost effective and may pose additional risks to the environment associated with beyond design threats at the Hanford Site. While Richland is considering options for dry storage, there are no definitive plans to move the capsules to a safer and more cost effective storage system.

The Department is aware of the current safety conditions associated with the storage of cesium and strontium capsules at WESF and has taken actions to mitigate any risks associated with WESF. Furthermore, we acknowledge the budgetary challenges facing the Department, and its impact on moving the capsules into dry storage. We did not make any formal recommendations; however, we suggested that the Richland Operations Office expeditiously proceed with its plans

to pursue a dry storage alternative to support transfer of the capsules out of WESF at the earliest possible timeframe. (OAS-L-14-04)

### **Bonneville Power Administration's Transmission Vegetation Management Program**

The Department of Energy's (Department) Bonneville Power Administration (Bonneville) markets wholesale power produced from Federal water projects. Bonneville's Transmission Vegetation Management Program (Vegetation Program) is responsible for ensuring measures are in place to prevent physical contact between transmission lines and nearby vegetation. Bonneville's overall Vegetation Program budget for Fiscal Year 2013 was approximately \$14.9 million, with approximately \$12.5 million provided to contractors for performance of vegetation maintenance work.

Bonneville's Vegetation Program included a number of positive controls and technologies to ensure vegetation surrounding its transmission lines were properly maintained. Specifically, over the last 5 years, Bonneville utilized a Light Detection and Ranging (LiDAR) system to inspect and detect vegetation conditions that required maintenance. LiDAR is a remote sensing system used to collect topographic and geospatial data and has the capability to detect, with nearly 100 percent accuracy, vegetation that requires maintenance. Additionally, Bonneville had developed a continual vegetation monitoring program designed to ensure that all necessary maintenance is completed. However, our review identified several opportunities to improve the management of contractors that performed vegetation maintenance for Bonneville.

Because Bonneville initiated actions to ensure the inspectors' reviews were documented, we did not make any formal recommendations. However, we provided a suggested action to further improve Bonneville's Vegetation Program. (OAS-L-14-05)

### **Western Area Power Administration's Rocky Mountain Regional Office's Transmission Vegetation Management Program**

The Department's Western Area Power Administration (Western) markets wholesale power produced from Federal water projects. Western's transmission lines are managed by four regional offices — Rocky Mountain, Sierra Nevada, Upper Great Plains, and Desert Southwest. Each regional office is responsible for ensuring vegetation management practices are in place to prevent physical contact between transmission lines and nearby vegetation.

We conducted this audit to determine whether Western had effectively managed its Transmission Vegetation Management Program (Vegetation Program) in the Rocky Mountain Region. Between June 2011 and September 2013, the Rocky Mountain Region spent approximately \$4.6 million for vegetation maintenance in forested areas.

Our audit found that Rocky Mountain had generally implemented management controls for its Vegetation Program. However, we identified opportunities to improve the Rocky Mountain Region's management of its vegetation maintenance contractor. Additional contractor work verification techniques, or refinement of current techniques, could help the Rocky Mountain

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Region ensure that it is not overpaying its contractor. While a number of actions are already in place, improving verification could also increase assurance that vegetation is not encroaching on transmission lines. We provided a suggested action to address these concerns.

(OAS-L-14-06)

### Inspection Reports

#### [Review of Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration](#)

We received a complaint alleging prohibited personnel practices at Bonneville Power Administration (Bonneville). The allegations included violations of Office of Personnel Management regulations and the inappropriate dismissal of veterans during their probationary period. The complaint also alleged violations of Department policies regarding the application of veterans' preference and the use of the category rating process in the exercise of Bonneville's delegated examining authority for competitive hiring.

We found that Bonneville's hiring practices disadvantaged veterans and other applicants. Bonneville consistently manipulated the applicant rating process, and did not fully disclose to the Department that the inappropriate personnel practices had occurred or the adverse impact on veterans and other applicants despite specific requirements to do so. Further, Bonneville neither notified the affected applicants nor did it initiate corrective actions required to remedy the inappropriate practices.

