

The Honorable Hazel R. O'Leary
Secretary
Department of Energy
Washington, D.C. 20585

Dear Secretary O'Leary:

This Semiannual Report for the second half of Fiscal Year 1996 is submitted to you by the Office of Inspector General for transmittal to the Congress, pursuant to the provisions of the Inspector General Act of 1978.

During this reporting period, the Office of Inspector General continued to advise Headquarters and field managers of opportunities to improve the efficiency and effectiveness of the Department's management controls, with particular emphasis on coverage of issues addressed in the Department's Strategic Plan. We also have supported the Department's reinvention and streamlining initiatives by evaluating the cost effectiveness and overall efficiency of Department programs and operations, placing special emphasis on key issue areas which have historically benefited from Office of Inspector General attention.

In our office's planning and operations, we continue to target available audit, inspection, and investigation resources to our customers most immediate requirements. However, the Office of Inspector General faces an unprecedented challenge to comply with new mandates, such as the Government Management Reform Act of 1994 which requires audited consolidated financial statements for the Department of Energy. This and other unfunded mandates make it increasingly difficult to provide the level of audit coverage of the Department that we consider adequate. Nevertheless, our overall focus remains on assisting Department management to implement management controls necessary to prevent fraud, waste and abuse; helping to ensure the quality of Department programs and operations; and keeping you and the Congress fully informed.

Sincerely,

//s//

John C. Layton
Inspector General

Enclosure

MISSION AND VISION STATEMENTS

MISSION STATEMENT

The Office of Inspector General promotes the effective,
efficient,
and economical operation of Department of Energy programs
through audits, inspections, investigations and other reviews.

VISION STATEMENT

We do quality work that facilitates positive change
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EXECUTIVE SUMMARY

OVERALL ACTIVITY

This Office of Inspector General Semiannual Report to the Congress covers the period from April 1 through September 30, 1996. The report summarizes significant audit, inspection, and

investigative accomplishments for the reporting period which facilitated Department of Energy management efforts to improve management controls and ensure efficient and effective operation of its programs.

Narratives of our most significant reports are grouped by measures which the Office of Inspector General uses to gauge its performance. The common thread that ties the performance measures together is their emphasis on supporting Department efforts to produce high quality products in an economical manner.

During this reporting period, the Office of Inspector General issued 52 audit and 7 inspection reports. For reports issued during the period, the Office of Inspector General made audit recommendations that, when implemented by management, could result in \$554 million being put to better use. Management committed to taking corrective actions which the Office of Inspector General estimates will result in a more efficient use of funds totaling \$22.4 million. Office of Inspector General actions in identifying attainable economies and efficiencies in Departmental operations have recently provided a positive dollar impact of about \$4 million per audit employee per year. Also, the Office of Inspections committed major resources reviewing the Secretary of Energy's foreign travel.

Office of Inspector General investigations led to 20 criminal convictions, as well as criminal and civil prosecutions which resulted in fines and recoveries of \$29,365,094. The Office of Inspector General also provided 27 investigative referrals to management for recommended positive action.

OIG RESOURCE LIMITATIONS

Several new statutory mandates and additional responsibilities have been placed upon the Office of Inspector General over the past few years with no additional resources. As an example, the Department's Office of Contractor Employee Protection was transferred without funding to the Office of Inspector General in Fiscal Year 1996. Since then, the Office of Contractor Employee Protection has been disestablished, but the work load remains. As a result of newly mandated tasks, the Office of Inspector General will serve fewer customers' specialized needs and has already diverted resources from other reviews that had focused on significant programs and operations where major vulnerabilities may exist.

Additionally, during any organizational downsizing such as the Department is now experiencing, Offices of Inspector General may often find increased vulnerabilities, opportunities for fraud and waste, and increased numbers of complaints requiring resolution. Reducing Office of Inspector General resources in consonance with those of the Department inhibits the detection and prevention of fraud, waste and abuse at a time when such acts may begin occurring with greater frequency. Already, our resource constraints have required higher thresholds for

investigative case openings and inspection of administrative allegations, resulting in less coverage and less deterrent effect. Office of Inspector General investigative efforts have been redirected toward cases of increased severity, including cases of serious criminal violations, large civil fraud matters, and significant administrative misconduct.

TRACKING AND REPORTING ON THE STATUS OF OIG RECOMMENDATIONS

The Inspector General Act of 1978 requires that the Semiannual Report of the Inspector General include an identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed. In the Department of Energy, the Office of Compliance and Audit Liaison within the Office of Chief Financial Officer has responsibility for the audit followup system. Thus, this information is included as part of the companion submission to this report which is provided by the Secretary of the Department of Energy.

Although the followup system is operated by the Department's Chief Financial Officer, the Office of Inspector General provides oversight in the form of audits of the followup system or its components, and semiannual reviews of the progress of corrective actions on audit and inspection reports. In addition, the Office of Inspector General conducts periodic followup audits or verifications in which the objective is to determine if prior audit and inspection report recommendations were implemented and, if so, whether they were effective. Also, at the start of each new audit or inspection, the Office of Inspector General conducts a review of prior reports on related topics, a review of the recommendations included in these prior reports, and an evaluation of the corrective actions that were taken.

During this reporting period, there were no reports made to the Secretary noting unreasonable refusal by management to provide data to the Office of Inspector General.

SOME SIGNIFICANT ACTIONS FOR THIS REPORTING PERIOD

The Office of Inspector General completed significant audit, inspection and investigative reviews of Department of Energy programs and operations during this reporting period. A sample of these reviews include:

Special Audit of Pension Plans for Department of Energy Contract Employees of the University of California (IG-0394): The audit concluded that the renegotiation process would provide the Department an opportunity to recover at least \$620 million in excess assets from the pension plans it has funded for University of California employees at the Department's laboratories and to improve the Department's management of those pension plans.

Investigation Resulted in \$22 Million in Fines and Penalties Due to Violations of the Clean Water Act (I940P002): A joint investigation determined that a pipeline company violated its construction permits to build a gas pipeline from Ontario, Canada, to Long Island Sound, New York, when it did not clean up various wetlands and streams disturbed during construction, install required erosion control devices, or install trench breakers or clay plugs by the edges of all wetlands crossed or on slopes traversed during construction. In May 1996, the pipeline company pled guilty in Federal court to four felony violations of the Clean Water Act and agreed to pay \$22 million in fines and penalties. Several senior company officials also pled guilty as a result of their involvement.

Audit of the Department of Energy Program Officers' Use of Management and Operating Contractor Employees (IG-0392): The audit found that 378 laboratory employees were assigned to the Washington, D. C., area for periods of six months or longer, at least 220 of whom provided a wide range of administrative and technical support services directly to program offices. In addition, these employees had worked on projects that had the potential to impact their laboratory employers. The audit also found that the Department had not clearly defined the proper use of laboratory employees, nor had it established a system to periodically review their proper use. Furthermore, the Department was not fully aware of the magnitude of its reliance on laboratory employee support or the associated cost implications. After completion of the audit field work, the Department estimated that it spent over \$30 million per year for the use of the laboratory employees in support roles at Headquarters.

Investigation Resulted in a \$396,000 Civil Settlement Due to Irregularities in Lodging, Per Diem, and Travel Claims (I95RL021): The investigation determined that three accounting firm employees assigned to an audit of the Bonneville Power Administration had pooled their funds to rent a studio apartment in Seattle. Having a Seattle residence allowed the three employees to appear to qualify for lodging, per diem and travel expenses while working on the contract with the Bonneville Power Administration in Portland. The auditors were employed full-time on the Bonneville Power Administration audit in Portland and Portland, not Seattle, was the site of their primary residences. In a civil settlement agreement filed in U.S. District Court, the accounting firm agreed to pay the Government \$396,000.

Investigation Resulted in a Repayment of Over \$6600 in Unauthorized Accepted Toll Call Charges (I95AL008): An investigation determined that a Sandia National Laboratory employee had accepted over 700 telephone calls at an office number from prison inmates located at the Central New Mexico Correctional Facility at Los Lunas and the Penitentiary of New Mexico at Santa Fe. The case was presented to a grand jury which returned an indictment for theft of Government property. The employee voluntarily left employment at Sandia and signed a pretrial diversion plea agreement which provided for the repayment of over \$6600 in unauthorized accepted toll call

charges.

Inspection of the Establishment and Filling of the Department's Ombudsman Position (IG-0393): At the request of the Secretary of Energy, the Office of Inspector General examined possible personnel and per diem irregularities in establishing and filling the position of the Department's Conflict Resolution Ombudsman. The final inspection report made 10 recommendations to management, which included ensuring that the review and approval of initial Intergovernmental Personnel Act (IPA) Assignment Agreements that contain provisions for payment of per diem (and extensions of those agreements) include a determination of the appropriateness of providing per diem or continuing per diem. Management concurred with all recommendations.

Audit of Department of Energy Management and Operating Contractor Available Fees (IG-0390): In January 1994, the Office of Inspector General issued an audit report on the implementation of the Accountability Rule which concluded that the Department paid five contractors \$23 million in increased fees with no conclusive evidence that this rule was meeting its objective. Now the Department is crafting a new fee policy which may, depending on how it is implemented and executed, increase available fees by as much as \$218 million annually. This increase, which is above the amount provided through the Accountability Rule, is expected to be an incentive to improve management and operating contractor performance. Prudent business practice dictates that any change which increases costs to the Department should be analyzed to determine if the benefits justify the cost. This change, however, was not subjected to a rigorous analysis to determine its cost and benefits.

AUDIT OF THE DEPARTMENT OF ENERGY'S
CONSOLIDATED FINANCIAL STATEMENTS

The Office of Inspector General's Office of Audit Services has assumed responsibility for auditing the Department of Energy's Consolidated Financial Statements as required by the Government Management Reform Act of 1994. Because of the magnitude and complexity of this audit, the Office of Inspector General decided to implement a multi-phase strategy for auditing the consolidated financial statements of the Department. Phase I of the strategy was successfully completed on February 29, 1996, when the Office of Inspector General issued its report on the Department's Consolidated Statement of Financial Position as of September 30, 1995. That statement reported on the Department of Energy's assets of over \$90 billion and liabilities of about \$220 billion. The Office of Inspector General was unable to form an opinion on the Fiscal Year 1995 Statement of Financial Position because the Department did not ensure that all unfunded liabilities (recorded as \$200 billion) were properly identified. Furthermore, the Department did not have adequate controls over its property and equipment to ensure proper accountability for these assets, and it could not provide adequate assurance that the balances attributable to the Department's portion of the Bonneville Power Administration's assets and liabilities were

accurate.

