



# DEPARTMENT OF ENERGY OFFICE OF INSPECTOR GENERAL

# IG

**SEMIANNUAL REPORT TO CONGRESS**  
OCTOBER 1, 2016 - MARCH 31, 2017



DOE-OIG-0072

<b>MESSAGE FROM ACTING INSPECTOR GENERAL</b> .....	<a href="#"><u>2</u></a>
<b>STATISTICAL HIGHLIGHTS: Investigations</b> .....	<a href="#"><u>3</u></a>
<b>STATISTICAL HIGHLIGHTS: Audits and Inspections</b> .....	<a href="#"><u>4</u></a>
<b>POSITIVE OUTCOMES</b> .....	<a href="#"><u>5</u></a>
<b>TABLE OF REPORTS:</b>	
Investigative Outcomes .....	<a href="#"><u>8</u></a>
Audits .....	<a href="#"><u>11</u></a>
Inspections .....	<a href="#"><u>14</u></a>
<b>RESULTS</b>	
Legislative and Regulatory Reviews .....	<a href="#"><u>15</u></a>
Interference with Inspector General Independence .....	<a href="#"><u>15</u></a>
Resistance to Oversight Activities or Restricted/Significantly Delayed Access .....	<a href="#"><u>15</u></a>
Investigations Involving Senior Government Employees .....	<a href="#"><u>15</u></a>
Instances of Whistleblower Retaliation .....	<a href="#"><u>18</u></a>
Comments Not Provided by the Department Within 60 Days .....	<a href="#"><u>18</u></a>
Reports Lacking Management Decision .....	<a href="#"><u>19</u></a>
Recommendations Not Implemented .....	<a href="#"><u>19</u></a>
Reviews Closed and Not Disclosed to the Public .....	<a href="#"><u>25</u></a>
Peer Reviews .....	<a href="#"><u>25</u></a>
<b>SUMMARIES</b>	
Investigative Outcomes .....	<a href="#"><u>26</u></a>
Audit Reports .....	<a href="#"><u>34</u></a>
Inspection Reports .....	<a href="#"><u>49</u></a>
Semiannual Reporting Requirements Index .....	<a href="#"><u>51</u></a>

I am pleased to present the Semiannual Report to Congress for the period ending March 31, 2017. This report highlights the work of the Office of the Inspector General (OIG).

The U.S. Department of Energy is unique in that it employs over 100,000 contractors; however, this increases the vulnerability of its assets and resources. Our investigative efforts have focused on this increased vulnerability particularly in the area of contractor fraud. Specifically, two contractor-related investigations at the Hanford Site during this reporting period resulted in settlement agreements totaling \$130 million. One of the investigations yielded a \$125 million settlement to resolve allegations that the contractor made false statements and claims to the Department for deficient nuclear quality materials, services, and testing at the Waste Treatment Plant. This settlement also resolved allegations that the contractor improperly used Federal contract funds to pay for lobbying activities. The other investigation at Hanford resulted in a \$5.275 million settlement to resolve allegations when it was determined that a prime contractor knowingly and willfully made false claims to the Department for overtime work. In addition to these key investigations at the Hanford Site, our investigation of a retaliation complain pursuant to Title 41 United States Code, Section 4712, Pilot Program for the Enhancement of Contractor Protection from Reprisal for Disclosure of Certain Information, resulted in the Department's concluding that a contractor employee at Savannah River Site was terminated in retaliation for making a protected disclosure of information to the Government Accountability Office. The Department ordered the contractor to reinstate the employee and reimburse her for back pay, legal, and other expenses.

During this reporting period, we also issued 29 audit and inspection reports, which made recommendations for improvements to Departmental programs. One report, titled [Followup Review of Controls Over the Department's Classification of National Security Information, DOE-OIG-17-04](#), identified that the Department had addressed the majority of the recommendations made in our March 2014 report on the National Security Information program, but it had not fully addressed the corrective actions for recommendations involving completing required oversight reviews and properly marking email. In our report on [Bonneville Power Administration's Contractor Workforce, DOE-OIG-17-03](#), we found Bonneville had created prohibited personal services contracts; contract workers were inappropriately performing inherently governmental and critical work that should be reserved for Federal employees; and weaknesses in Bonneville's acquisition and administration of services contracts. These issues occurred, in part, due to problems with the manner in which Bonneville managed and implemented its supplemental labor category of contract workers, lack of a strategic workforce plan, insufficient management and oversight of its contractor workforce, and an inadequate procurement control environment. Another report, titled [The Department of Energy's Unclassified Cybersecurity Program - 2016, DOE-OIG-17-01](#), disclosed that deficiencies identified in prior reviews by our office, including issues related to vulnerability management, system integrity of Web applications, access controls and segregation of duties, and configuration management, continue to exist, in part, because the Department had not fully developed and/or implemented policies and procedures related to the weaknesses identified previously.

We welcome the new Secretary of Energy, The Honorable Rick Perry, and look forward to fostering a collaborative relationship with the new administration. We remain committed to vigilantly working to prevent fraud, waste, and abuse throughout the Department's programs and operations, and helping to address and prevent any issues of retaliation against the Federal and contractor workforce.



April G. Stephenson

## INVESTIGATIONS

### INVESTIGATIVE ACTIVITIES

Cases Open as of October 1, 2016	219
Cases opened	43
Cases closed	63
Cases Open as of March 31, 2017	199
Multi-Agency Task Force Cases Opened During Period	13
Qui Tam <sup>1</sup> Investigations Opened During Period	1
Total Open Qui Tam Investigations as of March 31, 2017	12
Total Investigative Reports <sup>2</sup> Issued During Period	10
Recommendations to management for positive change and other actions	26
Administrative discipline and other management actions	5
Suspensions/Debarments	43
Total Persons <sup>3</sup> Referred to a Prosecuting Authority	22
Department of Justice Referrals	21
State/Local Referrals	1
Referrals accepted for prosecution <sup>4</sup>	16
Total Indictments <sup>5</sup> /Criminal Informations	7
Indictments/Criminal Informations Resulting from Prior Period Referrals	7
Criminal convictions	9
Pre-trial diversions	2
Civil actions	32
Dollars Recovered <sup>6</sup> (Fines, Settlements, Recoveries)	\$140,287,104

### HOTLINE RESULTS

Total Hotline calls, emails, letters, and other complaints (contacts) <sup>7</sup>	839
Hotline contacts resolved immediately/redirected/no further action	651
Hotline contacts predicated for evaluation	188
Total Hotline predications processed this reporting period <sup>8</sup>	191
Hotline predications transferred to OIG Program Office	11
Hotline predications referred to Department management or other entity for information/action	53
Hotline predications closed based upon preliminary OIG activity and review	117
Hotline predications open at the end of the reporting period	10

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

<sup>2</sup>Investigative Reports issued by the Office of Investigations include Reports of Investigation and Investigative Reports to Management.

<sup>3</sup>Persons is defined as an individual or an entity. For example, two co-owners and their business entity would be counted as three persons.

<sup>4</sup>Some referrals accepted during the 6-month period were referred for prosecution during a previous reporting period.

<sup>5</sup>Sealed Indictments are included.

<sup>6</sup>Some of the money collected was the result of investigations involving multiple agencies.

<sup>7</sup>This number includes any contact that required Hotline staff review including re-contacts for additional information and requests for disposition.

<sup>8</sup>This includes 3 predications carried over from the last semiannual reporting period.

## AUDITS AND INSPECTIONS

### AUDITS AND INSPECTIONS ACTIVITIES

Total Reports Issued	29
Audit Reports Issued	27
Inspection Reports Issued	2

### BETTER USE OF FUNDS

	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, 2016: <sup>1</sup>	8	\$443,184,974
Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made):	1	\$1,900,000
Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period: <sup>2</sup>	1	\$396,006,107
(i) Agreed to by management:		\$679,373
(ii) Not agreed to by management:		\$395,326,734
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:	8	\$49,078,867

### QUESTIONED 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, 2016: <sup>1</sup>	30	\$1,031,244,200	\$5,172,560	\$1,036,416,760
Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	3	\$277,193	\$0	\$277,193
Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period: <sup>2</sup>	2	\$88,508,004	\$0	\$88,508,004
(i) Value of disallowed costs:		\$0	\$0	\$0
(ii) Value of costs not disallowed:		\$88,508,004	\$0	\$88,508,004
Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period:	31	\$943,013,389	\$5,172,560	\$948,185,949

**Definitions:**

**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.

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

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

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

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

During this reporting period, the following positive outcomes resulted from OIG work conducted during the current or previous reporting periods.

### **Sentencing in Grant Fraud Investigation**

A former Lawrence Livermore National Laboratory physicist was sentenced in the U.S. District Court for the Northern District of California to 18 months incarceration, 3 years supervised release, and ordered to pay \$3,317,893 in restitution to the U.S. Government. The investigation determined the physicist claimed to have created Superconducting Quantum Interference Device (SQUID) amplifiers and measured the physical attributes of these SQUID amplifiers using a liquid helium dilution refrigerator. The functionality of the SQUID amplifiers is pertinent to quantum computing. The investigation found the physicist falsely reported the physical attributes of the SQUID amplifiers to the scientists at the Intelligence Advanced Research Projects Activity, an agency within the Office of the Director of National Intelligence. As reported in the September 30, 2016, Semiannual Report to Congress, the physicist pleaded guilty to one count of Mail Fraud and the Department debarred the physicist from Government contracting for 10 years. This was a joint investigation with the Office of the Intelligence Community Inspector General.

### **Sentencing in Grant Fraud Investigation**

The son of a former Chief Executive Officer (CEO) of a non-profit organization receiving Department

funds was sentenced in the U.S. District Court, District of Minnesota, to 24 months incarceration and 2 years supervised release. Subsequently, he was ordered to pay restitution in the amount of \$154,020. As reported in the September 30, 2016, Semiannual Report to Congress, the CEO pleaded guilty to charges of Conspiracy to Commit Theft Concerning Programs Receiving Federal Funds, Mail Fraud, Wire Fraud, and Theft Concerning Programs Receiving Federal Funds. The investigation determined the former CEO diverted at least \$250,000 in grant funds to pay personal expenses, including the purchase of automobiles, airline tickets, hotel expenses, rental cars, a Caribbean cruise, and paying the son \$140,000 for work not performed. This was a joint investigation with the Federal Bureau of Investigation, Internal Revenue Service Criminal Investigation Division, and Department of Health and Human Services OIG.

### **Former National Nuclear Security Administration Subcontractor Pleads Guilty**

A former National Nuclear Security Administration (NNSA) subcontractor pleaded guilty in the U.S. District Court, District of South Carolina to Conspiracy. As reported in the March 31, 2016, Semiannual Report to Congress, two NNSA contractors were indicted on thirteen counts of Wire Fraud, one count of Conspiracy, and one count of Theft of Government Funds. The investigation determined that from 2009 to 2015 the indicted subjects stole over \$6.5 million of Department funds by submitting fictitious invoices to NNSA's

contractors for materials supposedly used to build the Mixed-Oxide (MOX) Fuel Fabrication Facility located at the Savannah River Site. A portion of the stolen Department funds were used to purchase gratuities for other contractors on the MOX Project. In addition to these defendants, four other former contractors were charged with violations of Gratuities and False Statements. This is an ongoing joint investigation with the Federal Bureau of Investigation.

### **Department Takes Action Based on Grant Fraud Investigation**

In response to an Investigative Report to Management, the Department debarred a former Principal Investigator (PI), their spouse and their business and issued an administrative demand letter to a grant recipient for \$674,999 in unallowable costs. The investigation determined the former PI received several duplicate Small Business Innovation Research grants from multiple Federal agencies. As reported in the March 31, 2015 Semiannual Report to Congress, the former PI was sentenced in the U.S. District Court for the Central District of California and ordered to pay restitution and fines. The court also ordered the former PI to serve probation and perform community service. This was a joint investigation with National Aeronautics and Space Administration OIG, Internal Revenue Service Criminal Investigation, and the Defense Criminal Investigative Service.

In response to an OIG referral, the Office of Science conducted an inquiry into allegations that contract employees at the Pacific Northwest

National Laboratory (PNNL) engaged in inappropriate relationships (managers accepting gifts/services from employees), mischarged time, and discriminated against older employees. Based on the review, the Office of Science substantiated the mischarging of time allegation and made recommendations to improve time charging policies. Although the inquiry found no evidence to support the other allegations, several recommendations were made to PNNL to improve current policies.

In response to an OIG referral, the Bonneville Power Administration (BPA) conducted a review of an employee's overtime and work hour claims. Their review determined the allegations were not substantiated for the employee named in the referral, but identified three processes to improve overtime accountability: (1) Evaluate other means to more efficiently accomplish the workload (i.e., increasing staff by one full time employee, engaging other employees to assist during busy periods); (2) Implement the practice of activity reporting for employees working at remote locations; and (3) Ensure that overtime requests specifically identify the work to be accomplished during the hours requested.

In response to an OIG referral, the Office of Hearing and Appeals (OHA) will be instituting greater controls to prevent unauthorized disclosures on its website. Specifically, counsel for two corporations alleged non-public information belonging to their clients, who were engaged in matters before OHA, had been repeatedly disclosed by OHA. The allegations were substantiated pursuant to a

management review. As a result, OHA has removed the disclosures from the website and will be instituting a more thorough and formalized review process.

