



# OIG

OFFICE OF INSPECTOR GENERAL  
U.S. DEPARTMENT OF ENERGY

2018

DOE-IG-0075

## SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2018 - SEPTEMBER 30, 2018

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## MESSAGE FROM ACTING INSPECTOR GENERAL

I am pleased to present our Semiannual Report to Congress for this reporting period. As the Inspector General community is celebrating the 40<sup>th</sup> anniversary of the Inspector General Act, it is a good time to pause and reflect upon the importance of the Inspector General function in preventing and detecting waste, fraud, and abuse within the Federal government. Equally important is to recognize the role Federal employees, contractors, and the general public play when filing complaints with the Office of Inspector General Hotline along with information provided by Congress on high risk issues. The Inspector General function is severely limited without the assistance of individuals who courageously report fraud, waste, abuse, or mismanagement to the OIG Hotline. It's the eyes and ears that take note of suspicious activities around them that yield a tremendous benefit by protecting Department resources and taxpayer dollars. During this period, allegations filed with the Hotline significantly impacted our work products by yielding major results for the Department and ultimately, the American taxpayer.

We received allegations that the Department violated the Anti-Deficiency Act and attempted to conceal this violation from external auditors by obstructing proper protocol for assessing the violation and for notification to the Office of General Counsel. Our review substantiated that the Department obligated more funds than were apportioned for the specific account (<https://www.energy.gov/ig/downloads/special-report-doe-oig-18-29>). We, however, were unable to substantiate that the Deputy Chief Financial Officer and/or OCFO management willfully attempted to cover up the potential violation to prevent the Department's external auditors and oversight authorities from becoming aware of the issue. Management agreed with OIG recommendations, including improvements in communication and culture within the Department's Office of the Chief Financial Officer. Another example of whistleblowers contributing to OIG success is a case where a whistleblower brought forth concerns about the legitimacy of a small business set aside recipient. The subsequent investigation determined Washington Closure Hanford, LLC (WCH), a prime contractor at the Department's Hanford Site, misrepresented to the Department that subcontractors legitimately received small business set aside contracts when in fact two multi-million dollar subcontracts reserved for small disadvantaged businesses were awarded to a pass-through front company for a subcontractor who did not qualify as a small disadvantaged business. (<https://www.justice.gov/usao-edwa/pr/washington-closure-hanfordagrees-pay-32-million-settle-hanford-subcontract-small>). WCH agreed to pay \$3.2 million and, in a prior reporting period, the pass-through company and subcontractor entered into \$2.35 million in settlement agreements in relation to the misrepresentations, bringing the total recoveries in this case to \$5.5 million.

We received a request from two members of Congress to perform a review of Workers' Compensation issues at the Hanford Site, related in part due to contractor employees expressing concerns about possible intimidation and harassment for filing workers' compensation claims and other problems. We concluded that efforts to strengthen communication, education, and advocacy throughout the Workers' Compensation process, as well as additional transparency and documentation about the claim determinations, will serve to decrease conflict and reduce worker perceptions that claims are being mishandled. Additionally, we concluded that the Department needs to dramatically increase its involvement in all aspects of the Workers' Compensation process. To this end, on April 2, 2018, the Department opened the Hanford Workforce Engagement Center, which will assist workers with the Workers' Compensation Program and the other Hanford Site medical related programs. (<https://www.energy.gov/ig/downloads/audit-report-doe-oig-18-44>)

Last, we marked the 40th anniversary of the Inspector General Act and the 41<sup>st</sup> anniversary of the IG function in the Department of Energy. Since our inception, we have issued nearly 100 Semiannual Reports to Congress detailing our independent oversight of the Department. We look forward to continuing our efforts to serve the Nation through our quality and independent work, with our talented workforce and innovative approaches to create positive change. We are proud to continue to provide effective oversight of the Department and will work with the Council of Inspectors General on Integrity and Efficiency on important issues that cut across our government to make good government better.



April G. Stephenson



## STATISTICAL HIGHLIGHTS

### INVESTIGATIONS

#### INVESTIGATIVE ACTIVITIES

Cases Open as of April 1, 2018	196
Cases opened	43
Cases closed	47
Cases Open as of September 30, 2018	192
Qui Tam <sup>1</sup> Investigations opened during period	2
Total Investigative Reports <sup>2</sup> issued during period	11
Administrative discipline and other management actions	11
Suspensions/Debarments	32
Total Persons <sup>3</sup> Referred to a Prosecuting Authority	26
Department of Justice Referrals	21
State/Local Referrals	5
Referrals accepted for prosecution <sup>4</sup>	15
Total Indictments <sup>5</sup> /Criminal Informations	5
Indictments/Criminal Informations Resulting from Prior Period Referrals	5
Criminal convictions	8
Civil actions	17
Dollars Recovered <sup>6</sup> (Fines, Settlements, Recoveries)	\$32,567,411

#### HOTLINE RESULTS

Total Hotline calls, emails, letters, and other complaints (contacts) <sup>7</sup>	1,234
Hotline contacts resolved immediately/redirected/no further action	1,030
Hotline contacts predicated for evaluation	204
Total Hotline predications processed this reporting period <sup>8</sup>	205
Hotline predications transferred to OIG Program Office	21
Hotline predications referred to Department management or other entity	57
Hotline predications closed based upon preliminary OIG activity and review	121
Hotline predications open at the end of the reporting period	6

#### CONTRACTOR WHISTLEBLOWER RETALIATION ACTIVITIES

Complaints Received	7
Complaints Not Accepted for Investigation	4
Complaints Accepted for Investigation	3
Investigations open	2
Investigations closed	1
Closed Investigations substantiating retaliation	0

<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 number includes 1 predication carried over from the last semiannual reporting period.

## STATISTICAL HIGHLIGHTS

### AUDITS AND INSPECTIONS

#### AUDITS AND INSPECTION ACTIVITIES

Total Reports Issued	20
Audit Reports Issued	13
Inspection Reports Issued	7

#### 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, 2018:	8	\$48,711,393
Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made):	0	\$0
Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period: <sup>1</sup>	0	\$0
(i) Agreed to by management:		\$0
(ii) Not agreed to by management:		\$0
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	\$48,711,393

#### 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, 2018: <sup>1</sup>	18	\$697,897,860	\$1,355,171	\$699,253,031
Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	1	\$37,894	\$0	\$37,894
Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period: <sup>2</sup>	1	\$6,640	\$0	\$6,640
(i) Value of disallowed costs:		\$6,640	\$0	\$6,640
(ii) Value of costs not disallowed:		\$0	\$0	\$0
Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period:	18	\$697,929,114	\$1,355,171	\$699,284,285

**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.

## POSITIVE OUTCOMES

During this reporting period, the Department took positive actions as a result of OIG work conducted during the current or previous periods.

Following the issuance of our [report on Lawrence Livermore National Laboratory's Laser Inertial Fusion Energy Endeavor \(OAI-M-16-13\)](#), due to concerns expressed in the report regarding utilization of indirect funding sources such as general and administrative to conduct technical activities, the National Nuclear Security Administration (NNSA) issued new direction on the use of indirect funds for technical activities for implementation throughout all of NNSA laboratories. The new direction defined and provided examples on what technical activities qualified to be charged to an indirect pool. Additionally, the direction required Lawrence Livermore National Laboratory (Livermore) to develop a screening and approval process for technical activities and to provide, on an annual basis, three types of reports that detail all approved technical activities to the Contracting Officer. Further, Livermore's internal audit group will audit the effectiveness of the internal controls and allowability of costs incurred of technical activities charged to indirect cost pools.

In response to findings identified in this annual evaluation of the Department's unclassified cybersecurity program [[The Department of Energy's Unclassified Cybersecurity Program - 2017 \(DOE-OIG-18-01\)](#) and [Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for FY 2017 \(DOE-OIG-18-15\)](#)], we determined that actions were taken to correct issues related to access controls, system integrity of Web applications, and configuration and vulnerability management of

desktop and network systems and devices. These actions resulted in the closure of numerous prior year weaknesses at programs and sites across the Department.

The Department reported that recent revisions to 10 CFR 712 Human Reliability Program and subsequent training it provided, addressed outstanding recommendations from our report [Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program \(OAS-M-10-01\)](#). We had recommended that the Department revise its policy to clarify certain aspects of the Human Reliability Program.

In response to a Hotline referral, the Office of Energy Efficiency and Renewable Energy (EERE) conducted a review into an allegation a contractor employee at the National Renewable Energy Laboratory was using official resources and time to promote a real estate business. EERE's findings substantiated the allegation and the employee was suspended for two days without pay.

The Fossil Energy and the National Energy Technology Laboratory (NETL) conducted a review into an allegation that their security's contractor management was forcing employees to falsify training records. The NETL review revealed incomplete training records, lack of documentation, improper records management and training scheduling.

Based on a Hotline referral, the Fossil Energy and the National Energy Technology Laboratory (NETL) conducted a review into an allegation that their security's contractor management was forcing employees to falsify training records. The NETL review revealed incomplete training records, lack of documentation, improper records management and training

scheduling practices, and failure to properly hold the contractor accountable for required training. Based on the results of the review, the NETL issued a formal request to the contractor for corrective action to resolve the above concerns and to implement solutions designed to prevent potential recurrence. Additionally, NETL noted they would undertake a thorough review of its internal procedures to ensure proper evaluation of contractor training requirements.

In response to an OIG referral, the Energy Efficiency and Renewable Energy (EERE) reviewed an allegation that an energy auditor working for a weatherization grant recipient in Wisconsin refused to perform audits for or inspect the homes of clients of a certain race. Although EERE found the energy auditor engaged in inappropriate communication with co-workers, it found no instances in which the energy auditor or grant recipient failed to provide weatherization services to clients based on race. The grant recipient reprimanded the energy auditor and noted it would provide diversity and sensitivity refresher training to its staff. The grant recipient also reported it will address the topic at its October all-staff meeting.

A co-conspirator was sentenced in the U.S. District Court, District of South Carolina to 72 months incarceration, 3 years supervised release, \$100 special assessment fee and directed to forfeit \$2,672,000. Additionally, a former contractor employee pleaded guilty to one count of Wire Fraud. 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.

A former Department grantee and president of North America Power Group (NAPG) was sentenced in the U.S. District Court, Western District of Pennsylvania to 18 months of incarceration, 3 years of probation, and ordered to pay a \$50,000 fine with a \$100 special assessment fee on a one-count Information charging False Claims. The Department of Justice also entered into a \$14.4 million civil settlement with NAPG and its president to resolve allegations made under the False Claims Act. NAPG and its president will be given credit for \$3.7 million that has already been paid to the Government. 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. This investigation is being coordinated with the U.S. Department of Justice, Civil Division and the U.S. Attorney's Office, Western District of Pennsylvania.

A National Nuclear Security Administration (NNSA) subcontractor employee at the Mixed Oxide Fuel Fabrication Facility (MOX Project) was sentenced in the U.S. District Court, District of South Carolina to 23 months of incarceration, 3 years of supervised release, and ordered to pay restitution in the amount of \$4,580,470 with a \$100 special assessment fee on a charge of Conspiracy to Commit Theft of Government Funds. The investigation determined that from 2009 to 2015 the subcontractor employee and co-conspirators 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 at the MOX Project. This is an ongoing joint investigation with the Federal Bureau of Investigation.

## TABLE OF REPORTS

### INVESTIGATIVE OUTCOMES

Our investigative activities result in a reportable outcome that 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 April 1, 2018, through September 30, 2018.