As a result of the Phase I work, the Office of Inspector General issued one national report which included eight reportable internal control conditions that required corrective action at the Department level, and thirteen local reports that identified internal control conditions that warranted corrective action by local management. The Phase II effort, which began in March 1996, builds on the foundation created in the Phase I audit. In addition to the Consolidated Statement of Financial Position, the Phase II audit includes the Department's Statement of Operations and Changes in Net Position. The Phase II audit is focusing on changes to the Department's internal control structure, including corrective actions implemented by management to address internal control conditions identified by the Office of Inspector General during the Phase II audit.

The Phase II audit provides broad coverage of internal controls at 29 of the Department's 61 reporting entities. Based on recorded financial activity as of September 30, 1995, these 29 reporting entities controlled 94 percent of the Department's Total Assets and also processed significant portions of its obligations (74 percent), revenues (85 percent), and total expenses (75 percent). The Phase II audit will include alternative procedures for reporting entities not specifically selected for detail testing which will enable the auditor to reach a conclusion on the Department's Statements taken as a whole.

The Office of Inspector General and the Office of the Chief Financial Officer are working together to meet the March 1, 1997, date established for providing audited consolidated financial statements to the Office of Management and Budget. For the Office of Inspector General and the Office of the Chief Financial Officer to meet this deadline, all parties throughout the Department need to actively work toward implementing the Government Management Reform Act. Such compliance with the Act will demonstrate the Department's successful stewardship of its financial assets, as well as progress toward accomplishing the Department's financial goals.

The Office of Inspector General is committed to successfully carrying out its role and responsibilities in complying with the Government Management Reform Act. However, it should be noted that the Consolidated Financial Statement Audit places unprecedented demands on the audit resources of the Department. During Phase I, the Office of Inspector General and participating contractor internal audit staffs and independent public accountants focused on the Department's Fiscal Year 1995 Statement of Financial Position. The Phase II expansion to include the Statement of Operations and Changes in Net Position necessitates an increase in staff requirements. This increased work load and associated resource demand, is of special concern to the Office of Inspector General given the decreasing resources available to meet statutory requirements for financial and performance audits.

PERFORMANCE MEASURES

Significant Office of Inspector General work is narrated in this section under qualitative performance measures which were used to gauge the effectiveness and efficiency of Office of Inspector General products in meeting the needs and expectations of its customers.

PERFORMANCE MEASURE:

OIG RECOMMENDATIONS ACCEPTED
OR IMPLEMENTED BY MANAGEMENT

Explanation: Management concurs with or implements recommendations contained in a published OIG report. Partial concurrence may be counted as acceptance if the proposed or implemented action by management is responsive to the recommendation.

Summary Audit Documents
"Lessons Learned" from the
Superconducting Super Collider Project

The Superconducting Super Collider, originally planned to be completed in 1999 at a cost of \$8.2 billion, was to be the world's most powerful particle accelerator. From 1990 to 1993, the project underwent a series of changes to address several problems. In 1993, the Congress decided to terminate the project. While both internal and external factors contributed to the demise of the Superconducting Super Collider, its cancellation offers the Department a unique opportunity to analyze what went wrong, correct the mistakes, and apply the lessons learned to future large-scale projects.

A summary audit report concluded that several factors which hindered the successful development of the Superconducting Super Collider related to project cost estimates, the cost and schedule control system, business management systems, the contract itself, and project administration. Specifically, the Department could benefit from improvements to its project cost estimating system by fully using independent cost estimates, and by ensuring that a dependable cost and schedule control system is operational before construction begins. The Department could also benefit from early establishment of funding agreements and appropriate contractor business management systems. An effective contract instrument with commensurate risk apportioned to the contractor, along with adequate Departmental staffing and early involvement with project management, will also be of benefit to the future large-scale scientific endeavors of the Department.

Department management generally agreed to apply the

lessons learned from the Superconducting Super Collider to future projects. (IG-0389)

An Audit Recommends Actions
To Improve Internal Controls
Over Special Nuclear Materials

The Department of Energy is responsible for safeguarding a significant amount of plutonium, uranium-233 and enriched uranium (collectively referred to as special nuclear materials) stored in the United States. The Department's management and operating contractors, under the direction of the Department, safeguard and account for the special nuclear material stored at Department sites.

An audit disclosed that management at three Department sites had not performed all required physical inventories (and one site did not perform measurements) due to safety concerns and operational interruptions. The audit did not disclose that any special nuclear materials were missing. However, the longer complete physical inventories are delayed, the greater the risk that unauthorized movement of special nuclear materials could occur and go undetected.

The audit report recommended that the Department (1) conduct the required physical inventories, and (2) implement program enhancements suggested in a January 1995 internal Department report. The recommendations will assist the Department in safeguarding special nuclear material.

Management concurred with the recommendations and indicated that it planned to take corrective actions. Further, the operations and field offices, as well as the cognizant Headquarters program offices, provided details on a number of measures that had been implemented and/or were planned to reduce the potential risks identified in the audit report. (IG-0388)

Recoupment of Taxpayers' Investment in Clean Coal Technology
Projects Is Delayed

In 1985, the Congress directed the Department of Energy to implement a Clean Coal Technology Program to demonstrate a new generation of advanced coal-based technologies. As part of the program, the Department established a goal to recover an amount up to the taxpayers' investment in each successfully commercialized clean coal technology project. As of December 31, 1995, the clean coal program included 42 projects with repayment agreements predicated on successful commercialization of demonstrated technologies. The Department's cost share for these projects was \$2.3 billion.

An audit determined that recoupment decisions made by the Department limited its ability to recover the taxpayers' investment in six clean coal technology projects. These decisions (included in repayment agreements) exempted foreign sales, excluded some domestic sales on certain projects and lowered the repayment rate on some sales. As a result, the Department may not recoup an estimated \$133.7 million of the taxpayers' \$151 million investment in six projects and may limit its opportunity to recover future

investments in other energy technology programs. Office of Inspector General auditors also found that the Department had not established financial policies and procedures to handle repayments due from sponsors.

To strengthen the recoupment process, the audit report recommended that the Department formally analyze and justify any recoupment efforts that limit its ability to recover the taxpayers' investment in successfully commercialized technologies, and establish and implement financial policies and procedures to ensure that sponsor repayments are timely, accurate, and complete. Department management concurred with the recommendations. (IG-0391)

Better Controls Needed Over the Use of Contractor Employee Support

Department policy requires that management and operating contractor laboratory employees not be placed in positions where conflicts may occur between the interests of the Department and those of the laboratory. An Office of Inspector General audit reviewed the activities of laboratory employees who provided support for periods of six months or longer directly to Department program offices located in the Washington, DC, area.

The audit found that 378 laboratory employees were assigned to the Washington, DC, area for periods of six months or longer, at least 220 of whom provided a wide range of administrative and technical support services directly to program offices. In addition, these employees had worked on projects that had the potential to impact their laboratory employers. The audit also found that the Department had not clearly defined the proper use of laboratory employees, nor had it established a system to periodically review their proper use. Further, the Department was not fully aware of the magnitude of its reliance on laboratory employee support or the associate cost implications. As a result, laboratory contract employees were involved in programmatic and policy arenas in which real or perceived conflicts may exist between their official duties and tasks they assume when servicing Department program offices. Also, the Department may be augmenting its Federal work force in a way that might not be cost-effective and consistent with its staffing objectives.

After completion of the audit field work, the Department began efforts to identify laboratory employee support in order to eliminate management and administrative support services provided by laboratory employees. Given the current levels of program office dependence on laboratory employee support, the Department should establish universal policies regarding the use of this support. The audit report recommended that the Department define activities that may be performed by laboratory employees and develop a system to monitor placement of laboratory employees within Department program offices. The report also recommended that the Department evaluate the budgetary impacts of continuing support by laboratory employees. Department management generally agreed with the findings. (IG-0392)

IPA Assignment Agreement Processing Needs Strengthening

At the request of the Secretary of Energy, the Office of Inspector General examined possible personnel and per diem irregularities in establishing and filling the position of the Department's Conflict Resolution Ombudsman. The examination included a review of the Department's determination of the incumbent's professional qualifications, compensation level, and eligibility for per diem payments.

An inspection found that the Ombudsman was hired as a temporary Federal employee under an Intergovernmental Personnel Act (IPA) Assignment Agreement which was from October 4, 1993, through September 30, 1994. An individual on an IPA assignment may either be hired as a temporary Federal employee or detailed to a Federal agency. At the time of appointment, the Ombudsman was employed by a local Board of Education in New Jersey and owned a home in a nearby town. Under the provisions of the IPA Assignment Agreement, the Ombudsman received per diem payments of \$35 per day while in Washington, D.C. Subsequent IPA Assignment Agreements, which extended the Ombudsman's assignment through September 1997, also contained the provisions regarding per diem payments.

The inspection determined that the establishment of an Ombudsman position in the Department was not unique within the Federal Government. Also, the Ombudsman's grade level was consistent with grade levels of like positions in other Federal entities and applicable personnel guidelines were followed in the classification action. Further, the inspection found that the excepted appointment of the individual selected for the Departmental Ombudsman position was in accordance with applicable personnel regulations.

Although payment of per diem to the Ombudsman beyond one year was contrary to Federal and Departmental guidelines, the inspection concluded that under the provisions of the IPA Assignment Agreements, per diem payment was not legally prohibited. In late 1995, however, questions were raised by Department officials regarding whether the Ombudsman was entitled to per diem payments following the sale of the Ombudsman's New Jersey residence. As the result of a consensus reached by several Departmental management offices, a decision was made that the Ombudsman was not entitled to receive per diem payments under the IPA Assignment Agreements for the period following the sale of the New Jersey home. Subsequent to this decision, a demand letter was issued to the Ombudsman for recoupment of per diem payments. The Ombudsman immediately repaid the amount of per diem payments identified in the demand letter.

The inspection identified some deficiencies in the processing of the initial IPA Assignment Agreement extension. Specifically, evidence showed that the Department's Office of Personnel did not have an IPA Assignment Agreement signed by all necessary parties at the time it processed the document that extended the Ombudsman's excepted appointment from October 1, 1994, through June 30,

1995. The inspection also revealed that the official who is authorized to determine the existence and amount of employee debt did not make a formal decision with respect to the existence of a debt owed by the Ombudsman, nor had the official delegated the authority to the officials who caused the recoupment of the per diem payments.

The final inspection report made 10 recommendations to management, which included ensuring that the review and approval of initial IPA Assignment Agreements that contain provisions for payment of per diem (and extensions of those agreements) include a determination of the appropriateness of providing per diem or continuing per diem. Management concurred with all recommendations. (IG-0393)

About \$14 Million in Liability Insurance Costs Could Be Avoided by Greater Enforcement of Departmental Policies

The Department of Energy uses contractors to operate its facilities and pays the costs incurred by these contractors. During the last 3 completed years of operation, 54 of its major contractors reported that they incurred and were reimbursed about \$44.3 million for liability insurance costs. This included \$23 million for comprehensive general liability insurance and \$5.6 million for automobile liability insurance. Also, some contractors reported having other types of liability insurance costing \$15.7 million.