In response to our 2015 audit of [\*The Department of Energy's Management of High-Risk Excess Facilities \(DOE-OIG-0931\)\*](#), the Offices of the Undersecretary for Nuclear Security, Under Secretary for Science and Energy, and Under Secretary for Management and Performance in convening an Excess Contaminated Facilities Working Group (ECFWG) developed and executed an enterprise-wide data collection effort to obtain updated cost and risk assessments to deactivate, decontaminate, decommission, and demolish excess facilities. The updated data from the working group was used to define the scope of the challenge and to identify options for how DOE may better prioritize excess facilities. The group is developing policies to institutionalize a corporate approach, and updating and validating data gathered by the working group. A draft report on this work was finalized and issued in December 2016 (see <https://www.energy.gov/downloads/biannual-report-congress-excess-facilities-december-2016>).

During this semiannual period, Los Alamos National Laboratory reported that it had completed actions to address a recommendation contained in our prior audit report [\*Follow-up on Nuclear Safety: Safety Basis and Quality Assurance at Los Alamos National Laboratory \(DOE/IG-0941\)\*](#). The report included a recommendation to ensure effective implementation of corrective actions for long-standing issues that impact the restart efforts at the Weapons Engineering Tritium Facility and Plutonium Facility, including

addressing the shortage of experienced Criticality Safety Analysts to assess and correct nuclear criticality issues. In response to the recommendation, Los Alamos reported that corrective actions identified in Federal Readiness Assessments were documented in Corrective Actions Plans and that causal analysis and Extent of Conditions were also documented. All actions were satisfactorily closed prior to the authorization to startup/restart operations at the plutonium facility, including measures to improve long-standing nuclear criticality issues.

After the issuance of our special report on [\*Department of Energy's Actions to Address Worker Concerns Regarding Vapor Exposures at the Hanford Tank Farms \(OIG-SR-17-01\)\*](#), the Department directed and Washington River Protection Solutions (WRPS) incorporated all Tank Vapor Assessment Team report actions into its corrective action management system to provide greater visibility of actions being completed in response to the report. Additionally, at the Department's direction, WRPS has taken steps to improve communication with the workforce about proposals to address vapor hazards that have been studied but not implemented, including employee briefings, a weekly employee newsletter, updates to the website, and more. Finally, WRPS established a Safety Culture Monitoring Panel and created a Safety Culture Monitoring Team to aid in changing teamwork related employee behavior.

## INVESTIGATIVE OUTCOMES

All of our investigations that result in a reportable outcome are disclosed to the public in our Semiannual Report. Reportable outcomes are defined as public and nonpublic reports, indictments, convictions, disciplinary actions, monetary recoveries, contractor debarments, and other similar results. The following reportable outcomes occurred during the period October 1, 2016, through March 31, 2017.

SUMMARY TITLE	PAGE
\$125 Million Civil Settlement Agreement with Department Contractor	<a href="#">26</a>
\$5.275 Million Civil Settlement in Time Card Investigation	<a href="#">26</a>
Sentencing in Grant Fraud Investigation	<a href="#">26</a>
Sentencing and Restitution Ordered for Government Surety Fraudster Found Guilty of Criminal Charges	<a href="#">26</a>
Sentencing in Grant Fraud Investigation	<a href="#">27</a>
Civil Settlement and Resignation in False Claims Investigation	<a href="#">27</a>
Civil Settlement in False Claims Investigation	<a href="#">27</a>
Former Department Contractor Employee Sentenced	<a href="#">27</a>
Sentencings for State Crimes on Oak Ridge National Laboratory Property	<a href="#">28</a>
Sentencing in Theft and Forgery Investigation	<a href="#">28</a>
Former National Nuclear Security Administration Subcontractor Pleads Guilty	<a href="#">28</a>
Information and Guilty Plea in Theft of Government Property Investigation	<a href="#">28</a>
Guilty Plea in Government Purchase Card Fraud Investigation	<a href="#">28</a>
Information and Guilty Plea Filed in Child Pornography Investigation	<a href="#">29</a>
Guilty Pleas and Information Filed in Bribery Investigation	<a href="#">29</a>
Guilty Plea in False Claims Investigation	<a href="#">29</a>

SUMMARY TITLE	PAGE
Indictments and Suspensions of Former Oak Ridge National Laboratory Subcontractor Employee and Business Co-owner	<a href="#">29</a>
Guilty Plea and Information Filed in Theft of Government Property Investigation	<a href="#">29</a>
Guilty Plea and Sentencing in Time Fraud Investigation	<a href="#">29</a>
Former Department Employee Indicted and Arrested in Theft and Embezzlement Investigation	<a href="#">30</a>
Superseding Indictment Returned in Small Business Concern Fraud Scheme	<a href="#">30</a>
Civil Complaint Filed in False Claims Act Investigation	<a href="#">30</a>
Civil Demand Letter Issued for False Claims Act Violation	<a href="#">30</a>
Disallowed Costs for Department Cooperative Agreement Recipient	<a href="#">30</a>
Settlement Reached with Department Subcontractor	<a href="#">31</a>
Recovered Funds in Counterfeit Check Investigation	<a href="#">31</a>
Recovery of Stolen Property	<a href="#">31</a>
Resignation in Lieu of Termination and Debarment Action in Trade Secret Investigation	<a href="#">31</a>
Debarment Action in Recovery Act Grant Fraud Investigation	<a href="#">31</a>
Recovery Act Fraud Results in Debarment	<a href="#">31</a>
Debarment Action in Embezzlement Investigation	<a href="#">32</a>
Debarment of Former Department Employee	<a href="#">32</a>
Notice of Suspension and Proposed Debarment in Property Theft Investigation	<a href="#">32</a>
Department Takes Action Based on Grant Fraud Investigation	<a href="#">32</a>
Response to Investigative Report to Management Issued in Ethics Investigation of Senior Executive Service Employee	<a href="#">32</a>

<b>SUMMARY TITLE</b>	<b>PAGE</b>
Response to Investigative Report to Management Issued in Child Pornography Investigation of National Energy Technology Laboratory Intern	<a href="#"><u>33</u></a>
Investigation Results in Contractor Policy Revision	<a href="#"><u>33</u></a>

## AUDITS

The following identifies all audit reports issued between October 1, 2016, and March 31, 2017.

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Oct 14, 2016	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2016 (DOE-OIG-17-01)</a>				<a href="#">34</a>
Oct 18, 2016	<a href="#">Followup on the Geothermal Technologies Office (OAI-M-17-01)</a>				<a href="#">34</a>
Oct 31, 2016	<a href="#">Management Letter on the Southwestern Federal Power System's Fiscal Year 2015 Financial Statement Audit (OAI-FS-17-01)</a>				<a href="#">35</a>
Nov 4, 2016	<a href="#">Federal Energy Regulatory Commission's Unclassified Cybersecurity Program – 2016 (OAI-L-17-01)</a>				<a href="#">35</a>
Nov 7, 2016	<a href="#">Nuclear Safety at Naval Reactors' Facilities (OAI-L-17-02)</a>				<a href="#">36</a>
Nov 10, 2016	<a href="#">Department of Energy's Actions to Address Worker Concerns Regarding Vapor Exposures at the Hanford Tank Farms (OIG-SR-17-01)</a>				<a href="#">36</a>
Nov 15, 2016	<a href="#">Management of Brookhaven National Laboratory's Cybersecurity Program (DOE-OIG-17-02)</a>				<a href="#">37</a>
Nov 15, 2016	<a href="#">The Department of Energy's Fiscal Year 2016 Consolidated Financial Statements (OAI-FS-17-02)</a>				<a href="#">38</a>
Nov 16, 2016	<a href="#">Management Challenges at the Department of Energy – Fiscal Year 2017 (OIG-SR-17-02)</a>				<a href="#">38</a>
Nov 17, 2016	<a href="#">Department of Energy Contractors' Implementation of Earned Value Management (OAI-L-17-03)</a>				<a href="#">38</a>
Nov 29, 2016	<a href="#">The Department of Energy's Readiness to Implement the Digital Accountability and Transparency Act of 2014 (OIG-SR-17-03)</a>				<a href="#">39</a>
Nov 30, 2016	<a href="#">Federal Energy Regulatory Commission's Fiscal Year 2016 Financial Statement Audit (OAI-FS-17-03)</a>				<a href="#">40</a>

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Dec 14, 2016	<a href="#">Department of Energy Nuclear Waste Fund's Fiscal Year 2016 Financial Statement Audit (OAI-FS-17-04)</a>				<a href="#">40</a>
Dec 15, 2016	<a href="#">Followup on the Department of Energy's Analytical Services Program (OAI-M-17-02)</a>				<a href="#">40</a>
Dec 23, 2016	<a href="#">Followup Audit of the Department's Heavy Water Inventory (OAI-M-17-03)</a>				<a href="#">41</a>
Dec 29, 2016	<a href="#">Bonneville Power Administration's Contractor Workforce (DOE-OIG-17-03)</a>				<a href="#">42</a>
Jan 3, 2017	<a href="#">The National Nuclear Security Administration's Weapons Evaluation Test Laboratory (OAI-M-17-04)</a>				<a href="#">43</a>
Jan 3, 2017	<a href="#">Audit Coverage of Cost Allowability for Jefferson Science Associates LLC During Fiscal Years 2011 – 2014 Under Department of Energy Contract No. DE-AC05-06OR23177 (OAI-V-17-01)</a>		\$5,031		<a href="#">44</a>
Jan 10, 2017	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016 (OAI-FS-17-05)</a>				<a href="#">44</a>
Jan 11, 2017	<a href="#">Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2016 Financial Statement Audit (OAI-FS-17-06)</a>				<a href="#">45</a>
Jan 12, 2017	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016 (OAI-FS-17-07)</a> <i>Full Report Not Publically Available – Official Use Only</i>				<a href="#">45</a>
Jan 13, 2017	<a href="#">Audit Coverage of Cost Allowability for Fermi Research Alliance LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC02-07CH11359 (OAI-V-17-02)</a>		\$1,268		<a href="#">45</a>
Feb 15, 2017	<a href="#">Quality Assurance for River Corridor Closure Contract Procurements (OAI-M-17-05)</a>		\$270,894		<a href="#">46</a>
Feb 23, 2017	<a href="#">Management of Suspended Procurements at the Waste Treatment and Immobilization Plant Project (OIG-SR-17-04)</a>	\$1,900,000			<a href="#">46</a>

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Feb 27, 2017	<a href="#">Western Federal Power System's Fiscal Year 2016 Financial Statement Audit (OAI-FS-17-08)</a>				<a href="#">47</a>
Mar 13, 2017	<a href="#">Actions Taken by Western Area Power Administration to Address Internal Review Findings on its Desert Southwest Region's Use of Government Purchase Cards (OIG-IR-17-01)</a>				<a href="#">47</a>
Mar 17, 2017	<a href="#">Alleged Mismanagement of the Kemper County Plant Under the Clean Coal Power Initiative (OIG-IR-17-03)</a>				<a href="#">48</a>

## INSPECTIONS

The following identifies all inspection reports issued between October 1, 2016, and March 31, 2017.

DATE ISSUED	REPORT TITLE	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Jan 17, 2017	<a href="#">Followup Review of Controls Over the Department's Classification of National Security Information (DOE-OIG-17-04)</a>				<a href="#">50</a>
Mar 16, 2017	<a href="#">Review of the Allegations Involving Pantex's Emergency Management Program (OIG-IR-17-02)</a>				<a href="#">50</a>

## 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. We reviewed seven draft regulations during this reporting period.

## INTERFERENCE WITH IG INDEPENDENCE

The Department did not interfere or restrict communications between our office and Congress nor put in place any budgetary constraints designed to limit the capabilities of our office.

## RESISTANCE TO OVERSIGHT ACTIVITIES OR RESTRICTED/SIGNIFICANTLY DELAYED ACCESS

Access to documents the OIG believed necessary to perform work was not restricted during this period.

## INVESTIGATIONS INVOLVING SENIOR LEVEL EMPLOYEES

During the reporting period October 1, 2016 through March 31, 2017, the following investigations that involved an employee at the GS-15 level or above were conducted by the Office of Investigations.

FACTS AND CIRCUMSTANCES	STATUS AND DISPOSITION	REFERRED TO DOJ	DOJ DECLINATION	DECLINATION REASON
Allegation former Senior Executive Service (SES) employee conspired with contractors to defraud the Government.	Closed; Unsubstantiated	Yes	Dec 11, 2014	Lack of sufficient evidence
Allegation SES employee shared sensitive information with former contractor.	Closed; Employee resigned while under investigation	No	N/A	N/A

FACTS AND CIRCUMSTANCES	STATUS AND DISPOSITION	REFERRED TO DOJ	DOJ DECLINATION	DECLINATION REASON
Allegation SES employee leased personally owned property to the Department and influenced the awarding of a contract based on personal relationship with contractor employee.	Closed; Unsubstantiated	No	N/A	N/A
Allegation GS-15 employee distributed narcotics on Government property.	Closed; Unsubstantiated	No	N/A	N/A
Allegation GS-15 employee improperly influenced contract award.	Closed; Did not substantiate improper award. Referral of possible appearance of lack of impartiality to the Department for determination of administrative action resulted in mandated additional training for employee.	No	N/A	N/A
Allegation SES employee received loan from subordinate in violation of ethics standards.	Closed; Referral to Department resulted in "last chance agreement"	Yes	June 28, 2016	Deferred to Administrative Action
Allegation GS-15 employee improperly transferred to another Federal Agency without approval.	Closed; Unsubstantiated	No	N/A	N/A

FACTS AND CIRCUMSTANCES	STATUS AND DISPOSITION	REFERRED TO DOJ	DOJ DECLINATION	DECLINATION REASON
Allegation SES employee asked subordinates to lie to EEO investigator.	Open	Yes	October 3, 2016	Lack of sufficient evidence
Allegation GS-15 employee solicited and accepted bribery payments.	Open; Information filed charging employee with Conspiracy and Bribery	Yes	N/A	N/A

## INSTANCES OF WHISTLEBLOWER RETALIATION

During the reporting period October 1, 2016 through March 31, 2017, the following instances of whistleblower retaliation were identified:

FACTS AND CIRCUMSTANCES	AGENCY RESPONSE
<p>Pursuant to 41 U.S.C. Sec. 4712, "Enhancement of contractor protection from reprisal for disclosure of certain information," the OIG conducted one investigation. The OIG found that the contractor employee, who had been terminated by the contractor, met the burden of proving that the employee had made a protected disclosure, and the contractor failed to meet its burden of proving, by clear and convincing evidence, that it would have terminated the employee even if the employee had not made a disclosure.</p>	<p>The Department found that the contractor, Savannah River Nuclear Solutions (SRNS), retaliated against the complainant when it fired that person following that person's disclosure of information to the Government Accountability Office. The Department ordered SRNS to reinstate the complainant, pay the complainant back pay, and reimburse the complainant for their expenses.</p>

## COMMENTS NOT PROVIDED WITHIN 60 DAYS

For the reporting period October 1, 2016, through March 31, 2017, the Department failed to provide comments on the following report within 60 days.