SUMMARY TITLE	PAGE
Sentencing and Guilty Plea in Small Business Concern Fraud Investigation	19
Sentencing and Civil Settlement in False Claims Act Investigation	19
Sentencing and Debarment Actions in Conspiracy to Commit Theft of Government Funds Investigation	20
Civil Settlement in False Claims Act Investigation – Department Subcontractor	20
Civil Settlement in False Claims Act Investigation - Second Chance Body Armor, Inc.	20
Civil Settlement in Small Business Innovation Research Grant Investigation	21
Sentencing in Wire Fraud and Money Laundering Investigation	21
Civil Settlement in Grant Fraud Investigation - University of Puerto Rico	22
Civil Settlement in Grant Fraud Investigation - Texas A&M University Research Foundation	22
Civil Settlement in False Claims and Anti-Kickback Act Investigation	22
Civil Settlement in Weatherization Grant Fraud Investigation	22
Information Filed and Guilty Pleas in Small Business Innovation Research Grant Fraud Investigation	23
Guilty Plea and Debarment Action in Conspiracy to Defraud the Government Investigation	23
Guilty Plea in Procurement Fraud Investigation	23
Guilty Plea, Sentencing and Investigative Report to Management issued in Theft Investigation	24



<b>SUMMARY TITLE</b>	<b>PAGE</b>
Criminal Complaint Filed, Guilty Plea and Sentencing in Time Fraud Investigation	24
Debarment Actions in Grant Fraud Investigation	24
Debarment Actions in Recovery Act Grant Fraud Investigation	25
Debarment Action and Notice of Suspension in Conspiracy to Defraud the Government Investigation	25
Debarment Actions in Bribery Investigation	26
Debarment Action in Ponzi Scheme Investigation	26
Debarment Action in Grant Fraud Investigation	27
Debarment Action in Controlled Substance Act Investigation	27
Debarment Action in Theft of Government Property Investigation - WAPA	27
Debarment Action in Theft of Government Property Investigation -	28
Debarment Action in False Claims Act Investigation	28
Response to Investigative Report to Management in Theft of Government Property Investigation	28
Restitution Ordered and Investigative Report to Management Issued in Theft Investigation	29
Notice of Suspension and Proposed Debarment in False Claims Act Investigation	29
Investigative Report to Management Issued in Conspiracy Investigation	29
Response to Investigative Report to Management in Environmental, Safety, and Health Violation Investigation	30

## AUDITS

The following identifies all audit reports issued between April 1, 2018, and September 30, 2018.

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
May 21, 2018	<a href="#">The Department of Energy's Fiscal Year 2017 Consolidated Financial Statements (DOE-OIG-18-30)</a>	3				31
May 24, 2018	<a href="#">The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report (DOE-OIG-18-32)</a>	0				31
May 24, 2018	<a href="#">The Federal Energy Regulatory Commission's Natural Gas Certification Process (DOE-OIG-18-33)</a>	5				32
May 25, 2018	<a href="#">Department of Energy Nuclear Waste Fund's Fiscal Year 2017 Financial Statement Audit (DOE-OIG-18-34)</a>	0				33
Jun 12, 2018	<a href="#">Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit (DOE-OIG-18-35)</a>	1				33
Jun 28, 2018	<a href="#">Management Letter on Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit (DOE-OIG-18-37)</a>	1				34
Jul 17, 2018	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2017 (DOE-OIG-18-40)</a>	19				34
Jul 18, 2018	<a href="#">Supplier Quality Management at National Nuclear Security Administration Sites (DOE-OIG-18-41)</a>	3				35
Aug 9, 2018	<a href="#">The Sandia National Laboratories Silicon Fabrication Revitalization Effort (DOE-OIG-18-42)</a>	4				36
Aug 20, 2018	<a href="#">Management of the Workers' Compensation Program at the Hanford Site (DOE-OIG-18-44)</a>	3		\$37,894		37
Aug 28, 2018	<a href="#">Followup on Well Decommissioning at the Hanford Site (DOE-OIG-18-45)</a>	0				38

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Aug 29, 2018	<a href="#">Audit Coverage of Cost Allowability for Brookhaven Science Associates LLC During Fiscal Years 2014 Through 2016 Under Department of Energy Contracts DE-AC02-98CH10886 and DE-SC0012704 (DOE-OIG-18-46)</a>	0				39
Sep 10, 2018	<a href="#">Southwestern Power Administration's Asset Protection (DOE-OIG-18-47)</a>	4				40

## INSPECTIONS

The following identifies all inspection reports issued between April 1, 2018, and September 30, 2018.

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Apr 26, 2018	<a href="#">Inquiry into an Alleged Anti-Deficiency Act Violation at the Department of Energy (DOE-OIG-18-29)</a>	4				41
May 23, 2018	<a href="#">Non-Commercial Travel by Non-Career Department of Energy Employees (DOE-OIG-18-31)</a>	0				42
Jun 26, 2018	<a href="#">Security Allegations at a Western Area Power Administration Site (DOE-OIG-18-36)</a>	5				42
Jul 10, 2018	<a href="#">Western Area Power Administration's Unobligated Balances from Various Funding Sources (DOE-OIG-18-38)</a>	0				43
Jul 16, 2018	<a href="#">Review of Allegations Against a Department of Energy's Office of Intelligence and Counterintelligence Senior Official (DOE-OIG-18-39)</a>	0				44
Aug 14, 2018	<a href="#">Allegation Regarding the Oak Ridge Office Personnel Security Process (DOE-OIG-18-43)</a>	2				45
Sep 12, 2018	<a href="#">Management of Calibration Activities at the Kansas City National Security Campus (DOE-OIG-18-48)</a>	0				45

## RESULTS

### LEGISLATIVE AND REGULATORY REVIEWS

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on Departmental economy and efficiency. We reviewed four 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 GOVERNMENT EMPLOYEES

During this reporting period, the following investigation that involved an employee at the GS-15 level or above.

FACTS AND CIRCUMSTANCES	STATUS AND DISPOSITION	REFERRED TO DOJ	DOJ ACTION	DOJ REASON FOR DECLINATION
Allegation GS-15 employee solicited kickbacks from a Department subcontractor in exchange for promoting Department funding through the awarding of a contract.	Open; substantiated. GS-15 employee convicted of Conspiracy and Bribery and sentenced to imprisonment. GS-15 employee also debarred from doing business with the government for 3 years	Yes	Accepted	N/A



## COMMENTS NOT PROVIDED WITHIN 60 DAYS

For the reporting period April 1, 2018, through September 30, 2018, the Department failed to provide comments on the following reports within 60 days.

DATE ISSUED	AUDIT/INSPECTION REPORT TITLE	LENGTH OF TIME TO RECEIVE COMMENTS
Ongoing	Follow-up of the Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory	66 days

DATE ISSUED	INVESTIGATIVE REFERRALS	LENGTH OF TIME TO RECEIVE COMMENTS
Aug 11, 2017	IT Summit Irregularities – Office of Science	419 days
Sep 8, 2017	Contract Irregularities - Office of Science	391 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, 2002	<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 54 reports with a total of 96<sup>1</sup> recommendations which were agreed to by the Department but have not been implemented as of September 30, 2018. The total potential cost savings associated with these reports is \$372,070,311. 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 17, 2007	<a href="#">Beryllium Surface Contamination at the Y-12 National Security Complex</a> (IG-0783)	1	
Nov 13, 2009	<a href="#">Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program</a> (OAS-M-10-01)	1	
Sep 22, 2010	<a href="#">The Department of Energy's Audit Resolution and Follow-up Process</a> (IG-0840)	2	
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)	1	\$12,760,295
Jun 24, 2013	<a href="#">Mitigation of Natural Disasters at Los Alamos National Laboratory</a> (OAS-M-13-04)	1	
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 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)	1	5,741,818
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	

<sup>1</sup>Those recommendations that are not agreed to by management are not tracked by the Department as open/unimplemented recommendations. Since 2007, the Department has only failed to agree on 1 recommendation 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>
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)	1	
Nov 12, 2014	<a href="#">Follow-up Audit of Contractor Intergovernmental Personnel Act Assignments</a> (IG-0928)	2	\$3,000,000
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)	1	
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	
Sep 3, 2015	<a href="#">The Department of Energy's Management of Electronic Mail Records</a> (DOE/IG-0945)	1	
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)	1	\$2,569,251
Nov 3, 2015	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2015</a> (DOE-OIG-16-01)	1	
Nov 4, 2015	<a href="#">The Department of Energy's Cybersecurity Risk Management Framework</a> (DOE-OIG-16-02)	1	
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	
Mar 1, 2016	<a href="#">The Department of Energy's Audit Resolution and Followup Process</a> (DOE-OIG-16-08)	3	
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)	1	\$183,500,000
May 2, 2016	<a href="#">The Department of Energy's Energy Information Technology Services Federal Support Costs</a> (DOE-OIG-16-12)	3	

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Jul 7, 2016	<a href="#">Lawrence Livermore National Laboratory's Laser Inertial Fusion Energy Endeavor</a> (OAI-M-16-13)	1	
Jul 27, 2016	<a href="#">Battelle's Pacific Northwest National Laboratory Procurement Activities</a> (OAI-M-16-14)	3	
Sep 29, 2016	<a href="#">Followup Audit of the Department's Continuity of Operations Planning</a> (DOE-OIG-16-16)	2	
Oct 14, 2016	<a href="#">The Department of Energy's Unclassified Cybersecurity Program – 2016</a> (DOE-OIG-17-01)	1	
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)	1	
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)	1	
Feb 15, 2017	<a href="#">Quality Assurance for River Corridor Closure Contract Procurements</a> (OAI-M-17-05)	2	\$270,894
Apr 11, 2017	<a href="#">Followup on the Small Business Innovation Research and Small Business Technology Transfer Programs</a> (OAI-M-17-06)	1	\$46,050
Apr 26, 2017	<a href="#">Department of Energy's West Valley Demonstration Project</a> (DOE-OIG-17-05)	4	
May 17, 2017	<a href="#">Audit Coverage of Cost Allowability for Battelle Memorial Institute Under its Contract to Manage the Pacific Northwest National Laboratory During Fiscal Years 2013 and 2014 Under Department of Energy Contract No. DE-AC05-76RL01830</a> (OAI-V-17-04)	1	
May 19, 2017	<a href="#">Construction Rework at the Mixed Oxide Fuel Fabrication Facility</a> (OAI-M-17-07)	1	
Jul 21, 2017	<a href="#">Alleged Tesa Access Issues at Lawrence Livermore National Laboratory</a> (OAI-M-17-09)	1	
Aug 16, 2017	<a href="#">Followup on Bonneville Power Administration's Cybersecurity Program</a> (DOE-OIG-17-06)	1	
Sep 14, 2017	<a href="#">Quality Assurance Management at the Waste Isolation Pilot Plant</a> (DOE-OIG-17-07)	1	
Sep 21, 2017	<a href="#">The Department of Energy's Implementation of Multifactor Authentication Capabilities</a> (DOE-OIG-17-08)	2	
Oct 27, 2017	<a href="#">Management of the National Ignition Facility and the Advanced Radiographic Capability</a> (DOE-OIG-18-04)	3	
Nov 6, 2017	<a href="#">National Nuclear Security Administration's Energy Savings Performance Contracts</a> (DOE-OIG-18-07)	3	\$373,910

