

U.S. DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

DURING THIS REPORTING PERIOD, WE ISSUED 45 REPORTS; IDENTIFIED \$30.8 MILLION IN FUNDS PUT TO BETTER USE, \$215 MILLION IN QUESTIONED COSTS, AND \$19.1 MILLION IN UNSUPPORTED COST; OBTAINED \$0.8 MILLION IN FINES, SETTLEMENTS, AND RECOVERIES, 12 CRIMINAL CONVICTIONS, 22 SUSPENSIONS AND DEBARMENTS, AND 20 CIVIL AND ADMINISTRATIVE ACTIONS; AND RECEIVED 909 HOT

The seal of the U.S. Department of Energy, Office of Inspector General, is a circular emblem. It features a central shield with a lightning bolt, a sun, and a gear. Above the shield is an eagle with its wings spread. The shield is set against a blue background. The outer ring of the seal is gold with the text "U.S. DEPARTMENT OF ENERGY" at the top and "UNITED STATES OF AMERICA" at the bottom, separated by small dots.

SEMIANNUAL REPORT TO CONGRESS

APRIL 1 – SEPTEMBER 30, 2014

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Message from the Inspector General

On behalf of the Department of Energy's Office of Inspector General, I am pleased to submit the Semiannual Report to Congress for the period ending September 30, 2014. This report highlights our accomplishments in working with management to ensure the economy, efficiency, and effectiveness of the agency's programs and operations.

The Federal government has identified cybersecurity as one the most serious economic and national security challenges we face as a Nation. Based on the results of our work at the Department, we have concluded that cybersecurity is one its most significant management challenges. Despite the attention that has been given to the issue, the Department experienced a significant cyber-attack in July 2013 that resulted in the theft of personally identifiable information for over 100,000 Department employees and contractors. However, I am pleased to report that during this reporting period, our efforts to investigate this attack led to a high-profile indictment of two individuals who were responsible for the attack. Our work on this issue has also resulted in a number of lessons learned which we have shared with appropriate officials and hope will make future cyber-attacks less likely.

As in previous reporting periods, we have remained committed to assisting the Department in identifying opportunities for operational efficiencies, cost savings, and enhanced programmatic performance. We issued a total of 45 reports this reporting period that addressed significant concerns and challenges pertaining to the Department's programs and operations. We made a number of recommendations in our report entitled ["The Department of Energy's Management of Cloud Computing Activities"](#) that will assist the Department in ensuring that cloud computing is effectively managed throughout the complex. In another report entitled, ["Remediation of Selected Transuranic Waste Drums at Los Alamos National Laboratory – Potential Impact on the Shutdown of the Department's Waste Isolation Plant,"](#) we uncovered several major deficiencies in the Los Alamos National Laboratory's procedures for the development and approval of waste packaging and remediation techniques that may have contributed to the radiological release from a transuranic waste drum in the underground repository at the Department's Waste Isolation Pilot Plant. Our recommendations in this report will assist in ensuring a safer operating environment.

Our work is intended to help the Department remediate deficiencies in its program and operations. Both my staff and I appreciate the importance of the work done by the agency's employees and contractors. We look forward to our continued relationship to enhance Departmental efficiency and effectiveness.



Gregory H. Friedman
Inspector General

IMPACTS

Results at a Glance

| | |
|------------------------|--|
| \$ 30.8 million | Funds Put to Better Use |
| \$215.0 million | Questioned Costs |
| \$ 19.1 million | Unsupported Costs |
| \$ 0.8 million | Dollars Recovered (Fines, Settlements, Recoveries) |
| 45 | Total Reports Issued: |
| 35 | <i>Audits Reports Issued</i> |
| 8 | <i>Inspection Reports Issued</i> |
| 2 | <i>Recovery Reports Issued</i> |
| 12 | Criminal Convictions |
| 22 | Suspensions and Debarments |
| 20 | Civil and Administrative Actions |
| 909¹ | Hotline Contacts |

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:

- Since our audit on ["National Nuclear Security Administration \(NNSA\) Nuclear Weapons Systems Configuration Management"](#) (DOE/IG-0902, March, 2014) was issued, Los Alamos National Laboratory has developed an automated method that ensures that after computer-aided design drawings are reviewed and approved a final representation is automatically produced in pdf format. The solution helps to eliminate the possibility of inadvertent changes to product definitions. In addition, Los Alamos National Laboratory took action to establish need-to-know access control process in its PDMLink system.
- Our assessment report on ["Audit Coverage of Cost Allowability for Lawrence Livermore National Laboratory during FYs 2011-2012"](#) (OAS-V-14-14, August 2014) found four instances where Lawrence Livermore National Laboratory had inappropriately purchased insurance totaling \$1,766,058 without Federal approval. As a result, the Contracting Officer recovered \$646,362 of the questioned insurance costs and expects to recover an additional \$1,119,696. The Contracting Officer also recovered \$258,577 for similar insurance costs incurred subsequent to the period covered by our audit and expects to recover an additional \$307,304.
- The Department's Advanced Research Projects Agency-Energy promptly took actions to address the issues found during our audit on ["Management of Selected Advanced Research Projects Agency-Energy Projects"](#) (OAS-M-14-08, August 2014). Specifically, the Advanced Research Projects Agency-Energy updated guidance regarding in-kind cost share and indirect costs; initiated a new process to ensure required annual audits are tracked and reviewed, and is working to recover the Federal share of questioned costs totaling \$437,600.
- As a result of our inspection, ["Management of Certain Aspects of the Human Reliability Program and Incident Reporting within the Office of Secure Transportation"](#) (DOE/IG-0919, September 24, 2014) the Department took steps to ensure that Office of Secure Transportation personnel whose Human Reliability certifications were suspended will be prohibited from performing Nuclear Explosive Duties.
- Our report on the ["Follow-up Audit on Term Assignments of Contractor Employees"](#) (DOE/IG-0890, July 2013), identified concerns with the management of term assignments, including a lack of requirements to determine whether cost effective alternatives to term assignments were available. In response to our

recommendations, the Office of Nuclear Energy incorporated a standard cost comparison approach, which includes evaluating and comparing costs of options to term assignments.

- As a result of our inspection, ["Allegations Regarding Personnel Security Concerns at Oak Ridge National Laboratory" \(INS-O-14-02, June 2014\)](#), the Office of Intelligence and Counterintelligence provided additional Special Security Officer training concerning sensitive compartmented information debriefing requirements. The training ensures that Special Security Officer reinforce the protection of national security information when sensitive compartmented information clearances are terminated.
- The OIG Hotline received an allegation that a Department grantee had not properly made severance payments to several former employees. After receiving an OIG referral, the Department requested the grantee provide information regarding severance payments. The grantee subsequently paid 14 former employees severance payments they were owed.
- After receiving an OIG referral based on a Hotline complaint, the Office of Legacy Management identified opportunities for improvement pertaining to occupational health and safety reporting requirements. Specifically, the office: (1) institutionalized a process to ensure adequate follow-up and documentation of all potentially reportable cases; (2) established a process to improve communication with employees regarding management's commitment to accurate data reporting and its responsibilities in this process; and (3) updated policy and procedure documents to reflect current Department requirements and incorporated processes or tools to aid in timely, accurate reporting.
- The Department, based on the results of an OIG investigation, received \$138,848 in disallowed costs from the State of California's Department of Community Services and Development (CSD). The Department funded CSD under the Weatherization Assistance Program as a part of the American Recovery and Reinvestment Act of 2009. The OIG investigation determined that an employee of a CSD sub-grant recipient embezzled these monies.
- After receiving an OIG referral based on a Hotline complaint, the Western Area Power Administration (WAPA) identified internal control weaknesses associated with the Secure Payment System. Specifically, WAPA determined that certifiers had not been properly trained and were approving payments without reviewing supporting documentation. Based on these weaknesses, WAPA management has sought to secure training for all certifiers and recommended that supervisors formally implement procedures to ensure detailed reviews of documentation.

REPORTS

Investigative Outcomes

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| Indictment and Arrest in Child Pornography Investigation | 23 |
| Indictment in Child Pornography Investigation | 23 |
| Indictment in Kickback Investigation | 23 |
| Arrest and Guilty Plea for Attempted Extortion | 24 |
| Plea Agreement and Sentencing in North Carolina Weatherization Assistance Program Investigation | 24 |
| Subcontractor Sentenced in Recovery Act Case | 24 |
| Arrest and Guilty Plea in Bomb Threat Investigation | 25 |
| Department Grant Recipients Indicted | 25 |
| Indictment in Recovery Act Grant Fraud Investigation | 25 |
| Federal Grand Jury Indicts Former Contractor Employee in Per Diem Fraud Investigation | 25 |
| Recovery in Embezzlement Case | 25 |
| Indictment and Arrest in Small Business Innovation Research Fraud Investigation | 26 |
| Guilty Plea and Sentencing in Theft Investigation | 26 |
| Former Hanford Site Supervisors Pled Guilty to Conspiracy to Commit Wire Fraud | 26 |
| Former Director of a Community Action Agency Pleads Guilty to Official Misconduct | 26 |
| Subcontractor, Owner, and Former State Official Suspended by the Department Following Criminal Convictions | 26 |
| Former Contractor Employees Sentenced for Theft of Government Funds | 27 |

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|---|--------------------|
| Pre-trial Diversion for Former National Energy Technology Laboratory Contractor Employee | 27 |
| Criminal Complaint and Arrest in Recovery Act Investigation | 27 |
| Criminal Charges Filed Against a Department Employee in Theft of Government Computers Investigation | 27 |
| Administrative Action Taken in Recovery Act Weatherization Fraud Investigation | 28 |
| Response to Investigative Report to Management in Recovery Act Grant Fraud Investigation | 28 |
| Two Former Contractor Employees Suspended in Embezzlement Investigation | 28 |
| Former Hanford Contractor Employee Suspended in False Timecard Investigation | 28 |
| Former Savannah River Site Contractor Suspended Following False Statements Conviction | 28 |
| Action Taken in Response to an Investigative Report to Management in Computer Misuse Investigation | 29 |
| Administrative Action Taken in Conflict of Interest Investigation | 29 |
| Suspension Action in Investigation Involving Misuse of Weatherization Funds | 29 |
| Department Contractor Employee Terminated in Property Theft Investigation | 29 |
| Response to Investigative Report to Management in Conflict of Interest Matter | 30 |
| Debarments in Investigation Involving Theft of Government Property/Program Fraud | 30 |
| Savannah River Site Subcontractor Employee Terminated | 30 |
| Proposed Debarment Action in Kickback Fraud Investigation | 30 |
| Administrative Action Taken in Conflict of Interest Investigation | 30 |
| Former Subcontractor Employee Suspended and Proposed for Debarment | 31 |
| Guilty Plea in Employee Misconduct Investigation | 31 |

Audits

| DATE ISSUED | REPORT TITLE | BETTER USE OF FUNDS | QUESTIONED COSTS | UNSUPPORTED COSTS | PAGE |
|--------------|---|---------------------|------------------|-------------------|--|
| Apr 3, 2014 | Office of Energy Efficiency and Renewable Energy's Integrated Resource and Information System (DOE/IG-0905) | \$674,774 | | | 32 |
| Apr 7, 2014 | Compliance with the Memorandum of Agreement Between the U.S. Department of Energy and the Energy Child Development Centers, Inc. (OAS-M-14-04) | | | | 32 |
| Apr 14, 2014 | The Department of Energy's Loan Guarantee to Abound Solar Manufacturing, LLC (DOE/IG-0907) | | | | 33 |
| Apr 14, 2014 | Department of Energy's Management of Unneeded Real Estate (OAS-L-14-07) | | | | 33 |
| Apr 15, 2014 | Performance Audit of the Department of Energy's Improper Payment Reporting in the FY 2013 Agency Financial Report (OAS-FS-14-08) | | | | 34 |
| Apr 15, 2014 | The Department of Energy's Management and Use of Mobile Computing Devices and Services (DOE/IG-0908) | \$782,134 | | | 34 |
| Apr 21, 2014 | Audit of Incurred Costs for UT-Battelle under Department of Energy Contract No. DE-AC05-00OR22725 during FY 2012 (OAS-M-14-05) | | \$45,307,450 | | 34 |
| Apr 23, 2014 | Assessment of Audit Coverage of Cost Allowability for Sandia Corporation under Department of Energy Contract DE-AC04-94AL85000 for FYs 2011 and 2012 (OAS-V-14-10) | | \$5,741,818 | | Summary Not Publicly Available – Official Use Only |
| May 7, 2014 | Implementation of Recommendations from the January 2012 Independent Consultant's Review of the Department of Energy Loan and Loan Guarantee Portfolio (DOE/IG-0909) | | | | 35 |
| May 21, 2014 | Kansas City Plant's Vendor Quality Assurance (OAS-L-14-08) | | | | 35 |
| May 22, 2014 | Cost and Schedule of the Mixed Oxide Fuel Fabrication Facility at the Savannah River Site (DOE/IG-0911) | | | | 36 |
| May 22, 2014 | Public Dissemination of Research Results (DOE/IG-0912) | | | | 36 |