The Department's general policy is to assume the risk of allowable losses or liabilities for its contractors, and it currently has a liability insurance program in place to assume this risk. Contractors are required to use self-insurance if combined annual premiums for commercial insurance exceed \$10,000. An Office of Inspector General review of 18 major contractors showed, however, that the Department was not consistently following its policy. As a result, the contractors which used commercial insurance incurred higher cost. A separate review showed that required approvals were not always obtained prior to purchasing certain types of liability insurance. Based on the results of the audit, contractor insurance costs could have been reduced by about \$14 million if contracting officers had required contractors to use self-insurance.

The audit report recommended that: (1) the Department's policies requiring self-insurance be fully implemented, (2) requests for approval for commercial insurance when annual premiums exceeded \$10,000 be fully justified, (3) the commercial insurance policies specifically define the liability coverage prior to approval and payment, and (4) the contracts include clauses limiting reimbursements for insurance expenditures to actual losses and administrative costs. Department management generally concurred with the finding and recommendations, and provided a series of actions that were planned. (IG-0396)

An Audit Identifies a Need for Improving Credit Card and Property Procedures

Bonneville Power Administration's information resources include computer-related equipment, spare parts, and computer software. An audit found positive aspects in Bonneville's management of computer-related equipment. However, improvements could be made in implementing credit card and property procedures.

The audit found that improvements were needed to (1) control credit card purchases, (2) ensure that equipment was tagged and included in property records, (3) maintain accountability over spare parts, and (4) identify unused equipment. As evidence for the need for improvements, about \$90,000 of equipment was bought by personnel whose authority to purchase was not properly documented, and about \$182,000 of purchases lacked supporting invoices. In addition, one maintenance support group had over \$109,000 of spare parts shortages. Further, Bonneville could have saved about \$803,000 had unused equipment been redistributed within Bonneville or to other Federal and state agencies.

Management concurred with the audit report's recommendations to improve internal controls. (WR-B-96-06)

An Audit Questions the Effectiveness of Work Force Restructuring at the Fernald Environmental Management Project

The Department of Energy restructured its work force at the Fernald Environmental Management Project to reduce staffing levels and to modify the mix of workers' skills in response to budget cuts, facility closures, and changes in the Fernald Project's mission. The Office of Inspector General performed an audit to determine whether the Department's work force restructurings were effective.

To achieve the Department's objectives, the Fernald Environmental Restoration Management Corporation (FERMCO) developed two restructuring plans. The audit found that the Fernald Area Office's first work force restructuring plan in Fiscal Year 1994 did not accomplish the Department's objective of reducing total employment and changing the mix of workers' skills. FERMCO spent \$2.9 million to separate 255 employees in October 1993, but by September 30, 1994, all but 14 of the employees separated were either rehired or replaced by new employees with similar skills.

The audit could not determine whether the second restructuring will achieve the Department's objectives because the restructuring was still ongoing at the time of the audit. Since the first restructuring began, FERMCO has hired over 600 new employees. If this pattern continues, the second restructuring (estimated to cost \$12.9 million) will not significantly reduce overall staffing or substantially change the mix of workers' skills.

The audit found that the work force restructuring plan did not meet the Department's objectives because it did not (1) require FERMCO to perform the skills analysis necessary to identify which employees were needed to perform the Fernald Project's current mission, and (2) effectively monitor FERMCO's restructuring efforts to ensure the objectives were met. As a result, FERMCO spent \$2.9 million in Fiscal Year

1994 and planned to spend an additional \$12.9 million in Fiscal Years 1995 and 1996 for work force restructurings that have provided little or no benefit to the Department.

The audit report recommended that Department management require FERMCO to review the skills of employees scheduled to be separated and encourage employees with needed skills to retain their jobs. The report also recommended that the Fernald Area Office monitor FERMCO's effort to ensure that the Department's restructuring objectives are effectively met and that employees with needed skills are retained and not separated and replaced. Department management agreed there were some deficiencies in the restructuring process and agreed to implement the recommendations. (ER-B-96-01)

A Revision of the Groundwater
Remediation Plan is Needed at the
Department's Savannah River Site

The Department of Energy was required to reduce groundwater contamination at its Savannah River Site that represented a risk to human health or the environment. To achieve this goal, the Department's Savannah River Operations Office entered into several formal agreements with Federal and State of South Carolina regulators. The agreements described how Savannah River would reduce the level of contamination until the risks to human health and the environment were lowered to an acceptable level.

The agreements, covering contamination in groundwater under areas designated as "F" and "H," would allow Savannah River to pursue groundwater remediation projects that were necessary to protect human health and the environment. However, the agreements call for decreasing groundwater contamination to levels that meet South Carolina's regulations, thus allowing a hypothetical future resident to someday live above the F and H Areas and drink the groundwater. The audit determined that basing the agreements on drinking water standards was unreasonable because no one will likely live above the F and H Areas or drink the groundwater. Drinking water standards were included in the planning process because Savannah River had not developed a Land Use Plan that would permit rational decisionmaking for the entire site. Lacking a Land Use Plan, the environmental regulators assumed (and Savannah River acceded to) the most stringent usage scenario, which considers that groundwater under the F and H Areas might be used one day as drinking water.

It will take more than one hundred years for the subterranean groundwater to become safe enough for drinking water purposes. Consequently, Savannah River may continue to pursue expensive remediation projects for longer than would be necessary to protect human health and the environment. However, the cost impact of unnecessary clean-up activities cannot be determined at this time because any change in acceptable contamination limits would still have to be negotiated with the South Carolina Department of Health and Environmental Control.

The audit report recommended that Department management

complete the development of a Land Use Plan for the Savannah River Site. The report also recommended that, if the groundwater under the F and H Areas qualifies for reclassification (including the intended uses as described in the Land Use Plan), Savannah River should petition the South Carolina Department of Health and Environmental Control to reclassify the groundwater under the F and H Areas to Class GC as outlined in South Carolina's "Water Classifications and Standards." Department management agreed with both recommendations. (ER-B-96-02)

Management and Operating Contractors of the Nevada Operations Office Are Used to Obtain Direct Contract Support for Department Programs

Department of Energy and Federal policies state that it is inappropriate for program offices to use management and operating contractors to obtain direct contract support for their programs. When direct contract support is necessary, program offices are required to use the Department's--not the M&O contractor's--procurement procedures and personnel.

The Office of Inspector General conducted an audit to determine whether the Department's Nevada Operations Office and its M&O contractor were following Federal and Department policies with regard to directed support service subcontractors. The audit showed that the Operations Office management and operating contractor had awarded \$2.5 million from October 1, 1992, through April 30, 1995, in subcontracts that provided direct support to the Operations Office and Headquarters program offices. The Operations Office and its management and operating contractor did not ensure that Department policy regarding directed subcontracts was carried out. The management and operating contractor was procuring services not directly related to its mission. As a result, the Department paid more in management and operating contractor award fees than was necessary.

The audit report recommended that Department management act to strengthen internal controls over subcontracting and discontinue directed support service subcontracts to its management and operating contractors. Management did not concur with the audit conclusion. (WR-B-96-07)

Review of Space Requirement and Minimization of Space Needed at Federal Energy Regulatory Commission

Federal Property Management Regulations require Government agencies to continuously review their space requirements and minimize the need for space. The Federal Energy Regulatory Commission stores furniture, automated data processing equipment, and office supplies in a warehouse located in Landover, Maryland. The annual operating cost for this space (25,830 square feet) is about \$245,000 in lease costs and \$210,000 for contractor personnel, for a total of \$455,000.

An Office of Inspector General audit revealed that the Commission was leasing more space than needed because

Commission officials understood that they were obligated by terms of the lease to pay for the space until March 31, 2002. Auditors found, however, that the Commission could at any time relinquish warehouse space by giving 120 days notice. Because of this misunderstanding and the recent relocation of the Commission to a newly furnished facility, about 16,000 square feet of warehouse space was being used to store furniture and equipment that was no longer needed by the Commission. The audit also found that another 6,000 square feet was used to store office supplies instead of using a more frequent ordering program that would reduce space requirements.

The audit report recommended that the Commission reduce the need for warehouse space by excessing unneeded furniture and equipment and reducing storage of office supplies. The report also recommended that the Commission renegotiate the contract to reduce contractor staff used to operate the warehouse to reflect the reduction of its operations.

Commission management plans to reduce warehouse space by 15,830 square feet, retain 10,000 square feet, and review alternatives and options for expediting their excessing property. Further, the Commission plans to reduce the storage of office supplies by adopting a more frequent ordering program and renegotiate the warehouse support contract after the space is relinquished. (CR-B-96-01)

The Department Needs Better Controls Over a Noncompetitive Cooperative Agreement

In November 1994, the Department of Energy entered into a 5-year \$51.45 million noncompetitive cooperative agreement with the State of Texas. The Department's share of the agreement was \$49 million and Texas's share was \$2.45 million. Through this agreement, the Department provided financial assistance to the State of Texas to establish the Amarillo National Resource Center for Plutonium. The Center sponsored research on issues relating to the storage, disposition, potential use, and transportation of plutonium, high explosives, and other materials generated from nuclear weapons disassembly. The Department determined that the financial assistance would be administered through a cooperative agreement because the Department would have substantial involvement during the agreement period.

An Office of Inspector General audit disclosed that the Department has had limited involvement in the Center's research projects and has not provided adequate management, direction and control to ensure that the Center's activities are beneficial and not duplicative. In addition, the Center's projects identified by the Department's Office of Fissile Materials Disposition as supporting Defense Programs activities have not been reviewed. The audit, as well as a subsequent review performed by the Office of Fissile Materials Disposition, showed that the Department funded about \$1.8 million during the first two years of the Center's operation for research which duplicated research conducted by the Department's national laboratories. The

duplication occurred because responsibility for technical review was assigned at a level without authority to fully coordinate review of the Center's research projects with the Department's national laboratories.

The audit report recommended that the Albuquerque Operations Office, which has administrative cognizance over the Center, ensure adequate Department involvement and delineation of roles and responsibilities for managing, directing, and controlling the Center's research. The report also recommended that Albuquerque establish a procedure with Headquarters Program Officers to ensure that research proposed by the Center does not duplicate other research by the national laboratories. Management agreed with the audit recommendations. (WR-B-96-08)

PERFORMANCE MEASURE:

AUDIT/INSPECTION SAVINGS, RECOVERIES AND FUNDS IDENTIFIED FOR BETTER USE

Explanation: Costs which are recovered, saved, disallowed, or identified for better use (detailed definition appears in Section 4 of this Semiannual Report). For the Office of Audit Services, dollar amounts discussed for this performance measure are included in the audit statistics presented in Section 4 of the Semiannual Report.