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS <sup>2</sup>	POTENTIAL MONETARY BENEFIT <sup>3</sup>
Dec 22, 2017	<a href="#">Lawrence Livermore National Security, LLC, Costs Claimed under Department of Energy Contract No. DE-AC52-07NA27344 for Fiscal Year 2015</a> (DOE-OIG-18-12)	2	\$1,262,455
Feb 8, 2018	<a href="#">The Office of Fossil Energy's Oversight of the Texas Clean Energy Project under the Clean Coal Power Initiative</a> (DOE-OIG-18-17)	3	\$2,500,000
Feb 9, 2018	<a href="#">Management Letter on Southwestern Federal Power System's Fiscal Year 2016 Financial Statement Audit</a> (DOE-OIG-18-18)	1	
Feb 20, 2018	<a href="#">Los Alamos National Laboratory Chronic Beryllium Disease Prevention Program</a> (DOE-OIG-18-20)	2	
Mar 5, 2018	<a href="#">Followup on Cooperative Research and Development Agreements at National Laboratories</a> (DOE-OIG-18-22)	5	
Mar 27, 2018	<a href="#">Management Letter on the Western Federal Power System's Fiscal Year 2017 Financial Statement Audit</a> (DOE-OIG-18-28)	6	
Apr 26, 2018	<a href="#">Inquiry into an Alleged Anti-Deficiency Act Violation at the Department of Energy</a> (DOE-OIG-18-29)	3	
Jul 18, 2018	<a href="#">Supplier Quality Management at National Nuclear Security Administration Sites</a> (DOE-OIG-18-41)	2	
Aug 9, 2018	<a href="#">The Sandia National Laboratories Silicon Fabrication Revitalization Effort</a> (DOE-OIG-18-42)	2	
Aug 14, 2018	<a href="#">Allegation Regarding the Oak Ridge Office Personnel Security Process</a> (DOE-OIG-18-43)	2	
Aug 20, 2018	<a href="#">Management of the Workers' Compensation Program at the Hanford Site</a> (DOE-OIG-18-44)	3	\$37,894
Sep 10, 2018	<a href="#">Southwestern Power Administration's Asset Protection</a> (DOE-OIG-18-47)	4	

**Total Open Recommendations** **96** **\$372,070,311**



**PEER REVIEWS**

PEER REVIEWS CONDUCTED BY OIG APRIL 1, 2018 – SEPTEMBER 30, 2018			
TYPE OF REVIEW	DATE OF PEER REVIEW	OIG REVIEWED	OUTSTANDING RECOMMENDATIONS
Audits	None this reporting period.		
Inspections	None this reporting period.		
Investigations	None this reporting period.		

PEER REVIEWS CONDUCTED OF OIG APRIL 1, 2018 – SEPTEMBER 30, 2018				
TYPE OF REVIEW	DATE OF PEER REVIEW	REVIEWING OIG	FREQUENCY REQUIREMENT	OUTSTANDING RECOMMENDATIONS
Audits	None this reporting period.			
Inspections	None this reporting period.			
Investigations	None this reporting period.			

## SUMMARIES

### INVESTIGATIVE OUTCOMES

#### **Sentencing and Guilty Plea in Small Business Concern Fraud Investigation**

A co-conspirator was sentenced in the U.S. District Court, District of South Carolina to 72 months of incarceration, 3 years of supervised released, and a \$100 special assessment fee on a charge of Wire Fraud. The co-conspirator was also ordered to forfeit \$2,672,000. Additionally, a former contractor employee pleaded guilty to one count of Wire Fraud. As previously reported in the March 31, 2018, Semiannual Report to Congress, a separate individual and his company pleaded guilty and were sentenced on charges of Conspiracy to Defraud the United States. The individual was sentenced to 24 months of incarceration, 3 years of supervised release, and a \$100 special assessment. The company was sentenced to 5 years of probation and ordered to pay a \$500,000 fine with a \$400 special assessment. Additionally, a co-conspirator pleaded guilty to making a False Statement and three other co-conspirators pleaded guilty to Misprision of a Felony. All of these co-conspirators were sentenced to 3 years of probation. 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 all of the co-conspirators in this case. The investigation determined the defendants conspired to use figurehead 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.

#### **Sentencing and Civil Settlement in False Claims Act Investigation**

A former Department grantee and president of North America Power Group (NAPG) was sentenced in the U.S. District Court, Western District of Pennsylvania to 18 months of incarceration, 3 years of probation, and ordered to pay \$2 million in restitution and a \$50,000 fine with a \$100 special assessment fee. The Department of Justice also entered into a \$14.4 million settlement agreement with NAPG and its president to resolve allegations made under the False Claims Act. NAPG and its president will be given credit for \$3.7 million that has been paid to the Government. As reported in the March 31, 2018, Semiannual Report to Congress, in response to an Investigative Report to Management, the former Department grantee along with five affiliate companies were debarred from Government contracting for a period of 3 years. As reported in the September 30, 2017, Semiannual Report to Congress, the former Department grantee pleaded guilty 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. This investigation is being coordinated with the U.S. Department of Justice, Civil Division and the U.S. Attorney's Office, Western District of Pennsylvania.

### **Sentencing and Debarment Actions in Conspiracy to Commit Theft of Government Funds Investigation**

A National Nuclear Security Administration (NNSA) subcontractor employee at the Mixed Oxide (MOX) Fuel Fabrication Facility was sentenced in the U.S. District Court, District of South Carolina to 23 months of incarceration, 3 years of supervised release, and ordered to pay \$4,580,470 in restitution with a \$100 special assessment fee on a charge of Conspiracy to Commit Theft of Government Funds. Additionally, in response to an Investigative Report to Management, the former NNSA subcontractor employee, a business owner, and a business were each debarred for 20 years. As reported in the September 30, 2017, Semiannual Report to Congress, the former NNSA subcontractor employee pleaded guilty to Conspiracy. As reported in the March 31, 2017, Semiannual Report to Congress, another NNSA subcontractor employee pleaded guilty to Conspiracy. As reported in the March 31, 2016, Semiannual Report to Congress, the two NNSA subcontractor employees were indicted on 13 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 individuals stole over \$6.5 million of Department funds by submitting fictitious invoices to NNSA's contractors for materials supposedly used to build the MOX Fuel Fabrication Facility located at the Savannah River Site. A portion of the stolen Department funds were used to purchase gratuities for other subcontractors at the MOX Fuel Fabrication Facility. This is a joint investigation with the Federal Bureau of Investigation.

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

The U.S. Attorney's Office for the Eastern District of Washington entered into a \$3.2 million settlement agreement with a Department prime contractor to resolve allegations under the False Claims Act in connection with the awarding of a number of small business subcontracts. As reported in the September 30, 2017, Semiannual Report to Congress, the U.S. Attorney's Office entered into \$2.35 million in settlement agreements with two Department subcontractors to resolve allegations under the False Claims Act made by relators in a qui tam lawsuit. The investigation determined the prime contractor knowingly misrepresented to the Department that the subcontractor was a legitimate small disadvantaged business and used the other subcontractor as a pass-through front company to fraudulently obtain two multi-million dollar subcontracts that were reserved for legitimate small disadvantaged businesses. This is a joint investigation with the Small Business Administration OIG and is being coordinated with the U.S. Attorney's Office for the Eastern District of Washington.

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

The U.S. Department of Justice (DOJ) entered into a settlement agreement with the founder, former president, and Chief Executive Officer (CEO) of Michigan-based Second Chance Body Armor, Inc., to resolve allegations under the False Claims Act in connection with the CEO's role in the sale of defective Zylon ballistic vests. Under the settlement agreement, the CEO agreed to waive his rights associated with \$1.2 million that was frozen by the DOJ in 2005 and to pay an additional \$125,000. As reported in the March 31, 2018, Semiannual Report to Congress, the DOJ entered into a \$66 million settlement agreement with a foreign biotechnology subcontractor and its American subsidiary to resolve allegations made under the False Claims Act. The investigation determined the Department subcontractor and its American subsidiary

sold defective Zylon fiber used in ballistic vests purchased for Federal, State, local, and tribal law enforcement agencies, including DOE OIG. To date, recoveries have been received from 16 entities involved in the manufacture, distribution, or sale of Zylon vests, including body armor manufacturers, weavers, international trading companies, and five individuals, bringing the overall recoveries to over \$132 million. This is a joint investigation with the General Services Administration OIG, Department of Commerce OIG, Defense Criminal Investigative Service, U.S. Army Criminal Investigative Command, U.S. Department of the Treasury IG for Tax Administration, Air Force Office of Special Investigations, and the Defense Contracting Audit Agency. The investigation is being coordinated with the DOJ, Civil Division.

#### **Civil Settlement in Small Business Innovation Research Grant Investigation**

The U.S. Department of Justice entered into a \$2.675 million settlement agreement with Sentient Science Corporation (Sentient) to resolve allegations that Sentient made false statements and representations in connection with its receipt of funding under the Small Business Innovation Research (SBIR) program from the Department and National Science Foundation (NSF). The false statements related to key personnel Sentient represented it would use in the performance of research projects funded by DOE and NSF. The investigation determined Sentient did not use the key personnel and, in some instances, substituted significantly less qualified employees to perform the work. False statements also involved third-party contracts Sentient claimed to have received, but had not, as a result of work performed for the Government in order to obtain additional Government funding. Finally, Sentient made false statements in their grant milestone reports that Sentient expended grant monies that it had not expended. This is a joint investigation with NSF OIG and several other Federal law enforcement agencies and is being coordinated with the U.S. Attorney's Office for the Western District of New York, Civil Division.

#### **Sentencing in Wire Fraud and Money Laundering Investigation**

A former Sandia National Laboratories contractor procurement officer was sentenced in the U.S. District Court, District of New Mexico to 3 years of incarceration, 5 years of probation, and a \$200 special assessment on charges of Wire Fraud and Money Laundering. The former contractor procurement officer was also ordered to forfeit \$643,000. Additionally, in response to an Investigative Report to Management, the Sandia Field Office Manager made notification of the sentencing to the appropriate security personnel. As previously reported in the March 31, 2018, Semiannual Report to Congress, a Federal Grand Jury indicted the former contractor procurement officer on one count of Major Fraud against the United States, three counts of Wire Fraud, and seven counts of Money Laundering. Subsequently, the former contractor procurement officer was arrested by OIG agents and pleaded guilty to one count of Wire Fraud and one count of Money Laundering. The investigation determined the former contractor procurement officer engaged in a scheme to direct a \$2.3 million contract to a company surreptitiously created and controlled by the former contractor procurement officer. This investigation is being coordinated with the Department of Justice Criminal Division's Public Integrity Section, Washington, D.C.

### **Civil Settlement in Grant Fraud Investigation**

The U.S. Department of Justice entered into a \$1,772,790 million settlement agreement with the University of Puerto Rico (UPR). The investigation determined that although UPR submitted certifications attesting its compliance with the terms and conditions related to time and effort on multiple grant awards for research from the National Aeronautics and Space Administration (NASA), the National Science Foundation (NSF) and the Department, the UPR did not provide sufficient documentation to validate its claims for the time and effort related to the awards. This is a joint investigation with the NASA OIG and NSF OIG and is being coordinated with the U.S. Attorney's Office for the District of Puerto Rico, Civil Division.