Semiannual Report to Congress

| DATE ISSUED | REPORT TITLE | BETTER USE OF FUNDS | QUESTIONED COSTS | UNSUPPORTED COSTS | PAGE |
|--------------|---|---------------------|------------------|-------------------|--|
| May 30, 2014 | Assessment of Audit Coverage of Cost Allowability for Los Alamos National Laboratory during FYs 2011 and 2012 under Department of Energy Contract No. DE-AC52-06NA25396 (OAS-V-14-11) | | \$601,927 | | Summary Not Publicly Available – Official Use Only |
| Jun 4, 2014 | Follow-Up Audit of the Los Alamos Neutron Science Center (OAS-M-14-06) | | | | 37 |
| Jun 13, 2014 | Assessment of Audit Coverage of Cost Allowability for Lawrence Berkeley National Laboratory under Department of Energy Contract No. DE-AC02-05CH11231 during FY 2012 (OAS-V-14-12) | | | | Summary Not Publicly Available – Official Use Only |
| Jun 26, 2014 | The Department of Energy's Implementation of Voice over Internet Protocol Telecommunications Networks (DOE/IG-0915) | \$365,000 | | | 38 |
| Jun 26, 2014 | The Department of Energy's Water Power Program (OAS-M-14-07) | | | \$2,100,000 | 38 |
| Jul 1, 2014 | Southwestern Federal Power System's FY 2013 Financial Statement Audit (OAS-FS-14-09) | | | | 39 |
| Jul 10, 2014 | The Strategic Petroleum Reserve's Drawdown Readiness (DOE/IG-0916) | | | | 39 |
| Jul 28, 2014 | National Nuclear Security Administration's Space-Based Nuclear Detonation Detection Program (OAS-L-14-09) | | | | 40 |
| Aug 1, 2014 | Assessment of Audit Coverage of Cost Allowability for Washington TRU Solutions, LLC, under Department of Energy Contract DE-AC29-01AL66444 for FY 2012 (OAS-V-14-13) | | | | Summary Not Publicly Available – Official Use Only |
| Aug 6, 2014 | Management of the National Nuclear Security Administration's Biosafety Laboratories (DOE/IG-0917) | | | | 40 |
| Aug 6, 2014 | Management of Selected Advanced Research Projects Agency-Energy Projects (OAS-M-14-08) | | \$547,000 | | 41 |
| Aug 12, 2014 | Office of Science's Management of Research Misconduct Allegations (OAS-M-14-09) | | | | 41 |

Semiannual Report to Congress

| DATE ISSUED | REPORT TITLE | BETTER USE OF FUNDS | QUESTIONED COSTS | UNSUPPORTED COSTS | PAGE |
|--------------|---|---------------------|------------------|-------------------|--|
| Aug 13, 2014 | Assessment of Audit Coverage of Cost Allowability for Lawrence Livermore National Laboratory under Department of Energy Contract No. DE-AC52-07NA27344 during FYs 2011-2012 (OAS-V-14-14) | | \$2,714,051 | | 42 |
| Aug 18, 2014 | Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy (OAS-M-14-10) | | | | 43 |
| Aug 18, 2014 | Integrated Safety Management at the Idaho National Laboratory (OAS-L-14-10) | | | | 43 |
| Aug 18, 2014 | Assessment of Audit Coverage of Cost Allowability for Pacific Northwest National Laboratory under Department of Energy Contract No. DE-AC05-76RL01830 during FY 2012 (OAS-V-14-15) | | | | Summary Not Publicly Available – Official Use Only |
| Aug 20, 2014 | The National Nuclear Security Administration’s Neutron Generator Activities (OAS-L-14-11) | | | | 44 |
| Sep 18, 2014 | Follow-Up Audit on The Management of the Plutonium Finishing Plant Project (OAS-M-14-11) | | | | 44 |
| Sep 19, 2014 | The Department of Energy’s Management of Cloud Computing Activities (DOE/IG-0918) | | | | 45 |
| Sep 22, 2014 | Assessment of Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC07-05ID14517 during FY 2013 (OAS-V-14-16) | | \$16,087 | | Summary Not Publicly Available – Official Use Only |
| Sep 24, 2014 | Assessment of Audit Coverage of Cost Allowability for Bechtel Jacobs Company, LLC under Department of Energy Contract No. DE-AC05-98OR22700 during FY 2011 (OAS-V-14-17) | | \$160,007,744 | | Summary Not Publicly Available – Official Use Only |
| Sep 30, 2014 | Follow-up on the Department of Energy’s Acquisition and Maintenance of Software Licenses (DOE/IG-0920) | \$199,906 | | | 46 |
| Sep 30, 2014 | Remediation of Selected Transuranic Waste Drums at Los Alamos National Laboratory – Potential Impact on the Shutdown of the Department’s Waste Isolation Plant (DOE/IG-0922) | \$28,800,000 | | | 47 |

Inspections

| DATE ISSUED | REPORT TITLE | BETTER USE OF FUNDS | QUESTIONED COSTS | UNSUPPORTED COSTS | PAGE |
|---------------|--|---------------------|------------------|-------------------|--|
| Apr 9, 2014 | Review of Internal Controls for Protecting Non-Public Information at the Federal Energy Regulatory Commission (DOE/IG-0906) | | | | 48 |
| May 15, 2014 | Review of Allegations Regarding Continued Retaliation Against a Bonneville Power Administration Whistleblower (DOE/IG-0910) | | | | 48 |
| May 15, 2014 | Alleged Lack of Impartiality by a Senior National Nuclear Security Administration Official (DOE/IG-0914) | | | | Summary Not Publically Available – Official Use Only |
| Jun 3, 2014 | Conference Management at Selected Department Sites (DOE/IG-0913) | | | | 49 |
| Jun 4, 2014 | Allegations Regarding Personnel Security Concerns at Oak Ridge National Laboratory (INS-O-14-02) | | | | 49 |
| Aug 21, 2014 | The Readiness of the Department’s Federal Radiological Monitoring and Assessment Center (INS-L-14-02) | | | | 50 |
| Sept 24, 2014 | Management of Certain Aspects of the Human Reliability Program and Incident Reporting within the Office of Secure Transportation (DOE/IG-0919) | | | | 50 |
| Sept 30, 2014 | Alleged Fraud, Waste, Abuse and Mismanagement at a Department of Energy Site Office (DOE/IG-0921) | | | | 51 |

American Recovery and Reinvestment Act

| DATE ISSUED | REPORT TITLE | BETTER USE OF FUNDS | QUESTIONED COSTS | UNSUPPORTED COSTS | PAGE |
|--------------|--|---------------------|------------------|-------------------|--------------------|
| Apr 14, 2014 | Allegations Regarding the Department of Energy's State Energy Program Funding to South Dakota (OAS-RA-L-14-01) | | | | 52 |
| Jun 17, 2014 | Selected Activities of the Office of Energy Efficiency and Renewable Energy's Advanced Manufacturing Office (OAS-RA-14-04) | | \$16,000 | \$17,000,000 | 52 |

RESULTS

Congressional Testimony

During this reporting period, the Inspector General did not testify before Congress. However, on May 30, 2014, Rickey Hass, Deputy Inspector General for Audits and Inspections, testified before the Oversight and Investigations Subcommittee of the House Committee on Energy and Commerce at a hearing entitled, "Department of Energy Oversight: Status of Loan Programs."

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) 11 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 reports 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 | Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site (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 |

Prior Significant Recommendations Not Implemented

As of September 30, 2014, closure actions on recommendations in 48 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 182 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. [Non-linked reports are not publically available.]

| 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) | 2 |
| 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) | 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) | 1 |
| Sep 28, 2007 | Sandia National Laboratory's Safety Practices (INS-L-07-11) | 1 |
| Dec 17, 2007 | Beryllium Surface Contamination at the Y-12 National Security Complex (IG-0783) | 1 |
| Apr 11, 2008 | The Department's Progress in Meeting Los Alamos National Laboratory Consent Order Milestones (IG-0793) | 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 Fiscal Year 2006 (OAS-V-08-09) | 1 |
| July 14, 2008 | Management Controls over Monitoring and Closeout of Small Business Innovation Research Phase II Grants (OAS-M-08-09) | 1 |
| Nov 13, 2009 | Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program (OAS-M-10-01) | 2 |
| Dec 22, 2009 | Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2009 (OAS-FS-10-03) | 1 |
| Jul 29, 2010 | Severance Repayments at the Savannah River Site (INS-O-10-02) | 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) | 1 |

Semiannual Report to Congress

| DATE ISSUED | REPORT TITLE | # OF OPEN RECOMMENDATIONS |
|--------------|--|---------------------------|
| Sep 3, 2010 | Follow-up Audit on Retention and Management of the Department of Energy's Electronic Records (IG-0838) | 2 |
| Sep 22, 2010 | The Department of Energy's Audit Resolution and Follow-up Process (IG-0840) | 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) | 1 |
| Dec 21, 2010 | Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2010 (OAS-FS-11-04) | 2 |
| Mar 3, 2011 | The Department of Energy's Loan Guarantee Program for Clean Energy Technologies (IG-0849) | 1 |
| Sep 19, 2011 | The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee (OAS-RA-11-17) | 1 |
| Dec 21, 2011 | Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2011 (OAS-FS-12-04) | 8 |
| Feb 6, 2012 | Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2011 (OAS-FS-12-05) | 4 |
| Mar 26, 2012 | Management of Bonneville Power Administration's Information Technology Program (IG-0861) | 1 |
| Apr 25, 2012 | The Department of Energy's \$12.2 Billion Waste Treatment and Immobilization Plant- Quality Assurance of Black Cells Vessels (IG-0863) | 2 |
| May 31, 2012 | Integrated Safety Management at Sandia National Laboratories (IG-0866) | 5 |
| Jun 18, 2012 | The National Nuclear Security Administration (NNSA) Contractors' Disability Compensation and Return-to-Work Programs (IG-0867) | 3 |
| Jun 29, 2012 | Office of Secure Transportation Capabilities (OAS-M-12-05) | 2 |
| Oct 26, 2012 | Review of the Compromise of Security Test Materials at the Y-12 National Security Complex (IG-0875) | 2 |
| Nov 5, 2012 | Allegations of Organizational Conflicts of Interest at Portsmouth and Oak Ridge (INS-O-13-01) | 4 |
| Nov 8, 2012 | The Department's Unclassified Cyber Security Program -2012 (IG-0877) | 4 |
| Nov 30, 2012 | Tactical Response Force Pursuit Operations at Idaho National Laboratory (INS-O-13-02) | 1 |
| Dec 11, 2012 | Follow-up Audit of the Department's Cyber Security Incident Management Program (IG-0878) | 8 |
| Dec 17, 2012 | Management Letter on the Audit of the Department of Energy's Consolidated Financial Statement for Fiscal Year 2012 (OAS-FS-13-08) | 3 |

| DATE ISSUED | REPORT TITLE | # OF OPEN RECOMMENDATIONS |
|--------------|---|---------------------------|
| Jan 31, 2013 | Management Letter on the Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2010 Balance Sheet Audit (OAS-FS-13-11) | 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) | 2 |
| Apr 9, 2013 | The Department of Energy's Use of the Environmental Management Waste Management Facility at the Oak Ridge Reservation (IG-0883) | 2 |
| Apr 19, 2013 | Alleged Improprieties Regarding the Canine Program at the Department of Energy Y-12 Site (IG-0886) | 1 |
| May 15, 2013 | The Use of Staff Augmentation Subcontracts at the National Nuclear Security Administration's Mixed Oxide Fuel Fabrication Facility (IG-0887) | 2 |
| Jun 6, 2013 | Alleged Nepotism and Wasteful Spending in the Office of Energy Efficiency and Renewable Energy (IG-0888) | 4 |
| Jun 24, 2013 | Mitigation of Natural Disasters at Los Alamos National Laboratory (OAS-M-13-04) | 3 |
| Jul 2, 2013 | Follow-Up Audit on Term Assignments of Contractors Employees (IG-0890) | 1 |
| Jul 8, 2013 | Assessment of Audit Coverage of Cost Allowability for Oak Ridge Associated Universities, Inc. Under Department of Energy Contract No. DE-AC05-06OR23100 For Fiscal Year 2007-2011 (OAS-V-13-12) | 2 |
| Jul 15, 2013 | Examination Report on "Commonwealth of Puerto Rico Energy Affairs Administration - Energy Efficiency and Conservation Block Grant Funds Provided by American Recovery and Reinvestment Act of 2009 (OAS-RA-13-27) | 1 |
| Aug 16, 2013 | The Department of Energy's Appliance and Equipment Standards Program (OAS-M-13-05) | 1 |
| Aug 26, 2013 | The Department of Energy's Administration of Energy Savings Performance Contract Biomass Projects (IG-0892) | 2 |
| Sep 4, 2013 | The Department of Energy's Management of Contractor Responsibility Determinations (OAS-M-13-07) | 2 |
| Sep 25, 2013 | Fiscal Year 2011 Work Performed Under the Work for Others Program at Sandia National Laboratories (OAS-L-13-14) | 2 |
| Sep 30, 2013 | Department of Energy Quality Assurance: Design Control for the Waste Treatment and Immobilization Plant at the Hanford Site (IG-0894) | 6 |
| Sep 30, 2013 | Accountability and Control of Explosives at the Lawrence Livermore National Laboratory's High Explosives Applications Facility (INS-O-13-06) | 1 |
| Sep 30, 2013 | The Resumption of Critically Experiments Facility Operations at the Nevada National Security Site (OAS-M-13-09) | 2 |

Total Open Recommendations

105

**AUDIT AND INSPECTION REPORTS WITH
RECOMMENDATIONS FOR BETTER USE OF FUNDS
APRIL 1, 2014 – SEPTEMBER 30, 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, 2014: ¹ | 20 | \$547,491,917 |
| Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made): | 5 | \$30,821,814 |
| | | |
| Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period: ² | 2 | \$1,100,000 |
| (i) Agreed to by management: | | \$700,000 |
| (ii) Not agreed to by management: | | \$400,000 |
| 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: | 23 | \$577,213,731 |

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.