Greater Management Controls Are Needed Over Pension Plans

The Department of Energy funds pension programs established by its management and operating contractors for their contract employees. As part of its contracts with the University of California, the Department funded the retirement program for employees working at Los Alamos, Lawrence Livermore, and Lawrence Berkeley National Laboratories. Under the terms of the contracts, the University of California has wide latitude in the management of these programs. It can, for example, unilaterally change the future pension benefits of employees at the three national laboratories.

The Office of Inspector General has issued five audit reports on the pension plans operated for contract employees, including those for the employees of the University. In general, the reports have recommended methods for improved Departmental management of the pension plans for those employees.

An Office of Inspector General audit reported an opportunity to recover some excess pension assets and improve the Department's ability to manage its interest in contractor pension funds. On May 15, 1994, the Department announced its decision to extend and renegotiate its contracts with the University of California for the management and operation of the three national laboratories. Contracts for operating these laboratories would have expired in 1997. The audit concluded that the renegotiation process would provide the Department an opportunity to recover at least \$620 million in excess assets from the pension plans it has funded for University of California employees at the Department's

laboratories and to improve the Department's management of those pension plans. Because the laws governing pension plans restrict an employer's ability to remove assets from pension plans, recovering the excess funds may, however, require special legislation. The audit concluded that the overfunded pension position of the University of California Plan (at least \$620 million attributable to the Department) is so extreme that the Department needs to consider this unusual option.

The audit report recommended that the Department set negotiation objectives to: (1) require the University of California to cooperate with the Department's efforts to recover the excess pension assets, including jointly sponsoring special legislation, if necessary; and (2) modify the pension plan arrangements to improve its ability to manage future pension benefits for the University of California employees at the Department's national laboratories. Department management agreed in principle with the report recommendations, but declined to discuss specific elements of the Department's negotiating position with the University. (IG-0394)

Audit Discloses Internal Control Weaknesses in the Use of the Department's User Facilities

The Federal Government has for many years fostered scientific and technical education and research to improve Americans competitive edge in the international marketplace. In recent years, it has become important to continue developing new technologies and to transfer these technologies to industry. Consequently, the Department of Energy has made certain designated research facilities available to universities, industry, and other research organizations. Due to technology transfer efforts and excess capacities, even more facilities are being made available to outside users. Today, Department user facilities fall into one of three categories: designated user facilities, other user resources, and Technology Deployment Center/User Facilities.

An Office of Inspector General audit was conducted to determine whether (1) user facility agreements were priced to ensure full cost recovery; (2) user facility agreement collections were properly deposited; and (3) financial assistance provided to visiting researchers was allowable and reasonable. The audit found that the Department priced Technology Deployment Center/User Facility and designated user facility agreements in accordance with Department policies. The audit disclosed, however, that other user facility agreements were not always priced to ensure full cost recovery, and collections were not always properly deposited. For example, Los Alamos National Laboratory and the Idaho National Engineering Laboratory did not always price user facility agreements at full cost. As a result, Los Alamos did not recover about \$725,000 due to the Treasury. The audit further revealed that Los Alamos retained user agreement collections in its letter of credit account rather than depositing the collections into the Treasury. As of the end of Fiscal Year 1995, Los Alamos was holding over \$943,000 in user facility agreement collections, including about \$168,000 that should have been deposited to the Treasury to offset the Department's administration appropriation. The audit also showed

that one designated user facility provided visiting researchers with about \$689,000 in questioned financial and housing assistance costs.

The audit report recommended corrective actions regarding the pricing of user facility agreements, handling of user facility agreement collections, and assistance to visiting researchers. Department management generally agreed with the findings, and proposed corrective actions to address the reportms recommendations. (IG-0395)

PERFORMANCE MEASURE:

COMPLAINTS RESOLVED

Explanation: Complaints and allegations resolved as a result of OIG work. Complaints and allegations are considered resolved when a case is closed. Prosecutions and exonerations are included in this measurement.

Brookhaven National Laboratory Acts
to Address Environmental Issues
Related to Groundwater Contamination

The Office of Inspector General investigated allegations of possible groundwater contamination emanating from the Brookhaven National Laboratory. The investigation determined that management was aware of and was taking action to correct situations with potential negative environmental or safety impacts which had been brought to its attention.

Some of the complainants concerns included contaminated groundwater surrounding liquid storage tanks, lack of a maintenance schedule for an evaporator used to remove radioactive nuclei from water, storage tank liquid level alarms which occasionally malfunctioned, and lack of routine calibration of a distillate used to monitor storage tank tritium levels. One Brookhaven employee who had expressed concerns in the past acknowledged that Laboratory management had addressed some of the environmental issues that had been brought to its attention, including calibration of the distillate.

The investigation found that the problem of groundwater contamination at Brookhaven has been well known for a number of years. In December 1989, Brookhaven was placed on the National Priority List for environmental clean-up. An inter-agency agreement was established among the Department of Energy, the Environmental Protection Agency, and the New York Department of Conservation which covers site cleanup and environmental restoration activities.

Because contaminated groundwater has been found near some private wells, the Department of Energy is arranging for about 500 homes to be hooked up to a public water system. Additionally, the evaporator which had been a subject of concern has been shut down and its work is now being performed under contract.

The investigative report recommended that management invoke the appropriate contractual remedies for any performance by Brookhavenms management and operating contractor which did not

meet the terms and conditions of the contract. The report further recommended that management ensure that procedures are in place to prevent reoccurrence of the conditions which resulted in the environmental and safety concerns in the first place.

Management concurred with the reports recommendations and advised the Office of Inspector General that the management and operating contract had been converted to a performance-based contract to provide incentive to prevent reoccurrence. Also, management provided the Office of Inspector General with a summary of planned actions as well as actions already taken to resolve the environmental and safety concerns that had been brought to its attention. (I96PT004)

Department Employee Uses
Government Shuttle Bus to Commute
to Work, and Charges Overtime

A complainant alleged to the Office of Inspector General that a Department employee used a Government shuttle bus to commute to her job at Germantown, Maryland, and that she charged the Government overtime for time spent on the bus.

An investigation determined that the employee had been using the Government shuttle bus to commute since early 1993 when her job had been transferred from Rosslyn, Virginia, to Germantown. The employees supervisor acknowledged that he knew of the employees practice of using the Government shuttle bus to commute to her job and that he should have questioned the overtime claims. He stated that he had taken over supervisory responsibilities for the employee from another supervisor who had retired, and he had assumed that the commuting arrangement had been approved by the previous supervisor. The previous supervisor denied any knowledge of the commuting arrangement and the overtime charges.

The investigative report recommended that management take appropriate administrative disciplinary action against the employee for improperly claiming overtime hours that she did not work and for improperly using a Government shuttle bus for commuting to her work place. Further, management should take action to recover about \$2,260 in questionable overtime payments.

The report also recommended that management take appropriate administrative disciplinary action against the employee's supervisor for improperly certifying unworked overtime hours for the employee. Additionally, management should ensure that supervisors receive appropriate training and are aware of their responsibilities as certifying officials of employee time and attendance. (I95HQ027)

PERFORMANCE MEASURE:

INVESTIGATION RECOVERIES/FINES
AND FUNDS IDENTIFIED FOR BETTER USE

Explanation: Applies to investigations and allegation-based inspections only, and consists of recoveries (both property and money) and fines which were collected as a result of management actions based on OIG work, as well as funds identified in reports for

better use. Statistics on investigative recoveries/fines will be collected separately and will be included in Section 4 of the Semiannual Report.

Violations of the Clean Water Act Lead to \$22 Million in Fines and Penalties

The U.S. Attorney's Office in Syracuse, New York, requested assistance from the Office of Inspector General in investigating allegations of a gas pipeline company's violations of the Clean Water Act. Office of Inspector General activities included reviewing numerous records, planning and participating in wetland searches, and interviewing witnesses. Also participating in the investigation were the Federal Bureau of Investigation and the criminal investigation divisions of the U.S. Environmental Protection Agency and the U.S. Army.

The joint investigation determined that the pipeline company violated its construction permits to build a gas pipeline from Ontario, Canada, to Long Island Sound, New York. Specifically, the company did not clean up various wetlands and streams disturbed during construction, install required erosion control devices, or install trench breakers or clay plugs by the edges of all wetlands crossed or on slopes traversed during construction.

In May 1996, the pipeline company pled guilty in Federal court to four felony violations of the Clean Water Act. The company agreed to: (1) pay \$22 million in fines and penalties, (2) pay \$800 in court costs, (3) perform remedial action at identified streams and wetlands, (4) implement a 10-year safety plan to monitor, identify and remediate potential damage to the pipeline, and (5) implement a backfill stability monitoring and maintenance plan.

Four senior officials with the pipeline company also pled guilty in Federal court to violations of the Clean Water Act (I940P002)

False Claims for Lodging, Per Diem and Travel Costs Lead to \$396,000 Civil Settlement

The U.S. Attorneys Office in Seattle requested assistance from the Office of Inspector General in investigating allegations of false claims associated with contracts an accounting firm had with the Bonneville Power Administration and the Department of Justice.

The investigation determined that three of the accounting firm's employees assigned to an audit of the Bonneville Power Administration had pooled their funds to rent a studio apartment in Seattle. Having a Seattle residence allowed the three employees to appear to qualify for lodging, per diem and travel expenses while working on the contract with the Bonneville Power Administration in Portland. The three auditors were employed full-time on the Bonneville Power Administration audit in Portland and Portland, not Seattle, was the site of their primary residences.

In a civil settlement agreement filed in U.S. District Court, the accounting firm agreed to pay the Government \$396,000. (I95RL021)

Computer Valued at \$8,000
is Stolen from the Departmentms
K-25 Site at Oak Ridge

The Office of Inspector General received information from security officials that an IBM Thinkpad computer valued at \$8,000 was stolen from a locked room in a building at Oak Ridgems K-25 Site.

During the investigation, information was received that a contractor employee had stolen the computer and had sold it to buy drugs. The contractor employee confessed to the theft and implicated two non-contractor individuals as accomplices in the crime. Using his confession to Office of Inspector General investigators as a basis for action, the contractor fired the employee.

The Assistant U.S. Attorney accepted the case for criminal prosecution and a Federal Grand Jury returned an indictment against the former contractor employee. His two accomplices were arrested by local law enforcement authorities on outstanding drug warrants. The former contractor employee pled guilty in the Eastern District of Tennessee to the charges against him, and he agreed to make full monetary restitution. (I95OR016)

Undocumented Labor Charges at
Bonneville Power Administration
Are Rejected

Bonneville Power Administration officials referred evidence of overcharges by one of Bonneville's contractors to the Office of Inspector General for review.