PROJECT NUMBER	REPORT TITLE	LENGTH OF TIME TO RECEIVE COMMENTS
A13OR057	West Valley Demonstration Project	133 days

## 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. The following audit report is over six months old and no management decision had been made by the end of the reporting period. An explanation for the lack of management decision is described in the table below.

DATE ISSUED	REPORT TITLE	STATUS OF MANAGEMENT DECISION
Apr 10, 2011	<a href="#">Use of Non-Competitive Procurements to Obtain Services at the Savannah River Site (IG-0862)</a>	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.

## RECOMMENDATIONS NOT IMPLEMENTED

The following table identifies 68 reports with a total of 149<sup>1</sup> recommendations which were agreed to by the Department but have not been implemented as of March 31, 2017. The total potential cost savings associated with these reports is \$541,146,254. 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. [Non-hyperlinked reports are not available on the OIG website.]

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
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	\$2,032,805

<sup>1</sup>Those recommendations that are not agreed to by management are not tracked by the Department as open/unimplemented recommendations. Since 2005, the Department has only failed to agree on 3 recommendations issued by the OIG.

<sup>2</sup> A single recommendation in our reports may often be addressed to multiple program elements. The total number of open recommendations will include any recommendation that has not been corrected by at least one of the program elements.

<sup>3</sup> The Potential Monetary Benefits identified are representative of reports with open recommendations rather than individual recommendations. These amounts include funds that could be used more efficiently by implementing the recommended actions as well as other unresolved or questioned costs. Based on our experience, a significant portion of unresolved and questioned costs are ultimately determined to be allowable by contracting officials.

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
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	\$2,836,181
Dec 17, 2007	<a href="#">Beryllium Surface Contamination at the Y-12 National Security Complex</a> (IG-0783)	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	\$3,393,317
Nov 13, 2009	<a href="#">Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program</a> (OAS-M-10-01)	2	
Sep 22, 2010	<a href="#">The Department of Energy's Audit Resolution and Follow-up Process</a> (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	
Apr 25, 2012	<a href="#">The Department of Energy's \$12.2 Billion Waste Treatment and Immobilization Plant- Quality Assurance of Black Cells Vessels</a> (IG-0863)	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	\$12,760,295
Jun 24, 2013	<a href="#">Mitigation of Natural Disasters at Los Alamos National Laboratory</a> (OAS-M-13-04)	1	
Sep 30, 2013	<a href="#">Department of Energy Quality Assurance: Design Control for the Waste Treatment and Immobilization Plant at the Hanford Site</a> (IG-0894)	1	
Oct 24, 2013	<a href="#">The Department's Fleet Vehicles Sustainability Initiatives at Selected Locations</a> (IG-0896)	3	
Jan 2, 2014	<a href="#">NNSA's Management of the \$245 Million Nuclear Materials Safeguards and Security Upgrades Project Phase II</a> (IG-0901)	2	
Feb 14, 2014	<a href="#">The Technology Transfer and Commercialization Efforts at the Department of Energy's National Laboratories</a> (OAS-M-14-02)	1	
Apr 3, 2014	<a href="#">Office of Energy Efficiency and Renewable Energy's Integrated Resource and Information System (IRIS) Project</a> (IG-0905)	1	674,774

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Apr 15, 2014	<a href="#">The Department of Energy's Management and Use of Mobile Computing Devices and Services</a> (IG-0908)	1	
Apr 23, 2014	Assessment of Audit Coverage of the Cost Allowability for Sandia Corporation under Department of Energy Contract DE-AC04-94-AL-85000, for Fiscal Years 2011 and 2012 (OAS-V-14-10)	2	5,741,818
Jun 26, 2014	<a href="#">The Department of Energy's Implementation of Voice over Internet Protocol Telecommunications Networks</a> (IG-0915)	1	
Aug 6, 2014	<a href="#">Management of the National Nuclear Security Administration's Biosafety Laboratories</a> (IG-0917)	1	
Sep 19, 2014	<a href="#">The Department of Energy's Management of Cloud Computing Activities</a> (IG-0918)	1	
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 Fiscal Year 2011 (OAS-V-14-17)	1	160,007,744
Oct 22, 2014	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2014</a> (IG-0925)	2	
Oct 30, 2014	<a href="#">Follow-up on the Department of Energy's Management of Information Technology Hardware</a> (IG-0926)	1	
Nov 12, 2014	<a href="#">Follow-up Audit of Contractor Intergovernmental Personnel Act Assignments</a> (IG-0928)	2	\$3,000,000
Dec 16, 2014	<a href="#">Follow-up on the Los Alamos National Laboratory Hydrodynamic Test Program</a> (IG-0930)	1	
Feb 26, 2015	<a href="#">Argonne National Laboratory Infrastructure Projects</a> (OAS-M-15-02)	1	
Jun 10, 2015	<a href="#">Allegations Related to the Energy Information Administration's Reporting Process</a> (DOE/IG-0940)	1	
Jun 12, 2015	<a href="#">Southwestern Federal Power System's Fiscal Year 2014 Financial Statement Audit</a> (OAS-FS-15-11)	2	
Jun 22, 2015	<a href="#">The Department of Energy's Implementation of the Pilot Program for Agreements for Commercializing Technology</a> (OAS-M-15-04)	1	
Jul 10, 2015	<a href="#">The National Nuclear Security Administration's Management of Support Service Contracts</a> (OAS-M-15-05)	1	
Jul 16, 2015	<a href="#">Follow-up on Nuclear Safety: Safety Basis and Quality Assurance at the Los Alamos National Laboratory</a> (DOE/IG-0941)	1	

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Jul 30, 2015	<a href="#">Selected Recipients of Maryland Weatherization Assistance Program Funds</a> (DOE/IG-0942)	1	
Aug 18, 2015	<a href="#">Follow-up Audit of Nanoscale Materials Safety at the Department's Laboratories</a> (OAS-M-15-08)	1	
Sep 3, 2015	<a href="#">The Department of Energy's Management of Electronic Mail Records</a> (DOE/IG-0945)	3	
Sep 9, 2015	<a href="#">Assessment of Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Year 2013 Under Department of Energy Contract No. DE-AC04-94AL85000</a> (OAS-V-15-03)	2	\$2,569,251
Nov 3, 2015	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2015</a> (DOE-OIG-16-01)	3	
Nov 4, 2015	<a href="#">The Department of Energy's Cybersecurity Risk Management Framework</a> (DOE-OIG-16-02)	2	
Nov 17, 2015	<a href="#">Procurement of Parts and Materials for the Waste Treatment and Immobilization Plant at the Hanford Site</a> (DOE-OIG-16-03)	3	
Dec 7, 2015	<a href="#">Issues Management at the Los Alamos Field Office</a> (OAI-M-16-02)	3	
Dec 18, 2015	<a href="#">The Office of Fossil Energy's Regional Carbon Sequestration Partnerships Initiative</a> (OAI-M-16-03)	1	\$5,048,000
Jan 7, 2016	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2015</a> (OAI-FS-16-05) <i>Full Report Not Publically Available – Official Use Only</i>	2	
Jan 8, 2016	<a href="#">Bonneville Power Administration's Real Property Services</a> (OAI-M-16-04)	2	
Jan 15, 2016	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2015</a> (OAI-FS-16-06)	2	
Feb 1, 2016	<a href="#">Corrective Action Program at the Waste Treatment and Immobilization Plant</a> (OAI-M-16-06)	1	
Feb 25, 2016	<a href="#">Issues Management at the Los Alamos National Laboratory</a> (DOE-OIG-16-07)	4	
Mar 1, 2016	<a href="#">The Department of Energy's Audit Resolution and Followup Process</a> (DOE-OIG-16-08)	3	
Mar 21, 2016	<a href="#">Procurement Administration and Human Reliability Program Revocations Within the Office of Secure Transportation</a> (OAI-M-16-07)	1	

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Apr 1, 2016	<a href="#">Management and Oversight of Information Technology Contracts at the Department of Energy's Hanford Site</a> (DOE-OIG-16-10)	3	\$183,500,000
Apr 4, 2016	<a href="#">Followup on Western Area Power Administration's Critical Asset Production</a> (DOE-OIG-16-11)	2	
Apr 26, 2016	<a href="#">The Department of Energy's Continued Support of the Texas Clean Energy Project Under the Clean Coal Power Initiative</a> (OIG-SR-16-02)	3	
May 2, 2016	<a href="#">The Department of Energy's Energy Information Technology Services Federal Support Costs</a> (DOE-OIG-16-12)	3	
Jul 7, 2016	<a href="#">Lawrence Livermore National Laboratory's Laser Inertial Fusion Energy Endeavor</a> (OAI-M-16-13)	4	\$23,300,000
Jul 14, 2016	<a href="#">Enriched Uranium Operations at the Y-12 National Security Complex</a> (DOE-OIG-16-13)	1	
Jul 27, 2016	<a href="#">Battelle's Pacific Northwest National Laboratory Procurement Activities</a> (OAI-M-16-14)	4	
Jul 29, 2016	<a href="#">Audit Coverage of Cost Allowability for UT-Battelle LLC During Fiscal Year 2014 Under Department of Energy Contract No. DE-AC05-00OR22725</a> (OAI-V-16-11)	1	\$134,106,144
Aug 18, 2016	<a href="#">National Nuclear Security Administration's Management of the B61-12 Life Extension Program</a> (DOE-OIG-16-15)	1	
Sep 29, 2016	<a href="#">Followup Audit of the Department's Continuity of Operations Planning</a> (DOE-OIG-16-16)	4	
Oct 14, 2016	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2016</a> (DOE-OIG-17-01)	3	
Oct 31, 2016	<a href="#">Management Letter on the Southwestern Federal Power System's Fiscal Year 2015 Financial Statement Audit</a> (OAI-FS-17-01)	3	
Nov 15, 2016	<a href="#">Management of Brookhaven National Laboratory's Cybersecurity Program</a> (DOE-OIG-17-02)	3	
Dec 29, 2016	<a href="#">Bonneville Power Administration's Contractor Workforce</a> (DOE-OIG-17-03)	3	
Jan 3, 2017	<a href="#">Audit Coverage of Cost Allowability for Jefferson Science Associates LLC During Fiscal Years 2011 – 2014 Under Department of Energy Contract No. DE-AC05-06OR23177</a> (OAI-V-17-01)	1	\$5,031
Jan 3, 2017	<a href="#">The National Nuclear Security Administration's Weapons Evaluation Test Laboratory</a> (OAI-M-17-04)	1	

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Jan 10, 2017	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016</a> (OAI-FS-17-05)	11	
Jan 12, 2017	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016</a> (OAI-FS-17-07) <i>Full Report Not Publically Available – Official Use Only</i>	15	
Jan 17, 2017	<a href="#">Followup Review of Controls Over the Department's Classification of National Security Information</a> (DOE-OIG-17-04)	2	
Feb 15, 2017	<a href="#">Quality Assurance for River Corridor Closure Contract Procurements</a> (OAI-M-17-05)	3	\$270,894
Feb 23, 2017	<a href="#">Management of Suspended Procurements at the Waste Treatment and Immobilization Plant Project</a> (OIG-SR-17-04)	3	\$1,900,000

**Total Open Recommendations**

**149**

**\$541,146,254**

## REVIEWS CLOSED AND NOT DISCLOSED TO THE PUBLIC

The Office of Inspector General initiated two report that was not disclosed to the public for the reporting period October 1, 2016, through March 31, 2017.

DATE ISSUED	REPORT TITLE	REASON FOR NOT DISCLOSED TO THE PUBLIC
Jan 12, 2017	<a href="#">Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016 (OAI-FS-17-07)</a>	This report is for Official Use Only because it contains sensitive information.
Jan 24, 2017	Retaliation Complaint pursuant to Title 41 United States Code Section 4712	This report contains sensitive personally identifiable information.