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

²Does not include reports for which the Department has made decisions on some aspects of the report but not all.

**AUDIT AND INSPECTION REPORTS WITH
QUESTIONED AND/OR UNSUPPORTED COSTS
APRIL 1, 2014 – SEPTEMBER 30, 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, 2014: ¹ | 48 | \$984,878,337 ² | \$17,741,059 | \$1,002,619,396 |
| Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made): | 9 | \$214,952,077 | \$19,100,000 | \$234,052,077 |
| | | | | |
| Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period: ³ | 5 | \$9,228,299 | \$525,842 | \$9,754,141 |
| (i) Value of disallowed costs: | | \$71,400 | \$0 | \$71,400 |
| (ii) Value of costs not disallowed: | | \$9,156,899 | \$525,842 | \$9,682,741 |
| Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period: | 52 | \$1,190,602,115 | \$36,315,217 | \$1,226,917,332 |

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.

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

²Does not include reports for which the Department has made decisions on some aspects of the report but not all.

INVESTIGATIVE ACTIVITY
APRIL 1, 2014 – SEPTEMBER 30, 2014

| CASE ACTIVITY | |
|---|------------------|
| Cases Open as of April 1, 2014 | 226 |
| <i>Cases opened during period</i> | 62 |
| <i>Cases closed during period</i> | 50 |
| Cases Open as of September 30, 2014 | 238 |
| Multi-Agency Task Force Cases Opened During Period | 16 |
| Qui Tam ¹ Investigations Opened During Period | 2 |
| Total Open Qui Tam Investigations as of September 30, 2014 | 12 |
| IMPACT OF INVESTIGATIONS | |
| Administrative discipline and other management actions | 18 |
| Recommendations to management for positive change and other actions | 34 |
| Suspensions/Debarments | 22 |
| Accepted for prosecution ² | 8 |
| Indictments | 11 |
| Criminal convictions | 12 |
| Pre-trial diversions | 3 |
| Civil actions | 2 |
| TOTAL DOLLAR IMPACT³ (FINES, SETTLEMENTS, RECOVERIES) | \$826,528 |

¹For more information on Qui Tams, go to: http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm00932.htm

²Some investigations accepted during the 6-month period were referred for prosecution during a previous reporting period.

³Some of the money collected was the result of investigations involving multiple agencies.

**HOTLINE ACTIVITY
APRIL 1, 2014 – SEPTEMBER 30, 2014**

| | |
|---|------------|
| TOTAL HOTLINE CONTACTS¹ | 909 |
| Hotline contacts resolved immediately/redirected/no further action | 690 |
| Hotline contacts predicated for evaluation | 219 |
| TOTAL HOTLINE PREDICATIONS PROCESSED THIS REPORTING PERIOD | 226 |
| Hotline predications transferred to OIG Program Office | 24 |
| Hotline predications referred to Department management or other entity for information/action | 74 |
| Hotline predications closed based upon preliminary OIG activity and review | 121 |
| Hotline predications open at the end of the reporting period | 7 |

¹This number previously included all contacts with the Hotline regardless of the nature or subject of the contact. Beginning in FY 2014, this number only includes contacts which require action by OIG employees.

**WHISTLEBLOWER RETALIATION COMPLAINTS
APRIL 1, 2014 – SEPTEMBER 30, 2014**

Disposition of Whistleblower Retaliation Complaints

| | |
|--|---|
| Complaints received | 2 |
| Accepted complaints carried over from prior period(s) | 1 |
| Reports issued | 0 |
| Complaints Dismissed | |
| 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 |
| Complaints that Received Extensions | 0 |

**PEER REVIEWS CONDUCTED BY OIG
APRIL 1, 2014 – SEPTEMBER 30, 2014**

| TYPE OF REVIEW | DATE OF PEER REVIEW | OIG REVIEWED | OUTSTANDING RECOMMENDATIONS |
|-----------------------|----------------------------|--|------------------------------------|
| Audits | None this reporting period | | |
| Inspections | None this reporting period | | |
| Investigations | August 18, 2014 | National Aeronautics and Space Administration OIG | None |

**PEER REVIEWS CONDUCTED OF OIG
APRIL 1, 2014 – SEPTEMBER 30, 2014**

| TYPE OF REVIEW | DATE OF PEER REVIEW | REVIEWING OIG | FREQUENCY REQUIREMENT | OUTSTANDING RECOMMENDATIONS |
|-----------------------|----------------------------|---------------------------------------|------------------------------|------------------------------------|
| Audits | None this reporting period | | | |
| Inspections | None this reporting period | | | |
| Investigations | April 14, 2014 | Department of Veterans Affairs OIG | 3 years | None |

SUMMARIES

Investigative Outcomes

Arrest and Indictment in Network Intrusion Investigation

As part of a joint investigation, Australian police arrested an individual for his alleged involvement in the July 2013 intrusion and theft of Personally Identifiable Information from the Department's Management Information Server. The arrest was the result of evidence identified during forensic media analysis by our Technology Crimes Section and the Federal Bureau of Investigation Cyber Crimes Task Force. The arrestee is a known associate of an individual previously arrested by United Kingdom authorities in this investigation and allegedly conspired in the network intrusion and subsequent theft and distribution of Personally Identifiable Information data from the Department system. The individual previously arrested in the United Kingdom was indicted by a Federal Grand Jury in the Eastern District of Virginia. The individual was indicted for conspiracy, causing damage to a protected computer, access device fraud, and aggravated identity theft. This is a joint investigation with the Federal Bureau of Investigation and the U.S. Department of Health and Human Services OIG.

Indictment and Arrest in Child Pornography Investigation

A Federal Grand Jury in the District of South Carolina indicted a former Department contractor employee for sexual exploitation of children. The individual was subsequently arrested without incident. The investigation was initiated based on a referral from the Savannah River Site General Counsel's Office regarding the contractor employee reportedly viewing child pornography in the workplace. A search and seizure warrant was executed on the employee's personally-owned electronic media storage device, which was found in the employee's workspace and allegedly used to view the images there.

Indictment in Child Pornography Investigation

A Grand Jury in Aiken County, South Carolina, indicted a former Department contractor employee for sexual exploitation of a minor. The investigation was initiated based on a referral from the Savannah River Nuclear Solutions Incident Response Team alleging that a Savannah River Site contractor employee was viewing child pornography in the Savannah River Nuclear Solutions workplace. The contractor employee was subsequently arrested for child pornography violations and a search warrant was executed at the employee's residence.

Indictment in Kickback Investigation

A Federal Grand Jury in the District of Minnesota indicted a former National Nuclear Security Administration sub-contractor employee on two counts of witness tampering. The investigation determined that the sub-contractor employee provided kickbacks to a prime contractor working on a National Nuclear Security Administration project in Taiwan and instructed the prime contractor to conceal the source of the kickbacks. This is an ongoing joint investigation with the Federal Bureau of Investigation.

Arrest and Guilty Plea for Attempted Extortion

An individual with no Department affiliation was arrested and has pled guilty for attempting to extort money from the Government. The arrest was the result of an investigation initiated on concerns raised by the Y-12 National Security Complex Office of Public Affairs. The individual sent an email to Y-12 National Security Complex indicating he had acquired approximately 1,200 photographs and slides depicting local farms and farm animals being subjected to nuclear bomb and chemical testing. During several consensually monitored telephone calls and undercover meetings, the individual demanded \$5 million in exchange for the photos. The individual threatened to release the photos “in a manner intended to be harmful to the Department,” if he did not receive the demanded payment. The investigation was coordinated with the U.S. Attorney’s Office for the Eastern District of Tennessee.

Plea Agreement and Sentencing in North Carolina Weatherization Assistance Program Investigation

A relative of a former Weatherization Assistance Program Director at a local community action agency pled guilty and was sentenced in the U.S. District Court for the Middle District of North Carolina to conspiracy to commit theft or bribery concerning programs receiving Federal funds. The individual was sentenced to 12 months and 1 day imprisonment and 3 years supervised release. The individual was also ordered to pay \$324,651.50 in restitution. The investigation determined the relative created a fictitious company in an effort to both disguise the relationship to the Director and to give an appearance of performing business as a legal enterprise. The Director selected the relative’s company to perform the Weatherization Assistance Program work and, through this company, the relative paid the Director monetary kickbacks in excess of \$300,000. As previously reported, the Director has been sentenced for her role in this scheme. This is a joint investigation with the Federal Bureau of Investigation and the North Carolina State Bureau of Investigation.

Subcontractor Sentenced in Recovery Act Case

A former subcontractor for a Recovery Act solar energy award was sentenced in the U.S. District Court for the Western District of Virginia to 12 months of probation and fined \$12,000. As previously reported, the subcontractor pled guilty to theft of Government funds in connection with fraudulently applying for Recovery Act incentive rebate monies designated for the purchase of energy efficient thermal heating systems. In addition, in response to an Investigative Report to Management, the Department has proposed debarment of the former subcontractor. The investigation determined the subcontractor used repurposed solar panels to heat a swimming pool at a YMCA, in violation of Recovery Act rules that prohibit the use of previously used materials and work related to swimming pools. Additionally, the subcontractor submitted inflated claims to the Commonwealth of Virginia, resulting in overbilling to the Department by approximately \$23,000. This was a joint investigation with the Commonwealth of Virginia OIG.

Arrest and Guilty Plea in Bomb Threat Investigation

An individual with no Department affiliation was arrested and subsequently pled guilty to one count of making a bomb threat. The individual called the National Nuclear Security Administration's Albuquerque Complex and indicated there was a bomb in an Office of Secure Transportation building. The threat caused the entire Albuquerque Complex to be evacuated for the day. This is a joint investigation with the Federal Bureau of Investigation's Joint Terrorism Task Force.

Department Grant Recipients Indicted

Two University of Houston professors were indicted by a Federal Grand Jury in the Southern District of Texas for submitting false documentation to obtain approximately \$1.3 million in Small Business Innovation Research grants from the Department and other Federal agencies. From 2008 through 2013, the professors allegedly used false and fraudulent letters of support, along with false claims regarding the facilities, equipment, and materials to be used to conduct research in their applications for Small Business Innovation Research funds. The estimated loss to the Department is \$100,000. This is a joint investigation with the National Aeronautics and Space Administration OIG, National Science Foundation OIG, and Defense Criminal Investigative Service.

Indictment in Recovery Act Grant Fraud Investigation

A Federal Grand Jury in the Central District of Illinois indicted the owner of a company receiving a Department grant on one count of Major Fraud Against the Government. The company was awarded a \$1.7 million grant from the Department under the Green Industry Business Development Program funded through the Recovery Act. The investigation determined that between March 2010 and February 2012, the owner submitted false and fraudulent documentation to improperly obtain approximately \$380,000 in grant funds. The documentation consisted of fraudulent invoices created by the owner, actual invoices from vendors that were not paid, and fraudulently prepared checks reflecting payments that were never made. The investigation further determined that the owner used at least \$200,000 of the improperly obtained funds on personal and unapproved expenses, to include gambling. This is a joint investigation with the Federal Bureau of Investigation.