The investigation found that the contractor had created and added labor hours to its timekeeping system just before completion of claims submitted to Bonneville for payment, and the newly added charges were not supported by payroll records. Contractor officials could not provide sufficient documentation to justify the questioned labor hours. The potential loss to Bonneville resulting from the contractor's unsupported charges was estimated at over \$100,000.

Based on their own audit and Office of Inspector General review, Bonneville and its contractor agreed to settle the dispute without litigation with an arrangement whereby Bonneville retained \$105,000 that would have otherwise been paid to the contractor. (I92RL001)

A Contractor Employee Accepted
Unauthorized Telephone Toll Calls

According to allegations received by the Office of Inspector General, a Sandia National Laboratory employee accepted toll charges for unauthorized telephone calls.

An investigation determined that the employee had accepted over 700 telephone calls at an office number from prison inmates located at the Central New Mexico Correctional Facility at Los Lunas and the Penitentiary of New Mexico at Santa Fe. The case was presented to a grand jury which returned an indictment for theft of Government property over \$250. The employee voluntarily

left employment at Sandia and signed a pretrial diversion plea agreement which provided for the repayment of over \$6600 in unauthorized accepted telephone toll call charges. (I95AL008)

Los Alamos Subcontractor's Lax Policy on Time Charging Leads to Abuse

The Office of Inspector General was informed that a supervisor employed by a Los Alamos National Laboratory subcontractor claimed premium pay to which he was not entitled. The subcontractor's employees were allowed to estimate their time working in a plutonium vault, and it was alleged that they consistently overestimated their time or falsified their payrolls by submitting claims for time they did not work.

The investigation substantiated the allegation against the supervisor. The Assistant U.S. Attorney, District of New Mexico, accepted the case against the supervisor for civil prosecution and sent him a demand letter for over \$4200 in premium pay and absent without leave overbilling. The supervisor responded to the demand letter by sending a certified check for the full amount requested to the U.S. Attorney's Office. (I95AL004)

Freon Cylinders Are Stolen from the Department's Savannah River Site

A contractor security official at the Department's Savannah River Site reported to the Office of Inspector General that a Westinghouse Savannah River Company employee had found 76 30-pound freon cylinders, valued at over \$18,000, missing from a storage facility.

An Office of Inspector General investigation determined that two Westinghouse employees with access to the storage area had collaborated to steal the freon cylinders and had sold them to six local businesses and three individuals for between \$125 and \$250 per cylinder. Westinghouse fired the employees and barred them from entering the Savannah River Site for one year. The Assistant U.S. Attorney accepted the case for prosecution, and a grand jury indicted the two employees. They pled guilty to theft of Government property and were sentenced to six months in-house detention with electronic monitoring. They also agreed to pay restitution of \$19,845. (I95SR017)

A Debarred Company Voluntarily Discloses Obtaining Government Contracts

A Department of Justice attorney notified the Office of Inspector General that a company had voluntarily disclosed that, even though it had been debarred, it had obtained Government contracts, including contracts with Sandia National Laboratories and possibly other Department entities. The attorney requested assistance in determining whether the company had disclosed all Department of Energy contracts it had obtained during the time of its debarment.

An Office of Inspector General review of Department procurement files at Headquarters and in the field disclosed no contracts with the debarred company other than those which the company had

voluntarily disclosed. In a settlement agreement, the company agreed to pay the Government all profits from the Government contracts as well as penalties. The monetary recovery which pertained to Department of Energy contracts was \$114,209. (I96AL016)

A Department Laboratory Violated Its Own Internal Policies and Procedures Concerning Temporary Travel

An Office of Inspector General hotline complaint alleged that Argonne National Laboratory authorized one of its employees to spend several months on a temporary assignment in Washington, D.C. The employee allegedly sold his home, was having a new home built, and his need for housing was connected to the temporary assignment.

An Office of Inspector General investigation disclosed that Argonne authorized the employee to take a 6-month temporary assignment to Washington, D.C., and later granted a 2-month extension. At the conclusion of the temporary assignment, the employee returned to Argonne and moved into his now completed new home.

The investigation identified \$28,443.51 in costs for the temporary assignment. An investigative report recommended that several thousand dollars of costs be disallowed, that Argonne follow established policies and procedures concerning temporary transfers, and that Argonne contact the Department concerning temporary transfer issues that are not covered by Argonne policies or require Department approval.

As a result of the investigative report, the Department and Argonne reached an agreement to disallow \$6,680 of the expenses, and Argonne agreed to follow appropriate rules and regulations on temporary transfers. (I95CH002)

Allegations of Overcharging by Training Subcontractor Result in Restitution to the Department

The Office of Inspector General received an allegation that a local company defrauded the Department's Savannah River Site for the training of eleven displaced contract employees. The Department had made up to \$5,000 available per employee for each of two years under a workforce restructuring program to retrain displaced employees. Only the cost of the course, which was subject to federal and state taxes, could be charged to the government. The company charged \$5,000 for each employee to compensate for the difference deducted by taxes. The company normally billed walk-in customers only \$3,000 or \$3,850 for the same course. The Civil Division of the U. S. Attorneys Office negotiated restitution with the company in the amount of \$13,800. (I95SR014)

False Certifications for Five Welders Results in a Civil Settlement of \$30,000

A Department of Energy management and operating contractor employee provided information to the Office of Inspector General concerning false welding certificates on five welders employed by a subcontractor at the Department's Hanford, Washington, site.

Officials from the subcontractor stated to an investigator for the Office of Inspector General that the company had provided false certifications on the welders. The subcontractor paid the Government \$30,000 in a civil settlement agreement. (I94RL026)

A Subcontractor Employee at Idaho Falls Downloaded Textual
Pornography

A Department of Energy management and operating contractor official informed the Office of Inspector General that a subcontractor employee at the Department's Idaho Falls Site downloaded textual pornography from the Internet and stored the material on a Government computer. In response to an investigative report, the subcontractor reimbursed the Government over \$9,300 for the time expended by the employee on the illicit activities, and the employee was reprimanded for his use of a Government computer to store pornographic material. (I94IF014)

NONCONCURRENCE
WITH OFFICE OF INSPECTOR GENERAL REPORTS

Explanation: The reports summarized in this section met with Department management's general nonconcurrency. In some cases, management may have concurred with a finding or principle stated in a report, but it did not concur with the recommendations or agree to take alternative actions to address the issues raised in the report. The Office of Inspector General cannot compel compliance with its recommendations. Nevertheless, the Office considers it an accomplishment just to have made its customers aware of important issues, and recommendations offered in these reports may still be of use to management at some future time.

Management Did Not Commit to Doing
A Cost-Benefit Analysis on Revisions
to Its Acquisition Regulation

A Department objective has been to shift more risk for the operation of its facilities to its managing contractors. In 1991, under the Accountability Rule, the Department increased contractor fees as an incentive to improve contractor performance and accountability. In January 1994, the Office of Inspector General issued an audit report on the implementation of the Accountability Rule which concluded that the Department paid five contractors \$23 million in increased fees with no conclusive evidence that this rule was meeting its objective. Further, the report noted that the Department had not achieved any measurable benefits for its investment.

Now the Department is crafting a new fee policy which may, depending on how it is implemented and executed, increase available fees by as much as \$218 million annually. This increase, which is above the amount provided through the Accountability Rule, is expected to be an incentive to improve management and operating contractor performance. Prudent business practice dictates that any change which increases costs

to the Department should be analyzed to determine if the benefits justify the cost. This change, however, was not subjected to a rigorous analysis to determine its cost and benefits.

A cost-benefit analysis would identify the risks assumed by the contractors, identify any other quantitative or qualitative benefits that would accrue to the Department as a result of the new fee policy, and enable the Department to establish a benchmark and expectation level for measuring the effectiveness of performance-based contracting. If appropriate benchmarks are not established, the Department may be providing management and operating contractors with substantial increases in fees with no method in place to measure actual benefits.

Management elected to transmit a notice of proposed rulemaking to the Office of Management and Budget without fee policy revisions recommended in the audit report, and indicated that the fee policy was still in an evolutionary state. Although management stated that it would review the final proposed rulemaking to ensure that its objectives were met, it did not commit to doing the cost-benefit analysis recommended in the audit report. (IG-0390)

SECTION 2

OFFICE OF INSPECTOR GENERAL OVERVIEW

This section describes the mission, staffing and organization of the Office of Inspector General, and discusses key Office of Inspector General concerns which have potential to impact the accomplishment of audit, inspection, or investigative work.

OFFICE OF INSPECTOR GENERAL OVERVIEW

MISSION

The Office of Inspector General operates under the Inspector General Act of 1978, as amended, with the following responsibilities:

To provide policy direction for, and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Department of Energy.

To review existing and proposed legislation and regulations relating to programs and operations of the Department of Energy, and to make recommendations in the semiannual reports required by the Inspector General Act of 1978 concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Department, or on the prevention and detection of

fraud and abuse in such programs and operations.

To recommend policies for, and to conduct, supervise, or coordinate other activities carried out or financed by the Department of Energy for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations.

To recommend policies for, and to conduct, supervise, or coordinate relationships between the Department of Energy and other Federal agencies, state and local government agencies, and nongovernmental entities with respect to:

- } All matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Department.
- } The identification and prosecution of participants in such fraud or abuse.

To keep the Secretary of the Department of Energy and the Congress fully and currently informed, by means of the reports required by the Inspector General Act of 1978, concerning fraud and other serious problems, abuses and deficiencies relating to the administration of programs and operations administered or financed by the Department of Energy, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.

In addition to the above, the Office of Inspector General receives complaints by contractor employees alleging reprisal by their employers for engaging in activities protected under Section 6006 of the Federal Acquisition Streamlining Act of 1994 or the Department of Energy Contractor Employee Protection Program (10 CFR Part 708), and attempts to resolve those complaints through investigation and adjudication, or alternative dispute resolution. Further, the Office of Inspector General receives and investigates allegations by Federal and contractor employees of misuse of the personnel security process in reprisal for engaging in whistleblower activities.

ORGANIZATION AND STAFFING

The activities of the Office of Inspector General are divided into four offices which are administered by Deputy Inspectors General.

The Office of Audit Services provides policy direction and supervises, conducts and coordinates all internal and contracted audit activities for Department of Energy programs and operations. Audits are planned annually through a prioritized work planning strategy that is driven by several factors, including the flow of funds to Departmental programs and

functions, strategic planning advice, statutory requirements and expressed needs. The Office of Inspector General audit staff has been organized into three regional offices, each with field offices located at major Department sites: Capital Regional Audit Office, with field offices in Washington, DC, Germantown, and Pittsburgh; Eastern Regional Audit Office, with field offices located at Cincinnati, Chicago, New Orleans, Oak Ridge, Princeton, and Savannah River; and Western Regional Audit Office, with field offices located at Albuquerque, Denver, Idaho Falls, Las Vegas, Livermore, Los Alamos, and Richland.