The management culture at Bonneville contributed to an environment that enabled the prohibited practices to occur. Notably, we observed that Bonneville officials spent considerable effort trying to distance the organization from Departmental procedures, processes and oversight. Compounding problems associated with the general environment and culture, our inquiry revealed that Bonneville exercised inadequate oversight and accountability of its own personnel recruitment functions. In short, there was a massive breakdown in procedures, processes and management attentiveness at several levels of Bonneville's operation. The impact of Bonneville's improper hiring practices is widespread, has subjected affected individuals to economic consequences, has disrupted Department and Bonneville operations, and has exposed the Department to a variety of legal challenges. Most importantly, adversely impacted veterans have not received promised benefits. The Department expressed concurrence with our report, and its corrective actions, taken and planned, were fully responsive to our findings and recommendations. (DOE/IG-0895)

#### [Performance of Work for a Non-Department Entity at Lawrence Livermore National Laboratory](#)

We received a complaint alleging that Lawrence Livermore National Laboratory (LLNL) engaged in illegal competition with the private sector by performing work for a non-Federal entity, and that the facilities and resources of LLNL were used inappropriately to perform this outside work. These allegations involve explosives-related work performed at LLNL for a National Geographic documentary about the Lusitania, a British passenger ship that sank in May 1915.

Our inspection substantiated certain aspects of the allegation. Specifically, we found that LLNL did not adequately consider the prohibitions against a Federally Funded Research and Development Center competing with the private sector when performing work for National

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Geographic's documentary, The Dark Secrets of the Lusitania, and that LLNL used Department facilities and resources inappropriately, to include \$81,746 in Licensing and Royalty funds, to perform work for National Geographic. In addition, the work performed for the documentary did not appear to be consistent with LLNL's mission.

These conditions occurred, in part, because LLNL did not follow the established Work for Others process but instead pursued an alternate, less formal process for approving and funding the documentary as a non-reimbursable project that used Licensing and Royalty funds. Management concurred with our recommendations and indicated that it was in the process of implementing corrective actions that were generally responsive to our findings and recommendations. (INS-O-14-01)

### Procurement Internal Controls at Los Alamos National Laboratory

We received an allegation from the Los Alamos Field Office concerning a possible conflict of interest in a consultant agreement awarded to an individual who was the spouse of a senior manager at Los Alamos National Laboratory (LANL). It was alleged that neither the consultant nor the senior manager disclosed their spousal relationship to LANL. Further, it was alleged that work was performed before the consultant agreement was signed and also that hours were charged by the consultant for work that was not performed. We initiated this inspection to determine the facts and circumstances surrounding the allegations.

The allegations were substantiated. We found that LANL inappropriately awarded a sole source consultant agreement to an individual who was the spouse of a senior LANL manager. We also discovered that the consultant did not disclose his spousal relationship with the senior LANL manager at the time of award. In addition, the senior manager did not notify LANL ethics officials or her superior of a potential conflict of interest involving her spouse's consulting agreement until 5 months after the consultant agreement was awarded. The issues identified in this report occurred, in part, because a LANL official who sponsored the consultant agreement failed to recognize and address apparent conflict of interest issues.

Management agreed with the findings and recommendations noted in the report, and indicated that the Los Alamos Field Office has supervised the implementation of the recommended corrective actions and will engage in ongoing oversight to evaluate the sustained effectiveness of these actions. Management also indicated that it will ensure that lessons learned from this incident are shared across the Nuclear Security Enterprise. (DOE/IG-0903)

### Review of Controls Over the Department's Classification of National Security Information

The Department handles and manages a broad spectrum of classified information, including National Security Information (NSI). The Office of Health, Safety and Security's Office of Classification, manages the Department-wide classification program and establishes policies to conform with Federal classification requirements. Implementation of classification requirements is shared among various organizations within the Department. In addition, the Department's Office of Intelligence and Counterintelligence is required to follow NSI policies and procedures instituted by the Office of the Director of National Intelligence. Similarly, the

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Department's National Nuclear Security Administration (NNSA) separately develops and implements policies and procedures, in coordination with the Office of Classification, for the protection and security of classified information at NNSA sites.