Federal Grand Jury Indicts Former Contractor Employee in Per Diem Fraud Investigation

A Federal Grand Jury in the District of South Carolina indicted a former contractor employee on one count of Theft of Government Funds and two counts of False Statements. The investigation determined the former contractor employee fraudulently received over \$29,000 in per diem benefits by falsifying per diem eligibility certifications.

Recovery in Embezzlement Case

The Department, based on the results of our investigation, took administrative action by demanding and receiving \$138,848.40 in disallowed costs from the State of California's Department of Community Services and Development (CSD). The Department funded CSD under the Weatherization Assistance Program as a part of the Recovery Act. The investigation determined that an employee of a CSD sub-grant recipient embezzled these monies. The

employee pled guilty to a misdemeanor charge of forging documents. This is a joint investigation with the Del Norte District Attorney's Office and the Department of Health and Human Services OIG.

Indictment and Arrest in Small Business Innovation Fraud Investigation

Two Department grantees were indicted and arrested for making fraudulent Small Business Innovative Research grant proposals and claims for reimbursement to the Department and other Federal agencies. The investigation determined the grantees submitted plagiarized proposals and falsified letters of endorsement to secure grants and, once the grants were awarded, submitted fraudulent invoices for associated costs. This is a joint investigation with National Aeronautics and Space Administration OIG, Defense Criminal Investigative Service, and the National Science Foundation OIG.

Guilty Plea and Sentencing in Theft Investigation

A former Los Alamos National Laboratory contractor employee pled guilty in the First Judicial District of the State of New Mexico to four counts of receiving stolen property. The former contractor employee was sentenced to 18 months supervised probation and ordered to pay \$7,074.96 in restitution. The investigation determined the former contractor employee stole Department-owned tools and equipment and ultimately sold the stolen property to an OIG confidential informant.

Former Hanford Site Supervisors Pled Guilty to Conspiracy to Commit Wire Fraud

Two former Hanford Site Supervisors pled guilty in U.S. District Court for the Eastern District of Washington, to one count of Conspiracy to Commit Wire Fraud. The investigation determined that between October 1999 and October 2008, the former supervisor routinely approved and submitted time cards that falsely claimed hours not worked by subordinates. As part of the plea agreement, one former employee has agreed to 10 months incarceration, a criminal fine of \$19,893.94, and 3 years supervised probation. The other agreed to incarceration not to exceed 14 months, a criminal fine of \$34,146.60, and 3 years supervised probation.

Former Director of a Community Action Agency Pleads Guilty to Official Misconduct

The former Director of a community action agency pled guilty in the Tenth Circuit of the Commonwealth of Kentucky to two counts of official misconduct in the first degree. The investigation determined the former Director used her position to misappropriate Low Income Energy Assistance Program and Department weatherization funds to benefit her mother, who was unqualified to receive funds. Sentencing is pending. This is a joint investigation with U.S. Department of Housing and Urban Development OIG and the Louisville Metro Police Department.

Subcontractor, Owner, and Former State Official Suspended by the Department Following Criminal Convictions

In response to an Investigative Report to Management, the Department's Office of Acquisition and Project Management suspended and debarred a former Department subcontractor company, the company's owner, and a former State of Texas Grant Administrator. The

investigation determined the owner and the former State of Texas official conspired to submit fraudulent documents and make false claims to the Department to obtain approximately \$2 million Recovery Act funds. The former State of Texas official was sentenced to serve 3 years of deferred adjudication probation, ordered to pay \$2,500 in restitution, cannot be employed in a position that manages grant funds, and cannot have contact with the other defendant in this investigation. The owner of the subcontractor company was found guilty of one count of fraud and other unrelated weapons violations stemming from this investigation and is currently serving a 15-year Federal sentence.

Former Contractor Employees Sentenced for Theft of Government Funds

Five former contractor employees were sentenced in the U.S. District Court for the District of South Dakota to sentences ranging from 15 months of incarceration to 1 year of probation. These individuals were also ordered to pay restitution totaling \$220,910. The former contractor employees used a scheme in which false vouchers were generated by a contractor and paid with Federal block grant funding for work not performed. The individuals admitted using the money for drugs and hotel stays. This is a joint investigation with Health and Human Services OIG.

Pre-trial Diversion for Former National Energy Technology Laboratory Contractor Employee

A former contractor employee at the National Energy Technology Laboratory was accepted into pre-trial diversion in the Allegheny County Court of Common Pleas, Commonwealth of Pennsylvania. As part of the terms of the diversion, the former contractor employee will be on probation for a period of 12 months and is required to complete 100 hours of community service. The investigation determined the former contractor employee stole Government-owned property from a Department site. The matter was a joint investigation with the South Park Police Department.

Criminal Complaint and Arrest in Recovery Act Investigation

A Criminal Complaint was filed by the 11th Judicial District Attorney's Office in New Mexico charging an individual, who has no affiliation to the Department, with two counts of Fraud and four counts of Perjury. This investigation, conducted jointly with the State of New Mexico Human Services OIG, determined the individual made false statements on applications and received approximately 4 years' worth of benefits from both the Department's Recovery Act Weatherization Program and a New Mexico Human Services Benefit program. The loss to the Government was approximately \$12,500.

Criminal Charges Filed Against a Department Employee in Theft of Government Computers Investigation

A Criminal Information was filed in Benton County, Washington, charging a Department Property Management Specialist with one count of 1st Degree Theft and one count of Forgery. The investigation determined that the employee forged Government property transfer documents in order to obtain Government owned computers and computer-related equipment

for his own personal use. The items included a computer server, a backup appliance, and a desktop computer, with a total value of approximately \$31,700. The employee was placed on indefinite suspension pending the results of this ongoing investigation.

Administrative Action Taken in Recovery Act Weatherization Fraud Investigation

The State of Michigan's Department of Human Services (MDHS) issued a letter to a Community Action Agency (CAA) sub-recipient notifying them of their termination from the Department's Weatherization Assistance Program (WAP). As previously reported, MDHS issued the CAA a corrective action plan which demanded the return of \$186,934.99 in Department WAP and Recovery Act WAP funds. The investigation determined the CAA improperly awarded a sole-source WAP consultant contract, and paid unauthorized employee bonuses that did not benefit the Department. This is an ongoing, joint investigation with the Department of Health and Human Services OIG and the MDHS OIG.

Response to Investigative Report to Management in Recovery Act Grant Fraud Investigation

In response to an OIG Investigative Report to Management, the Manager of the Department's Financial Evaluation and Accountability Division (Division) conducted a review of Cass County Missouri's administration of a \$378,500 Recovery Act Energy Efficiency and Conservation Block Grant. The Division substantiated that Cass County officials did not follow Federal or State of Missouri procurement regulations when contracting for work performed under the grant and questioned \$288,395 of grant costs. The Division is coordinating with the Department's Procurement and Contracts Division to recover the \$288,395 from Cass County. The case is ongoing.

Two Former Contractor Employees Suspended in Embezzlement Investigation

In response to an Investigative Report to Management, the Office of Acquisition and Project Management notified our office of the suspension and proposed 3-year debarment of two former contractor employees. The investigation determined the former employees embezzled funds from a Department contractor by billing unauthorized international telephone calls and improperly crediting repayment of employee advance loans. This is a joint investigation with the Department of Transportation OIG.

Former Hanford Contractor Employee Suspended in False Timecard Investigation

In response to an Investigative Report to Management, the Office of Acquisition and Project Management notified our office of the suspension and proposed 3-year debarment of a former contractor employee. The suspension was issued after the former employee pled guilty to one count of conspiracy to violate the Anti-Kickback Act. The former employee's plea agreement calls for incarceration up to 12 months, supervised probation for not longer than 2 years, and a fine of not more than \$26,631.64. The investigation found extensive timecard fraud by contractor employees and their management.

Former Savannah River Site Contactor Suspended Following False Statements Conviction

In response to an Investigative Report to Management, the Office of Procurement and Assistance Management suspended and debarred a former contractor employee at the

Savannah River Site from doing business with the Federal Government. As previously reported, the former contractor was sentenced to 3 years of probation after pleading guilty to one count of false statements. The investigation determined the former contractor employee provided false personal identifiers to obtain a Savannah River Site badge in order to gain entry into the site.

Action Taken in Response to an Investigative Report to Management in Computer Misuse Investigation

The Acting Director of the National Energy Technology Laboratory concurred with an OIG Investigative Report to Management, which contained two recommendations for corrective action related to the misuse of a Government computer and email account by an employee. The Acting Director proposed a one-day suspension without pay and additional ethics training for the employee. Our review of the National Energy Technology Laboratory employee's email account during an unrelated investigation revealed that the employee used a Government computer and email account to send and receive emails related to paid, outside employment.

Administrative Action Taken in Conflict of Interest Investigation

A Department sub-grantee suspended its Director for Community and Energy Services for 15 working days without pay after it was determined the Director violated agency policy with regard to conflict of interest. The Director was prohibited from exercising any authority over Weatherization Assistance Program inspection work after our investigation determined the Director's spouse and other family members were awarded extensive Weatherization Assistance Program inspection work. Following the completion of the suspension, the Director resigned in lieu of termination.

Suspension Action in Investigation Involving Misuse of Weatherization Funds

In response to an Investigative Report to Management, the Office of Acquisition and Project Management suspended and proposed debarment of a former Executive Director of a Community Action Agency in Farmville, Virginia. The ongoing investigation substantiated allegations that the Executive Director used Department Weatherization Assistance Program funds to build a deck and sunroom at her private residence. The investigation continues into additional allegations of misuse of grant funds by the Community Action Agency. This case was coordinated with the United States Attorney's Office for the Eastern District of Virginia and has been accepted for criminal prosecution.

Department Contractor Employee Terminated in Property Theft Investigation

A SLAC National Accelerator Laboratory contractor employee was terminated for cause by Department management. The OIG investigation determined the contractor employee was involved in the theft of an undetermined amount of copper piping and various other equipment from SLAC National Accelerator Laboratory. This investigation is being coordinated with the San Mateo District Attorney's Office. A decision regarding prosecution has not been made.

Response to Investigative Report to Management in Conflict of Interest Matter

In response to an Investigative Report to Management regarding a potential conflict of interest, the Principal Deputy Assistant Secretary, Office of Fossil Energy, indicated that our findings will help strengthen internal controls at the National Energy Technology Laboratory. As previously reported, the investigation determined the former Director of National Energy Technology Laboratory did not properly recuse himself while in discussions regarding employment opportunities with Department subcontractors.

Debarments in Investigation Involving Theft of Government Property/Program Fraud

In response to an Investigative Report to Management, the Deputy Director, Office of Acquisition and Project Management, debarred two former West Virginia University (WVU) employees. The investigation determined a WVU professor and two other WVU employees used Federal grant monies for personal expenses. This case is being coordinated with the U.S. Attorney's Office for the Northern District of West Virginia and was accepted for criminal prosecution. This is an ongoing joint investigation with the Department of Transportation OIG, Department of Homeland Security OIG, and West Virginia Commission on Special Investigations.

Savannah River Site Subcontractor Employee Terminated

A subcontractor employee at the Savannah River Site was terminated for submitting false per diem certifications. The investigation determined the former subcontractor employee and the employee's spouse, also a former subcontractor employee, submitted false per diem certifications. The former subcontractor employees claimed their permanent residence was outside the local commuting area, thus entitling them to per diem. This residence was actually owned by a relative, and the couple's true residence was within the Savannah River Site local commuting area. The terminated subcontractor employee and spouse received approximately \$53,116.43 in fraudulent per diem payments. The Department recouped these fraudulent payments from the prime contractor.

Proposed Debarment Action in Kickback Fraud Investigation

In response to an Investigative Report to Management, the Office of Acquisition and Project Management proposed debarment of a former Bechtel SAIC, LLC (Bechtel) employee and several others not affiliated with the Department and their companies. As previously reported, the former Bechtel employee and another individual pled guilty and were sentenced to 5 months incarceration and 2 years of probation, respectively, and ordered to jointly pay \$42,127.08 in restitution. The investigation determined both individuals engaged in a kickback fraud scheme for personal gain. The U.S. Attorney's Office for the Northern District of Indiana entered into a settlement agreement with Bechtel, who agreed to pay the Federal Government \$209,308.00 to settle civil proceedings.