The Office of Investigations performs the statutory investigative duties which relate to the promotion of economy and efficiency in the administration of, or the prevention or detection of, fraud or abuse in programs and operations of the Department. Priority is given to investigations of apparent or suspected violations of statutes with criminal or civil penalties, especially procurement fraud, environmental, health and safety matters, and matters which reflect on the integrity and suitability of Department officials. Suspected criminal violations are promptly reported to the Department of Justice for prosecutive consideration. The Office is organized into four regional offices, each with reporting offices located at major Department sites: (1) the Northeast Regional Office is located in Washington, DC, with reporting offices in Pittsburgh and Chicago; (2) the Southeast Regional Office is located in Oak Ridge, with reporting offices located in Cincinnati and Aiken; (3) the Southwest Regional Office is located in Albuquerque, with a reporting office in Denver; and (4) the Northwest Regional Office is located in Richland, with reporting offices in Idaho Falls and Livermore. The Inspector General Hotline is also organizationally aligned within the Office of Investigations.

The Office of Inspections performs inspections and analyses. This Office also performs reviews based on administrative allegations and processes referrals to Department management for appropriate action. The Office of Inspections also investigates contractor employee allegations of employer retaliation for engaging in activities protected by Section 6006 of the Federal Acquisition Streamlining Act of 1994, or the Department of Energy Contractor Employee Protection Program (10 CFR Part 708). The Inspection staff is organized with a Headquarters organization and two regional offices. The Eastern Regional Office is located in Oak Ridge, with a field office in Savannah River. The Western Regional Office is located in Albuquerque, with a field office in Livermore, California.

The Office of Policy, Planning and Management directs the development, coordination, and execution of overall Office of Inspector General management and administrative policy and planning. This responsibility includes directing the Office of Inspector General's strategic planning process, financial management activities, personnel management programs, procurement and acquisition policies and procedures, and information resources programs. In addition, staff members from this Office represent the Inspector General in budget hearings, negotiations, and conferences on financial, managerial, and other resource

matters. Also, staff members provide management and administrative support services, including personnel, procurement, security, travel, training, and automated data processing services. The staff coordinates all activities of the President's Council on Integrity and Efficiency in which the Inspector General participates. The Office is organized into three offices: Administrative Services, Human Resources Management, and Information Resources.

INSPECTOR GENERAL RESOURCE CONCERNS

The Office of Inspector General has an outstanding record of identifying waste, fraud and abuse in Department of Energy programs and operations and in identifying programs which are no longer needed; streamlining Departmental operations; and identifying programmatic funds which can be put to better use. The Office of Inspector General consistently provides the Department with meaningful recommendations for program improvements and has a proven track record of returning more in savings and funds put to better use than it costs to operate the office. For example, Office of Inspector General actions in identifying attainable economies and efficiencies in Department operations have recently provided a positive dollar impact of about \$4 million per audit employee per year. This confirms that the operations of the Office of Inspector General are "revenue positive."

The Office of Inspector General has also established itself as a major player in the investigative area as evidenced by its successful criminal and administrative investigations which have been the subject of commendations from U.S. Attorneys throughout the nation. For example, the Office of Inspector General has significantly increased the number of cases accepted for criminal and civil prosecution and more than doubled the number of criminal convictions from previous years. As a result of these and other investigative efforts, significant dollar recoveries have occurred and criminal activity within the Department and its contractor community has been investigated and prosecuted.

In terms of its own organization, the Office of Inspector General has continued to streamline its processes and downsize its staff consistent with the objectives of the National Performance Review.

Due to the current Government downsizing and reduced budgets, the Office of Inspector General has been forced to further reduce its work force, which will result in unfulfilled customer expectations. It is becoming extremely difficult to fulfill our statutory obligations and to provide program results reviews. We have been operating on an economical bare bones basis for some time now. For the last several years, the Office of Inspector General's budget request has been significantly reduced. In Fiscal Years 1996 and 1997, our appropriations were about 18 and 19 percent respectively below our requested levels. Additionally, the Office of Inspector General has lost 14 percent of its staff over the last several years while hiring no new or replacement personnel during the last year and a half. At the same time, expenditures for travel, training, permanent change of

station moves, and overtime have been restricted to minimal requirements.

The severe resource constraints occurred at a time when additional programmatic responsibilities, resulting in increased work load, were levied upon the Office of Inspector General without the provision of additional resources. For example, passage of the Government Management Reform Act of 1994 gave the Office of Inspector General the responsibility of auditing the consolidated financial statements of the Department. This enormous effort consumes about 50 staff members and requires the expert assistance of a major accounting firm on a contractual basis. It is recognized that these audits bring a new business-oriented approach to Government management and make Government more accountable, and they provide assurance as to the integrity of the Department's financial management systems which Congress has been highly critical of in the past. Yet no funds were provided for this new function.

Another resource concern is that, by law, the Office of Inspector General must provide its investigators with availability pay which amounts to additional expenditures of \$1 million annually. No funds were provided for this expenditure. These are just two examples of increased resource requirements for the Office of Inspector General that came about without commensurate funding or staffing.

Since the early 1990s, successive Secretaries of Energy have highlighted the shortage of audit resources as a Department of Energy material weakness in reports to the President as part of the Federal Managers' Financial Integrity Act process. Now the Department is experiencing significant realignment and downsizing which increase vulnerabilities and organizational turbulence resulting in weaker internal controls. This environment places greater, not less, reliance on Office of Inspector General functions.

The Office of Inspector General matched increased work demands with Fiscal Year 1996 staffing and funding levels in part by further reducing the volume of audit, inspection, and investigation work performed. We worked priority issues with the resources available, including:

Continuing implementation of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 audit requirements.

In coordination with the Department, relying on our Cooperative Audit Strategy where contractor internal audits provide reasonable assurances that the procedures used to determine costs and charges to the Government are accurate, complete, and in compliance with Department contracts. It should be noted, however, that as downsizing occurs within contractor internal audit staffs, our ability to rely on this Strategy could be impaired.

Working highest priority issues, categorized as "most significant," and addressing remaining issues afterward until resources are exhausted.

Raising thresholds for accepting complaints for Office of

Inspector General action and referring more complaints to Department management for resolution.

Investigating as a high priority those cases with the best potential for successful criminal or civil prosecution, and only investigating the remainder as resources permit. Criminal cases which do not score high may be referred to other law enforcement agencies for their consideration, put on hold in the event that resources might become available, referred to Department management for action, or delayed indefinitely.

Conducting administrative allegation inspections (which are highly focused fact-finding reviews) only in response to more significant allegations of waste or mismanagement.

The Office of Inspector General's funding has been reduced by 24 percent since Fiscal Year 1992. As we begin Fiscal Year 1997, the Office of Inspector General faces further budget and staffing reductions. Under the Department's Strategic Alignment Initiative, the Office of Inspector General is required to reduce its work force an additional 29 percent by Fiscal Year 2000. This added reduction to our resource levels during a time of major internal control change and downsizing within the Department of Energy will have a serious impact on the Office of Inspector General's ability to perform its statutory mission. The Office of Inspector General will continue to do its best to accomplish its statutory mission with the remaining resources. However, diminished Office of Inspector General resources affect our ability to provide reasonable assurance to the Secretary that the Department is operating with integrity, and may erode taxpayer confidence.

MANAGEMENT REFERRAL SYSTEM

The Office of Inspections manages and operates the Office of Inspector General Management Referral System. Under this system, selected matters received through the Office of Inspector General Hotline or from other sources are referred to the appropriate Department managers or other Government agencies for review and appropriate action. We referred 208 complaints to Department management and other Government agencies during the reporting period. We asked Department management to respond to us concerning the actions taken on 88 of these matters. Complaints referred to the Department managers included such matters as time and attendance abuse, misuse of Government vehicles and equipment, violations of established policy, and standards of conduct violations. Referrals to management resulted in 4 administrative disciplinary actions and 5 monetary recoveries during the reporting period. The following are examples of the results of referrals to Department management.

Contrary to policy at a Department laboratory, a contractor employee was authorized by laboratory (contractor) management to participate in outside employment that required the use of laboratory resources. Corrective action included the contractor

reimbursing the Government for the use of the resources and management taking steps to better familiarize employees, managers, and supervisors with policies and procedures pertaining to outside employment.

As a result of an allegation being substantiated that management at a Department laboratory had not taken appropriate followup action on a safety finding in an accident investigation report, Department management has tasked laboratory management with taking several specific corrective measures.

An allegation that a contractor employee was circumventing procurement procedures was substantiated; however, the employee's motivation appeared to be to expedite the procurement process. The contractor's procurement procedures have been modified to facilitate the procurement process.

Three Department employees responsible for the unauthorized destruction of Government property reimbursed the Government for the replacement cost of the destroyed property.

As a result of an allegation raising concerns about whether two specified Department organizations were able to effectively interact to successfully perform their respective duties, Department management initiated an independent review of the interaction between these two organizations. The review identified areas of concern to the two organizations, and several recommendations for improvements were made.

A Department employee was counseled as a result of an allegation being substantiated that the employee had used Government time and computer resources to conduct personal business.

LEGISLATIVE AND REGULATORY OVERVIEW

Congressional Requests

During the reporting period, congressional committees or subcommittees, members of Congress, and their respective staffs made 43 requests to the Office of Inspector General. We responded by testifying at one hearing, providing 3 briefings, and providing data or reports in 53 instances, including 15 interim responses and 38 final responses. Interim responses are provided for open matters which remain under review by the Office of Inspector General.

Legislative Review

In accordance with the Inspector General Act of 1978, the Office of Inspector General is required to review existing and proposed legislation and regulations relating to Department program and operations, and to comment on the impact which they may have on economical and efficient operations of the Department. During this reporting period, the Office coordinated

and reviewed 4 legislative and regulatory items.

INSPECTOR GENERAL REPORTS AVAILABILITY

On the Internet

As part of an ongoing effort to streamline operations and provide better service to customers, many Office of Inspector General audit and inspection reports are available on the Internet. Hardcopy distribution is costly, time consuming and often may not reach the requester in a timely fashion. Making our reports available on the Internet is an efficient way to distribute reports and should be of value to our customers.