Our inspection revealed that the Department had established and implemented critical elements of its classified NSI program. However, our review revealed that certain aspects of the NSI program could be improved. For instance, our inspection determined that a classification marking tool embedded in the classified email system at an NNSA site automatically marked emails as Secret//Restricted Data, regardless of content. The classification related issues we observed occurred, in part, because of ineffective oversight of classification activities and inadequate training and guidance.

In general, we found management's comments and planned corrective actions to be generally responsive to our report findings and recommendations. (DOE/IG-0904)

### Recovery Act Reports

#### [Recent Events Related to Ecotality, Inc.](#)

In our audit of the funding to Ecotality, [The Department of Energy Vehicle Technologies Program's \\$135 Million in Funding to Ecotality, Inc. \(OAS-RA-13-29, July 2013\)](#), we found that the Department's management and administration of Ecotality's awards could have been improved. We initiated this review to determine whether the Department was aware of, and had disclosed to our staff, pertinent events that occurred prior to the completion of our previous audit related to Ecotality's ability to meet its obligations. We also sought to determine whether the Department was effectively managing Ecotality's awards in light of recent events.

We found that the Department had not fully disclosed known concerns regarding Ecotality's ability to meet its electric vehicle project obligations prior to completion of our previous audit. Information that raised questions about Ecotality's ability to meet its project goals, including completing planned EV charger installations and the collection of electric vehicle usage data, was not provided even though the data had a readily apparent connection to our in-process audit.

Program officials asserted that the failure to disclose the information regarding Ecotality's difficulties was unintended. Nothing came to our attention to the contrary; however, we are deeply concerned because the information directly related to the objective of our audit. While the Department moved swiftly to suspend funding of Ecotality's Recovery Act award, it had not taken similar action for the remaining ongoing Ecotality project. Notably, the Department had not suspended payments under Ecotality's 2011, \$26 million award to test electric vehicles. Management concurred with our recommendations and indicated that it had completed or initiated certain corrective actions. (OAS-RA-14-01)

#### [The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – District of Columbia](#)

The Department's Efficiency and Conservation Block Grant (EECBG) Program received about \$3.2 billion under the American Recovery and Reinvestment Act of 2009 to help state and local entities develop, implement and manage energy efficiency and conservation projects. Of the funding provided, more than \$2.7 billion was distributed to over 2,000 entities using a population-driven formula. The Department allocated about \$9.6 million in December 2009 to the District of Columbia government through the District Department of the Environment (DDOE). DDOE selected four District of Columbia government agencies and six non-profit community-based organizations (CBOs) to assist in completing retrofits.

We identified multiple weaknesses that led us to question the sufficiency of DDOE's controls over EECBG funding to CBOs. For example, our audit revealed that DDOE had awarded \$630,000 to two CBOs that lacked adequate experience in the area of energy efficiency retrofits, and had advanced over \$160,000 to three CBOs without assigning corresponding work. In contrast, nothing came to our attention to indicate that the work performed by the District of Columbia government entities was not appropriately completed.

We found that the issues identified occurred, primarily, because of an ineffective control environment within DDOE. These issues were not transparent to the Department because DDOE is a government entity, and consistent with existing practices, was not required to provide detailed documentation supporting its EECBG expenditures. Therefore, Department officials may not have had the information necessary to identify these issues and take appropriate action. The Department agreed with our recommendations and stated that it was working with DDOE to ensure that all corrective actions were implemented. (OAS-RA-14-02)

### Allegations of Potential Fraud and Mismanagement of a Smart Grid Investment Grant Program Award

As part of the American Recovery and Reinvestment Act of 2009, the Office of Electricity Delivery and Energy Reliability received about \$4.5 billion to modernize the electric grid, with about \$3.5 billion allocated to the Smart Grid Investment Grant (SGIG) Program. Under the SGIG Program, Progress Energy Service Company (Progress Energy) received a \$200 million grant to accelerate deployment of technologies to increase efficiency and demand response across its enterprise. As part of the award, Progress Energy partnered with International Business Machines (IBM) to manage the project and its associated tasks.