Administrative Action Taken in Conflict of Interest Investigation

A Department sub-grantee suspended its Weatherization Assistance Program (WAP) Director for 10 working days without pay and terminated a WAP crew leader for failing to disclose their family relationship in violation of the sub-grantee's Conflict of Interest/Nepotism Policy. The

sub-grantee also reported they are undertaking an internal review of employee and contractor relationships to ensure no additional violations of policy exist. As previously reported, the sub-grantee's Director for Community and Energy Services resigned in lieu of termination for violating the sub-grantee's Conflict of Interest/Nepotism policy following our investigation that determined the Director's spouse and other family members were awarded WAP inspection work. This investigation is ongoing.

Former Subcontractor Employee Suspended and Proposed for Debarment

In response to recommendations made in an Investigative Report to Management, the Office of Acquisition and Project Management suspended and proposed debarment of a former Department subcontractor employee. The investigation, conducted jointly with the U.S. Secret Service, determined the employee provided another individual, with no affiliation with the Department, with the serial numbers of thousands of Department-owned computers from multiple national laboratories. This second individual used the computer serial numbers and associated manufacturer warranties to fraudulently obtain \$1.6 million worth of computer parts that were later used or sold for personal gain. The Department subcontractor employee pled guilty in the 2nd Judicial District of New Mexico to ten counts of Fraud and Conspiracy and was sentenced to 10 years incarceration, 5 years probation, and 1-year parole.

Guilty Plea in Employee Misconduct Investigation

A Federal employee at the National Energy Technology Laboratory accepted a Summary Guilty Plea to one count of Disorderly Conduct in the Allegheny County District Court, Pittsburgh, PA. The employee was fined \$200 and ordered to pay court costs. The investigation determined the employee engaged in inappropriate sexual behavior on National Energy Technology Laboratory property. As a result of our investigation, the employee received a 12-day suspension. This was a joint investigation with the South Park, Pennsylvania Police Department.

Audit Reports

Office of Energy Efficiency and Renewable Energy's Integrated Resource and Information System

To help streamline its business processes and enhance communications among employees, the Office of Energy Efficiency and Renewable Energy (EERE) initiated the development of the Integrated Resource and Information System (IRIS) project in October 2012. At the time of our review, EERE had spent over \$7 million on the project and planned to budget an additional \$3.6 million for IRIS through December 2014.

We received two complaints regarding the EERE IRIS development effort. Both complaints alleged improprieties with contract and project management. Among other things, it was alleged that officials managing the IRIS project ignored the Department's structured capital planning and investment control process for IT investments and failed to follow procurement and contracting guidelines and requirements. In addition, it was alleged that the project lacked effective oversight controls to enable Federal managers to monitor progress against baseline costs, schedules, performance and expected benefits, which resulted in significant cost overruns and implementation delays without producing any results.

Our review largely substantiated the allegations related to contract and project management. We discovered that EERE had not effectively managed the development and implementation of IRIS. In particular, EERE failed to follow the Department's structured capital planning and investment control process and had not provided effective monitoring of the project.

Our review also revealed problems with the work environment and poor morale within EERE that may have adversely impacted program operations, including IRIS development. Finally, a number of individuals we spoke with indicated that they were pressured or feared retaliation by senior management if they cooperated with our office. Management concurred with the report's recommendations and indicated that it had initiated corrective actions to address our recommendations. (DOE/IG-0905)

Compliance with the Memorandum of Agreement Between the U.S. Department of Energy and the Energy Child Development Centers, Inc.

We contracted with an independent certified public accounting firm, Lopez and Company, LLP (Lopez), to determine whether the Energy Child Development Centers, Inc. (ECDC, Inc.) met the reporting and performance requirements of its December 16, 2002 Memorandum of Agreement (MOA) with the Department for the period of December 16, 2002 through December 31, 2011.

Lopez concluded that ECDC, Inc. did not meet the reporting and performance compliance requirements of the MOA. Due to a lack of documentation maintained by ECDC, Inc., Lopez was unable to make a determination of ECDC Inc.'s compliance with 8 of 13 major risk areas. For the

remaining key processes, Lopez concluded that ECDC, Inc. did not materially comply with reporting and performance requirements.

Management's corrective actions are responsive to our recommendations. Consistent with the MOA, our recommendation and the lack of compliance and transparency of the ECDC, Inc. Board, the Department will terminate the MOA with ECDC, Inc. (OAS-M-14-04)

The Department of Energy's Loan Guarantee to Abound Solar Manufacturing, LLC

The Department's Credit Review Board conditionally approved a loan guarantee to Abound Solar Manufacturing, LLC, (Abound) in July 2010. In December 2010, the Program issued the loan guarantee to Abound for up to \$400 million to construct and commission thin-film photovoltaic solar panel manufacturing facilities in Colorado and Indiana. In September 2011, Abound failed to meet certain milestones and the Program suspended funding to the project. Subsequently, Abound filed for bankruptcy in July 2012. Prior to the filing, the Department had approved the disbursement of approximately \$70 million in loan funds to Abound.

Our audit revealed that Abound's failure to meet its project milestones and its subsequent bankruptcy occurred as a result of a combination of market conditions and technical issues that negatively impacted its operations. Although the Department had identified, considered and taken steps to mitigate the market and technical risks, and had reduced the financial exposure to the project by suspending funding when Abound did not meet its project milestones, our audit identified several weaknesses in the Department's administration of the Abound loan.

The issues we identified occurred because the Program had not established comprehensive policies, procedures and guidance for awarding, monitoring and administering loans. Management generally concurred with our recommendations and indicated that it would take or had already, implemented actions to address them. (DOE/IG-0907)

Department of Energy's Management of Unneeded Real Estate

In order to manage its real property assets, the Department utilizes the Facilities Information Management System. The Office of Acquisition and Project Management, under the Department's Office of Management, has primary responsibility for the administration and maintenance of the Facilities Information Management System database, which provides the Department with an inventory and management tool that assists with planning and managing all real property assets.

Our review determined that the Department had a number of controls in place to manage the disposition of Department-owned real estate properties. Nothing came to our attention to indicate that the Department did not comply with the Presidential initiative to reduce the number of excess properties. We found that the Department had processes in place for identifying and disposing of excess properties, as well as processes for accumulating and reporting on the associated cost avoidance. Additionally, we noted the Department reported that it had exceeded the cost savings goal for FYs 2010 through 2012, through overall cost

avoidance of \$580 million. However, we found that opportunities for improving processes related to managing excess properties still exist. We did not make any recommendations in the report. (OAS-L-14-07)

[Performance Audit of the Department of Energy’s Improper Payment Reporting in the FY 2013 Agency Financial Report](#)

We contracted with the independent public accounting firm of KPMG LLP (KPMG), to express an opinion on whether the Department met the U.S. Office of Management and Budget’s criteria for compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The objective of this audit was to complete an evaluation of the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments under IPERA. KPMG expressed the opinion that the Department complied with all requirements of IPERA. Furthermore, KPMG identified two opportunities for improvement that could further enhance the agency’s assessment of improper payments. Management noted that the enhancements will be implemented in the Department’s FY 2014 improper payment assessment process. (OAS-FS-14-08)

[The Department of Energy’s Management and Use of Mobile Computing Devices and Services](#)

Mobile computing devices are routinely used in the Federal Government to facilitate communications, collaborations and operations. Agencies are encouraged to assess device inventories and usage, and establish controls to ensure they are not paying for unused or underutilized information technology equipment, software or services. A prior report, *[“Use and Management of Mobile Communications Services” \(IG-0669, December 2004\)](#)*, identified weaknesses related to the acquisition and use of mobile or wireless communication devices within the Department.

Our review determined that the Department had taken certain actions designed to improve the management and acquisition of mobile computing devices and services since our prior review. Despite those efforts, we identified opportunities for the Department to improve the acquisition and management of mobile devices and related services and potentially save more than \$2.3 million over a 3-year period at just 8 of 10 locations reviewed.

We made several recommendations that, if fully implemented, could help the Department manage its mobile device efforts in a cost-effective manner. Furthermore, because our review did not cover all Department locations, we believe our estimated potential savings of \$2.3 million over a 3-year period is conservative. (DOE/IG-0908)

[Audit of Incurred Costs for UT-Battelle under Department of Energy Contract No. DE-AC05-00OR22725 during FY 2012](#)

We contracted with the independent certified public accounting firm KPMG LLP (KPMG), to determine whether UT-Battelle’s incurred cost to manage and operate Oak Ridge National Laboratory for the term October 1, 2011 through September 30, 2012, were allowable, allocable and reasonable. Since 2000, UT-Battelle has managed and operated Oak Ridge National Laboratory under contract with the Department. During FY 2012, UT-Battelle incurred

and claimed \$1,532,200,040. KPMG concluded that UT-Battelle prepared its FY 2012 Statement of Costs Incurred and Claimed in accordance with applicable guidance, including Federal Acquisition Regulation, Department Acquisition Regulations and Cost Accounting Standards regarding accuracy, allowability, allocability and reasonableness of incurred costs. However, KPMG identified several issues related to unallowable costs. In addition, KPMG noted certain internal control weaknesses. (OAS-M-14-05)

Implementation of Recommendations from the January 2012 Independent Consultant's Review of the Department of Energy Loan and Loan Guarantee Portfolio

The Department's Loan Programs Office was created to accelerate the domestic commercial deployment of innovative and advanced clean energy technologies. As of April 2014, the Program oversaw a loan portfolio of approximately \$30 billion made through 31 loans and loan guarantees. An independent consultant's report, issued in January 2012, identified areas for Program improvement and provided 12 overall recommendations aimed at enhancing the oversight and management of the Program. We received a complaint alleging that the Program had not fully implemented the consultant's recommendations.

The allegations were not substantiated. Specifically, the Department had completed actions to address four of the report's 12 recommendations and initiated actions in response to the remaining eight recommendations. While the Department had made substantial progress in implementing recommended improvements, we were unable to make a determination as to whether these efforts would ultimately be fully effective to address all of the issues identified by the consultant because a number of actions, such as clarifying authorities, establishing an external advisory board, and incorporating lessons learned, were still ongoing. (DOE/IG-0909)

Kansas City Plant's Vendor Quality Assurance

The National Nuclear Security Administration's Kansas City Plant, managed and operated by Honeywell Federal Manufacturing & Technologies, LLC (Honeywell), is the primary production site for non-nuclear weapon products. These products must meet demanding specifications and stringent quality requirements. In April 2013, during an on-site review of one of Honeywell's vendors, Honeywell and Sandia National Laboratories discovered that the vendor had deviated from Design Agency requirements on parts supplied to the Plant. In May 2013, Honeywell officials notified our Office of the vendor substitution issue. In response, we initiated this audit to determine whether Honeywell's quality assurance program for vendors was operating effectively to meet Design Agency requirements.

Nothing came to our attention to indicate that Honeywell's quality assurance program did not ensure Design Agency requirements were met. Specifically, Honeywell had implemented and National Nuclear Security Administration had approved a quality assurance program as required, performed inspections on parts received from vendors, and documented nonconforming parts when they were identified. In addition, during the same period as our audit, we noted that Honeywell had initiated its own review of the vendor substitution issue to evaluate the impact of the substituted parts. Although Honeywell believed that its overall

vendor quality assurance program was effective, it issued two Corrective Action Reports, which identified certain enhancements that would further ensure that Design Agency requirements continued to be met. (OAS-L-14-08)

Cost and Schedule of the Mixed Oxide Fuel Fabrication Facility at the Savannah River Site

In September 2000, the United States and Russia signed a Plutonium Management and Disposition Agreement for the disposal of surplus weapons-grade plutonium. This agreement called for each country to dispose of at least 34 metric tons of plutonium by converting it into mixed oxide fuel that can be used in commercial nuclear power reactors. To carry out this program, the Department decided to construct the Mixed Oxide Fuel Fabrication Facility (MOX Facility) at the Savannah River Site near Aiken, South Carolina. Shaw AREVA MOX Services, LLC (MOX Services), the current Facility contractor, has been working on the design of the facility since 1999.

The National Nuclear Security Administration (NNSA) and MOX Services have been largely unsuccessful in controlling the cost and schedule for the MOX Facility. A March 2012 construction project review conducted by NNSA concluded that the MOX Facility had a very low probability of being completed according to the approved baseline. NNSA directed MOX Services to develop a baseline change proposal with updated project completion, cost and schedule projections. Under the revised baseline, it was estimated that total project costs would grow to about \$7.7 billion and that completion would slip to November 2019. This represents cost growth of about \$2.9 billion and project schedule slippage of over 3 years.