Our reports are available in plain text format (ASCII) to anyone with Internet Gopher (a simple client/server protocol used to organize access to Internet resources), or file transfer protocol (FTP) capability. Users can find our reports at gopher.hr.doe.gov, selecting "Department of Energy Information" from the first menu, and then selecting "DOE Inspector General Reports." Our published reports can also be obtained via anonymous FTP at vml.hqadmin.doe.gov. Once at that location, the user can go to the IG directory to download available reports.

By U.S. Mail

Persons wishing to request hardcopies of reports to be mailed to them may do so by calling the automated Office of Inspector General Reports Request Line at (202) 586-2744. The caller should leave a name, mailing address, and identification number of the report needed. If the report's identification number is unknown, then the caller should leave a short description of the report and a telephone number where the caller may be reached in case further information is needed to fulfill the request.

Requests by Telefax

In addition to using the automated Office of Inspector General Reports Request Line, persons may telefax requests for reports to (202) 586-3636. Telefaxing requests may be especially convenient for people requesting several reports.

Point of Contact for More Information

Persons with questions concerning the contents, availability, or distribution of any Office of Inspector General report may contact Wilma Slaughter by telephone at (202) 586-1924 or via the Internet at wilmatine.slaughter@hq.doe.gov.

REPORTS ISSUED

The 52 audit reports issued during this semiannual reporting period are listed below in three categories: contract and grant, operational, and financial reports. Significant financial results associated with each report are also presented when applicable. Two inspection reports are listed separately.

REPORTS ISSUED

CONTRACT & GRANT AUDIT REPORTS

- ER-C-96-02 Final Audit of U.S. Department of the Army Contracts with Princeton University, Princeton, New Jersey, April 1, 1996
Questioned Costs: \$224,894
- ER-C-96-03 Field Pricing Review of Lockheed Martin Energy Systems' Response to General Dynamics Land Systems' RFP PR 25136, April 10, 1996
- ER-C-96-04 Final Audit of Princeton University's Costs Claimed for Subcontract XD-0-10076-1 Under National Renewable Energy Laboratory's U.S. Department of Energy Contract DE-AC02-83CH10093, May 7, 1996
Questioned Costs: \$87,613
- ER-C-96-05 Interim Audit of Princeton University's Costs for Environmental Remediation of A and B Sites on Forrestal Campus Through December 31, 1995, September 25, 1996
Questioned Costs: \$73,050
- ER-C-96-06 Final Audit of Princeton University's Costs Claimed for U.S. Department of Energy Contract DE-AC02-76ER03072, September 25, 1996
Questioned Costs: \$773
- WR-C-96-05 Audit of Costs Claimed Under Contract No. DE-AC08-93NV11011, October 1, 1992, Through July 31, 1995, Wackenhut Services, Inc., Las Vegas, Nevada, July 25, 1996
Questioned Costs: \$1,735 Unsupported Costs: \$1,129
- WR-G-96-01 Audit of Funds Expended Under Grant No. DE-FG04-90AL65780, Modification 008, July 14, 1994, Through January 31, 1995, with the State of Texas, April 3, 1996

OPERATIONAL AUDIT REPORTS

- IG-0388 Audit of Internal Controls Over Special Nuclear

Materials, April 4, 1996

- IG-0389 Summary Audit Report on Lessons Learned from the Superconducting Super Collider Project, April 23, 1996
- IG-0390 Audit of Department of Energy Management and Operating Contractor Available Fees, May 8, 1996
Savings: \$218,000,000
- IG-0391 Audit of Department of Energy's Activities Designed to Recover the Taxpayers' Investment in the Clean Coal Technology Program, June 6, 1996
- IG-0392 Audit of the Department of Energy Program Offices' Use of Management and Operating Contractor Employees, July 8, 1996
- IG-0394 Special Audit of Pension Plans for Department of Energy Contract Employees of the University of California, August 19, 1996
Savings: \$316,000,000
- IG-0395 Audit of the Department of Energy's User Facilities, August 19, 1996
Questioned Costs: \$689,166 Savings: \$893,586
- IG-0396 Audit of Department of Energy's Contractor Liability Insurance Costs, September 13, 1996
- AS-L-96-01 Audit of DOE's Implementation of Office of Management and Budget Circular A-131 Value Engineering, June 17, 1996
- CR-B-96-01 Audit of the Federal Energy Regulatory Commission Leased Warehouse Space, May 24, 1996
Savings: \$1,069,200
- CR-L-96-06 Audit of the Department's Radiological Health Protection Program, April 4, 1996
- CR-L-96-07 Audit of Benefits Paid to Terminated Contractor Employees Under the Civilian Radioactive Waste Management Program, August 1, 1996
- CR-L-96-08 Review of the Department's Government Purchase Card Program, August 6, 1996
- ER-B-96-01 Audit of Work Force Restructuring at the Fernald Environmental Management Project, April 23, 1996
Savings: \$15,800,000
- ER-B-96-02 Audit of Groundwater Remediation Plans at the Savannah River Site, June 11, 1996
- ER-L-96-07 Audit of the Department of Energy's Distinctions Between Hazardous Waste and Mixed Waste, July 5, 1996

- WR-B-96-06 Audit of Bonneville Power Administration's Management of Information Resources, April 2, 1996
Questioned Costs: \$109,000 Unsupported Costs: \$182,000
Savings: \$803,000
- WR-B-96-07 Subcontracting Practices at the Nevada Operations Office and Its Management and Operating Contractor, May 10, 1996
- WR-B-96-08 Audit of the Management of the Cooperative Agreement with Texas to Fund the Amarillo National Resource Center for Plutonium, August 23, 1996
- WR-L-96-04 Survey of Consolidated Management and Operating Contracts at the Nevada Operations Office, July 24, 1996
- WR-L-96-05 Audit of the Environmental Restoration of the 903 Pad, Mound, and East Trenches at the Rocky Flats Environmental Technology Site, September 19, 1996

FINANCIAL AUDIT REPORTS

- CR-FS-96-03 Report on Matters Identified at the Strategic Petroleum Reserve During the Audit of the Department's Consolidated Statement of Financial Position as of September 30, 1995, April 15, 1996
- ER-FS-96-03 Report on Matters Identified at the Savannah River Operations Office During the Audit of the Department's Consolidated Statement of Financial Position as of September 30, 1995, May 17, 1996
- ER-V-96-05 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Cost Claimed by and Reimbursed to MK-Ferguson of Oak Ridge Company Under Department of Energy Contract No. DE-AC05-91OR21900, April 15, 1996
- ER-V-96-06 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to DynMcDermott Petroleum Operations Company Under Department of Energy Contract No. DE-AC96-93PO18000, April 23, 1996
- ER-V-96-07 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Princeton Plasma Physics Laboratory Under Department of Energy Contract No. DE-AC02-76CH03073, May 17, 1996
- ER-V-96-08 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the West Valley Demonstration Project Under Department of Energy

Contract No. DE-AC07-81NE44139, June 3, 1996

- ER-V-96-09 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Energy Systems, Inc., Under Department of Energy Contract No. DE-AC05-84OR21400, July 17, 1996
- ER-V-96-10 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Argonne National Laboratory Under Department of Energy Contract No. W-31-109-ENG-38, August 7, 1996
- ER-V-96-11 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Associated Universities, Inc., Brookhaven National Laboratory Under Department of Energy Contract No. DE-AC02-76CH00016, August 20, 1996
- ER-V-96-12 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Savannah River Company Under Department of Energy Contract No. DE-AC09-89SR18035, September 25, 1996
- ER-V-96-13 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Speciality Components, Inc., Under Department of Energy Contract No. DE-AC04-92AL73000, September 30, 1996
Questioned Costs: \$58,130 Unsupported Costs: \$446,750
- WR-V-96-10 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Hanford Company Under Department of Energy Contract No. DE-AC06-87RL10930, May 3, 1996
- WR-V-96-11 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Board of Trustees of the Leland Stanford Junior University Stanford Linear Accelerator Center Under Department of Energy Contract No. DE-AC03-76SF000515, June 3, 1996
- WR-V-96-12 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Rocketdyne Division of Rockwell International Corporation Energy Technology Engineering Center Under Department of Energy Contract No. DE-AC03-76SF00700, June 4, 1996

- WR-V-96-13 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Hanford Environmental Health Foundation Under Department of Energy Contract No. DE-AC06-90RL11711, June 12, 1996
- WR-V-96-14 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Battelle-Pacific Northwest National Laboratory Under Department of Energy Contract No. DE-AC06-76RL01830, June 25, 1996
- WR-V-96-15 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Fluor Daniel (NPOSR), Inc., Under the Department of Energy Contract No. DE-AC01-92FE62316, July 15, 1996
Questioned Costs: \$400
- WR-V-96-16 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Rocky Flats, Inc., Under Department of Energy Contract No. DE-AC34-90RF62349, July 24, 1996
- WR-V-96-17 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Midwest Research Institute Under Department of Energy Contract No. DE-AC36-83CH10093, July 25, 1996
Questioned Costs: \$5,185
- WR-V-96-18 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory Under Department of Energy Contract No. W-7405-ENG-36, July 26, 1996
Questioned Costs: \$163,432
- WR-V-96-19 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Regents of the University of California Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405-ENG-48, July 30, 1996
- WR-V-96-20 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation Under Department of Energy Contract No. DE-AC04-94AL85000, August 5, 1996
Questioned Costs: \$24,400
- WR-V-96-21 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Regents of the University of California Lawrence Berkeley National

Laboratory Under Department of Energy Contract No. DE-AC03-76SF00098, September 12, 1996

WR-V-96-22 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel Petroleum Operations, Inc., Under Department of Energy Contract No. DE-AC01-85SF60520, September 25, 1996
Questioned Costs: \$53,046

INSPECTION REPORTS

IG-0393 Inspection of the Establishment and Filling of the Department's Ombudsman Position, August 1, 1996

INS-L-96-05 Inspection of Selected Practices for Replacement of Deteriorated Roofs at the Department of Energy's Y-12 Plant, July 2, 1996

SECTION 4

STATISTICS

This section lists audit reports issued before the beginning of the semiannual reporting period for which no management decisions have been made by the end of the reporting period, the reasons management decisions have not been made, and the estimated dates (where available) for achieving management decisions. This section also presents audit statistics on questioned costs, unsupported costs, and dollar value of recommendations resulting from audit reports issued during this reporting period. In addition, this section presents statistics on inspection and investigative results achieved during this semiannual reporting period.

DEFINITIONS

The following definitions, based on the Inspector General Act of 1978, apply to terms used in this Semiannual Report.

Questioned Cost: A cost which the Inspector General questions because of:

1. An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
2. A finding that, at the time of an audit, such cost is not supported by adequate documentation; or
3. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost: A cost which the Inspector General questions because the Inspector General found that, at the time of an audit, such cost is not supported by adequate documentation.

Disallowed Cost: A questioned cost which Department management, in a management decision, has sustained or agreed should not be charged to the Government.