## PEER REVIEWS

PEER REVIEWS CONDUCTED BY OIG OCTOBER 1, 2016 - MARCH 31, 2017			
TYPE OF REVIEW	DATE OF PEER REVIEW	OIG REVIEWED	OUTSTANDING RECOMMENDATIONS
<b>Audits</b>	None this reporting period		
<b>Inspections</b>	None this reporting period		
<b>Investigations</b>	None this reporting period		

PEER REVIEWS CONDUCTED OF OIG OCTOBER 1, 2016 - MARCH 31, 2017				
TYPE OF REVIEW	DATE OF PEER REVIEW	REVIEWING OIG	FREQUENCY REQUIREMENT	OUTSTANDING RECOMMENDATIONS
<b>Audits</b>	None this reporting period			
<b>Inspections</b>	None this reporting period			
<b>Investigations</b>	None this reporting period			

## INVESTIGATIVE OUTCOMES

### **\$125 Million Civil Settlement Agreement with Department Contractor**

The U.S. Department of Justice entered into a \$125 million civil settlement agreement with a Department contractor to resolve allegations made under the False Claims Act. The qui tam investigation determined that from approximately January 2001 to June 2013, the contractor made false statements and claims to the Department for deficient nuclear quality materials, services, and testing at the Waste Treatment Plant at the Department's Hanford Site. In addition, the settlement also resolved allegations that the contractor improperly used Federal contract funds to pay for lobbying activities involving Congress and other Federal officials for continued funding at the plant. This investigation was coordinated with the U.S. Attorney's Office, Eastern District of Washington and the U.S. Department of Justice's Civil Fraud Section, Washington, D.C.

### **\$5.275 Million Civil Settlement in Time Card Investigation**

The U.S. Department of Justice entered into a \$5.275 million civil settlement with a Department contractor at the Hanford Site. The investigation determined that during the period of October 2008 through July 2013, the Department prime contractor knowingly and willfully made false claims to the Department for overtime work that was either not performed or was paid at double-time premium rates versus time-and-a-half. The false claims for overtime work resulted in the Department issuing millions of dollars in improper payments to the prime contractor. This investigation was coordinated with the U.S. Attorney's Office, Eastern District of Washington and the U.S. Department of Justice's Commercial Litigation Branch, Washington, D.C.

### **Sentencing in Grant Fraud Investigation**

A former Lawrence Livermore National Laboratory physicist was sentenced in the U.S. District Court for the Northern District of California to 18 months incarceration, 3 years supervised release, and ordered to pay \$3,317,893 in restitution to the U.S. Government. The investigation determined the physicist claimed to have created Superconducting Quantum Interference Device (SQUID) amplifiers and measured the physical attributes of these SQUID amplifiers using a liquid helium dilution refrigerator. The functionality of the SQUID amplifiers is pertinent to quantum computing. The investigation found the physicist falsely reported the physical attributes of the SQUID amplifiers to the scientists at the Intelligence Advanced Research Projects Activity, an agency within the Office of the Director of National Intelligence. As reported in the September 30, 2016, Semiannual Report to Congress, the physicist pleaded guilty to one count of Mail Fraud and the Department debarred the physicist from Government contracting for 10 years. This was a joint investigation with the Office of the Intelligence Community Inspector General.

### **Sentencing and Restitution Ordered for Government Surety Fraudster Found Guilty of Criminal Charges**

In our September 30, 2016 Semiannual Report to Congress, we reported on the conviction and sentencing of two individuals found guilty of Conspiracy to Commit Mail Fraud and Wire Fraud for falsely acting as individual sureties for bonding companies that issued bonds for Department and other Federal agency contracts. During this reporting period a third individual was sentenced in U.S. District Court, Southern District of Florida to 150 months incarceration, 3 years of supervised release, and restitution in the amount of \$4,165,221 to be paid jointly and severally with the other co-defendants. The order of restitution cites amounts due to 16 victims, including \$700,713 owed to the Department. From June 2008 through June 2013, this individual and two co-conspirators obtained payments for issuing bonds for Department and other Federal contracts that were supported by materially false and fraudulent representations of collateral involving land or cash held in banks. More than 10 Federal agencies reimbursed numerous contractors in excess of

\$4.3 million in bond fees for these fraudulent instruments. This was a joint investigation with multiple Federal agencies.

### **Sentencing in Grant Fraud Investigation**

The son of a former Chief Executive Officer (CEO) of a non-profit organization receiving Department funds was sentenced in the U.S. District Court, District of Minnesota, to 24 months incarceration and 2 years supervised release. Subsequently, he was ordered to pay restitution in the amount of \$154,020. As reported in the September 30, 2016, Semiannual Report to Congress, the CEO pleaded guilty to charges of Conspiracy to Commit Theft Concerning Programs Receiving Federal Funds, Mail Fraud, Wire Fraud, and Theft Concerning Programs Receiving Federal Funds. The investigation determined the former CEO diverted at least \$250,000 in grant funds to pay personal expenses, including the purchase of automobiles, airline tickets, hotel expenses, rental cars, a Caribbean cruise, and paying the son \$140,000 for work not performed. This is a joint investigation with the Federal Bureau of Investigation, Internal Revenue Service Criminal Investigation Division, and Department of Health and Human Services OIG.

### **Civil Settlement and Resignation in False Claims Investigation**

A contractor employee of the National Renewable Energy Laboratory (NREL) entered into an \$80,000 civil settlement agreement with the U.S. Department of Justice to resolve allegations of false claims arising from the contractor employee's use of NREL-paid work time, NREL-owned equipment, and NREL-owned resources for personal financial gain while consulting for three private companies. The contractor employee resigned in lieu of termination.

### **Civil Settlement in False Claims Investigation**

The U.S. Attorney's Office for the Northern District of California received the second and final \$45,000 payment from a settlement agreement with a former Principal Investigator (PI) at Lawrence Livermore National Laboratory (LLNL). As reported in the September 30, 2016, Semiannual Report to Congress, the investigation determined the former PI resold developed radars back to LLNL through a third party company. The former PI agreed to pay \$90,000 to resolve the matter. The investigation also determined the former PI charged personal travel, including rock climbing trips and mountaineering courses, to LLNL projects.

### **Former Department Contractor Employee Sentenced**

A former Department contractor employee was sentenced in the U.S. District Court, Eastern District of Tennessee to 3 years of probation, ordered to pay \$116,493 in restitution, and perform 150 hours of community service. The former contractor employee pleaded guilty to one count of False Claims. The Department will receive \$7,383 of the restitution as reimbursement for fraudulently claimed relocation expenses. The former contractor employee was discharged and their security clearance determination was discontinued. The investigation determined the former contractor employee provided false information to the Tennessee Valley Authority (TVA) and the Department in order to receive relocation pay to which the former contractor employee was not entitled. This was a joint investigation with TVA OIG.

### **Sentencings for State Crimes on Oak Ridge National Laboratory Property**

An individual who drove through a closed access gate at Oak Ridge National Laboratory (ORNL) pleaded guilty to Driving Under the Influence and Vandalism over \$1,000. The individual was sentenced to 2 years of probation and ordered to pay \$2,088 in restitution to ORNL. The investigation determined the individual was involved in a high speed pursuit on ORNL property that resulted in damage to a closed access gate. This was a joint investigation with the Oak Ridge, Tennessee Police Department.

### **Sentencing in Theft and Forgery Investigation**

A former Department employee pleaded guilty in the Criminal Court for the 7<sup>th</sup> Judicial District, State of Tennessee, Anderson County, to one count of Theft and two counts of Forgery. The Court ordered judicial diversion under the condition that the former Department employee satisfactorily complete a 30-month term of probation, payment of \$1,338 in restitution to the Department, and payment of court costs. The investigation determined the former employee submitted falsified doctor's excuses in order to receive over 32 hours of paid leave to which the employee was not entitled. As reported in the March 31, 2016, Semiannual Report to Congress, the employee resigned in lieu of termination.

### **Former National Nuclear Security Administration Subcontractor Pleads Guilty**

A former National Nuclear Security Administration (NNSA) subcontractor pleaded guilty in the U.S. District Court, District of South Carolina to Conspiracy. As reported in the March 31, 2016, Semiannual Report to Congress, two NNSA contractors were indicted on thirteen counts of Wire Fraud, one count of Conspiracy, and one count of Theft of Government Funds. The investigation determined that from 2009 to 2015 the indicted subjects stole over \$6.5 million of Department funds by submitting fictitious invoices to NNSA's contractors for materials supposedly used to build the Mixed-Oxide (MOX) Fuel Fabrication Facility located at the Savannah River Site. A portion of the stolen Department funds were used to purchase gratuities for other contractors on the MOX Project. In addition to these defendants, four other former contractors were charged with violations of Gratuities and False Statements. This is an ongoing joint investigation with the Federal Bureau of Investigation.

### **Information and Guilty Plea in Theft of Government Property Investigation**

The U.S. Attorney's Office for the District of Arizona, filed a one-count Information charging a former Western Area Power Administration (WAPA) employee with a violation of Theft of Government Property. The former WAPA employee pleaded guilty to the one-count Information and agreed to pay \$168,418 in restitution to the Department. The investigation determined that between March 2012 and January 2014 the former WAPA employee used their Government purchase card for personal gain in excess of 100 times. These purchases included upgrades for personal vehicles, ammunition and rifle accessories, an All-Terrain Vehicle (ATV), and a lawn tractor. This is an ongoing joint investigation with the General Services Administration OIG.

### **Guilty Plea in Government Purchase Card Fraud Investigation**

A former Western Area Power Administration (WAPA) employee pleaded guilty in the U.S. District Court, District of Colorado to one count of Theft of Government Property. The investigation determined the former WAPA employee fraudulently used a Government purchase card to obtain over \$27,000 worth of property for personal benefit. The former WAPA employee was previously terminated by WAPA for making the unauthorized purchases. This is a joint investigation with General Services Administration OIG.

### **Information and Guilty Plea Filed in Child Pornography Investigation**

An Information and plea agreement were filed in the U.S. District Court, Eastern District of California for a violation of Transportation of Child Pornography by a former technician at the Lawrence Livermore National Laboratory. Sentencing is pending; however, in the plea agreement, the Government and the former technician agreed to a Government recommendation of a 135 month sentence in Federal prison, fines, penalties, and the forfeiture of numerous pieces of property associated with the offense.

### **Guilty Pleas and Information Filed in Bribery Investigation**

A prospective Department contractor pleaded guilty to one count of Bribery in the U.S. District Court, District of Maryland, a co-conspirator pleaded guilty to one count of False Statements, and a two-count Information was filed charging a former senior Department employee with violations of Conspiracy and Bribery. The investigation determined the prospective Department contractor paid bribes to secure a contract with the Department, the co-conspirator made false statements to federal agents related to bribery payments made to a senior Department employee, and the former Department employee solicited and was paid bribes to secure Department contracts for various companies and individuals. This is an ongoing, joint investigation with the Federal Bureau of Investigation.

### **Guilty Plea in False Claims Investigation**

A former grantee pleaded guilty in the U.S. District Court, Western District of Pennsylvania, to a one-count Information charging submission of False Claims to the Department. The investigation determined the former grantee submitted false claims for work not performed and converted over \$5.7 million in grant funds to personal use.

### **Indictments and Suspensions of Former Oak Ridge National Laboratory Subcontractor Employee and Business Co-owner**

A former subcontractor production manager at the Oak Ridge National Laboratory was indicted by a Grand Jury for the U.S. District Court, Eastern District of Tennessee. The production manager was named in a Superseding Indictment in addition to a previously indicted subcontractor business co-owner. The Superseding Indictment charged the production manager with a single count of Conspiracy to Defraud the Government, in concert with the business co-owner, who was previously charged with the same violation plus three counts of Wire Fraud and two counts of Money Laundering. Both the production manager and the business co-owner were suspended from doing business with the Government. This investigation involves alleged criminal acts surrounding post-cleaning waste storage and disposal operations of a metal cleaning and plating business. This is an ongoing joint investigation with the U.S. Environmental Protection Agency-Criminal Investigative Division, Tennessee Valley Authority-OIG, Defense Criminal Investigative Service, and Federal Bureau of Investigation.

### **Guilty Plea and Information Filed in Theft of Government Property Investigation**

A former Kansas City Plant - National Security Campus (KCP-NSC) contractor employee pleaded guilty to four counts of Wire Fraud in the U.S. District Court, Western District of Missouri. The former contractor employee agreed to pay \$50,480 in restitution to the Department. The investigation determined that from June 2010 to August 2014 the former contract employee purchased unnecessary items through KCP-NSC's procurement system and subsequently sold the items for personal gain on eBay.

### **Guilty Plea and Sentencing in Time Fraud Investigation**

A former National Renewable Energy Laboratory (NREL) contractor employee pleaded guilty to one count of Criminal Attempt of Theft in the First Judicial District of Colorado. The former contractor

employee received a deferred sentence pending successful completion of two years supervision in an Adult Diversion Program and was ordered to pay \$4,208 in restitution to the management and operating contractor of NREL. The investigation determined the former contractor employee submitted numerous falsified time and attendance documents to NREL claiming \$50,570 for work not performed. NREL reimbursed the Department the amount paid for work not performed. This was a joint investigation with the First Judicial District of Colorado.

### **Former Department Employee Indicted and Arrested in Theft and Embezzlement Investigation**

A former Western Area Power Administration (WAPA) employee was indicted in the District of South Dakota on one count of Theft of Government Property and one count of Bank Fraud. The former WAPA employee was subsequently arrested. The investigation determined the former WAPA employee fraudulently used a Government purchase card to obtain property worth over \$20,450 which was subsequently sold for personal benefit. This employee resigned in lieu of termination prior to the opening of this investigation.

### **Superseding Indictment Returned in Small Business Concern Fraud Scheme**

A Federal Grand Jury in the U.S. District Court, District of South Carolina returned a two-count Superseding Indictment against an employee of a fraudulent small business concern for false statements. As reported in the September 30, 2016, Semiannual Report to Congress, a 20-count Indictment including charges of Conspiracy to Defraud the United States, False Statements, Major Fraud against the Government, Wire Fraud, and Misprision of a Felony was returned against this individual and six others. The investigation determined the defendants conspired to use figure head small business concerns, meaning they were not controlled by individuals eligible for small business set aside awards, in order to obtain set aside contracts. The set aside contracts included two Department subcontracts and one Department funded other agency contract. This is a joint investigation with multiple agencies including the Department of Agriculture OIG, Defense Criminal Investigative Service, and Small Business Administration OIG.