### **Civil Settlement in Grant Fraud Investigation**

The U.S. Department of Justice entered into a \$750,000 settlement agreement with Texas A&M University Research Foundation (TAMURF) to resolve allegations that TAMURF violated the False Claims Act by mischarging costs on grant awards issued by multiple Federal agencies. Between 2007 and 2016, TAMURF received multiple grant awards for research from various Federal agencies, including several Department program offices. As part of the requirements for these awards, TAMURF was to only charge costs directly related to the grant awards. The investigation determined TAMURF improperly charged various costs that were not directly related to the grant awards, including salaries and wages for individuals not working on the grants, supplies and equipment unrelated to the grants, and unallowable costs such as travel expenses unrelated to the objectives of the grants. This is a joint investigation with the U.S. Department of Education OIG, National Aeronautics and Space Administration OIG, National Science Foundation OIG, and U.S. Department of Transportation OIG.

### **Civil Settlement in False Claims and Anti-Kickback Act Investigation**

The U.S. Department of Justice (DOJ) entered into a \$124,440 settlement agreement with the Chief Financial Officer (CFO) of a Hanford Site contractor to resolve claims under the False Claims and Anti-Kickback Acts. The settlement agreement is in connection to the CFO's role in the execution of a subcontract in 2011 on a prime contract for environmental cleanup services with the Department. The investigation determined the CFO received at least \$41,000 in kickback payments to influence, assist, and reward the CFO for securing a \$232 million 5-year subcontract to an affiliate company. This case is being coordinated with the DOJ, Civil Frauds Section, in conjunction with the U.S. Attorney's Office for the Eastern District of Washington.

### **Civil Settlement in Weatherization Grant Fraud Investigation**

The U.S. Attorney's Office for the District of Connecticut and the Office of the Attorney General for the State of Connecticut entered into a \$362,000 settlement agreement with a Department American Recovery and Reinvestment Act Weatherization grant recipient company and its Chief Executive Officer (CEO) to resolve allegations made under the False Claims Act. The investigation determined the grant recipient company's CEO directed employees to charge time to Department of Energy, Department of Housing and Urban Development (HUD) and Department of Health and Human Services (HHS) funded programs while working on non-Federal projects. This is a joint investigation with the HHS OIG and HUD OIG and is being coordinated with the U.S. Attorney's Office for the District of Connecticut and the Office of the Attorney General for the State of Connecticut.



### **Information Filed and Guilty Pleas in Small Business Innovation Research Grant Fraud Investigation**

The U.S. Attorney's Office, District of South Dakota filed an Information charging an executive officer and four related companies receiving Small Business Innovation Research (SBIR) grants with one count of Conspiracy to Commit Wire Fraud and one count of Wire Fraud.

Subsequently, the executive officer and one of the companies receiving the SBIR grants pleaded guilty in U.S. District Court, District of South Dakota to one count of Wire Fraud and one count of Conspiracy to Commit Wire Fraud. Additionally, two for-profit subsidiary companies through their corporate representatives pleaded guilty to Conspiracy to Commit Wire Fraud. The investigation determined the executive officer used various companies to apply for and receive SBIR grants from multiple agencies for essentially the same work, and concealed the existence of the awards and the relationships between the related companies from the awarding agencies. Additionally, the investigation determined that during the SBIR application process the executive and companies misrepresented to the awarding agencies the existence and use of company facilities, equipment, and the location of operations. This is a joint investigation with the National Aeronautics and Space Administration OIG and the National Science Foundation OIG.

### **Guilty Plea and Debarment Action in Conspiracy to Defraud the Government Investigation**

A partner of a consulting firm pleaded guilty in the U.S. District Court, Northern District of California to a violation of Conspiracy to Defraud the United States. In response to an Investigative Report to Management, the partner of the consulting firm was debarred from Government contracting for 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, the president of a prospective Department contractor pleaded guilty to a violation of Conspiracy to Defraud the Government. As reported in the September 30, 2017, Semiannual Report to Congress, a Federal Grand Jury returned an eight-count Indictment against eight individuals for engaging in a contract bid-rigging scheme at the Lawrence Berkeley National Laboratory (LBNL), Berkeley, California. The Indictment included charges of Receiving a Bribe, False Statements, Conspiracy to Receive a Bribe, and Conspiracy to Defraud the United States. The investigation determined multiple individuals representing multiple companies conspired to manipulate a contract award through bid-rigging for the renovation of a building at the LBNL to ensure a specific developer was awarded the contract in exchange for financial reward or construction work from that developer. The eight indicted individuals and five of their respective companies have been suspended and proposed for debarment from Government contracting. This is a joint investigation with the Federal Bureau of Investigation.

### **Guilty Plea in Procurement Fraud Investigation**

A former Principal Investigator (PI) of a Los Alamos National Laboratory (LANL) research subcontract pleaded guilty in the U.S. District Court, District of Colorado to one count of Mail Fraud and one count of Aiding and Abetting. An Investigative Report to Management was issued to the Deputy Associate Administrator for the National Nuclear Security Administration Office of Acquisition and Project Management recommending suspension and/or debarment of the former PI from doing business with the Government. As reported in the March 31, 2018, Semiannual Report to Congress, a Federal Grand Jury returned a one-count Indictment charging

Mail Fraud against the former PI, who was subsequently arrested. The investigation determined the former PI devised a scheme to circumvent the University's Office of Contracts and Grants in the administration of the LANL subcontract and diverted the subcontract funds to a discretionary account held at the University which the former PI controlled. The former PI submitted false invoices requesting reimbursement for labor related costs of the former PI and a graduate student as well as tuition reimbursement of the graduate student, which were allowable under the subcontract. However, the investigation found that the reimbursements were not paid to the University but placed in a discretionary account and used to pay for the former PI's international personal travel. The former PI fraudulently obtained and diverted approximately \$205,000 in LANL funds for his personal benefit. This is a joint investigation with the University's police department.

#### **Guilty Plea, Sentencing and Investigative Report to Management issued in Theft Investigation**

A former contractor employee at the Department's Y-12 National Security Complex (Y-12) located in Oak Ridge, Tennessee, pleaded guilty in the 7th District for the State of Tennessee, Anderson County, to Theft Exceeding \$10,000 and was sentenced to 48 months of probation, 50 hours of community service, and was ordered to pay a \$606 fine. Additionally, an Investigative Report to Management was issued to the National Nuclear Security Administration recommending suspension and/or debarment actions against the former contractor employee. As reported in the September 30, 2017, Semiannual Report to Congress, the former contractor employee was indicted for Theft and subsequently arrested. The investigation determined the former contractor employee removed 298 sheets of tin metal and associated parts valued at approximately \$18,380 from the Y-12 site without permission.

#### **Criminal Complaint Filed, Guilty Plea and Sentencing in Time Fraud Investigation**

A Criminal Complaint was filed at the District Court of Idaho, Butte County, charging a former Idaho National Laboratory (INL) contractor employee with one count of Felony Grand Theft and one count of Felony Forgery. Subsequently, the former INL contractor employee pleaded guilty to one count of Theft by Deception and one count of Theft and was sentenced to 360 days of incarceration (350 days suspended), 24 months of probation, and ordered to pay \$8,696 in restitution with a \$651 fine. The former INL contractor employee was also ordered to perform 100 hours of community service. As reported in the March 31, 2018, Semiannual Report to Congress, the Department contractor at the INL refunded \$25,749 to the Department. The investigation determined the former INL contractor employee spent over 395 hours viewing non-work related videos online over a 5-month period. This investigation was coordinated with the Butte County, District Attorney's Office.

#### **Debarment Actions in Grant Fraud Investigation**

The former Chief Executive Officer (CEO) of a non-profit organization receiving Department funds and his son were each debarred from Government contracting for a period of 3 years. As reported in the September 30, 2017, Semiannual Report to Congress, the former CEO was sentenced in the U.S. District Court, District of Minnesota to 48 months incarceration, 2 years of supervised release, and ordered to pay \$387,063 in restitution with a special assessment fee of \$1,600. As reported in the March 31, 2017, Semiannual Report to Congress, the former 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 his 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.

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

In response to an Investigative Report to Management, the president and the Chief Executive Officer (CEO) of a green technology startup company that received Department Recovery Act funds were each debarred from Government contracting for a period of 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, the president of the green technology startup company was ordered to pay \$663,395 in restitution. As reported in the September 30, 2017, Semiannual Report to Congress, the president and CEO of the green technology startup company were each indicted on five counts of Wire Fraud in the U.S. District Court, Northern District of Illinois. The president pleaded guilty to one count of Wire Fraud and was sentenced to 24 months of incarceration, 1 year of supervised release, and 60 hours of community service. The CEO entered into a Pretrial Diversion Agreement and was ordered to pay a \$10,000 fine, serve 200 hours of community service, and was further ordered to not apply for, or hold, any management, executive, or leadership role in any entity which is the recipient or administrator of grant funding from any governmental entity. The investigation determined the president and CEO of the green technology startup company fraudulently obtained approximately \$1.4 million in Recovery Act grant funds by falsifying vendor and subcontractor payment documents submitted to the City of Chicago, Pennsylvania Department of Environmental Protection, and Bay Area Air Quality Management for installing electric vehicle charging stations in Chicago, Pennsylvania, and California. This is a joint investigation with the Federal Bureau of Investigation and the City of Chicago Office of Inspector General.

### **Debarment Action and Notice of Suspension in Conspiracy to Defraud the Government Investigation**

In response to an Investigative Report to Management, the manager/co-owner of a former waste transportation subcontractor at the Department's East Tennessee Technology Park (ETTP) was debarred for a period of 3 years. Additionally, the manager/co-owner's spouse, president/co-owner of the same former waste subcontractor, was suspended and proposed for debarment from Government contracting. As reported in the March 31, 2018, Semiannual Report to Congress, the manager/co-owner of the former waste transportation subcontractor was sentenced in the U.S. District Court, Eastern District of Tennessee to 12 months and 1 day of incarceration, 3 years of probation, and ordered to pay \$2.3 million in restitution with a \$100 special assessment fee on a charge of Conspiracy to Defraud the Government. As reported in the September 30, 2017, Semiannual Report to Congress, the manager/co-owner's tax preparer was sentenced in the U.S. District Court, Eastern District of Tennessee to 41 months of incarceration followed by 3 years of probation and ordered to pay \$1,441,818 in restitution to the Internal Revenue Service on Conspiracy violations. The tax preparer was also sentenced to 15 months of incarceration followed by 3 years of probation, to be served concurrently, for violating the Sex Offender Registration and Notification Act (SORNA). The investigation

determined the tax preparer, a registered sex offender, conspired with the manager/co-owner of the former Department waste transportation subcontractor to file or cause others to file fraudulent tax returns. Additionally, the tax preparer attempted to evade prosecution by fleeing the state of his registered address without updating his registration, as required by the SORNA. This is a joint investigation with the Internal Revenue Service Criminal Investigations Division and the Federal Bureau of Investigation.