The anticipated cost and time required to complete the MOX Facility were significantly underestimated due to a number of factors. This included, most prominently, the Department's 2007 approval of a project baseline that was developed from an immature design, understating the level of effort to install various construction commodity items, and high personnel turnover rates. Prior to approval, the Department's own independent review of the project baseline found that the design review of the MOX Facility was incomplete. We also noted that additional work scope added at NNSA's direction caused some of the cost growth in the baseline change proposal developed by MOX Services. Despite project expenditures of about \$4 billion and a proposal to place the MOX Facility construction project into cold standby status in FY 2015, we remain concerned with the project management issues observed during the audit. (DOE/IG-0911)

Public Dissemination of Research Results

The Department invests over \$11 billion annually in research and development. A significant portion of this funding is provided through financial assistance awards to academic institutions, small businesses, and others. The Atomic Energy Act of 1946 and subsequent laws and regulations encouraged the dissemination of Department-sponsored research results, when appropriate. The Department's mandate to publicly disseminate unclassified research results is fulfilled by the Office of Science's Office of Scientific and Technical Information in Oak Ridge,

Tennessee. The results of research funded by the Department are submitted to Energy Link, the Department's system for collecting, reviewing and releasing technical reports and other forms of scientific and technical information.

Our review revealed that Department-funded science and energy research results were not always properly disseminated to the public. We found that financial assistance recipients had not always submitted final technical reports to the responsible office, unrestricted reports submitted to Energy Link were not always reviewed and subsequently released publicly, and reports were not released after the expiration of associated data protection periods.

These issues occurred due to weaknesses in the Department's processes for monitoring receipt of final reports from recipients, reviewing and releasing reports that have been received, addressing processing errors that prevent receipt or release of reports, and identifying and releasing reports upon expiration of data protection periods. Management generally concurred with our recommendations and identified planned actions or action already completed to address these issues. (DOE/IG-0912)

Follow-Up Audit of the Los Alamos Neutron Science Center

The primary mission of Department's Los Alamos Neutron Science Center (LANSCE), located at Los Alamos National Laboratory (LANL), is to support the National Nuclear Security Administration's (NNSA) Stockpile Stewardship activities by conducting experiments that provide valuable insight on the status of the Nation's aging nuclear weapons, including information critical to decisions made in the life extension programs. To address the needed refurbishment of LANSCE, NNSA developed the Linac Risk Mitigation Strategy to increase the reliability of the accelerator and restore its designed performance levels.

Our review disclosed that LANL was generally meeting milestones as scheduled, executing work within budget, and had implemented some project oversight tools. While LANL met milestones for refurbishing LANSCE and executed work within budget, we observed that the Linac Risk Mitigation Strategy is facing challenges that may hinder its ability to improve the reliability of the facility and restore performance levels of the accelerator. Further, we found that LANL did not adhere to the Department's requirements contained in Department Order 413.3B, *Program and Project Management for the Acquisition of Capital Assets*, or employ all project management tools.

Given the importance of LANSCE, we recommend that the Manager, Los Alamos Field Office, require LANL to immediately bring the Linac Risk Mitigation Strategy — and other projects of similar magnitude — into full compliance with Department Order 413.3B. NNSA management concurred with our finding and recommendation and the need for increased visibility and management of all NNSA projects. Management further stated that it had already begun implementation of corrective actions. (OAS-M-14-06)

The Department of Energy's Implementation of Voice over Internet Protocol Telecommunications Networks

Advancements in the telecommunications industry have created the ability to consolidate resources and minimize the continued environmental impact of maintaining facilities to sustain lines of communication. The Department initiated and/or completed implementation of Voice over Internet Protocol (VoIP) networks at more than 14 locations at a cost of over \$56 million. While this technology potentially provides many benefits, it also presents additional security risks.

Our review identified opportunities to improve the efficiency and enhance cybersecurity of the Department's VoIP networks. We found that when upgrading aging telecommunications systems, programs and sites had undertaken a number of separate VoIP network implementations, a practice that potentially resulted in duplicative capabilities. Further, programs and sites had not always applied required cybersecurity controls to VoIP networks, thus increasing the risk of compromise.

The issues identified occurred, in part, because the Department had not developed and implemented a coordinated approach to support the implementation of VoIP efforts. Management concurred with the report's recommendations and indicated that corrective actions had been taken related to the Department's ongoing VoIP efforts. (DOE/IG-0915)

The Department of Energy's Water Power Program

The Department's Office of Energy Efficiency and Renewable Energy's Water Power Program promotes the development of innovative technologies capable of generating cost-effective, renewable electricity from water resources. To accomplish its goals, the Program provides financial assistance awards for research, development, and, demonstration and deployment activities. From June 2008 to January 2013, the Program provided 105 financial assistance awards totaling \$157 million. The awards ranged from \$56,000 to almost \$13 million and were given to more than 70 recipients, including universities, marine engineering firms, and public utility companies. Seven of these recipients received a total of \$30.6 million in funding from the Recovery Act.

We found that the Program had generally implemented controls designed to help enhance its project management practices by establishing short-term goals, monitoring its recipients on a regular basis, and in some cases, requiring recipients to submit cost documentation prior to being reimbursed. However, we identified several opportunities to improve the economy and efficiency of the Program. Specifically, for-profit recipients had not completed and submitted compliance audits as required by Federal regulations and payment restrictions were not put in place to address weaknesses identified in an accounting system audit at one recipient.

The Office of Energy Efficiency and Renewable Energy had begun to take action to address the issues identified during our review. However, additional actions are needed to further improve

controls over the Program. We made several recommendations that, if implemented, should help improve controls over the Program. Management concurred with the report's recommendations. (OAS-M-14-07)

Southwestern Federal Power System's FY 2013 Financial Statement Audit

We contracted with the independent public accounting firm of KPMG LLP to conduct the audit of Southwestern Federal Power System's financial statements and report on applicable internal controls and compliance with laws and regulations. KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of Southwestern Federal Power System as of September 30, 2013 and 2012, and the results of its operations and its cash flow for the years then ended, in conformity with the U.S. generally accepted accounting principles.

The audit identified one internal control deficiency over Accounting for Utility Plant in which depreciation for additions and betterments to existing plant in service was not recorded in accordance with accounting policies. Additionally, an internal control deficiency over Accrued Expenses was identified in which expenses for goods and services received were not properly accrued. U.S. Army Corps of Engineers management agreed with the findings and recommendations and agreed to take the necessary corrective actions. (OAS-FS-14-09)

The Strategic Petroleum Reserve's Drawdown Readiness

The Department's Strategic Petroleum Reserve (Reserve) has the largest stockpile of emergency crude oil in the world. It exists foremost as an emergency response tool the United States may use if confronted with threatening disruption in oil supply. This inventory is a critical component of the United States' International Energy Agency obligation to maintain emergency oil stocks equal to at least 90 days of net imports.

We determined that the Department generally maintained the Reserve in a manner to ensure drawdown readiness. Yet, we noted that it was not fully successful in meeting all of its operational performance criteria. We found that due to the suspension and deferral of various maintenance and remediation activities, the Reserve was unable to achieve the maximum drawdown rate specified in its performance criteria, could not store oil at its full capacity, and had not ensured that its full inventory was available for drawdown.

These conditions occurred, in part, because the Department had not performed a current, extensive assessment and therefore, were not fully cognizant of the Reserve's long-term sustainability. Budget cuts also contributed to the suspension of maintenance activities and resulted in the failure to maintain established drawdown rates and capacity. Management concurred with the report's recommendations and agreed that a long-range strategic review was needed to ensure that the Reserve could meet current and future energy and economic security goals. (DOE/IG-0916)

National Nuclear Security Administration's Space-Based Nuclear Detonation Detection Program

National Nuclear Security Administration's (NNSA) Office of Defense Nuclear Nonproliferation Research and Development manages the Nuclear Detonation Detection (NDD) Program. The mission of the NDD program is to develop, demonstrate and deliver technologies to detect worldwide nuclear detonations. NNSA dedicated nearly \$300 million in FYs 2011 through 2013, to the Space-Based NDD (SNDD) Program to supply detection sensor payloads and provide on-orbit operational support to meet interagency commitments for the United States NDD System which serves two broad classes of missions: treaty monitoring and war fighting.

We found that NNSA could not ensure, and we could not independently validate, whether it will fully meet customer needs within the SNDD Program budget. In particular, despite the assertions from officials at the Sandia National Laboratories and Los Alamos National Laboratory, we could not validate whether the delivery dates could be met within the budget due to a lack of cost and schedule data for the project. While not specifically required because of the nature of the effort, we noted Sandia National Laboratories and Los Alamos National Laboratory had not utilized key project management tools such as those contained in Department's Order 413.3B, *Program and Project Management for the Acquisition of Capital Assets*, to manage the SNDD program.

In response to our concerns, NNSA management officials agreed with the need to utilize additional project management techniques and stated that they planned to implement an integrated systems engineering function for the SNDD program. For instance, management will require a more detailed work breakdown structure, synchronize resource-loaded schedules and improve the rigor of data presented at quarterly program management reviews. (OAS-L-14-09)

Management of the National Nuclear Security Administration's Biosafety Laboratories

To conduct biological research, the Department and the National Nuclear Security Administration (NNSA) operate multiple laboratory facilities in accordance with various biosafety levels (BSL) established by the Centers for Disease Control and Prevention. The BSLs classify the containment level and risk associated with biological agents depending on the threat the agents pose to personnel and the environment. For example, BSL-1 is for low-risk agents; BSL-2 is for medium-risk agents; and BSL-3 is for those agents that cause serious and potentially lethal infections. Department and NNSA sites primarily perform BSL-1 and BSL-2 research; however, Lawrence Livermore National Laboratory operates a facility with three BSL-3 laboratories while Los Alamos National Laboratory (LANL) is considering opening a facility with two BSL-3 laboratories. Extensive biological research is performed at LLNL and LANL for other Government agencies through the Department's Work for Others program.

We found that NNSA was considering a \$9.5 million expansion of its BSL-3 and BSL-2 laboratory capabilities at LANL that may not be the most effective use of resources. Specifically, NNSA identified the development of a BSL-3 facility at LANL as its preferred alternative for meeting biosafety laboratory needs even though it had not fully considered the need for and cost

effectiveness of additional capacity. Despite the lack of information on the need for additional capacity and current laboratory utilization rates, LANL was also considering building a new BSL-2 facility.

In particular, NNSA proposed development of a facility with two BSL-3 laboratories at LANL. Additionally, LANL is in the early planning stage for constructing a new BSL-2 facility. The estimated cost to open LANL's new BSL-3 and to construct/open BSL-2 capabilities was about \$1.5 million and \$8 million, respectively. Given current budget realities, plans to develop additional capabilities without fully demonstrating a need may not be prudent. We made several recommendations to help ensure biosafety laboratories and costs associated Work for Others activities are managed effectively. (DOE/IG-0917)

Management of Selected Advanced Research Projects Agency-Energy Projects

The Department's Advanced Research Projects Agency-Energy (ARPA-E) was created in 2007, as part of the America COMPETES Act. ARPA-E focuses exclusively on high-impact innovations designed to translate science into breakthrough technologies that allow for genuine transformation in the way we generate, store and utilize energy. Funding is awarded through cooperative agreements to recipients ranging from start-up companies to established corporations and to institutions of higher education. Every recipient is statutorily required to share in the overall costs of their project by contributing a percentage of the total project costs. In 2009, the Recovery Act provided \$400 million to ARPA-E to launch its first projects. To date, ARPA-E has funded over 362 potentially transformational energy technology projects.

We found that ARPA-E had generally established and implemented project management controls. Through significant involvement with project recipients, ARPA-E established project milestones, monitored progress, and reviewed progress reports and requests for project expense reimbursements. While such controls appeared to be generally effective, our testing revealed that two recipients had failed to obtain required audits and one of them had incurred questionable project costs.

We found that the issues we observed occurred for a variety of reasons, including a misunderstanding and a lack of communication between ARPA-E and the recipient as to the final position or determination regarding allowability of cost-share methods. Based on the importance of the Department's mission and ARPA-E's key role within the Department, we made several recommendations to the Acting Director of ARPA-E. (OAS-M-14-08)

Office of Science's Management of Research Misconduct Allegations

To protect the integrity of Federally-funded research, and preserve public trust and confidence, the Department in June 2005, published its interim final Policy on Research Misconduct in the Federal Register. Research misconduct is the fabrication, falsification, or plagiarism in proposing, performing, or reviewing research, or in reporting research results. There are three basic steps to processing an allegation — an inquiry, an investigation, and finally

adjudication. The Department assigns primary responsibility for a research misconduct inquiry and investigation to the entity conducting the research, while the Department provides oversight.