We received an allegation that Progress Energy had mismanaged the SGIG award and submitted potential false claims to the Department. Although other assertions were made regarding the award, we elected to address two areas of the allegation: (1) that Progress Energy had fraudulently submitted reimbursement requests for costs incurred prior to the award, and (2) that contracted services with IBM contained no associated deliverables.

The allegations we evaluated were not substantiated. While we confirmed that Progress Energy had submitted reimbursement requests for costs incurred prior to the date of the award, we determined that this practice had been specifically allowed by the Department. Additionally, we found that the task orders contained a number of deliverables, and nothing came to our attention to suggest that the specific deliverables contained in the task orders to IBM were inadequate or were not appropriately documented. Based on these considerations and our review of information supplied by Progress Energy and the Department, we did not substantiate the allegations. (OAS-RA-14-03)

## **REPORTING REQUIREMENTS INDEX**

The following identifies the sections of this report that address each of the reporting requirements prescribed by the Inspector General Act of 1978, as amended.

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5(a)(2)	Recommendations for Corrective Action to Significant Problems	<a href="#">25-48</a>
5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Completed	<a href="#">25</a>
5(a)(4)	Matters Referred to Prosecutive Authorities	<a href="#">25-32</a>
5(a)(5)	Information Assistance Refused or Not Provided	N/A
5(a)(6)	Audit Reports Issued in This Reporting Period	<a href="#">9-13</a>
5(a)(7)	Summary of Significant Reports	<a href="#">33-48</a>
5(a)(8)	Reports with Questioned Costs	<a href="#">20</a>
5(a)(9)	Reports with Recommendations That Funds Be Put to Better Use	<a href="#">19</a>
5(a)(10)	Previous Audit Reports Issued with No Management Decision Made by End of This Reporting Period	<a href="#">14</a>
5(a)(11)	Significant Revised Management Decisions	N/A
5(a)(12)	Significant Management Decisions with which the OIG is in Disagreement	N/A
5(a)(13)	Federal Financial Management Improvement Act-related Reporting	N/A
5(a)(14–16)	Peer Review Results	<a href="#">24</a>

### ***ABOUT THE DEPARTMENT AND OIG***

**The U.S. Department of Energy** is headquartered in Washington, DC and currently operates the Energy Information Administration, the National Nuclear Security Administration, 21 preeminent research laboratories and facilities, four power marketing administrations, nine field offices, and 10 Program Offices which help manage the Department's mission with more than 15,000 employees. The Department is the Nation's top sponsor of research and development and has won more Nobel Prizes and research and development awards than any other private sector organization and twice as many as all other Federal agencies combined. The mission of the Department is to ensure America's security and prosperity by addressing its energy, environmental and nuclear challenges through transformative science and technology solutions.

**The OIG's** mission is to strengthen the integrity, economy and efficiency of the Department's programs and operations. The OIG has the authority to inquire into all Department programs and activities as well as the related activities of persons or parties associated with Department grants, contracts, or other agreements. As part of its independent status, the OIG provides the Secretary with an impartial set of "eyes and ears" to evaluate management practices. With approximately 290 employees, the organization strives to be a highly effective organization that promotes positive change.

### **OIG HOTLINE CONTACT**

Contact the OIG Hotline if you suspect fraud, waste or abuse involving Department programs or by a Department employee, contractor or grant recipient.

Contact Information:

- Toll Free Telephone Number: 1-800-541-1625
- Washington DC Metro Telephone Number: 202-586-4073
- Email Address: [ighotline@hq.doe.gov](mailto:ighotline@hq.doe.gov)
- Physical Address: U.S. Department of Energy  
1000 Independence Ave, SW  
Washington, DC 20585

### **FEEDBACK**

The contents of the March 2014 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 provide the following information by clicking the “submit email” button below:

- Name
- Telephone Number
- Comments/Suggestions/Feedback