### **Debarment Actions in Bribery Investigation**

In response to multiple Investigative Reports to Management, two executives of a contractor company, a Department contractor company and an affiliated company, a prospective Department contractor and its Chief Executive Officer, and a former senior Department employee were debarred from doing business with the Government for a period of 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, the former senior Department employee pleaded guilty to Conspiracy and Bribery violations and was sentenced in the U.S. District Court, District of Maryland to 18 months of incarceration, 3 years of probation, and ordered to pay \$469,287 in restitution and a \$75,000 fine with a \$200 special assessment fee. The prospective Department contractor employee was sentenced to 1 year and 1 day of incarceration, 1 year of probation, and ordered to pay \$15,000 in fines with a \$100 special assessment fee. The prospective Department contractor employee was also ordered to forfeit \$7,000 that was paid in bribe money. The former Department contractor employee was sentenced to 18 months of incarceration, 1 year of supervised release, and ordered to pay \$70,000 in restitution and a \$25,000 fine with a \$200 special assessment fee. Additionally, a co-conspirator was sentenced in U.S. District Court, District of Columbia to 2 years of probation. As reported in the March 31, 2017, Semiannual Report to Congress, a two-count Information was filed against the former senior Department employee, the prospective Department contractor employee pleaded guilty to one count of Bribery, and the co-conspirator pleaded guilty to one count of False Statements. The investigation determined the former senior Department employee solicited and was paid bribes to secure Department contracts for various companies and individuals, the prospective Department contractor employee paid bribes to secure a contract with the Department, the former Department contractor paid bribes to secure and maintain its contract with the Department, and the co-conspirator made false statements to Federal agents related to bribery payments made to the senior Department employee. This is a joint investigation with the Federal Bureau of Investigation.

### **Debarment Action in Ponzi Scheme Investigation**

In response to an Investigative Report to Management, a former Department contractor employee was debarred from Government contracting for a period of 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, the former Department contractor employee was sentenced in the U.S. District Court, District of South Carolina to 13 1/2 months of incarceration, 3 years of supervised release, and ordered to pay restitution in the amount of \$317,657 with a \$100 special assessment for a violation of Wire Fraud. As reported in the September 30, 2016, Semiannual Report to Congress, a Federal Grand Jury indicted the former Department contractor employee on one count of Wire Fraud. Subsequently, the former contractor employee pleaded guilty. The investigation determined the former contractor

employee operated a Ponzi scheme for approximately 9 years by recruiting individuals, including other Department contractor employees via Department email, to invest money that the former contractor employee promised would be used to buy gold and silver. Through this scheme, the former contractor employee diverted and obtained in excess of \$700,000 of investor funds. The former contractor employee used a portion of the funds to pay for personal expenses while using remaining funds to re-pay investors in continuance of the scheme.

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

In response to an Investigative Report to Management, a Department grant coordinator was debarred from doing business with the Government for a period of 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, a former Department grantee was found guilty by trial in the U.S. District Court, Northern District of Florida on charges of Conspiracy, Mail and Wire Fraud, and Theft of Government Funds. Additionally, the former grant coordinator was sentenced to 12 months of incarceration and 2 years of supervised release with a \$100 special assessment fee. As reported in the September 30, 2016, Semiannual Report to Congress, a Federal Grand Jury indicted the former Department grantee and the former grant coordinator on one count of Conspiracy to Defraud the United States and one count of Theft of Government Property. The former grant coordinator subsequently pleaded guilty. The investigation determined the former Department grantee and the former grant coordinator submitted a series of fraudulent checks and invoices in order to receive approximately \$2.23 million in Department Recovery Act grant funds administered through the Department's State Energy Program formula grants. The grant funds were subsequently used for personal expenses, such as a New York City penthouse condo and suite rental at Lincoln Financial Field in Philadelphia. This is a joint investigation with the United States Secret Service.

#### **Debarment Action in Controlled Substance Act Investigation**

In response to an Investigative Report to Management, a former Argonne National Laboratory (ANL) contractor employee was debarred from doing business with the Government for a period of three years. As reported in the March 31, 2018, Semiannual Report to Congress, a one-count Information was filed in the U.S. District Court, Northern District of Illinois charging the former ANL contractor employee with violating the Controlled Substance Act. Subsequently, the former ANL contractor employee pleaded guilty and was sentenced to 6 months of home confinement, 3 years of probation, 400 hours of community service, and ordered to pay a \$1,000 fine with a \$100 special assessment fee. The investigation determined the former ANL contractor employee illegally imported and distributed steroids from China. The investigation also found the former ANL contractor employee brought the illegal substance onto ANL property and used an ANL computer to track the illegal substance shipments. This is a joint investigation with Homeland Security Investigations.

#### **Debarment Action in Theft of Government Property Investigation - WAPA**

In response to an Investigative Report to Management, a former Western Area Power Administration (WAPA) employee was debarred from Government contracting for a period of 3 years. As reported in the September 30, 2017, Semiannual Report to Congress, the former WAPA employee was sentenced in the U.S. District Court, District of Colorado to 3 years of



supervised release and ordered to pay \$27,237 in restitution with a \$100 special assessment fee. The former WAPA employee was also ordered to complete 100 hours of community service. As reported in the March 31, 2017, Semiannual Report to Congress, the former WAPA employee pleaded guilty 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. This is a joint investigation with General Services Administration OIG.

### **Debarment Action in Theft of Government Property Investigation**

In response to an Investigative Report to Management, a former Western Area Power Administration (WAPA) employee was debarred from Government contracting for a period of 3 years. As reported in the March 31, 2018, Semiannual Report to Congress, the former WAPA employee was sentenced in the U.S. District Court, District of South Dakota to 5 years of probation and ordered to pay \$24,152 in restitution and a \$2,000 fine with a \$100 special assessment fee. As reported in the September 30, 2017, Semiannual Report to Congress, the former WAPA employee pleaded guilty to one count of Theft of Government Property. As reported in the March 31, 2017, Semiannual Report to Congress, the former WAPA employee was indicted on one count of Theft of Government Property and one count of Bank Fraud. 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. The former WAPA employee resigned in lieu of termination prior to the opening of this investigation. This is a joint investigation with General Services Administration OIG.

### **Debarment Action in False Claims Act Investigation**

In response to an Investigative Report to Management, a former Lawrence Livermore National Laboratory (LLNL) Principal Investigator (PI) was debarred for a period of 3 years. As reported in the March 31, 2017, Semiannual Report to Congress, 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 the former PI. As reported in the September 30, 2016, Semiannual Report to Congress, the investigation determined the former PI re-sold 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.

### **Response to Investigative Report to Management in Theft of Government Property Investigation**

In response to an Investigative Report to Management, the National Nuclear Security Administration's Kansas City Field Office agreed to implement additional internal controls in its procurement process and the safeguarding of assets at the Kansas City National Security Campus (KCNSC). As reported in the September 30, 2017, Semiannual Report to Congress, a former contractor employee of the KCNSC was sentenced in the U.S. District Court, Western District of Missouri to 12 months and 1 day of incarceration, 3 years of supervised release, and ordered to pay \$50,480 in restitution with a \$400 special assessment fee. As previously reported in the March 31, 2017, Semiannual Report to Congress, the former contractor

employee pleaded guilty to four counts of Wire Fraud. The investigation determined that from June 2010 to August 2014 the former contractor employee purchased unauthorized and unnecessary items through KCNSC's procurement system, which were subsequently sold for personal gain on eBay.

#### **Restitution Ordered and Investigative Report to Management Issued in Theft Investigation**

A former contractor employee was ordered by the Seventh Judicial District Court, Anderson County, Tennessee to pay \$3,100 in restitution to the Department. Additionally, an Investigative Report to Management was issued to the Office of Policy, Office of Acquisition Management, recommending suspension and/or debarment of the former contractor employee. As reported in the March 31, 2018, Semiannual Report to Congress, a Grand Jury returned a true bill on an indictment against the former contractor employee charging Theft of Property, and the former contractor employee was subsequently arrested. The investigation determined the former contractor employee stole 7,000 pounds of lead belonging to the Department, with a replacement value of \$11,000. The former contractor employee had been terminated for acts unrelated to the OIG investigation. This investigation is being coordinated with the Seventh Judicial District Court, Anderson County, Tennessee.

#### **Notice of Suspension and Proposed Debarment in False Claims Act Investigation**

In response to an Investigative Report to Management, an Idaho National Laboratory (INL) vendor company and company owner were suspended and proposed for debarment from Government contracting. As reported in the March 31, 2018, Semiannual Report to Congress, the company owner pleaded guilty in the U.S. District Court, District of Idaho to one count of False Claims. Subsequently, the former company owner was sentenced to 6 months of incarceration followed by 6 months of home confinement, 3 years of supervised release, and ordered to pay \$337,000 in restitution and a \$5,000 fine with a \$100 special assessment fee. The investigation determined the company owner falsely claimed the vendor company had clear title to items that were sold to the INL, when in fact the items were paid for and owned by the subject's former employer.

#### **Investigative Report to Management Issued in Conspiracy Investigation**

An Investigative Report to Management was issued to the Director of the Office of Acquisition Management, Contract and Financial Assistance, recommending suspension and/or debarment of two individuals not associated with the Department. A joint investigation by the Federal Bureau of Investigation (FBI) and the Tennessee Valley Authority (TVA) OIG resulted in both individuals being convicted of Conspiracy to Unlawfully Engage and Participate in the Production and Development of Special Nuclear Material Outside the U.S. without the Intent to Injure the U.S. or to Secure an Advantage to a Foreign Nation. One individual was also convicted of Participation in the Development of Special Nuclear Material Outside of the U.S. The FBI and TVA OIG joint investigation determined these individuals provided information to the People's Republic of China (PRC) without special authorization from the Secretary of Energy, as required by Title 10, Code of Federal Regulations, Section 810. One individual was sentenced to 24 months of imprisonment, 1 year of supervised release, and ordered to pay a \$20,000 fine with a \$100 special assessment fee. The other individual was sentenced to 3 years

of probation and ordered to pay a \$100 special assessment fee. This investigation is being coordinated with the FBI and TVA OIG.

**Response to Investigative Report to Management in Environmental, Safety, and Health Violation Investigation**

The Manager of the Department's Y-12 National Security Complex (Y-12) Production Office responded to an Investigative Report to Management (IRM) related to a possible severe Environmental, Safety, and Health (ES&H) violation. The OIG received an allegation that a Department sub-contractor was unsafely operating a tanker truck used in the collection of portable waste within the limited access area of Y-12. The IRM response advised all trucks belonging to the sub-contractor and operating on Y-12 be inspected and found them to be in compliance with U.S. Department of Transportation regulations.

## AUDIT REPORTS

### **The Department of Energy's Fiscal Year 2017 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 of Energy's Fiscal Year 2017 Consolidated Financial Statements.

KPMG audited the consolidated financial statements of the Department as of September 30, 2017, and 2016, 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, 2017, and 2016.

As part of this audit, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The audit revealed a certain deficiency in internal controls related to the accounting of environmental liabilities. The audit also identified one potential instance of non-compliance that is required to be reported under applicable audit standards and requirements.

The Office of Inspector General issued numerous notices of findings and recommendations to management during the course of the audit. In nearly all instances, management concurred with the findings and recommendations. KPMG is responsible for the attached auditors' report and the opinions and conclusions expressed therein.

### **The Department of Energy's Improper Payment Reporting in the Fiscal Year 2017 Agency Financial Report**

The *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA) was signed into law on January 10, 2013, amending the *Improper Payments Elimination and Recovery Act of 2010* (IPERA) and the *Improper Payments Information Act of 2002*. In response to IPERIA, the Office of Management and Budget (OMB) issued Memorandum M-15-02, Appendix C to Circular Number A-123, *Requirements for Effective Estimation and Remediation of Improper Payments* (A-123), as implementation guidance to Federal agencies for IPERIA in October 2014. The Department of Energy's Office of Finance and Accounting, a component of the Office of the Chief Financial Officer (OCFO), communicated instructions for meeting improper payment and payment recapture audit requirements, prescribed by OMB A-123, to its 48 payment reporting sites. The Department's guidance indicated that the OCFO elected to implement a 3-year risk assessment review cycle, as allowed for by OMB Memorandum M-15-02. Consistent with this guidance, the Department performed an improper payment risk assessment in FY 2015 but did not perform a risk assessment in FY 2017.