We found that the Office of Science (Science) and the National Laboratories included in our review established organizational and procedural mechanisms for receiving and reviewing research misconduct allegations. Further, nothing came to our attention to indicate that allegations we reviewed were not appropriately evaluated and addressed. While each allegation appeared to be properly evaluated and addressed, we did identify instances where Science and the National Laboratories did not make required notifications or follow local laboratory procedures.

To ensure that research misconduct allegations are handled appropriately, we recommended that Science provide additional education and guidance on the procedures and responsibilities for conducting research misconduct allegation reviews to Department officials, laboratories, and financial assistance recipients. Management concurred with our findings and recommendation. (OAS-M-14-09)

[Assessment of Audit Coverage of Cost Allowability for Lawrence Livermore National Laboratory under Department of Energy Contract No. DE-AC52-07NA27344 during Fiscal Years 2011-2012](#)

Lawrence Livermore National Laboratory (LLNL) is part of the Department of Energy's National Nuclear Security Administration (NNSA) which has national security responsibilities that include ensuring the safety, security and reliability of the Nation's nuclear weapons stockpile. In May 2007, NNSA awarded a 7-year contract to Lawrence Livermore National Security, LLC to manage and operate LLNL. During Fiscal Years (FYs) 2011 and 2012, LLNL incurred and claimed costs totaling \$1,296,940,581 and \$1,628,530,304 respectively. LLNL is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs. Under a Cooperative Audit Strategy, the contractor's internal audit function (Internal Audit) provides audit coverage of the allowability of incurred costs claimed by the contractor.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Internal Audit for FYs 2011 and 2012 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the International Standards for the Professional Practice of Internal Auditing prescribed by the Institute of Internal Auditors.

We did, however, identify two issues which need to be addressed to ensure that only allowable costs are claimed and reimbursed to the contractor. Specifically, our testing of Internal Audit's cost allowability audit work identified additional questioned costs. In particular, we determined that LLNL purchased fiduciary liability insurance without required Contracting Officer approval in the amount of \$19,101. Due to this exception, we expanded our tests of insurance transactions and identified additional insurance costs totaling \$1,442,799 that were incurred

during FYs 2008 through 2012. We also identified \$304,158 in unallowable daycare insurance costs that were claimed by LLNL and reimbursed by the Department. LLNL repaid the \$304,158 to the Department after we brought it to their attention. NNSA management concurred with the findings and recommendations, and planned to complete all actions by May 31, 2015.

Procurement of Support Service Contracts for the Office of Energy Efficiency and Renewable Energy

The Office of Energy Efficiency and Renewable Energy (EERE) leads the Department's efforts to develop and deliver market-driven solutions for energy-saving homes, buildings, and manufacturing; sustainable transportation; and renewable electricity generation. To accomplish its mission, EERE relies on support service contractors to supplement its Federal workforce, and provide program offices with technical, management, and maintenance and operations support.

In FY 2012, EERE's workforce consisted of approximately 470 support service contractor and 688 Federal positions. EERE's open support service contract obligations totaled over \$628 million as of October 2013. We initiated this audit to determine whether EERE's support service procurement activities were managed effectively and efficiently.

Nothing came to our attention to indicate that controls were not in place over the management of EERE's support service procurement activities. In general, EERE's support service contracts included in our review were competitively awarded; consistently applied established labor rates for labor hours billed; and incurred costs in accordance with contract terms. However, we identified weaknesses in contract documentation that warrant management attention. Specifically, the Department's official contract files, which were maintained in the Strategic Integrated Procurement Enterprise System, did not contain a complete history of contractual actions, as required by Federal regulations. Also, the contracting officer representatives' administration files did not contain complete documentation of contracting actions as required for all four of the EERE support service contracts we reviewed. Finally, as part of our audit, we examined the circumstances surrounding two allegations we received regarding EERE procurement activities; however, we were not able to substantiate the allegations.

We made two recommendations to address the areas warranting management attention and to improve the effectiveness and efficiency of the procurement activities. Management concurred with the recommendations and identified actions to address them. (OAS-M-14-10)

Integrated Safety Management at the Idaho National Laboratory

The Department's Idaho National Laboratory (INL) employs three main contractors to perform the majority of its work. Much of this work involves hazards that pose risk to employees and the environment. In September 2013, the Secretary of Energy reaffirmed the Department's commitment to protect the health and safety of employees, those residing in communities where the Department operates, and any others affected by the Department's work. Given the Department's emphasis on safety, we conducted this audit to determine whether the Department had fully implemented Integrated Safety Management (ISM) at the INL.

In response to significant safety events in recent years, the Idaho Operations Office (Idaho) and its contractors have taken a number of steps to fully implement ISM into site work processes. In particular, between FYs 2011 and 2013, a number of events, some of which were serious, occurred at all three contractors that pointed to weaknesses in certain ISM core functions. We noted that Idaho and its contractors made notable improvements to ISM core functions and emphasized the responsibility of all employees for safety. However, we also noted certain weaknesses with safety analyses, supervision and safety controls.

Management at Idaho is well aware of the problems, and is taking or has begun to take appropriate actions. Therefore, we are not making formal recommendations in this report. However, we suggest that the Manager, Idaho Operations Office continue to improve the annual Documented Safety Analyses review process, ensure adequate supervision and reinforce the need for engineered controls. (OAS-L-14-10)

The National Nuclear Security Administration's Neutron Generator Activities

Neutron generators (NG) are nuclear weapon components that have a limited lifetime due to their use of tritium, a radioactive gas which decays over time. Periodic replacement of these components is necessary to sustain weapon system functionality and is an on-going process managed by NNSA and the Department of Defense. NNSA's Sandia National Laboratories (SNL) carries out NG design and production through Limited Life Component Exchanges (LLCE) and weapon refurbishment activities such as Life Extension Programs. SNL's NG Enterprise performs activities related to planning, developing, qualifying and sustaining NGs for all weapon systems. Due to the importance of the NG Enterprise's mission, we initiated this audit to determine whether NNSA is effectively managing NG activities for weapon systems.

Our review disclosed that NNSA and SNL face a number of challenges and risks with NG design and production activities. Specifically, we noted that SNL will need to significantly increase NG production over the coming years to meet LLCE and Life Extension Programs requirements. In addition, we noted that SNL had not established a costing methodology that consistently included a fair share of infrastructure costs to ensure full cost recovery for NG units to be built for the United Kingdom. To its credit, SNL recognized that its costing methodology had been inconsistent and initiated an improvement activity to update both the NG product cost and the basis for the product cost calculation so that it was more representative of actual NG production costs.

Given SNL's ongoing actions to address NG production issues and costing methodology, we suggested that the Manager, Sandia Field Office direct SNL to remain vigilant to ensure that required NG production deliverables are achieved; and continue evaluating unit costing methodologies to ensure full cost recovery of the NGs produced for the United Kingdom. (OAS-L-14-11)

Follow-Up on the Management of the Plutonium Finishing Plant Project

The Department's Plutonium Finishing Plant (PFP), located at the Hanford Site in Washington State, became a highly contaminated nuclear facility while processing plutonium for the

nation's nuclear arsenal for approximately 40 years. In 2008, the Department awarded CH2M HILL Plateau Remediation Company (CHPRC) a contract to decontaminate and demolish PFP. Completion of work on PFP is the Richland Operations Office's top priority. The PFP work scope requires a well-trained workforce to decontaminate radioactive and chemical residues from glove boxes, tanks and process piping prior to removal in preparation for future demolition of the facility. Entries to contaminated spaces are performed in accordance with "work packages" that identify the scope and hazards associated with the work and define the methods and equipment to be used.

CHPRC's initial baseline estimate to remediate PFP was \$581 million with an expected completion date of September 2013. Due to unforeseen situations with changes in the facility condition, workforce restructuring, permitting issues and other challenges, the performance baseline estimates were revised to \$753 million, with a completion date of September 2014. We initiated this audit to determine whether the Department had effectively managed the PFP project.

The Department encountered problems with CHPRC's ability to plan, manage and execute work; factors which contributed to both cost and schedule increases. Notably as of March 2014, the PFP project was expected to be completed in September 2016, at a cost of \$932 million; 2 years behind and \$179 million over CHPRC's revised performance baseline.

Richland management recognized that it needs to take additional steps to improve the manner in which this important work is carried out and stated that they had taken key actions to improve safety and productivity. However, we concluded that more needs to be done to improve the administration of the CHPRC contract and made four recommendations. Management agreed with our recommendations and proposed corrective actions. (OAS-M-14-11)

The Department of Energy's Management of Cloud Computing Activities

In December 2011, the General Services Administration, along with other Government bodies, established the Federal Risk Authorization Management Program (FedRAMP), a risk-based program designed to provide a standard, centralized approach to assessing cybersecurity controls and authorizing cloud computing services for operation. Federal agencies had until June 2014 to ensure that all new and existing cloud services met FedRAMP requirements. As a result of issues identified in a recent National Aeronautics and Space Administration report, a Government-wide initiative was undertaken by the Council of Inspectors General for Integrity and Efficiency to provide insight to agency heads and lawmakers on how well the Federal government has adopted cloud computing technologies.

Our review found that the Department had not always effectively or efficiently acquired, implemented or managed its cloud computing technologies. In particular, programs and sites had independently acquired and managed cloud computing services valued at more than \$30 million. In addition, the Department had not always established contracts with cloud

computing service providers that ensured effective controls over the management of stored or transmitted information. Further, the Department had not ensured that cloud computing services were implemented in accordance with FedRAMP.

These issues occurred, in part, because the Department lacked a comprehensive strategy designed to ensure effective and efficient implementation of cloud computing technologies. In addition, officials had not provided adequate oversight to ensure that programs and sites had taken appropriate action to acquire and implement cloud computing initiatives. We made recommendations that, if fully implemented, should help the Department manage its implementation of cloud technologies in a more secure and cost effective manner. (DOE/IG-0918)

[Follow-up on The Department of Energy's Acquisition and Management of Software Licenses](#)

The Department spends at least \$1.4 billion per year on information technology to support its mission of ensuring the Nation's security and prosperity by addressing energy, environmental and nuclear challenges through science and technology solutions. To accomplish this mission, the Department's Federal employees and facility contractors rely on commercial-off-the-shelf software for a multitude of services, including office automation, document management, virtualization and engineering analysis. In January 2006, our report on the ["Management of the Department's Desktop Computer Software Enterprise License Agreements"](#) (DOE/IG-0718) found that the Department had not adequately managed the acquisition and maintenance of software licenses. The Office of Management and Budget recently issued guidance to promote sound strategic sourcing practices across the Federal government.

Although the Department had made progress in addressing our prior recommendations, we found that it had not adequately managed the acquisition and maintenance of computer software licenses. We determined that programs and sites routinely paid more than necessary when acquiring software licenses and generally had not maintained an inventory of software to assist with management of licenses. Our review of software purchase data revealed that for the limited range of software products we were able to evaluate, programs and sites spent approximately \$600,000 more than necessary during a 3-year period. Additionally, the price per license paid by the Department was often greater than established government-wide acquisition contract prices available to all Federal agencies. Further, we found that while some sites had partially implemented software management systems since our prior report, none of the Federal and contractor sites visited were able to provide a complete inventory of software licenses.

The issues identified occurred, in part, because the Department had not developed and implemented a fully effective strategy for acquiring and managing software licenses. Specifically, contrary to a 2011 Office of Management and Budget memorandum directing agencies to pool purchasing power to drive down costs and improve service, the Department continued to utilize a fragmented approach without a formal process for ensuring that software purchases were coordinated between Headquarters and/or field sites. (DOE/IG-0920)

Remediation of Selected Transuranic Waste Drums at Los Alamos National Laboratory – Potential Impact on the Shutdown of the Department's Waste Isolation Plant

The Department's Los Alamos National Laboratory (LANL) is one of the Nation's premier national security laboratories. Los Alamos National Security, LLC manages and operates LANL. As part of its mission, LANL generated a large volume of transuranic (TRU) waste consisting mostly of radioactively contaminated clothing, tools, rags, debris and soil. In January 2012, a framework agreement was established between the Department and the New Mexico Environment Department to ship 3,706 cubic meters of combustible and dispersible TRU waste from LANL to the Department's Waste Isolation Pilot Plant (WIPP) located in Carlsbad, New Mexico, for permanent disposal by June 30, 2014. The Department established the Central Characterization Project to characterize and certify waste to help ensure that it met WIPP's waste acceptance criteria.

On February 14, 2014, a radiological release from one TRU waste drum was detected in the underground repository at WIPP. As a consequence, underground operations at WIPP were suspended and the Nation's only operating deep geologic repository for the permanent disposal of defense-related TRU waste was shut down for an indefinite period. The impact of the shutdown, both incurred to date and in the future is valued in terms of tens of millions of dollars. We initiated a special inquiry to determine whether LANL appropriately managed the remediation and repackaging of waste shipped to WIPP.