### **Civil Complaint Filed in False Claims Act Investigation**

A civil complaint was filed in U.S. District Court, Northern District of West Virginia, charging 15 individuals and 12 companies with violations of the Anti-Kickback and False Claims Acts. The investigation determined that approximately \$3 million of two National Energy Technology Laboratory prime contracts valued at \$85 million were paid to contractors engaged in a kickback scheme and that the principal investigator assigned to the two contracts received at least \$230,000 in kickbacks.

### **Civil Demand Letter Issued for False Claims Act Violation**

A civil demand letter was issued by the U.S. Attorney's Office, District of New Mexico, to the owner of a paving company for the recovery of \$112,812 in false claims damages. The investigation determined the owner of the company fraudulently received a total of \$56,406 from the Los Alamos National Laboratory (LANL) in performance bond premium expenses that were not incurred in relation to a repaving project at LANL.

### **Disallowed Costs for Department Cooperative Agreement Recipient**

The Department disallowed \$991,508 paid to a current Department cooperative agreement recipient. The investigation determined that between June 2015 and June 2016, the current Department cooperative agreement recipient submitted unallowable costs for indirect rates against Federally Funded Research and Development Center charges as cost-share. This is an ongoing joint investigation with the U.S. Department of Agriculture OIG and coordinated with the U.S. Attorney's Office for the District of Hawaii.

## **Settlement Reached with Department Subcontractor**

The Department reached a \$700,000 settlement agreement with a Department subcontractor to resolve a construction related dispute. As a result of the settlement, the Department will be made whole in relation to remediation of the construction project in question. Furthermore, the Department committed to ensure due diligence on any future projects.

## **Recovered Funds in Counterfeit Check Investigation**

Fermi National Accelerator Laboratory (FNAL) notified our office that funds from an \$83,378 counterfeit check were returned to FNAL. This payment was the result of an OIG investigation that determined a legitimate FNAL check was intercepted and the payee was altered to fraudulently obtain \$83,378 from FNAL. This is an ongoing joint investigation with the Sheriff's Office in DuPage County Illinois.

## **Recovery of Stolen Property**

The OIG recovered stolen hard drives valued at \$182,062 from multiple locations. The investigation determined the hard drives were ordered through the use of fictitious purchase orders claiming to be from the Idaho National Laboratory. The hard drives were being sent to these locations as a transition point to be eventually shipped to destinations overseas. This is an ongoing investigation.

## **Resignation in Lieu of Termination and Debarment Action in Trade Secret Investigation**

A senior Department employee resigned in lieu of termination and a former Department contractor was debarred from Government contracting and serving as a Government representative on non-procurement activities for a period of five years. The senior Department employee resigned as a result of sharing sensitive information with an individual outside the Department, and the former Department contractor was debarred for activities related to their conviction of Receiving or Possessing Stolen Trade Secrets that was reported in the March 31, 2016, Semiannual Report to Congress.

## **Debarment Action in Recovery Act Grant Fraud Investigation**

In response to an Investigative Report to Management, the Chief Executive Officer (CEO) of a former Department grantee was debarred from Government contracting for a period of three years. The investigation determined that between March 2010 and February 2012, the grantee submitted false and fraudulent documentation to improperly obtain \$380,000 in grant funds. The documentation consisted of fraudulent invoices created by the grantee, actual invoices from vendors that were not paid, and fraudulently prepared checks reflecting payments that were never made. The investigation further determined the grantee used at least \$200,000 of improperly obtained funds on personal unapproved expenses, to include gambling. As reported in the September 30, 2016, Semiannual Report to Congress, the former CEO was sentenced in the U.S. District Court, Central District of Illinois to 15 months incarceration, 3 years supervised release and ordered to pay \$383,318 in restitution to the Department. This is a joint investigation with the Federal Bureau of Investigation.

## **Recovery Act Fraud Results in Debarment**

In response to an Investigative Report to Management, two former Department subcontractors and their company were debarred from Government contracting for a period of 3 years. As reported in the March 31 and September 30, 2016, Semiannual Reports to Congress, the investigation determined the former subcontractors purchased construction equipment using Recovery Act funds, sold the equipment without Department consent and used the proceeds for personal benefit. This was a joint investigation with the Commonwealth of Virginia Office of Inspector General.

## **Debarment Action in Embezzlement Investigation**

In response to an Investigative Report to Management, a former Sandia National Laboratory (SNL) employee was debarred from Government contracting and Government-approved subcontracting for a period of 5 years. The investigation determined the former SNL employee utilized an SNL-issued procurement card to make \$32,542 in unauthorized purchases for personal gain. As reported in the March 31, 2016, Semiannual Report to Congress, the former SNL employee pleaded guilty to theft of Government property and was sentenced to 3 years probation.

## **Debarment of Former Department Employee**

In response to an Investigative Report to Management, a former Department employee was debarred from Government contracting for a period of 3 years. As reported in the March 31, 2015, Semiannual Report to Congress, the former Department employee pleaded guilty to theft and forgery in connection with the theft of \$32,000 worth of Government computers and computer-related equipment. The investigation determined the former Department employee misused their position to forge official Government property transfer documents in order to fraudulently obtain Government-owned computers and equipment.

## **Notice of Suspension and Proposed Debarment in Property Theft Investigation**

In response to an Investigative Report to Management, a former Department contractor employee was suspended and notified of proposed debarment. The investigation determined that from October 2010 until January 2015, the former contractor employee stole approximately \$510,000 of machine components made of Tungsten steel and copper from Argonne National Laboratory. As a result of this theft, the former contractor employee caused damage to the machine components comprised of the Tungsten steel, rendering the machines inoperable. As reported in the September 30, 2016, Semiannual Report to Congress, the former contractor employee pleaded guilty to a single-count Information for embezzling \$64,263 in union funds. As part of the guilty plea, the former contractor employee stipulated to having committed theft of Government property valued at approximately \$510,973. The former contractor employee was sentenced to 30 months incarceration, 2 years supervised release and ordered to pay \$510,974 in restitution to the Department.

## **Department Takes Action Based on Grant Fraud Investigation**

In response to an Investigative Report to Management, the Department debarred a former Principal Investigator (PI), their spouse and their business and issued an administrative demand letter to a grant recipient for \$674,999 in unallowable costs. The investigation determined the former PI received several duplicate Small Business Innovation Research grants from multiple Federal agencies. As reported in the March 31, 2015 Semi-Annual Report to Congress, the former PI was sentenced in the U.S. District Court for the Central District of California and ordered to pay restitution and fines. The court also ordered the former PI to serve probation and perform community service. This was a joint investigation with National Aeronautics and Space Administration OIG, Internal Revenue Service Criminal Investigation, and the Defense Criminal Investigative Service.

## **Response to Investigative Report to Management Issued in Ethics Investigation of Senior Executive Service Employee**

In response to an Investigative Report to Management, Savannah River Operations Office (SRO) determined a "last chance agreement" was appropriate to address the actions of an SRO senior Government employee who had taken a loan from a subordinate. The agreement requires the senior Government employee provide proof they attended financial management and remedial ethics training courses, and that they are making regular payments to satisfy the loan from their employee. The senior Government employee also admitted to misconduct and waived the right to

contest a termination action if failing to meet the conditions of the agreement. The investigation determined the senior Government employee requested and entered into a private loan agreement with a subordinate in violation of Title 5 of the Code of Federal Regulation's prohibitions on receiving gifts; using public office for private gain; and loss of impartiality related to personal and business relationships.

### **Response to Investigative Report to Management Issued in Child Pornography Investigation of National Energy Technology Laboratory Intern**

In response to an Investigative Report to Management, the National Energy Technology Laboratory (NETL) agreed to include warning banners and full disk encryption on individually assigned research laptops, strengthen requirements relative to property management and use of laptops and non-standard IT equipment by Oak Ridge Institute for Science and Education personnel, and ensure more robust IT end-user agreements and understanding by all end-users. The investigation was based on the arrest of a former participant of the Professional Internship Program for possession and distribution of child pornography. Forensic analysis revealed child pornography was present on the intern's home desktop but not the NETL laptop, which were both seized; however, multiple policy and programmatic weaknesses were identified during the analysis.

### **Investigation Results in Contractor Policy Revision**

As the result of an OIG investigation, the Department coordinated with a prime contractor on revisions to the prime contractor's travel policy to address issues identified during an investigation into the prime contractor's submission of false per diem claims. As reported in the September 30, 2015, Semiannual Report to Congress, the prime contractor agreed to a \$3.8 million settlement to resolve allegations the contractor improperly charged the Department for short-term and long-term relocation costs in connection with construction work at the Salt Waste Processing Facility.

## AUDIT REPORTS

### [The Department of Energy's Unclassified Cybersecurity Program – 2016](#)

The *Federal Information Security Modernization Act* of 2014 requires Federal agencies to develop, implement, and manage agency-wide information security programs. In addition, Federal agencies are required to provide acceptable levels of security for the information and systems that support their operations and assets. As required by the *Federal Information Security Modernization Act of 2014*, we conducted an independent evaluation to determine whether the Department's unclassified cybersecurity program adequately protected its data and information systems. This report documents the results of our evaluation of the Department for fiscal year 2016.

The Department, including the National Nuclear Security Administration, had taken a number of actions over the past year to address previously identified weaknesses related to its cybersecurity program. In particular, the Department made progress remediating weaknesses identified in our fiscal year 2015 evaluation, which resulted in the closure of 10 of 12 prior year deficiencies. The Department also improved the completeness of its reporting of contractor system security information to the Department of Homeland Security and the Office of Management and Budget, an issue we had reported on for several years.

While these actions were positive, our current evaluation found that the types of deficiencies identified in prior years, including issues related to vulnerability management, system integrity of Web applications, access controls and segregation of duties, and configuration management, continue to exist. The weaknesses identified occurred, in part, because the Department had not fully developed and/or implemented policies and procedures related to the weaknesses identified in our report. For instance, we found that the implementation of configuration and security patch management processes had not ensured that software remained secure. In addition, Department officials had not always implemented an effective performance monitoring and risk management program, including the use of an effective cybersecurity continuous monitoring program. We continued to identify concerns with the Department's management of plans of action and milestones to track corrective actions for its cybersecurity program. (DOE-OIG-17-01)

### [Followup on the Geothermal Technologies Office](#)

The Department's Geothermal Technologies Office (Geothermal) accelerates the deployment of clean, domestic geothermal energy by supporting innovative technologies that reduce the cost and risks of deployment. Formerly known as the Geothermal Technologies Program, Geothermal invests in research and development of innovative technologies and facilities' demonstrations through the issuance of grants and cooperative agreements. Since 2009, Geothermal has awarded approximately \$368 million in *American Recovery and Reinvestment Act of 2009* funds, as well as over \$297 million in regular appropriations to private industry, national laboratories, local governments, universities, and other entities.

Our report on [The Department of Energy's Geothermal Technologies Program under the American Recovery and Reinvestment Act \(OAS-RA-11-05\)](#) identified weaknesses in project administration, including insufficient monitoring of awards. The Department concurred with the findings and recommendations contained in the report and stated that it had implemented corrective actions to enhance the effectiveness of its oversight. Because of the issues identified in our previous report and the significant amount of appropriations awarded since 2009, we initiated this review to determine whether the Department had met its goals and objectives and had effectively and efficiently managed Geothermal financial assistance awards.

Nothing material came to our attention to indicate that Geothermal's management of its financial assistance awards was not generally effective. However, our review found that Geothermal had not always obtained deliverables required of recipients in financial assistance award terms and conditions. In particular, three of the four recipients included in our review had not submitted either a final report or technical data in accordance with the terms and conditions of their awards. These issues occurred because Geothermal had not always managed the receipt of its recipients' deliverables.

Without the technical information from crucial final deliverables and research data submissions, the Department cannot fully demonstrate performance has been achieved as expected, or if Geothermal objectives and goals have been met. Further, valuable research and development supported with Federal funding is not being made publicly available to maximize the leveraging of Department investments. As a result, taxpayer dollars may be wasted in the future to unknowingly duplicate research and development. (OAI-M-17-01)

### **Management Letter on the Southwestern Federal Power System's Fiscal Year 2015 Financial Statement Audit**

KPMG LLP (KPMG), our contract auditors, planned and performed an audit of the combined financial statements of the Southwestern Federal Power System (the System) as of and for the year ended September 30, 2015, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. As part of the audit of the combined financial statements, KPMG considered the System's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing an opinion on the combined financial statements but not for the purpose of expressing an opinion on the effectiveness of the System's internal control.

We monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. During the audit, KPMG noted certain matters involving internal control and other operational matters that are presented in the management letter prepared by KPMG. The letter contains three findings that were issued during the course of the System's Fiscal Year 2015 Financial Statement Audit. (OAI-FS-17-01)

### **Federal Energy Regulatory Commission's Unclassified Cybersecurity Program - 2016**

The *Federal Information Security Modernization Act of 2014* established requirements for Federal agencies to develop, implement, and manage agency-wide information security programs, including periodic assessment of the risk and magnitude of the harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information and information systems that support the operations and assets of the agency. In addition, the *Federal Information Security Modernization Act of 2014* mandated that an independent evaluation be performed annually by the Office of Inspector General to determine the effectiveness of the agency's information security program and practices. We contracted with KPMG LLP (KPMG) to perform an assessment of the Federal Energy Regulatory Commission's (Commission) unclassified cybersecurity program. This report presents the results of that evaluation for fiscal year 2016.