OMB requires the Office of Inspector General to perform an annual review of the Department's improper payment reporting in its Agency Financial Report (AFR), and accompanying materials, to determine whether the Department was compliant with IPERA. The objective of this audit was to determine whether the Department met the OMB criteria for compliance with IPERA.

We found that the Department's FY 2017 improper payment reporting was in accordance with OMB criteria. Specifically, the Department published an AFR for FY 2017 and posted that report, as well as accompanying materials, on its website. While we found that the Department met the criteria for compliance with OMB, we also noted opportunities for the Department to enhance internal controls relative to the payment sites' improper payment reporting certifications.

### **The Federal Energy Regulatory Commission's Natural Gas Certification Process**

The Federal Energy Regulatory Commission (FERC) is an independent agency that regulates the Nation's natural gas industry under authorities granted by the *Natural Gas Act of 1938*, the *Energy Policy Act of 2005* (EPAc 2005), and other statutes. Established in 1977, FERC approves the construction, operation, and location of natural gas interstate pipelines and facilities by issuing certificates of public convenience and necessity. The application process for natural gas projects can be complex and involves multiple FERC offices as well as a variety of Federal, state, and local stakeholders.

Because of significant growth of the natural gas industry, increased public awareness of FERC's role in the application review process, and heightened controversy over pipeline projects, the public has been more involved in the development and siting of natural gas facilities. Given the importance and complexity of FERC's mission for reviewing natural gas applications and issuing certificates of public convenience and necessity, as well as the significance of recent Congressional attention, we initiated this audit to determine whether FERC's natural gas certification process was performed in accordance with relevant laws, regulations, policies, and procedures, to include timeliness and stakeholder input.

Nothing came to our attention to indicate that FERC had not generally performed the natural gas certification process in accordance with applicable laws, regulations, policies, and procedures, including the *Natural Gas Act of 1938* and *EPAc 2005*. During our review of the overall certification process and a sample of closed natural gas applications, nothing came to our attention to indicate that FERC had not performed its due diligence in reviewing and making determinations on natural gas certification applications based on a consideration of the public benefits and adverse impacts of the proposed projects. In addition, although there were no specific statutory or regulatory deadlines for processing natural gas certification applications, we found that FERC generally adhered to an internally established timeliness performance measure. Finally, we found that FERC addressed stakeholder concerns by obtaining, considering, and aggregating stakeholder input throughout the natural gas certification process; however, as described in more detail below, FERC lacked sufficient controls to ensure comments were consistently addressed.

While we did not find any concerns that called into question the appropriateness of decisions FERC made on natural gas certification applications, we identified four areas for improvement that, if addressed, could aid FERC in more efficiently and effectively managing its natural gas certification process: process transparency, public access to FERC records, tracking stakeholder comments, and data integrity.

#### **Department of Energy Nuclear Waste Fund's Fiscal Year 2017 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, 2017, and 2016, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended.

To fulfill Office of Inspector General audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit, subject to our review. KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Fund as of September 30, 2017, and 2016, 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.

As part of this review, KPMG LLP also considered the Fund's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The results of their review disclosed no instances of noncompliance or other matters required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance.

The Office of Inspector General recently issued a report, *Inquiry into an Alleged Anti-Deficiency Act Violation at the Department of Energy* (DOE-OIG-18-29), on allegations related to a potential Anti-Deficiency Act violation from the over-obligation of approximately \$16 million related to the apportionment of funding for a specific Department of Energy program. A final determination has not yet been made, and therefore, the outcome of the matter is not presently known. However, while the allegations did not affect the balance sheets of the Fund, the timing of the allegations and related work ultimately resulted in delaying the issuance of the *Department of Energy Nuclear Waste Fund's Fiscal Year 2017 Financial Statement Audit* and *The Department of Energy's Fiscal Year 2017 Consolidated Financial Statements*.

#### **Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit**

This report presents the results of the independent certified public accountants' audit of the Southwestern Federal Power System's (SWFPS) combined balance sheets, as of September 30, 2017, and 2016, and the related combined statements of changes in capitalization, revenues and expenses, and cash flows for the years then ended.

To fulfill the Office of Inspector General's audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit, subject to our review. KPMG LLP concluded that the combined financial statements present fairly, in all

material respects, the respective financial position of SWFPS as of September 30, 2017, and 2016, and the results of its operations and its cash flow for the years then ended, in conformity with United States generally accepted accounting principles.

As part of their review, KPMG LLP also considered SWFPS's internal control over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit identified one significant deficiency in internal control over financial reporting. Southwestern Power Administration management agreed with the finding and recommendation and indicated that corrective actions would be taken.

The audit disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Management Letter on the Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit**

KPMG LLP, our contract auditors, planned and performed an audit of the combined financial statements of the Southwestern Federal Power System as of and for the year ended September 30, 2017, 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*, issued by the Comptroller General of the United States. The combined financial statements include the Southwestern Area Power Administration, a component of the U.S. Department of Energy, and the hydroelectric generation and power operations of the U.S. Army Corps of Engineers; a component of the U.S. Department of Defense.

During the audit, KPMG LLP noted certain matters involving internal control and other operational matters that are presented in the attached management letter prepared by KPMG LLP. The letter contains one finding that was issued during the course of the Southwestern Federal Power System's Fiscal Year 2017 Financial Statement Audit. Management concurred with the finding and provided planned corrective actions for the recommendation listed in the Management Letter.

#### **Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2017**

This audit was conducted by the Department of Energy's contracting auditor, KPMG LLP, with the objective of analyzing the Department's internal control over financial reporting in FY 2017 consolidated financial statements.

Based on auditing standards that are generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Office of Management and Budget Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*, KPMG LLP considers a deficiency in internal control to exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is



considered a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is considered less severe than a material weakness, yet important enough to merit attention by those charged with governance.

During their audit, KPMG LLP identified a deficiency in internal controls over identifying and recording environmental liabilities accurately, completely, and timely that they considered to be a significant deficiency, and communicated their findings in this report. Specifically, KPMG LLP noted 12 new findings and 17 recommendations that were issued during the course of the FY 2017 Audit of the Department of Energy's Consolidated Financial Statements, as well as the status of prior year findings. These findings and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies. KPMG LLP issued a separate management letter addressing information technology control deficiencies.

Department management fully or partially concurred with all but two of KPMG LLP's recommendations and had taken or planned to take corrective actions. Management's responses are included with each finding.

### **Supplier Quality Management at National Nuclear Security Administration Sites**

As part of its mission, the Department of Energy's National Nuclear Security Administration (NNSA) ensures the sustainment of a safe, secure, and effective nuclear deterrent through the application of science, technology, engineering, and manufacturing. NNSA's Management and Operating (M&O) contractors and suppliers support this mission by integrating quality requirements into management and work practices to build weapon components and procure materials so that the mission is accomplished and customer requirements are met.

Due to the importance of weapon supplier quality management and maintaining the nuclear weapons stockpile, we initiated this audit to determine whether NNSA sites were effectively managing external suppliers to ensure components were qualified for use in nuclear weapons. Nothing came to our attention that would indicate that NNSA sites were not effectively managing external suppliers to ensure components were qualified for use in nuclear weapons. We noted that sites evaluated and approved suppliers on the basis of specified criteria, technical capabilities, and the rigor of their quality management system. In addition, the sites actively monitored product nonconformance issues.

During our review, we noted that NNSA could improve program efficiencies with the supplier evaluation process. In particular, we identified instances where NNSA sites were not fully utilizing an available database tool designed, developed, and implemented to serve as a single master database of all suppliers, eliminate the duplication of supplier evaluation efforts, and achieve cost savings across NNSA. Specifically, we noted that sites performed their own supplier evaluations, rather than relying on the results of evaluations performed by other sites, and sites did not always update the database with the results of their supplier evaluations to

make them available to other sites. As a result, NNSA sites may be spending more than necessary for supplier evaluations.

To maximize efficiencies and effectiveness, we made six recommendations. Management concurred with the report's recommendations and indicated that corrective actions will be taken to address the issues identified in the report. Management's proposed actions are responsive to our recommendations.

### **The Sandia National Laboratories Silicon Fabrication Revitalization Effort**

The primary mission of the Department of Energy's National Nuclear Security Administration (NNSA) is to ensure the safety, reliability, and performance of the Nation's nuclear weapons stockpile. The NNSA's Sandia National Laboratories (Sandia) supports this mission through the development, design, and manufacturing of strategic radiation-hardened microelectronics at its Silicon Fabrication (SiFab) facility. The SiFab facility, constructed in 1988, reached its design end of life in 2013 and relies on fabrication tools configured for processing 6-inch silicon wafers to produce the radiation-hardened integrated circuits used in the stockpile. Commercial support for maintaining fabrication tools for 6-inch silicon wafers no longer exists. To address this problem, in 2012, Sandia began the Sandia Silicon Fabrication Revitalization (SSiFR) effort with the objective of reducing the risk of SiFab equipment failures through the replacement or refurbishment of tools and facility modifications. The SSiFR was originally scheduled to be completed in FY 2018 with a Total Project Cost (TPC) of \$150 million.

Because of the importance of the SiFab to the nuclear weapons program, and the Department's long history with project management issues, we conducted this audit to determine whether Sandia had effectively managed the SSiFR project.

Our review revealed that Sandia had managed the SSiFR project scope within the planned cost and schedule, but NNSA did not require Sandia to execute the project within Departmental requirements. We identified issues that, if corrected, should improve Sandia's management of SSiFR and NNSA's oversight of SSiFR. Nothing came to our attention to indicate that Sandia will not continue to make progress in refurbishing or replacing silicon fabrication tools and facility modifications. Nevertheless, the issues we identified may contribute to problems in project execution in the future. We noted that Sandia had not:

- Generated reliable, accurate, and reasonable earned value data related to cost and completion estimates for managing SSiFR;
- Employed an earned value management system certified by the Department as compliant with established standards;
- Included NNSA in the baseline change approval process; and
- Established management reserve based on a formal risk analysis, and instead, determined management reserve as a percentage of remaining project costs.

These conditions occurred because NNSA Safety, Infrastructure, and Operations, the organization originally overseeing the SSiFR project, did not require Sandia to manage the SSiFR project in accordance with Department Order 413.3B1. Following Department Order 413.3B would have required Sandia to use management practices that should have provided greater rigor in project execution. We made recommendations to the Administrator, National Nuclear Security Administration to address the issues identified. Management's comments and proposed actions were generally responsive to our findings and recommendations.

### **Management of the Workers' Compensation Program at the Hanford Site**

The Department of Energy uses operating contractors at the Hanford Site to clean up hazardous and radioactive contamination left over from nuclear weapons production activities. The Department is self-insured and is responsible for paying all costs associated with Hanford Site Workers' Compensation claims for work related injuries and illnesses for contractors that are covered by the Memorandum of Understanding between the Department and Washington State's Department of Labor and Industries (L&I). The Department's Richland Operations Office has a contract with Penser North America, Inc. (Penser) to act on the Department's behalf as a third-party administrator to process all claims for employees of Hanford Site operating contractors designated in a Memorandum of Understanding. On behalf of the Department, Penser makes the initial claim determination and makes a recommendation to allow or deny claims to L&I, who has the authority on allowing or denying Workers' Compensations claims.