Our review identified several major deficiencies in LANL's procedures for the development and approval of waste packaging and remediation techniques that may have contributed to the radiological event. Of particular concern, not all waste management procedures at LANL were properly vetted through the established procedure revision process nor did they conform to established environmental requirements. In our view, immediate action is necessary to ensure that these matters are addressed and fully resolved before TRU waste operations are resumed, or, for that matter, before future mixed radioactive hazardous waste operations are initiated. Management concurred with the report's findings and recommendations and stated that the results of our investigation are generally consistent with findings from internal investigations. (DOE/IG-0922)

Inspection Reports

[Review of Internal Controls for Protecting Non-Public Information at the Federal Energy Regulatory Commission](#)

In March 2014, we initiated a review of internal controls for protecting non-public information at the Federal Energy Regulatory Commission (Commission). The review was initiated in response to requests from the Senate Energy Natural Resources Committee and also the Commission regarding an alleged leak of non-public information exposing certain electric grid vulnerabilities, and details surrounding the April 2013 attack on the Pacific Gas and Electric Company's Metcalf substation.

Based on our work to date, we have reached a preliminary conclusion that the Commission may not possess adequate controls for identifying and handling certain electric grid-related information that could pose threats to national security. (DOE/IG-0906)

[Review of Allegations Regarding Continued Retaliation Against a Bonneville Power Administration Whistleblower](#)

On December 5, 2013, we received a letter from the then Chairman, Senate Committee on Energy and Natural Resources, requesting that the OIG immediately investigate allegations of retaliation against whistleblowers that helped uncover violations of veterans' preference at the Bonneville Power Administration (Bonneville). The Chairman specifically communicated complaints alleging a pattern of continued retaliation against a particular Bonneville Human Capital Management (HCM) staffer by his supervisor.

In July 2013, we issued a Management Alert on "[Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration](#)" (DOE/IG-0891). In October 2013, we also issued a Special Report on "[Review of Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration](#)" (DOE/IG-0895). In addition to identifying inappropriate hiring practices, both reports outlined apparent examples of retaliatory actions against a number of HCM staff members, who either cooperated in our inquiry and/or who had previously raised personnel-related concerns with Bonneville's management and Department officials. Upon receipt of the Chairman's letter, we immediately initiated a special inquiry to determine the facts and circumstances surrounding the allegation.

Based on the weight of the evidence, the allegation that certain actions taken by the supervisor of an HCM staffer represented a pattern of continued retaliation was not substantiated. In fact, the record showed that Bonneville senior management actively monitored the relationship between the staffer and his supervisor and took steps that, in our view, prevented even the appearance that an adverse personnel action was being taken against the staffer. While the supervisor denied any retaliation by stating that the allegations were unfounded, misrepresented, or resulted from a miscommunication, we found evidence that he had lost trust in the staffer's ability to perform his duties. The supervisor told us that his concerns were based on incorrect policy advice given by the staffer, which the supervisor asserted had

contributed to Bonneville's veterans' preference hiring problems and because of other administrative issues. Because no internal controls or other deficiencies were discovered during our inquiry, we are not making formal recommendations. (DOE/IG-0910)

Conference Management at Selected Department Sites

In support of its diverse science, energy and national security missions, the Department sponsors and/or funds attendance of both Federal and contractor employees at a variety of conferences and meetings. In response to Office of Management and Budget direction, the Department issued a memorandum, *Updated Guidance on Conference-Related Activities and Spending*, establishing stringent conference reporting and approval processes.

We found that while the Department had strengthened conference reporting and approval controls, opportunities exist to improve the management process in this important area. Specifically, we found that Program Offices inconsistently applied the event exemption criteria, data was entered either inaccurately or was incomplete and Program officials failed to properly report food costs. However, the allegations we received related to Conference Management were not substantiated.

The issues we identified with conference management occurred, at least in part, because management did not ensure those charged with reporting or making conference-related decisions adhered to or properly interpreted established requirements. Of particular concern, we found that responsible personnel had not been adequately trained to appropriately apply established event exemptions and to correctly enter required information into the Conference Management Tool. Despite positive actions taken, additional effort is necessary to improve transparency and assure that Government funds are being spent appropriately, efficiently and in the best interest of the taxpayer. (DOE/IG-0913)

Allegations Regarding Personnel Security Concerns at Oak Ridge National Laboratory

Oak Ridge National Laboratory (ORNL) is the largest science and energy national laboratory in the Department. UT-Battelle, LLC manages ORNL and, as of October 2013, has over 6,000 employees, including subcontractors. We received a request from the Office of Science to review a complaint alleging that: (1) a senior ORNL employee continued to maintain access to Sensitive Compartmented Information (SCI) after changing employment status from full-time to casual employee without proper justification; and, (2) ORNL declined to implement a recommendation to conduct criminal history background checks on all subcontractors working on-site for more than 30 days.

We did not substantiate the access to SCI related allegation. However, we identified several weaknesses regarding processes used to debrief individuals with SCI access and to report overseas employment of those holding active security clearances. Further, we substantiated the allegation that ORNL declined to implement the recommendation to conduct criminal history background checks on all subcontractors working on-site for more than 30 days. However, we determined that background checks were not required for subcontractors working in an unclassified area.

Improper administrative debriefings occurred because management officials at the Department's Office of Intelligence and Counterintelligence (Headquarters Intelligence) did not fully implement the *Sensitive Compartmented Information Debriefing Policy* No. 001-06, Sensitive Compartmented Information Debriefing Policy. Headquarters Intelligence officials told us they were unaware of the policy and that more needs to be done to ensure Special Security Officers properly conduct SCI debriefs. We are troubled that Headquarters Intelligence officials were not cognizant of existing policy requirements, especially when a number of our inspection reports over the years have highlighted problems regarding administrative debriefings. We believe improvements are warranted in these areas and have made recommendations designed to assist management in ensuring that classified information with restrictions is properly protected. (INS-O-14-02)

The Readiness of the Department's Federal Radiological Monitoring and Assessment Center

The Federal Radiological Monitoring and Assessment Center (FRMAC) is a multi-agency Federal asset whose mission is to manage radiological, environmental monitoring and assessment activities during a nuclear or radiological incident within the United States. Because of the national importance of FRMAC's ability to respond to radiological and nuclear incidents, we initiated this inspection to determine if FRMAC was operationally ready to accomplish its mission in the critical areas of personnel, training, lessons learned and equipment.

Our inspection found that FRMAC was generally operationally ready to accomplish its mission and we did not identify any issues in the critical areas of personnel, training and lessons learned. However, we did identify issues with aging equipment and potential reliability issues that could adversely impact the timeliness of FRMAC's response to radiological emergencies. Specifically, our evaluation of FRMAC's equipment revealed that some equipment was aging and was near, or had reached, the end of its life cycle as defined by National Nuclear Security Administration policy.

We suggested that the Office of Emergency Operations ensure the timely replacement of aging FRMAC equipment critical to its operational readiness. (INS-L-14-02)

Management of Certain Aspects of the Human Reliability Program and Incident Reporting within the Office of Secure Transportation

The Office of Secure Transportation (OST) is managed by the National Nuclear Security Administration within the Department. OST is responsible for the safe and secure transport of Government-owned special nuclear materials within the United States. In accordance with Title 10, Code of Federal Regulations, Part 712, Human Reliability Program, OST implemented the Human Reliability Program (HRP). The HRP is a security and safety reliability program designed to ensure that only those who meet the highest standards of reliability, physical and mental suitability can gain access to nuclear weapons.

We found that certain aspects of the OST HRP were not effectively managed. In particular, we identified problems related to notification and consideration of HRP status prior to assigning

OST staff to missions. In addition, we identified a troubling failure of OST officials to report and properly assess a deliberate example of unauthorized access to nuclear weapons¹. We also determined that the OST Report of Security Incident/Infraction was not properly completed, and as such, the conclusion reached in the report did not consider all relevant information. Likewise, we determined that an OST Internal Affairs investigation into allegations of questionable HRP program management practices at the Agent Operations Central Command may have reached a flawed conclusion relating to the Unit Commander's actions because it relied on the results of the Report of Security Incident/Infraction.

The conditions relating to OST's management of the HRP occurred, in part, because OST failed to ensure that limitations placed on an agent while temporarily removed from the HRP were followed. In addition, there was an apparent lack of understanding with regard to the duties that a member of an Advance Team would be required to perform. The conditions relating to the reporting and investigation of an Incident of Security Concern occurred because there was an apparent lack of understanding with regard to an individual's responsibility to immediately report a potential security incident as required by Department and OST policy. We made recommendations designed to assist management in developing appropriate courses of action to improve the HRP and Incident Reporting processes. (DOE/IG-0919)

Alleged Fraud, Waste, Abuse and Mismanagement at a Department of Energy Site Office

We initiated this inspection in response to a complaint alleging fraud, waste, abuse and mismanagement at a Department Site Office. Specifically, the complaint alleged that employees and other resources were used to perform personal tasks. The complaint also alleged various other ethics violations, to include: (1) accessing and sharing of employee email records; (2) creation of a negative work environment; (3) disclosure of employee personal information; (4) the use of inappropriate influence; and, (5) improprieties related to the consumption of alcohol during an offsite event.

Key aspects of the allegation were substantiated. We found that Federal and contractor employees and other official resources were used to perform personal tasks. We also substantiated the allegations that employee emails were accessed and a negative work environment existed. In addition, we identified attempted intimidation of employees. The remaining aspects of the alleged ethics violations were not substantiated.

These issues occurred, in part, because the manager involved did not adhere to well-established and widely promulgated ethical standards. We made recommendations designed to assist management in addressing the issues identified. (DOE/IG-0921)

American Recovery and Reinvestment Act Reports (Recovery Act)

Allegations Regarding the Department of Energy's State Energy Program Funding to South Dakota

South Dakota used its Recovery Act State Energy Program (SEP) funds to identify and implement cost-effective energy conservation measures at state institutions such as schools, prisons, and administrative buildings. It allocated about \$23.5 million in sub-grants to 22 state institutions for 48 projects, and about \$200,000 to South Dakota's Office of the State Engineer for administrative functions.

We received a complaint that South Dakota officials had modified supporting documents for completed, state-funded projects in order to replace state dollars with Recovery Act SEP funds. The complaint also asserted that there were irregularities in a number of building projects managed by two of the state's public institutions, and that there were media reports of potential financial misconduct within the Governor's Office of Economic Development.

We did not substantiate the allegations. Specifically, nothing came to our attention to indicate that South Dakota used Recovery Act SEP funds to pay for projects that had already been completed prior to the SEP award performance period. Additionally, our limited testing of select files did not identify irregularities that would indicate fraud, waste, abuse, or mismanagement related to Recovery Act SEP funds. (OAS-RA-L-14-01)

Selected Activities of the Office of Energy Efficiency and Renewable Energy's Advanced Manufacturing Office

The Department's Office of Energy Efficiency and Renewable Energy's Advanced Manufacturing Office (Program) is committed to researching, developing and demonstrating new energy-efficient manufacturing processes and material technologies. To meet its mission, the Program distributed funding through financial assistance awards, contracts and inter-entity work orders to projects across various sectors of manufacturing. Specifically, between FYs 2009 and 2012, the Program funded 261 projects totaling over \$450 million, including over \$170 million in Recovery Act funding. As of August 2013, approximately \$300 million in Department funds had been spent by award recipients.

We found that the Department had not always effectively managed the Program awards. In particular, during our review of 10 projects awarded a total of \$107 million, including approximately \$95 million in Recovery Act funds, we discovered that although specifically required to obtain appropriate supporting documentation, Program officials approved and reimbursed approximately \$17 million to three recipients without reviewing detailed documentation to substantiate costs claimed. In addition, during site visits to two additional recipients, we examined a sample of supporting information and found that over \$16,000 in questionable and/or unallowable costs had been charged to the projects. Further, we found that Program officials had not maintained records of analyses or documentation supporting comprehensive pre-award desk reviews conducted on two of the projects we reviewed.

The issues we identified occurred, in part, because the Department had not consistently provided effective monitoring and oversight of recipient activities. Specifically, at the time of our review, the Department had not developed criteria or defined a standard level of documentation needed to ensure an efficient/consistent review of project costs. We made recommendations to help achieve the objectives of the Recovery Act and the Program. Management generally concurred with the recommendations and indicated that it would take or had already implemented actions to address them. (OAS-RA-14-04)

REPORTING REQUIREMENTS INDEX

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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
- Physical Address: U.S. Department of Energy
1000 Independence Ave, SW
Washington, DC 20585

FEEDBACK

The contents of this 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