Recommendation That Funds Be Put to Better Use ("Savings"): An Inspector General recommendation that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including:

1. Reduction in outlays;
2. Deobligation of funds from programs or operations;
3. Withdrawal of interest subsidy costs on losses or loan guarantees, insurance or bonds;
4. Costs not incurred by implementing recommended improvements related to Department operations, contractors, or grantees;
5. Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
6. Any other savings which are specifically identified.

Management Decision: The evaluation by Department management of the findings and recommendations included in an audit report and the issuance of a final decision by Department management concerning its response to such findings and recommendations, including actions concluded to be necessary.

Final Action: The completion of all actions that Department management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that Department management concludes no action is necessary, final action occurs when a management decision has been made.

AUDIT REPORT STATISTICS

The following table shows the total number of operational and financial audit reports, and the total dollar value of the recommendations.

	Total Number	One-Time Savings	Recurring Savings	Total Savings
Those issued before the reporting period for which no management decision has been made:	9	\$69,189,083	\$29,164,000	\$98,353,083

Those issued during the reporting period:	45	\$553,441,935	\$855,360	\$554,297,295
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Those for which a management decision was made during the reporting period:	27	\$592,197,648	\$6,840,000	\$599,037,648
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Agreed to by management:		\$22,421,785	\$0	\$22,421,785
Not Agreed to by management:		\$252,529,771	\$6,840,000	\$259,369,771

Those for which a management decision is not required:	20	\$0	\$0	\$0
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Those for which no management decision had been made at the end of the reporting period*:	7	\$347,679,462	\$23,179,360	\$370,858,822
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*NOTE: The figures for this item include sums for which management decisions on the savings were deferred. Also, this tabulation does not include \$304,000,000 which is part of the \$620,000,000 reported in narratives on pages 11 and 25. The \$304,000,000 was discussed in report number IG-0314 and accounted for in our October 1992 Semiannual Report; however, the appropriate corrective action was not taken by management.

AUDIT REPORT STATISTICS

The following table shows the total number of contract and grant audit reports, and the total dollar value of questioned costs and unsupported costs.

	Total Number	Questioned Costs	Unsupported Costs
Those issued before the reporting period for which no management decision has been made:	21	\$20,560,721	\$110,948
Those issued during the reporting period:	7	\$388,065	\$1,129
Those for which a management decision was made during the reporting period:	7	\$3,213,522	\$707
Value of disallowed costs:		\$187,412	\$0
Value of costs not disallowed:		\$3,026,110	\$707
Those for which a management decision is not required:	3	\$224,894	\$0

Those for which no
management decision had
been made at the end of
the reporting period: 18 \$17,510,370 \$111,370

REPORTS LACKING MANAGEMENT DECISION

The following are audit reports issued before the beginning of the reporting period for which no management decisions have been made by the end of the reporting period, the reasons management decisions have not been made, and the estimated dates (where available) for achieving management decisions. These audit reports are over 6 months old without a management decision.

The Contracting Officers have not yet made decisions on the following contract reports for a variety of reasons. They include delaying settlement of final costs questioned in audits pending negotiation of indirect cost rates, awaiting review of independent research and development costs, and litigation. Also, tentative agreements on allowable costs have been reached, but final vouchers indicating these agreements have not been submitted by some contractors. The Department has a system in place which tracks audit reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are indeed addressed and effected as efficiently and expeditiously as possible.

- WR-CC-90-32 Audit of Costs Claimed Under Contract No. DE-AC01-80RA32049 for the Operation Period From October 1, 1984, Through April 30, 1985, and the Post Operation Period from August 1, 1985, Through November 30, 1987, Williams Brothers Engineering Company, Tulsa, Oklahoma, May 10, 1990

- WR-C-92-01 Report on the Final Audit of Costs Incurred by EWA, Inc., Environmental and Water Resources Management, Minneapolis, Minnesota, Under Its Contract with the Yakima Indian Nation, United States Department of Energy Grant DE-FG06-83RL10545, for the period May 14, 1984, Through December 22, 1988, April 6, 1992

- ER-CC-93-05 Report Based on the Application of Agreed-Upon Procedures With Respect to Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 20, 1990, Bechtel National, Inc., San Francisco, California, and Bechtel Savannah River, Inc., North Augusta, South Carolina, May 3, 1993

- CR-C-95-01 Report on the Interim Audit of Contract No. DE-AC35-89ER40486, Jan. 18, 1989, to September 30, 1989, Universities Research Association, Inc., Superconducting Super Collider Laboratory, Waxahachie, Texas, February 3, 1995

WR-C-95-01 Report on Independent Final Audit of Contract No. DE-AC34-91RF00025, July 26, 1990, to March 31, 1993, Wackenhut Services, Inc., Golden, Colorado, March 13, 1995

ER-C-95-03 Report on the Interim Audit of Costs Incurred Under Contract No. DE-AC05-92OR21972 from September 1, 1992, to September 30, 1993, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, May 11, 1995

ER-C-95-04 Interim Audit of Contract Number DE-AC05-84ER40150, October 1, 1991, Through September 30, 1993, Southeastern Universities Research Association, Inc., Newport News, Virginia, June 6, 1995

WR-C-95-05 Review of Los Alamos National Laboratory Disclosure Statement Adequacy and Cost Accounting Standards Compliance, June 2, 1995

ER-C-95-06 Audit of Final Indirect Cost Rates for Fiscal Year 1988 Through 1992 Princeton University, Princeton, New Jersey, September 27, 1995

ER-C-96-01 Report on the Interim Audit of Costs Incurred Under Contract No. DE-AC05-92OR21972 From October 1, 1993, to September 30, 1994, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, March 29, 1996

WR-C-96-01 Review of Mason & Hangar-Silas Mason Company, Inc., Cost Accounting Standards Compliance, October 30, 1995

WR-C-96-02 Audit of Costs Claimed Under Contract Numbers DE-AC02-85ER80276, DE-AC02-87ER80454, and DE-AC02-88ER80599, September 1985 Through December 1993, Scientific Systems International, Los Alamos, New Mexico, November 13, 1995

WR-C-96-03 Review of Lawrence Livermore National Laboratory Cost Accounting Standards Board Disclosure Statement Adequacy and Cost Accounting Standards Compliance, January 4, 1996

WR-C-96-04 Review of Lawrence Berkeley National Laboratory Cost Accounting Standards Board Disclosure Statement Adequacy and Cost Accounting Standards Compliance, January 8, 1996

Additional time was necessary to develop management decisions for the following reports. Further explanations for the delays follow each audit report.

AP-B-95-01 Audit of Management and Control of Information Resources at Sandia National Laboratories,

November 1, 1994 (The finalization of the management decision on this report is awaiting resolution of two outstanding issues. It is estimated that these issues will be resolved by November 30, 1996.)

- IG-0373 Audit of Administration of Cooperative Research and Development Agreements at DOE National Laboratories, May 19, 1995 (The finalization of the management decision on this report is awaiting action by the recently designated organization within the Department. It is estimated that the action will be completed by November 30, 1996.)
- WR-C-96-03 Review of Lawrence Livermore National Laboratory Cost Accounting Standards Board Disclosure Statement Adequacy and Cost Accounting Standards Compliance, January 4, 1996 (The management decision is awaiting the resolution of several complex issues. It is estimated that these will be resolved by December 31, 1996.)
- WR-C-96-04 Review of Lawrence Berkeley National Laboratory Cost Accounting Standards Board Disclosure Statement Adequacy and Cost Accounting Standards Compliance, January 8, 1996 (The management decision is awaiting the resolution of several complex issues. It is estimated that these will be resolved by December 31, 1996.)
- WR-V-96-02 Assessment of Changes to the Internal Control Structure and Their Impact on Allowability of Costs Claimed by and Reimbursed to Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405, January 9, 1996 (The finalization of the management decision on this report is awaiting the review of the Department's General Counsel. It is estimated that a management decision will be reached by November 30, 1996.)

INVESTIGATIVE STATISTICS

The investigative statistics below cover the period from April 1 through September 30, 1996

Investigations open at the start of this reporting period:	284
Investigations opened during this reporting period	94
Investigations closed during this reporting period	93
Investigations open at the end of this reporting period	285
Debarments/Suspensions	16
Investigations Referred to Management for Recommended Positive Action	27
Complaints Referred to Management for Review and Followup	4
Administrative Disciplinary Actions Taken	113

Investigations Referred for Prosecution*	31
Accepted	16
Declined	27
Indictments	8
Convictions	20
Pretrial Diversions	0
Fines, Settlements, and Recoveries**	\$29,365,094

*Some of the investigations accepted or declined during this 6-month period were referred for prosecution during a previous reporting period.

**Some of the money collected was the result of Task Force Investigations.

Hotline Statistics

Complaints Received via the Hotline	189
Complaints Received via the General Accounting Office	2
Total Complaints Received	191
Investigations Opened on Hotline Complaints	9
Complaints Resolved or Pending Resolution	116
Complaints That Required No Investigation by OIG	66
Total Complaints Disposition	191

INSPECTION STATISTICS

The inspection statistics below cover the period from April 1 through September 30, 1996

Allegation-Based and Management System Inspections

Inspections open at the start of this reporting period	149
Inspections opened during this reporting period	13
Inspections closed during this reporting period	20
Inspections open at the end of this reporting period	142
Complaints referred to Department management/others	208
Number of these referrals requesting a response for OIG evaluation	88
Reports issued*	7
Allegation-based inspections closed after preliminary review	8
Inspection recommendations	
Accepted this reporting period	19
Implemented this reporting period	21
Personnel management actions taken as a result of inspections or complaints referred to management	4

*Reports include non-public reports such as administrative allegation reports.

Contractor Employee Protection Investigations

Complaints open at the start of this reporting period	75
Complaints opened during this reporting period	22
Complaints closed during this reporting period	32
Complaints dismissed	8
Rprts of invest. & proposed decisions issued	6
Allegation of Reprisal complaints settled	10
Allegation of Reprisal complaints withdrawn	5
Personnel security abuse reviews completed	3
Complaints open at the end of this reporting period	65

FEEDBACK SHEET

The contents of the October 1996 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. However, there may be additional data which could be included or changes in format which would be useful to recipients of the Report. If you have suggestions for making the report more responsive to your needs, please complete this feedback sheet and return it to:

Department of Energy
Office of Inspector General (IG-13)
Washington, D.C. 20585

ATTN: Wilma Slaughter

Your name:

Your daytime telephone number:

Your suggestion for improvement: (please attach additional sheets if needed)

If you would like to discuss your suggestion with a staff member of the Office of Inspector General or would like more information, please call Wilma Slaughter at (202) 586-1924 or contact her on the Internet at wilmatine.slaughter@hq.doe.gov.