In a letter dated March 8, 2017, U.S. Senators Maria Cantwell and Patty Murray requested that the Office of Inspector General (OIG) perform a review of Workers' Compensation issues at the Hanford Site. This request (Appendix 5) identifies several areas of inquiry, including concerns about: possible intimidation of workers who file Workers' Compensation claims, Departmental oversight of the Penser contract, qualifications of the medical providers for chemical exposure claims, whether Penser is providing all relevant documentation, and the number of denied claims with chemical exposure as the cause. Our findings pertaining to these issues are incorporated into the main body of this report and are also summarized in *Questions Posed in Senators' Letter* (Appendix 6). Our objective was to assess the effectiveness of the Department's processes, procedures, and controls related to the Workers' Compensation Program at the Hanford Site.

We determined that the Department does not have effective processes, procedures, and controls over the Workers' Compensation Program at the Hanford site. We identified problems with: incomplete documentation packages sent to L&I, a major billing and payment discrepancy with the State of Washington L&I related to pension benefits costs, questioned costs relating to indemnity claims, and concerns with the letter of credit and payments processes. Further, we observed issues with communication and trust relating to Workers' Compensation claims at several levels. The challenges associated with communication are exacerbated by a fragmented Hanford Site Workers' Compensation process that workers find confusing.

We concluded that efforts to strengthen communication, education, and advocacy throughout the Workers' Compensation process, as well as additional transparency and documentation about the claim determinations, will serve to decrease conflict and reduce worker perceptions

that claims are being mishandled. Additionally, we concluded that the Department needs to dramatically increase its involvement in all aspects of the Workers' Compensation process. To this end, on April 2, 2018, the Department opened the Hanford Workforce Engagement Center, which will assist workers with the Workers' Compensation Program and the other Hanford Site medical related programs.

We believe that improvements in communication, increased Federal involvement, and enhanced contract administration, together with the improvements that the Department has already begun, will serve to decrease frustration and perceptions of unfairness and, over time, increase trust. To address the concerns identified in this report, we recommended that the Manager, Richland Operations Office: (1) develop a corrective action plan to address the concerns identified over contractual and financial issues, (2) develop a corrective action plan that addresses the identified concerns over operational aspects of the third-party administrator, and (3) develop a corrective action plan to address the communication concerns identified in this report. Management concurred with the report's findings and recommendations and indicated that corrective actions will be considered or are underway.

#### **Followup on Well Decommissioning at the Hanford Site**

The goal of the Richland Operations Office Soil and Groundwater Remediation Project is to eliminate the risk of contaminated groundwater reaching the Columbia River using a network of wells to extract contaminants and monitor areas of the Hanford Site. Remediation support activities may include groundwater well installation, well decommissioning, environmental sampling, and well maintenance. CH2M Hill Plateau Remediation Company (CHPRC) is the contractor responsible for soil and groundwater remediation activities at the Hanford Site.

In January 2005, the Office of Inspector General issued an audit report on *Well Decommissioning Activities at the Hanford Site* (DOE/IG-0670). The audit determined that Richland Operations Office lacked a comprehensive Well Decommissioning Plan. Specifically, the Plan lacked a complete inventory that described the type, age, condition, and location of all wells at the site. Further, the audit found that the well database contained information that was not easily accessed, incorrect, and incomplete. In response to the previous report, Richland Operations Office developed a comprehensive Well Decommissioning Plan and decommissioned a number of wells using Recovery Act funds. Richland Operations Office also made significant changes to the well database, the Hanford Environmental Information System (HEIS) and the associated tables within HEIS. Finally, Richland Operations Office developed the Well Attributes Materialized View to assist in managing well information by providing a visual presentation of the data extracted from HEIS. The Well Attributes Materialized View displays current attributes of more than 12,000 wells, such as whether a well has been verified as decommissioned or in use, and when a well was last inspected or maintained. We conducted this followup audit to determine whether the Department of Energy effectively managed the well decommissioning program at the Hanford Site.

Our review determined that the Department effectively decommissioned wells at the Hanford Site. However, we found that HEIS did not contain all current or relevant information; although, for the 15 wells we reviewed, we found hard-copy documents supporting that well

activities had been performed, as appropriate. Additionally, the Well Decommissioning Plan had not been updated since 2008.

As a result of the weaknesses we identified in this report, we suggest that the Manager, Richland Operations Office direct the contractor to: (1) continue to develop procedures for documenting inspection results in the database; and (2) update the Well Decommissioning Plan. Documenting well inspections in the database ensures that the Department has promptly identified any wells that are in disrepair. Wells in disrepair can provide potential pathways for contaminants to reach the groundwater, endangering human health and the environment. Further, not documenting that wells have been inspected and repaired can lead to delays in sampling and result in increased costs to the groundwater program. Finally, updating the Well Decommissioning Plan will improve the continuity of the program through contract transition and the development of future databases and systems.

#### **Audit Coverage of Cost Allowability for Brookhaven Science Associates LLC During FY 2014-2016 Under DOE Contracts DE-AC02-98CH10886 and DE-SC0012704**

Since 1998, Brookhaven Science Associates LLC (BSA) has managed and operated the Brookhaven National Laboratory under contract with the Department of Energy. Brookhaven National Laboratory conducts research in the physical, biomedical, and environmental sciences, as well as in energy technology and national security. During FYs 2014 through 2016, BSA incurred and claimed costs of \$1,796,193,152.04.

As a management and operating contractor, BSA's financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. BSA 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. Allowable costs are incurred costs that are reasonable, allocable, and allowable in accordance with the terms of the contract, applicable cost principles, laws, and regulations.

The Department's Office of Inspector General, Office of Acquisition Management, integrated management and operating contractors, and other select contractors have implemented a Cooperative Audit Strategy to make efficient use of available audit resources while ensuring that the Department's contractors claim only allowable costs. This Cooperative Audit Strategy places reliance on the contractors' internal audit function (Internal Audit) to provide audit coverage of the allowability of incurred costs claimed by contractors. Consistent with the Cooperative Audit Strategy, BSA is required by its contract to maintain an Internal Audit activity with the responsibility for conducting audits, including audits of the allowability of incurred costs. In addition, BSA is required to conduct or arrange for audits of its subcontractors when costs incurred are a factor in determining the amount payable to a subcontractor.

During FYs 2014 through 2016, BSA's Procurement and Property Management Division was responsible for ensuring that subcontract audits were conducted. To help ensure that audit coverage of cost allowability was adequate for FYs 2014 through 2016, the objectives of our assessment were to determine whether: (1) BSA's Internal Audit conducted cost allowability

audits that complied with professional standards and could be relied upon; (2) BSA conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and (3) questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits and reviews have been adequately resolved.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by BSA's Internal Audit could not be relied upon. We did not identify any material internal control weaknesses with the cost allowability audits Internal Audit conducted, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. In audits performed since our last assessment, Internal Audit identified internal control weaknesses and questioned costs totaling \$50,108.20. The internal control weaknesses and the questioned costs previously identified by Internal Audit had all been resolved before we completed this assessment.

### **Southwestern Power Administration's Asset Protection**

The Department of Energy's Southwestern Power Administration (Southwestern) markets and delivers power produced from Federal water projects at wholesale rates. Southwestern operates and maintains 1,380 miles of transmission lines used to transmit power generated to 6 states. In addition, Southwestern maintains infrastructure that includes electrical substations, transmission lines, towers, and power system control centers. Southwestern is subject to requirements established by the Department and the North American Electric Reliability Corporation to protect its mission critical and related bulk electric system assets by conducting risk assessments of its most significant assets.

A 2003 prior audit conducted by the Office of Inspector General noted that Southwestern had not performed required risk assessments for its critical assets. Additionally, in 2010, another Office of Inspector General report found that Southwestern had not updated required critical asset vulnerability and risk assessments. Since 2010, Southwestern has had nine security incidents at its bulk electric system assets that have caused approximately \$100,000 in copper and equipment theft and related damage to Federal property. Given the significance of this subject matter, we initiated this audit to determine whether Southwestern was properly protecting its mission critical and related bulk electric system assets.

We found that Southwestern had not always taken sufficient measures available to ensure that its mission critical and related bulk electric system assets were properly protected. Additionally, we noted that the lack of updated comprehensive risk assessments had persisted since we first reported the issue in October 2010.

To address the issues identified in our report, we made several recommendations to the Administrator for Southwestern Power Administration. Management concurred with our recommendations and indicated that corrective actions had been initiated or were planned to address the issues identified in this report.



## INSPECTION REPORTS

### **Inquiry into an Alleged Anti-Deficiency Act Violation at the Department of Energy**

In October 2017, the Office of Inspector General (OIG) received allegations that the Department obligated more funds than permitted by existing apportionments, which resulted in an *Anti-Deficiency Act* violation. The *Anti-Deficiency Act* requires, among other things, a system of administrative controls within each agency and prohibits incurring obligations or making expenditures in excess of an apportionment. Violations of the *Anti-Deficiency Act* must be reported to the President, Congress, and the Comptroller General of the United States.

It was also alleged that the Department of Energy's Office of the Chief Financial Officer (OCFO) attempted to hide the violation from external auditors. Specifically, it was alleged that the Deputy Chief Financial Officer instructed staff to correct the issue and make the matter go away, and did not follow procedures for assessing the violation and notifying General Counsel. We initiated an inspection to determine the facts and circumstances surrounding the alleged *Anti-Deficiency Act* violation and whether there was an attempt to hide any potential violations from external auditors.

We substantiated the allegation that the Department obligated more funds than were apportioned for the specific account reviewed.<sup>1</sup> In particular, while the OIG is not the Department's authority for determining whether an *Anti-Deficiency Act* violation occurred, our test work confirmed that the Department obligated approximately \$16 million more than was apportioned in FY 2017 for direct funding in the Electricity Delivery and Energy Reliability (EDER account) activities account reviewed. We received conflicting responses on whether the OCFO completed an evaluation of the potential *Anti-Deficiency Act* violation. While the Deputy Chief Financial Officer stated in writing on December 8, 2017, that the OCFO completed a thorough review of the alleged violation and determined a violation did not occur, subsequent discussions with OCFO officials indicated a comprehensive assessment of the potential violation was not completed. We were unable to substantiate that the Deputy Chief Financial Officer and/or OCFO management willfully attempted to cover up the potential violation to prevent the Department's external auditors and oversight authorities from becoming aware of the issue. In conducting our review, we also identified opportunities for improvement related to communication within the Department.

The circumstances surrounding the allegations relevant to this potential Anti-Deficiency Act violation delayed the ability of the Department's external auditor and the OIG to issue a report on the Department's Fiscal Year 2017 Consolidated Financial Statement Audit. In particular, the serious nature of the allegations involving potential integrity issues with key members of Department financial management required the external auditor to assess the implications of the allegations on the audit. In accordance with auditing standards, the external auditor was

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<sup>1</sup>Subsequent to the issuance of our report, on October 29, 2018, General Counsel and the Office of the Chief Financial Officer determined that many amounts recorded as obligations against the budget line affected by the clerical error were not valid legal obligations. As a result, an ADA violation did not occur.



required to understand the scope, findings, conclusions, and planned remedial actions prior to completing the audit.