Fiscal year 2016 audit work, performed by KPMG, found that the Commission had implemented the tested attributes of its cybersecurity program in a manner that was generally consistent with requirements established by the National Institute of Standards and Technology, the Office of Management and Budget, and the Department of Homeland Security. In particular, testing on a sample of targets within the Commission's unclassified internal network, including servers and

workstations, found that management, operating, and technical controls implemented within that environment were effective. (OAI-L-17-01)

### **Nuclear Safety at Naval Reactors' Facilities**

The Naval Nuclear Propulsion Program provides militarily effective nuclear propulsion plants and ensures their safe, reliable, and long-lived operation. A joint effort between the Department of Energy and the Department of the Navy, the Program conducts its mission at four federally owned sites operated by Bechtel Marine Propulsion Corporation, a management and operating contractor. Under Title 50 United States Code Sections 2406 and 2511, the Program's Director is responsible for the safety of reactors and naval nuclear propulsion plants, and control of the associated radiation and radioactivity. This responsibility includes prescribing and enforcing standards and regulations for these areas as they affect the environment and the safety and health of workers, operators, and the general public.

In August 2015, we received a complaint alleging that the Program had not (1) developed an adequate safety basis for all of its nuclear facilities, (2) updated existing safety basis documents, or (3) followed Department safety regulations when making major modifications to nuclear facilities. Given the importance of safety associated with the Program's operations, we initiated this audit to determine whether the Program had adequate safety policies, procedures, and practices in place for nuclear materials and facilities.

Although nothing came to our attention to indicate that the Program lacked adequate safety policies, procedures, and practices for nuclear materials and facilities, we identified an opportunity for the Program to strengthen its safety posture by addressing differences between its policies and procedures and comparable Federal and Department requirements. To the extent that the Program acknowledged the need to evaluate possible improvements in its policies and procedures, we partially substantiated the second allegation. We did not substantiate the other two allegations. (OAI-L-17-02)

### **Department of Energy's Actions to Address Worker Concerns Regarding Vapor Exposures at the Hanford Tank Farms**

For decades, the Department has been storing and managing millions of gallons of chemical and radioactive wastes in the Hanford tank farms, in Washington State. Approximately 56 million gallons of this waste are stored in dozens of aging tanks. Tank operations routinely occur to manage the waste, to transfer waste from old or leaking tanks, to perform evaporation activities, and to perform other actions that are referred to as "waste disturbing activities." Tank waste generates vapors as heat and radiation break down chemical compounds. From time to time, workers at the tank farms are exposed to these vapors. When inhaled at high enough concentrations, according to an independent panel of experts, some of these vapors may represent a serious occupational hazard to the tank farm workforce. Due to the hazards associated with vapors, the Department and its contractors have engaged in various activities in an attempt to minimize the risk of human exposure. Since 2014, the Department and its tank operations contractor, Washington River Protection Solutions, LLC (WRPS), have been engaged in renewed activities to measure, minimize, and mitigate exposure. Nevertheless, incidents of worker exposure to vapors continue to occur.

We were informed that some workers may not feel comfortable expressing their concerns about vapors due to fear of retaliation from management. Accordingly, we initiated this special review to assess whether a problem with fear of retaliation existed and to assess the status of actions that are underway to address the risks posed by vapors.

Seven of the 52 workers we interviewed indicated that they had concerns with reporting, communicating, reprisal, or fear of retaliation related to potential vapor exposures. One of the workers had filed a formal complaint regarding retaliation. The remaining workers we spoke to generally told us that they felt free to discuss their concerns about vapors without fear of retaliation. Additionally, while we found that a number of actions were underway to address the risks posed by vapors, such as evaluating technologies in the tank farms, we found that improvements in communication are needed to inform workers about the status of actions and to ameliorate continuing fear of retaliation on the part of some workers.

Further, we noted that the hazards associated with tank farm vapor exposures have been evaluated through multiple studies and evaluations. We observed that these activities have resulted in various recommendations and that actions were underway to address issues identified in those reviews. Our assessment did not identify concerns with the current status of these actions, which, according to WRPS information, largely appear to be on schedule. However, we noted that a major labor union issued a letter demanding that additional measures be taken to further protect the workforce, including extending hazard zones, changing worker schedules, and increasing mandates for the use of supplied air respiratory protective equipment inside the tank farm fences. We are aware that WRPS and the union reached an agreement to resolve these concerns. Our review identified areas where we believe management can take steps to improve its issue resolution process, such as tracking and reporting of underway corrective actions and communicating with the workforce. In our view, improving these areas is critical to ensuring that actions taken to resolve the recommendations for improvement are transparent to members of the workforce and other interested parties. (OIG-SR-17-01)

### **Management of Brookhaven National Laboratory's Cybersecurity Program**

Brookhaven National Laboratory (Brookhaven) is a multipurpose research institution funded primarily by the Department and operated by Brookhaven Science Associates. Brookhaven employs almost 3,000 individuals and hosts over 4,000 visiting researchers each year. To support its research mission, Brookhaven makes extensive use of information technology resources for scientific and business computing related to high-speed network infrastructure, data management, and Web applications. As a management and operating contractor, Brookhaven is responsible for meeting various Federal cybersecurity requirements. The challenges related to cybersecurity management have become even more important with recent cybersecurity incidents in the Federal Government and the compromised sensitive information of millions of individuals. Furthermore, the range of cyber threat actors, methods of attack, targeted systems, and victims continue to expand.

Our review of Brookhaven determined that it had not implemented a fully effective cybersecurity program. We identified weaknesses related to vulnerability and configuration management, physical and logical access controls, security planning and assessments, and contingency planning and data retention.

The identified weaknesses occurred, in part, because Brookhaven officials had not fully implemented applicable requirements related to cybersecurity. We also found that Brookhaven Site Office and laboratory officials had not always effectively monitored the cybersecurity program. Similarly, we noted that Brookhaven contractor officials had not adequately monitored their cybersecurity program to ensure that they corrected vulnerabilities in a timely manner.

Without improvements that fully implement cybersecurity policies and procedures, Brookhaven's information and systems will continue to be at a higher-than-necessary risk of compromise, loss, or modification. Furthermore, the weaknesses identified related to contingency planning may hinder

Brookhaven's ability to complete essential mission functions in the event of a significant disruption. (DOE-OIG-17-02)

### **Department of Energy's Fiscal Year 2016 Consolidated Financial Statements**

Pursuant to requirements established by the *Government Management Reform Act of 1994*, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's FY 2016 Consolidated Financial Statements.

KPMG audited the consolidated financial statements of the Department as of September 30, 2016 and 2015, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statement of budgetary resources for the years then ended. KPMG concluded that these consolidated financial statements are presented fairly, in all material respects, in conformity with United States generally accepted accounting principles and has issued an unmodified opinion based on its audits and the reports of other auditors for the years ended September 30, 2016 and 2015. (OAI-FS-17-02)

### **Management Challenges at the Department of Energy – Fiscal Year 2017**

The Department is responsible for some of the Nation's most complex and technologically advanced missions. These include cutting edge work in basic and applied sciences, clean energy innovation, energy efficiency and conservation, environmental cleanup, nuclear weapons stewardship, and efforts to enhance national security. To execute this diverse portfolio, the Department receives an annual appropriation of approximately \$30 billion, employs approximately 108,000 Federal and contractor personnel, and manages assets valued at \$182.8 billion, including 17 national research and development laboratories. The Office of Inspector General (OIG) annually identifies what it considers to be the most significant management challenges facing the Department. The OIG's goal is to focus attention on significant issues with the objective of working with Department managers to enhance the effectiveness of agency programs and operations.

While the FY 2017 challenge areas remain largely consistent with those in previous years, based on the results of our work over the last year, we have made one notable change. As a result, the FY 2017 management challenges include Financial Assistance and Contract Management, Cybersecurity, Environmental Cleanup, Nuclear Waste Disposal, Safeguards and Security, Stockpile Stewardship, and Infrastructure Modernization.

We also prepares an annual Watch List, which incorporates other issues that do not meet the threshold of a management challenge, yet, in our view, warrant special attention by Department officials. For FY 2017, the Watch List includes Human Capital Management, the Loan Guarantee Program, and Worker and Community Safety. (OIG-SR-17-02)

### **Department of Energy Contractors' Implementation of Earned Value Management**

The Department uses Earned Value Management (EVM) as a project management tool to measure the value of completed work against the planned work schedule and estimated cost. The Office of Management and Budget requires Government EVM systems to comply with the guidelines found in the Electronic Industries Alliance (EIA) publication 748. The Department's Office of Project Management Oversight and Assessments (PM) is responsible for ensuring that contractors' EVM systems comply with EIA-748 guidelines. PM uses the Department's Project Assessment and Reporting System (PARS II) as the Department's central repository and system of record for contractor's EVM cost and schedule performance data. Contractors also use their own corporate project management systems from which they feed data into PARS II through electronic uploads on a monthly basis. As of July 2015, the Department's contractors had 29 post Critical Decision (CD) 2 capital asset projects worth approximately \$25 billion that were required to use EVM systems to track and manage project performance.

To its credit, PM has identified deficiencies with the contractors implementing EVM. During our audit, we observed that reviews of some contractors' EVM systems were delayed; however, we noted that PM was taking corrective actions. PM officials told us that two contractors did not have certified EVM systems because their EVM systems were deemed significantly noncompliant with EIA-748 based on reviews for cause (RFC). In addition, despite having certified systems, two contractors were reporting what is potentially incomplete and unreliable EVM data to the Department.

We also noted that PM was late in performing surveillance reviews for the EVM systems of six contractors with projects that had over \$100 million in total project costs. PM did not perform the reviews within the timeframes that were in effect at the time of our audit as specified in DOE Order 413.3B, Program and Project Management for the Acquisition of Capital Assets. However, in May 2016, the Department modified DOE Order 413.3B, removing the requirement for reviews every 2 years and replacing the reviews with a "risk-based, data-driven" assessment. When discussing our concerns regarding delays in performing surveillance reviews, PM officials stated that, in practice, they began implementing the risk-based, data-driven approach prior to the revision of the DOE Order, consistent with a Secretarial policy direction issued in June 2015. In addition, we found PM was taking steps to improve project reporting by upgrading the PARS II database; the upgrades are scheduled for completion in 2016.

The deficiencies we observed, if not corrected, could significantly affect the Department's ability to properly manage its projects. Without certifying compliance with EIA-748 and conducting surveillance reviews to ensure that contractors properly implement their certified EVM systems, the Department cannot ensure that the EVM data it receives from the contractors are reliable. Granting concessions from EVM reporting to troubled projects further impedes Department decision makers. (OAI-L-17-03)

### **[The Department of Energy's Readiness to Implement the Digital Accountability and Transparency Act of 2014](#)**

The *Digital Accountability and Transparency Act of 2014* (DATA Act), enacted on May 9, 2014, required Federal agencies to report on financial and payment data elements in accordance with standards established by the Department of the Treasury (Treasury) and the Office of Management and Budget (OMB). Agency reported data will be made available to taxpayers and other stakeholders on a Web site operated by Treasury in consultation with OMB. To assist agencies with the implementation of DATA Act requirements, Treasury and OMB developed an eight-step process to streamline implementation efforts. The process included, among other things, organization of a DATA Act working group, inventory of existing agency data, and implementation of needed changes to information technology systems and business processes to capture required data.

The DATA Act also required each Office of Inspector General (OIG) to report on the completeness, timeliness, quality, and accuracy of data and the use of data standards by their cognizant agency. In preparation for the initial report to be issued by November 2017, the Council of the Inspectors General on Integrity and Efficiency (CIGIE) encouraged the OIG community to undertake DATA Act "readiness reviews" using the *Data Act Readiness Review Guide* developed by the Federal Audit Executive Council, a component of CIGIE.

Our review of the Department's progress implementing the DATA Act did not identify any significant weaknesses and noted that the Department appeared to be on track to meet the requirements of the DATA Act. We also found that the Department had made significant progress addressing the elements included in the Treasury/OMB eight-step implementation process. Specifically, we determined that the Department had taken action to address each of the

planning steps included in the DATA Act readiness review guidance and was well-positioned to execute and implement goals within the required timeframes. In addition, while the potential exists that the requirements may change, the Department's actions to date have positioned it to successfully execute the requirements of the DATA Act. (OIG-SR-17-03)

### **Federal Energy Regulatory Commission's Fiscal Year 2016 Financial Statement Audit**

This report presents the results of the independent certified public accountants' audit of the balance sheets of the Federal Energy Regulatory Commission (Commission), as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

To fulfill our General audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Commission as of September 30, 2016 and 2015, and its net costs, changes in net position, budgetary resources, and custodial activities for the years then ended, in accordance with United States generally accepted accounting principles. (OAI-FS-17-03)

### **Department of Energy Nuclear Waste Fund's Fiscal Year 2016 Financial Statement Audit**

This report presents the results of the independent certified public accountants' audit of the balance sheets of the Department of Energy Nuclear Waste Fund (Fund), as of September 30, 2016 and 2015, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended.

To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Fund as of September 30, 2016 and 2015, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles. (OAI-FS-17-04)

### **Followup on the Department of Energy's Analytical Services Program**

The Department's Analytical Services Program ensures that the data acquired from commercial analytical environmental laboratories are valid, reliable, and defensible. The program also ensures that the treatment and disposal of the Department's low-level radioactive and mixed waste are in accordance with all applicable regulations and in a manner protective of human health and the environment. The Analytical Services Program is a corporate program, servicing all Department program line organizations, including the National Nuclear Security Administration. The Department expended more than \$70 million during fiscal year (FY) 2016 for contracted services at commercial environmental analytical laboratories and waste management treatment, storage, and disposal facilities (TSDF).