### **Non-Commercial Travel by Non-Career Department of Energy Employees**

On April 12, 2017, the U.S. House of Representatives Committee on Energy and Commerce requested that the Office of Inspector General review the Department of Energy's compliance with policies and procedures related to the use of non-commercial travel by the Secretary of Energy and other non-career officials since January 2017.

In response to the Congressional request, we conducted an inspection to assess the effectiveness of the Department's processes, procedures, and controls related to non-commercial travel by non-career Federal employees. While the Congressional request only asked us to review trips taken since January 2017, our inspection focused on the use of Government aircraft by non-career Federal officials that was sponsored by the Department from April 1, 2015, through December 6, 2017, to assess whether processes had changed with the new administration. Our responses to the questions posed in the Congressional request for trips taken since January 2017 are included in this report.

During our review, nothing came to our attention to indicate that non-career Federal employees within the Department had inappropriately taken trips on Government aircraft. Although we did not identify any inappropriate trips on Government aircraft, we identified opportunities to improve the Department's processes, procedures, and controls related to the use of Government aircraft. In particular, we determined that development and implementation of formal policies and procedures for justifying and approving the use of Government aircraft could enhance the internal controls over non-career Federal employee travel. In addition, we noted that improvements were needed related to maintaining supporting documentation pertaining to use of Government aircraft. While we found no indication that the trips reviewed were inappropriate, implementing the suggestions in our report will strengthen the process for approving and using Government aircraft.

### **Security Allegations at a Western Area Power Administration Site**

Western Area Power Administration (Western) is one of four power marketing administrations within the Department of Energy whose role is to market and transmit electricity from multi-use water projects. Western's transmission system encompasses 15 states and is operated and maintained from 4 regional offices. Western's Office of Security and Emergency Management is responsible for physical security at Western's facilities, and in March 2015, Western approved an acquisition plan to standardize all of Western's security guard services under one contract. In June 2016, a contractor was awarded the contract to provide armed guard security services for all Western sites. In August 2016, the contractor began performing security services at a Western site.

The Office of Inspector General received two hotline complaints with multiple allegations related to security at a Western site. For the purposes of our review, we summarized the details of the complaints into 15 allegations that were applicable to either the contractor or Western. Of the 15 allegations, 2 were substantiated with impact, 3 were substantiated or

partially substantiated with no impact, and the other 10 were not substantiated. In addition, during the performance of our inspection, we identified other matters that warrant management's attention.

To address the issues identified in our report, we made five recommendations to the Administrator for the Western Area Power Administration. Completing improvements that address the other matters we identified as warranting management's attention as well as completing the recommendations included in our report could reduce Western's risk, safeguard ratepayer interests, and help protect its people and property. Management concurred with the report recommendations and stated that all corrective actions had been completed.

### **Western Area Power Administration's Unobligated Balances from Various Funding Sources**

Western Area Power Administration (Western) is one of the four power marketing administrations within the Department of Energy that markets and transmits wholesale electricity from multi-use water projects. In FY 2017, Western's operations exceeded \$1 billion, more than 90 percent of which was financed through customer funding. The remaining annual requirements were provided by appropriations. To ensure financial sustainability, including continued operations during a lapse in appropriation or severe weather conditions that affect Western's ability to meet its contractual commitments, Western maintains balances in its Treasury accounts from year to year, referred to as "unobligated balances." An unobligated balance is funding that has not been obligated and is legally available to carry forward from one year to another. Western's unobligated balances are made up of various funding sources including appropriations, the authority to use receipts from the sale of power, as well as alternative financing, which includes customer advances. Most recently, in FY 2017, Western's year-end unobligated balances were \$707 million, over \$569 million of which resided in its Construction, Rehabilitation, Operation and Maintenance (CROM) account. Western's CROM account funds a majority of Western's operations.

During FY 2017, the House of Representatives' Committee on Oversight and Government Reform referred concerns raised by a Western employee regarding potential improprieties in the management of Western's unobligated balances, including whether Western appropriately retained, used, and disclosed those balances. Due to the sensitivity surrounding this issue, we initiated an inspection on Western's unobligated balances from various funding sources. The objectives of the inspection were to determine whether Western: (1) Properly retained unobligated balances in its CROM account, (2) Implemented a strategy for managing unobligated balances, and (3) Adequately disclosed unobligated balances.

Nothing came to our attention to indicate that Western had mismanaged its unobligated balances. Specifically, we found that Western had appropriately: (1) Retained and carried forward unobligated balances in its CROM account from year to year; (2) Developed and implemented a strategy for managing its unobligated balances in FY 2017, as well as established a mechanism to monitor and report the balances; and (3) Disclosed its unobligated balances to the Department's Office of the Chief Financial Officer, the Office of Management and Budget (OMB), and Congress as part of the President's Budget Request.

Although Western monitored and reported its unobligated balances during FY 2017, we found that the year-end reporting mechanism may not have provided sufficient transparency of management decisions towards achieving its unobligated balance strategy. Based on recent concerns from Congress and Western’s customers regarding the transparency of Western’s financial decisions, we determined a more detailed report would be beneficial. As a result of discussions with Western officials, they addressed our concern and prepared a detailed report that summarized Western’s FY 2017 actions planned and taken to implement its strategy for managing unobligated balances.

Given the importance of providing financial transparency to Congress and ratepayers alike, we suggest that the Administrator for Western Area Power Administration ensure annual reports detailing actions taken and results achieved on its unobligated balances strategy are published and made available to the public. Western agreed with the suggestion and stated that it would publish the suggested reports annually on its website “The Source.” This website displays operational and financial information in one convenient location.

### **Review of Allegations Against a Department of Energy’s Office Of Intelligence and Counterintelligence Senior Official**

The Department of Energy’s Office of Intelligence and Counterintelligence (Intelligence) is responsible for intelligence activities throughout the Department. Intelligence, a part of the United States Intelligence Community, performs critical functions that directly support the Department and the mission of the United States. Information collected, provided, and protected by Intelligence may be classified.

In July 2016, the Office of Inspector General received a complaint alleging unethical acts by an Intelligence senior official. The complainant alleged that the senior official had inappropriately: (1) transmitted classified information on an unclassified system; (2) awarded Government contracts to friends; and (3) directed or influenced a contractor to hire a relative. We initiated this inspection to determine the facts and circumstances surrounding the allegations.

We did not substantiate the allegations. Specifically, we did not identify any evidence that the senior official transmitted classified information on an unclassified system. Further, we did not substantiate the allegation that the senior official had awarded Government contracts to friends. Finally, we did not substantiate the allegation that the senior official directed or influenced a contractor to hire a relative.

Because the allegations were not substantiated, we have no recommendations or suggested actions. However, during the course of this review, we identified potential concerns regarding Intelligence’s reporting and documenting of security incidents. We will be reviewing these concerns under a separate report.

### **Allegation Regarding the Oak Ridge Office Personnel Security Process**

The Department of Energy has key roles and responsibilities in the personnel security clearance process. The Office of Personnel Management conducts investigations for most of the Federal Government, but personnel security specialists from the Department request background investigations and use the investigative reports and Federal guidelines when making clearance adjudication determinations. Once the Department suspends a clearance, the final decision to revoke or restore the suspended clearance is made by either a management decision or an administrative review hearing.

We received an allegation that personnel security specialists at the Department's Oak Ridge Office had conducted activities outside of the approved adjudication process during the adjudication of the complainant's case. The complainant's security clearance was suspended in October 2014, an administrative review hearing was held in December 2015, and the complainant's security clearance was restored in May 2016. We initiated this inspection to determine the facts and circumstances surrounding the allegation that personnel security specialists at the Oak Ridge Office had conducted inappropriate investigative-type activities during the adjudication of the complainant's case. Our inspection was limited to this specific case, and we did not review other personnel security case files.

We substantiated the allegation, but we were unable to determine whether the inappropriate investigative-type activities resulted in any harm to the employee. We found that personnel security specialists had conducted investigative-type activities that were not part of the normal adjudication process and not within their purview. We could not determine the effect the inappropriate investigative-type activities had on the personnel security decision to suspend the complainant's clearance. However, we noted that the Office of Hearings and Appeals Administrative Judge determined that the Department had sufficient derogatory information that warranted the suspension of the complainant's clearance. Based on all of the evidence brought forth during the administrative review hearing, the Administrative Judge restored the clearance.

We made recommendations aimed at improving the overall adjudication process at the Oak Ridge Office. Management concurred with the report's recommendations and indicated that corrective actions will be taken to address the issues identified in the report. After the corrective actions are completed, we plan to consider performing a followup evaluation to ensure that the corrective actions are implemented and effective.

### **Management of Calibration Activities at the Kansas City National Security Campus**

One of the primary missions of the National Nuclear Security Administration (NNSA) is to ensure the safety, reliability, and performance of the Nation's nuclear weapons stockpile. NNSA's Kansas City National Security Campus (KCNSC) management and operating contractor is responsible for manufacturing and procuring nonnuclear stockpile components, including electronic, mechanical, and engineered material components. To verify the safety and reliability of these components, NNSA facilities are required to establish, document, and maintain a calibration program that will provide accurate and repeatable data that are traceable to national standards. Department of Energy Order 414.1D, *Quality Assurance*,

requires that equipment used for inspections, tests, monitoring, or data collection shall be calibrated and that calibration processes should use established acceptance and performance criteria. Given the Department's commitment to certify that nuclear weapons meet designated military operational specifications, we initiated this inspection to determine if KCNSC is effectively managing its calibration program.

Our review of calibration procedures at KCNSC did not find any significant issues with the management of the calibration program. In particular, we found that KCNSC had a process for calibrating Measuring and Test Equipment and observed several calibration activities where KCNSC appeared to follow the process to ensure Measuring and Test Equipment was calibrated, as necessary.

Although we found that the program was effectively managed overall, we identified two opportunities where the program could be enhanced. Therefore, we provided two suggestions to management that we believe could potentially decrease the risk of non-conforming products being accepted.

## SEMIANNUAL REPORTING REQUIREMENTS INDEX

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

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5(a)(2)	Recommendations for Corrective Action to Significant Problems	<a href="#">31-46</a>
5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Implemented	<a href="#">14-17</a>
5(a)(4)	Matters Referred to Prosecutive Authorities	<a href="#">19-30</a>
5(a)(5)	Information Assistance Refused or Not Provided	N/A
5(a)(6)	Audit Reports Issued in This Reporting Period	<a href="#">9-11</a>
5(a)(7)	Summary of Significant Reports	<a href="#">31-46</a>
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5(a)(10)	Previous Audit Reports Issued with No Management Decision Made by End of This Reporting Period	<a href="#">13</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
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## REPORTING REQUIREMENTS INDEX AS PRESCRIBED BY THE COMMITTEES ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS AND THE JUDICIARY

The following identifies the information that addresses the requests by the Committees on Homeland Security and Governmental Affairs and the Judiciary.

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## ABOUT THE DEPARTMENT AND OIG

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

**The OIG's** mission is to strengthen the integrity, economy and efficiency of the Department's programs and operations. The OIG has the authority to inquire into all Department programs and activities as well as the related activities of persons or parties associated with Department grants, contracts, or other agreements. As part of its independent status, the OIG provides the Secretary with an impartial set of "eyes and ears" to evaluate management practices. With approximately 280 employees, the organization strives to be a highly effective organization that promotes positive change.

## OIG HOTLINE CONTACTS

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