Our prior report on the Audit of the Department's Commercial Laboratory Quality Assurance Evaluation Program (IG-0374, June 1995) disclosed that contractors conducted redundant quality assurance evaluations of commercial laboratories, produced inconsistent results, and did not communicate those results to contractors. In fact, the report noted that 103 of the 206 quality assurance evaluations reviewed were redundant.

During our followup audit, we found that the Department had taken corrective actions to address the issues identified in our 1995 report. We did not identify any redundant audits of commercial analytical laboratories, as previously identified, nor did we identify any redundant audits of

TSDFs. We also found processes in place to ensure consistent results and the communication of those results throughout the Department. For example, the Department of Energy's Consolidated Audit Program (DOECAP) shares audit results and program information with Department sites, commercial laboratories, and TSDFs. In response to our prior recommendations, the Department created the Analytical Services Program, which consists of three component elements: DOECAP, the Mixed Analyte Performance Evaluation Program, and the Visual Sample Plan.

Nothing came to our attention indicating that the Department was not managing the three program components effectively and efficiently. However, we identified one area that requires management's attention. We found that DOECAP auditors did not always properly handle sensitive unclassified information and used personally owned devices to access, store, and potentially transmit information categorized and marked as Official Use Only (OUO).

Auditors were using personal computers because of restrictions that their sites had placed on access to the Universal Serial Bus ports, commonly referred to as USB ports, on Government-issued laptops. The Analytical Services Program manager has acknowledged that the use of personally owned devices is an issue throughout the program. Furthermore, officials stated that the use of personal email to transmit OUO information was possible. In fact, we identified multiple instances where information marked OUO was sent to a non-Government email address. Using personal email circumvents the Department's automated information system, which is used to transmit and store official email and prevents access to OUO information by persons who do not require the information to perform their jobs or other Department-authorized activities. (OAI-M-17-02)

#### **Followup Audit of the Department's Heavy Water Inventory**

The Department of Energy and National Nuclear Security Administration (NNSA) inventory of heavy water is a vital national security asset. Heavy water, primarily managed and stored at the Y-12 National Security Complex (Y-12), is used in NNSA Weapons Activities to produce parts for weapons system life extension programs and to support National Ignition Facility (NIF) nuclear weapon design and simulation missions. Additional heavy water inventories are located at the Oak Ridge National Laboratory, used primarily for non-Weapons Activities such as Spallation Neutron Source research and development, and at the Savannah River Site, which maintains an inventory unusable for current programs and planned for future disposal.

In July 2008, our report on Nuclear Weapons Programs Heavy Water Inventory (DOE/IG-0798) identified the need to secure new sources of heavy water because the inventory was likely to be depleted by 2019. Management agreed with the prior report, and in response, a heavy water assessment was completed in 2009 that defined options to meet heavy water requirements. In 2010, the Department obtained additional heavy water from the Department of Defense. Also, NNSA officials told us that they had not been supplying heavy water to non-Weapons Activities, essentially establishing a reserve for NNSA missions, although an NNSA official said they would consider requests from other programs under certain circumstances. In 2012, Y-12 replaced its traditional production process for lithium deuteride weapons parts, which required heavy water, with the Direct Material Manufacturing process, which recycles these weapons parts and significantly decreased the demand for heavy water.

In our followup audit on the Department's management of its inventory of heavy water, we determined that, while the Department had taken several actions to address heavy water requirements to meet mission needs through fiscal year (FY) 2031, management of the heavy water inventory may not ensure a sufficient supply for Weapons Activities beyond that time.

According to Department officials, actions to address Weapons Activities heavy water requirements after FY 2031 were not taken because, based on Nuclear Materials Management forecasts

developed in 2012, when Y-12 fully implemented the Direct Material Manufacturing process, the Department determined that the heavy water inventory was adequate to meet program requirements through FY 2031 and beyond, which would afford sufficient time to prepare plans to meet needs beyond that date. Thus, the Department did not have any concerns regarding the long-term availability of heavy water. Therefore, the Department had not established a point, such as an inventory level or other trigger point, when it would begin to pursue other options for acquiring heavy water for Weapons Activities. However, given the uncertainty of heavy water requirements beyond 2031, the long lead time to establish a production capability, and the estimated lead time to develop recycle or re-enrichment capabilities, the Department may be at risk of being unable to meet all of its Weapons Activities heavy water requirements in the long term. (OAI-M-17-03)

### **Bonneville Power Administration's Contractor Workforce**

The Bonneville Power Administration (Bonneville) markets wholesale electrical power produced primarily from Federal hydro projects in the Pacific Northwest. In 2015, Bonneville's workforce consisted of approximately 3,000 Federal employees and approximately 3,100 contract workers. Bonneville acquires its contractor workforce through service contracts that directly engage the time and effort of a contractor whose primary purpose is to perform a task rather than furnish a product. In March 2015, the Office of Inspector General received a hotline complaint alleging contract, labor, and management irregularities at Bonneville, including the establishment of prohibited personal services contracts.

We found that Bonneville had not always effectively and efficiently managed its contractor workforce. Specifically, based on the results of our judgmental sample of 20 of the 3,117 contract workers, review of documentation related to Bonneville's procurement of contract workers, and interviews with key personnel, we found that Bonneville had created prohibited personal services contracts by establishing improper employer/employee relationships with supplemental labor workers, one category of its contractor workforce. Further, a risk that contract workers were inappropriately performing inherently governmental and critical work that should be reserved for Federal employees existed. We also found weaknesses in Bonneville's acquisition and administration of services contracts.

In addition, our conclusions concerning personal services contracts substantiated one of the allegations included in the hotline complaint. However, we were not able or did not substantiate the other allegations included in the complaint.

The issues we identified occurred, in part, because of problems with the manner in which Bonneville managed and implemented its supplemental labor category of contract workers, lack of a strategic workforce plan, insufficient management and oversight of its contractor workforce, and an inadequate procurement control environment. (DOE-OIG-17-03)

### **The National Nuclear Security Administration's Weapons Evaluation Test Laboratory**

The primary mission of the Department's National Nuclear Security Administration (NNSA) is to ensure the safety, reliability, and performance of the Nation's nuclear weapons stockpile. NNSA's stockpile surveillance program continuously assesses and evaluates each nuclear weapon system to detect or anticipate any potential problems. Sandia National Laboratories' (Sandia) Weapons Evaluation Test Laboratory (WETL), located at the Pantex Plant in Amarillo, Texas, supports the execution of the stockpile surveillance program by testing weapon functionality and providing quality data to support NNSA's annual stockpile assessments. Specifically, WETL performs laboratory testing using centrifuges and other test equipment. The non-nuclear components are mounted on a centrifuge and exposed to environments that simulate the launch and reentry conditions. Funding for Sandia's laboratory testing program totaled about \$62 million for fiscal years (FY) 2012 through 2015, including \$15.8 million for WETL operations.

In December 2013, we received an anonymous complaint regarding the management of Sandia's Integrated Stockpile Evaluation Group. The complaint alleged that Sandia diverted equipment to other programs and failed to fund preventive maintenance for WETL.

Our audit did not substantiate the allegation that Sandia diverted equipment to other programs. Because the allegation contained no specifics, we focused our review on equipment in the year that the complaint was received. Specifically, we verified that all FY 2013 equipment purchases over \$25,000 and most purchases of sensitive items (cell phones and computing assets) were reflected in the WETL property list. In addition, an FY 2015 wall-to-wall property inventory performed by Sandia every 4 years found no missing items purchased for WETL in FY 2013. Furthermore, we interviewed all WETL technologists on staff for August and October 2015, and the technologists indicated no concerns regarding equipment diversion. Although some officials expressed concern to us about the adverse impact of constrained budgets on maintenance, we did not identify specific instances where Sandia failed to fund maintenance at WETL. However, we found that Sandia had not met NNSA's expectations for laboratory testing at WETL.

Unplanned downtime for the testing equipment at WETL created major disruptions to testing operations and contributed, in large part, to the failure to meet baseline testing goals. The primary factor contributing to the unplanned equipment downtime was a nearly 2-year outage of the large centrifuge dedicated to testing Navy weapon systems. The outage was due to noise and vibration issues, followed by an unrelated fire in the drive system. In addition, Sandia's actions to consolidate explosives operations have affected testing at WETL.

The efficient execution of WETL laboratory tests is critical to identifying stockpile defects in a timely manner to maintain a safe, secure, and reliable nuclear weapons stockpile. Although Sandia anticipates that it will eliminate the WETL test backlog by April 2017, because of the age and uniqueness of the centrifuges, we believe there is an increased risk of further operational delays and unplanned equipment outages. (OAI-M-17-04)

#### **[Audit Coverage of Cost Allowability for Jefferson Science Associates LLC During Fiscal Years 2011 - 2014 Under Department of Energy Contract No. DE-AC05-06OR23177](#)**

Jefferson Science Associates, LLC (JSA) has managed and operated Thomas Jefferson National Accelerator Facility (Jefferson Lab) since April 2006. JSA is a partnership between Southeastern Universities Research Association and PAE Applied Technologies that contracts with the Department. Jefferson Lab, part of the Department's Office of Science, provides a nuclear physics user facility to enable the international user community to conduct scientific research. During FYs 2011 through 2014, JSA incurred and claimed costs of \$709,106,083.54.

JSA 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. The Department's Cooperative Audit Strategy (Strategy) makes efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. The Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs that are claimed by contractors.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by JSA's Internal Audit could not be relied upon. We did not identify any material control weaknesses with the cost allowability audits, which generally met Institute of Internal Auditors. We noted improvements in Internal Audit's work on engagement planning, work paper documentation, and supervision issues identified in our previous assessment. Additionally, we found that JSA generally arranged for audits of subcontractors when costs incurred were a

factor in determining the amount payable to a subcontractor. Specifically, JSA had 16 active cost-reimbursable subcontracts valued at approximately \$11 million during our review. We found that JSA arranged for an audit of 1 commercial subcontract and obtained results for audits conducted under Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, for the remaining 15 cost reimbursable subcontracts with universities. Finally, JSA's Internal Audit identified \$26,672.23 in questioned costs as part of its allowable cost audits and other reviews in FYs 2011 through 2014, of which \$5,031 identified during the audit of the commercial subcontract had not been resolved. Therefore, we are questioning this amount. (OAI-V-17-01)

#### **Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016**

During the audit, KPMG LLP (KPMG), our contract auditors, noted certain matters involving internal control and other operational matters. These findings and recommendations are intended to improve internal control or result in other operating efficiencies. In addition, KPMG identified a deficiency in internal control related to the reconciliation of environmental liabilities that it considered a significant deficiency.

KPMG LLP identified 11 new findings that were issued during the course of the audit. Management's response and planned corrective actions for the recommendations are listed in the management letter. (OAI-FS-17-05)

#### **Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2016 Financial Statement Audit**

During our audit KPMG LLP (KPMG), our contract auditor, noted certain matters involving internal control and other operational matters. These comments and recommendations are intended to improve internal control or result in other operating efficiencies.

KPMG noted four findings that were issued during the course of the audit, and Management concurred or partially concurred with and provided planned corrective actions for the recommendations listed in the management letter. Management's comments are included in each finding. (OAI-FS-17-06)

#### **Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2016**

During the audit, KPMG, LLP (KPMG), noted certain matters involving internal control and other operational matters. These comments and recommendations are intended to improve internal controls or result in other operating efficiencies. Management concurred with and provided planned corrective actions for the recommendations listed in the management letter. (OAI-FS-17-07)

#### **Audit Coverage of Cost Allowability for Fermi Research Alliance LLC During Fiscal Years 2012 Through 2014 Under Department of Energy Contract No. DE-AC02-07CH11359**

Fermi Research Alliance LLC (FRA) has managed and operated Fermi National Accelerator Laboratory (Fermi) for the Office of Science's Fermi Site Office under a contract with the Department since January 2007. During FYs 2012 through 2014, FRA incurred and claimed costs totaling approximately \$1.2 billion.

FRA 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. The Department's Cooperative Audit Strategy (Strategy) makes efficient use of available

audit resources while ensuring that the Department's contractors claim only allowable costs. The Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs that are claimed by contractors.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by FRA's Internal Audit for FYs 2012 through 2014 could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. We did note FRA had not conducted or arranged for any audits of subcontractor costs for FYs 2012 through 2014. Instead, FRA's Internal Audit used its quick closeout process to determine the cost-type subcontracts did not warrant audits. Finally, nothing came to our attention to indicate that questioned costs and internal control weaknesses affecting allowable costs that were identified in audits and reviews had not been adequately resolved. We did, however, identify an issue regarding local meal costs that needs to be addressed to ensure that only allowable costs are claimed and reimbursed. Specifically, we questioned \$1,268 for local employee dinners at receptions held during the FRA Board of Directors meetings between FYs 2012 and 2014. According to the Federal Acquisition Regulation (FAR) 31.205-14, "Entertainment Costs," the cost of social activities like meals would generally be unallowable. Therefore, we questioned the local employees' dinner costs as entertainment expenses per the FAR, Department guidance, and FRA's policy. (OAI-V-17-02)

#### **Quality Assurance for River Corridor Closure Contract Procurements**

During the Hanford Site's plutonium production mission, the Department operated nine reactors and a large laboratory complex along the Columbia River. In 2005, the Department's Richland Operations Office (Richland) awarded Washington Closure Hanford, LLC (WCH) a \$2.9 billion contract to remediate nearly 220 square miles of the Hanford Site.

To ensure compliance with contract requirements and the safe performance of work, Richland included in WCH's contract the Department's order on *Quality Assurance*, which requires the use of an appropriate consensus quality assurance standard consistent with regulatory requirements. WCH adopted the *American Society of Mechanical Engineers (ASME) - Quality Assurance Requirements for Nuclear Facility Applications (NQA-1)* as its consensus standard for its quality assurance program. Specific to procuring material and services, WCH was required to flow down quality assurance requirements specific to the scope of work in its subcontracts and to evaluate the subcontractor's capability of implementing the applied requirements. We conducted this audit to determine whether WCH had effectively managed quality assurance requirements in its procurements for the River Corridor Closure Contract at the Hanford Site.

As a result of our work we found instances where WCH did not effectively manage quality assurance in its procurements. Specifically, we identified weaknesses in how WCH flowed down quality assurance requirements in its subcontracts and in the subsequent evaluations used to determine whether subcontractors had the capability to implement an NQA-1 quality assurance program. We also found that WCH did not ensure that staff augmentation contracts contained requirements to perform work under WCH's quality assurance program.

The weaknesses identified in WCH's quality assurance program can increase the risk that contractual requirements are not met and ultimately expose the Department to increased financial risk. Not imposing applicable NQA-1 requirements can result in conditions that require rework. On the other hand, imposing NQA-1 requirements for items and services not important to safety or mission can result in unnecessary expenditure of funds. In addition, inadequate supplier evaluations may increase the risk of awarding contracts to subcontractors that cannot perform to

contract requirements. We have made several recommendations designed to assist the Manager of the Richland Operations Office in ensuring corrective actions are completed and effective. (OAI-M-17-05)

## **Management of Suspended Procurements at the Waste Treatment and Immobilization Plant Project**

One of the Department's largest cleanup challenges involves 56 million gallons of hazardous and highly radioactive waste stored in underground tanks at the Hanford Site. The Department's Office of River Protection manages the cleanup project. As part of this effort, the Department contracted with Bechtel National, Inc., (Bechtel) to complete the design and construction of the Waste Treatment and Immobilization Plant (WTP) to treat and immobilize the majority of the waste in preparation for permanent disposal.

In November 2011, the Department notified Bechtel that significant reductions in project funding would occur. As a result, Bechtel began to suspend procurements for parts and materials for the Pretreatment Facility. Based on its analysis and because of the significant cost, Bechtel recommended terminating 28 procurements, completing 6, and retaining 22 in suspension. In response to Bechtel's analysis, on April 28, 2015, the Office of Inspector General received a congressional request to review "questionable contract practices" related to these procurements. The congressional request also asked the Office of Inspector General to determine whether Bechtel had earned fees for managing these procurements and whether those fees were appropriate.

We found the Department and Bechtel had not fully resolved issues with suspended procurements for WTP's Pretreatment Facility in a timely manner. Specifically, neither the Department nor Bechtel has fully acted to terminate all of the 28 procurements recommended for termination. For example, had the Department and Bechtel acted on the January 2015 recommendations to terminate the five most costly procurements, our analysis revealed that they could have avoided \$1.9 million in suspension costs incurred since that date. Further, we noted that during the period 2011 through 2015, the amount of award fee earned by Bechtel had declined; however, we did not find any indication that management of the suspended procurements was a factor in determining the amount of award fee earned by the contractor.

The delays in resolving issues with the 56 suspended procurements resulted primarily from an impasse between the Department and Bechtel over roles and responsibilities, an issue that delayed action being taken on Bechtel's recommendations for terminating the five most costly suspended procurements. We made several recommendations to the Assistant Secretary for Environmental Management to ensure that the impact of potential changes are considered on a timely basis, as well as to address the current recommendations for the 56 suspended procurements. (OIG-SR-17-04)

## **Western Federal Power System's Fiscal Year 2016 Financial Statement Audit**

This report presents the results of the independent certified public accountants' audit of the Western Federal Power System's (Western) combined balance sheets, as of September 30, 2016 and 2015, and the related combined statements of revenues and expenses, changes in capitalization, and cash flows for the years ended.

To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on Western's financial statements and reporting on applicable internal controls and compliance with laws and regulations.

KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of Western as of September 30, 2016 and 2015, and the results of its operations and its cash flow for the years then ended, in conformity with United States generally accepted accounting principles. (OAI-FS-17-08)

#### **Actions Taken by Western Area Power Administration to Address Internal Review Findings on its Desert Southwest Region's Use of Government Purchase Cards**

Western Area Power Administration's (Western) Desert Southwest Region (Desert Southwest) operates and maintains more than 40 substations and 3,100 miles of transmission lines. Desert Southwest uses Government Purchase Cards (GPC) to make small purchases, not to exceed \$3,500, to support its mission and daily operations.

In December 2014, Western's Office of Internal Audit and Compliance (Internal Audit) and Office of Procurement issued an internal review report on "Internal Control Weaknesses in the Desert Southwest Region's Purchase Card Program." The report found that weaknesses in the overall control environment contributed to potentially fraudulent or improper transactions, including almost 2,500 transactions by 74 cardholders, totaling approximately \$1.9 million, requiring further review by region officials. Due to the seriousness of the issues identified in the internal review report, we initiated a review to determine the status of corrective actions taken by Western and its Desert Southwest Region in response to the report. Our review was limited to identifying the actions taken to date and did not evaluate the effectiveness of the actions.

We found that Desert Southwest had taken numerous actions to address the issues identified in the internal review. In addition, Western's Headquarters had taken specific actions to address issues identified with Desert Southwest's use of GPCs as well as actions to improve the overall Western-wide GPC Program. Because Western's actions to address GPC concerns were ongoing or recently implemented during the course of our review and Internal Audit planned on conducting a followup review, we did not expand our work to determine the effectiveness of the corrective actions in addressing the identified weaknesses. Given that significant internal control weaknesses were identified in Desert Southwest's GPC Program as well as across Western's entire GPC Program, we suggest that the Administrator ensure continued oversight of the GPC Program. (OIG-IR-17-01)

#### **Alleged Mismanagement of the Kemper County Plant Under the Clean Coal Power Initiative**

In February 2006, the Department awarded a cooperative agreement to Southern Company Services (Southern) under the Clean Coal Power Initiative to design, construct, and operate a coal-based power plant in Orlando, Florida. The project was later relocated to Kemper County, Mississippi in December 2008 due to a Florida state regulatory change that required the addition of carbon capture and storage technology, rendering the project technically and economically impractical. Based on the revised cooperative agreement, the construction and demonstration phases were to be completed by May 2018 at an estimated cost of approximately \$1.6 billion, of which the Department's share was about \$270 million. Under the Consolidated Appropriations Act of 2016, the Department's share was increased by over \$136 million to over \$406 million. As of January 2017, the Department had reimbursed Southern approximately \$382 million for project costs and the completion date had been revised to April 2020.

We received a complaint alleging misconduct by plant managers of the project. In particular, the complainant alleged that the project's cost and schedule were drastically understated and problems at the plant were repeatedly concealed. Problems included time delays, cost overruns, safety violations, and shoddy work as a result of mismanagement or fraud. We initiated this inquiry to evaluate actions taken by the Department to oversee the Kemper County Project's technical and financial performance.

In regard to the actions taken by the Department to oversee the Project's technical and financial performance, we identified substantial oversight activities provided by the Department. Officials also noted that the project's performance was being overseen by independent monitors, representing the Mississippi Public Service Commission, who sit on-site and prepare monthly assessment reports that identify any issues which could impact the project.

We did not review allegations regarding misconduct by plant managers due to an on-going investigation by the Securities and Exchange Commission (SEC). As of January 2017, the investigation was still ongoing. Our inquiry was limited to identifying the oversight activities provided by the Department.

Given the ongoing SEC investigation, we did not independently review costs submitted by Southern to the Department for reimbursement. As such, we provide no opinion at this time regarding the allowability of those costs.

Following the SEC investigation and, based on the results, we will make a determination regarding any necessary future work with respect to this inquiry. No formal recommendations were made in this report. (OIG-IR-17-03)

## INSPECTION REPORTS

### [Followup Review of Controls Over the Department's Classification of National Security Information](#)

The Department handles and manages a broad spectrum of classified information, including National Security Information (NSI). NSI may contain one or more specific types of information, such as intelligence activities or programs for safeguarding nuclear materials or facilities, and is classified in accordance with Executive Order 13526 and 32 Code of Federal Regulations Part 2001, both entitled "Classified National Security Information." Federal requirements for NSI prescribe a uniform system for classifying and safeguarding NSI to ensure information can be shared without compromising its protection.

In March 2014, our report on the [Review of Controls Over the Department's Classification of National Security Information \(DOE/IG-0904\)](#) determined that the Department had established and implemented critical elements of its classified NSI program. However, our review found that the Department could improve certain aspects of the NSI program, such as completing required self-assessments and revising guidance. Our current review found that in general, the Department addressed the majority of the recommendations made in our prior report. Corrective actions had been implemented in response to five of seven recommendations.

Although the Department had made some progress, it had not fully addressed corrective actions for two recommendations, completing required oversight reviews and implementing revised Department Order 475.2B, "Identifying Classified Information," which contains guidelines for properly marking electronic mail (email).

The classification-related issues that we observed occurred, in part, because of a lack of attention to detail by some derivative classifiers, ineffective reinforcement of requirements by management, and infrequent classification of documents and email by some derivative classifiers. At one site, we observed a high rate of marking errors on documents related to a template that was based on an incorrect example in a classification marking guide. We have made several recommendations designed to assist the Department with improving program management and execution of its classified NSI program. (DOE-OIG-17-04)

### [Review of the Allegations Involving Pantex's Emergency Management Program](#)

The National Nuclear Security Administration's (NNSA) Pantex Plant (Pantex) is the nation's primary site for assembly and disassembly of nuclear weapons. Pantex maintains hazardous materials, which include special nuclear material, and is required to have an emergency management program that includes preparing for and responding to all emergencies relating to these materials. The Defense Nuclear Facility Safety Board (DNFSB) is an independent Federal entity authorized to review and evaluate the content and implementation of the standards relating to the design, construction, operation and decommissioning of defense nuclear facilities. Over the past 2 years, the DNFSB has conducted a number of reviews and has issued recommendation reports regarding emergency management programs at the Department of Energy's defense nuclear facilities, including Pantex.

We received a complaint that alleged management weaknesses in Pantex's Emergency Management Program. The objective of our evaluation was to examine the facts and circumstances regarding the allegation of management weaknesses in Pantex's Emergency Management Program.

During our evaluation, we noted that subject matter expert reports from Departmental organizations, such as NNSA's Office of Safety and Health, and the DNFSB, identified management

weaknesses in Pantex's Emergency Management Program similar to those contained in the allegation. Examples of emergency management program weakness identified in the subject matter expert reports include, but are not limited to: Training, drills, and exercises were not always adequately planned, conducted, or completed timely and program self-assessments did not always identify program weaknesses. Additionally, emergency management program weaknesses were not always tracked and adequately addressed at Pantex. Finally, emergency response weaknesses that were identified by independent review groups had not always been identified by Pantex management.

Because the Department and the DNFSB have identified weaknesses in the Department's Emergency Management Program at Pantex similar to those contained in the allegation and a milestone plan was developed to resolve those weaknesses, we are not making any formal recommendations or suggested actions. (OIG-IR-17-02)

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

SECTION	REPORTING REQUIREMENT	PAGE
4(a)(2)	Review of Legislation and Regulations	<a href="#">15</a>
4(A)(17)(A)	Total number of issued investigative reports	<a href="#">3</a>
4(D)(17)(B)	Referrals to prosecuting authorities for criminal prosecution	<a href="#">3</a>
4(D)(17)(C)	Total number of persons referred to the State local prosecuting authorities for criminal prosecution	<a href="#">3</a>
4(D)(17)(D)	Total number of indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities	<a href="#">3</a>
4(D)(18)	Description of the metrics used for developing the data for the statistical tables	<a href="#">3</a>
4(D)(19)	Investigation Involving Senior Government Employees	<a href="#">15</a>
4(D)(20)	Instances of Whistleblower Retaliation	<a href="#">18</a>
4(D)(21)	Information Assistance Refused or Not Provided	<a href="#">15</a>
4(D)(22)	Reviews Closed and Not Disclosed to the Public	<a href="#">25</a>
5(a)(2)	Recommendations for Corrective Action to Significant Problems	<a href="#">34-51</a>
5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Implemented	<a href="#">19-24</a>
5(a)(4)	Matters Referred to Prosecutive Authorities	<a href="#">26-33</a>
5(a)(6)	Audit Reports Issued in This Reporting Period	<a href="#">11-15</a>
5(a)(7)	Summary of Significant Reports	<a href="#">34-51</a>
5(a)(8)	Reports with Questioned Costs	<a href="#">4</a>
5(a)(9)	Reports with Recommendations That Funds Be Put to Better Use	<a href="#">4</a>
5(a)(10)	Previous Audit Reports Issued with No Management Decision Made by End of This Reporting Period	<a href="#">19</a>
5(a)(11)	Significant Revised Management Decisions	N/A
5(a)(12)	Significant Management Decisions with which the OIG is in Disagreement	N/A
5(a)(13)	Federal Financial Management Improvement Act-related Reporting	N/A
5(a)(14–16)	Peer Review Results	<a href="#">25</a>

**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 280 employees, the organization strives to be a highly effective organization that promotes positive change.

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:

- Complaint Form: <http://energy.gov/ig/office-inspector-general>
- Toll Free Telephone Number: 1-800-541-1625
- Washington DC Metro Telephone Number: 202-586-4073
- Email Address: [ighotline@hq.doe.gov](mailto:ighotline@hq.doe.gov)
- Physical Address: U.S. Department of Energy  
1000 Independence Ave, SW  
Washington, DC 20585

## FEEDBACK

The contents of 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

