DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

APRIL 1997

Department of Energy
Washington, DC 20585

April 30, 1997

The Honorable Federico Pena
Secretary
Department of Energy
Washington, D.C. 20585

Dear Secretary Pena:

This Semiannual Report for the first half of Fiscal Year 1997 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 October 1, 1996, through March 31, 1997. 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 at the lowest possible cost to the taxpayer. Five such performance measures were used during this semiannual period to present outcomes of Office of Inspector General work in terms of improvements in Department programs and operations.

During this reporting period, the Office of Inspector General issued 38 audit and 11 inspection reports. For reports issued during the period, the Office of Inspector General made audit recommendations that, when implemented by management, could result in $58 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 $36 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.

Office of Inspector General investigations led to 13 criminal convictions, as well as criminal and civil prosecutions which resulted in fines and recoveries of about $2.3 million. The Office of Inspector General also provided 21 investigative referrals to management for recommending positive change.

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. A primary example is the passage of the Government Management Reform Act of 1994 which gave the Office of Inspector General the responsibility of auditing the consolidated financial statements of the Department. This effort consumes about 50 staff years and requires the expert assistance of a major accounting firm on a contractual basis. These experts, for whom it is not cost effective to retain as Federal employees, provide specialized skills in areas such as petroleum engineering, cost modeling, and actuarial services.

Another example of increased costs with no funding provided is the statutory requirement to provide investigators with availability pay which amounts to additional expenditures of $1 million annually. Another unfunded mandate is our requirement to audit and pay into the Department's Working Capital Fund, which amounts to almost $2 million annually.

Also, the Department's former 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 workload 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.

During organizational downsizing and changes in internal control structures such as the Department is now experiencing, there may be increased vulnerabilities, opportunities for fraud and waste, and increased numbers of complaints requiring resolution. Furthermore, the workload of the Office of Inspector General is driven by the number of Departmental programs rather than the Department's staff size. 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 vulnerability is heightened. As a result of our resource constraints, we now have a higher threshold 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

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

Audit of the Department's Consolidated Financial Statements is Completed (IG-FS-97-01): On February 24, 1997, the Office of Inspector General issued its report on the "Audit of the U.S. Department of Energy's Consolidated Financial Statements For Fiscal Year 1996." The report included the Office of Inspector General's opinion that the Department's financial statements presented fairly, in all material respects, the financial position of the Department as of September 30, 1996, and the results of its operations and changes in net position for the year then ended. The report was a hallmark event for the Department in that it was the culmination of a multi-phased effort by the Office of Inspector General to audit the statements of the Department of Energy, providing nationwide coverage of the Department's financial management activities including 29 financial reporting entities which were subject to detailed testing. Additionally, the audit of the statements was completed within the statutory reporting date of March 1, 1997, established by the Government Management Reform Act.

Inspection Identifies Internal Control Weaknesses in the Planning and Execution of Foreign Travel (IG-0397): At the request of the Secretary of Energy, the Office of Inspector

General reviewed the Secretary's 16 foreign travel trips taken over a 30-month period. An inspection identified $4.58 million, excluding salaries and overtime, spent for these trips. Four of the 16 trips, costing $3.42 million, were trade missions to India, Pakistan, China, and South Africa. Although the Department identified numerous non-monetary outcomes resulting from the trade missions, the Department was not always clear in describing the monetary outcomes. While the monetary outcomes reported by the Department include the signing of 143 business agreements with a potential value of $19.7 billion, these agreements are not all firm contracts and they do not represent actual dollars going to U.S. companies.

Audit Reports Identify Need to Improve Construction Planning Process (IG-0398): In Fiscal Year 1996, the Department of Energy's budget submission of about $18 billion included approximately $1.1 billion for construction projects. The Office of Inspector General issued an audit report that synthesized issues from 1994 and 1995 audit reports which addressed construction projects, highlighting additional opportunities to improve the construction planning process. The audit report recommended that the Department emphasize the need for effective evaluations of the Department's current and future mission needs as part of the annual approval process for ongoing and planned construction projects.

Substantial Savings Could Be Realized Through the Disposal of Nonessential Land (IG-0399): The Department of Energy and its predecessor agencies acquired control of about 2.4 million acres of land to carry out wide-ranging programs. Federal regulations require that executive agencies hold only that land necessary to economically and efficiently support mission related activities. An audit found that rather than dispose of nonessential land, the Department issued a land use policy expanding land management activities and began seeking public and private ideas for new land uses. As a result of the Department's actions, land valued at $126 million could be transferred to other Federal or state agencies, or a portion sold for private uses. The Department's liability for payments in lieu of taxes on purchased land could be reduced by $1.7 million annually.

$13.6 Million in Unreasonable and Unallowable Contractor Employee Relocation and Temporary Living Costs Are Identified (IG-0400): This summary audit report highlights systemic problems with contractor charges for contractor employee relocation and temporary living costs. Over the past 5 years, the Office of Inspector General has issued nine audit reports that identified almost $13.6 million of unreasonable or unallowable charges by contractors for employee relocation and temporary living costs. These unreasonable and unallowable costs were charged because the Department did not use clearly defined contractual provisions that were consistent with the Federal Acquisition

Regulation and the Department of Energy Acquisition Regulation, as applicable, to establish reasonable and allowable charges for contractors. Management has established a plan of action to address this issue.

Inspection Identifies Internal Control Weaknesses in the Management and Administration of a $14.22 Million Performance Based Incentive (PBI) Program (IG-0401): The inspection found that the Fiscal Year 1995 PBI Program at the Department's Richland Operations Office had not made the best use of incentive dollars paid to the management and operating (M&O) contractor. For example, the inspection disclosed: (1) an instance where the fee paid was excessive when compared with the cost of labor and material to perform the PBI work, (2) instances where PBI fees were paid for work that was accomplished prior to the establishment of the PBI Program at Richland, (3) instances where PBI fees were paid for work that was not completed, (4) instances where PBI fees were paid for work that was easily achieved by the M&O contractor, and (5) an instance where quality and safety were compromised by the M&O contractor to achieve a PBI fee.

Inspection Finds Deficiencies in Design and Construction of a Department Nuclear Materials Storage Facility (INS-0-97-01): A complainant alleged that the Department's Nuclear Materials Storage Facility at the Los Alamos National Laboratory was so poorly designed and constructed that it was never usable and that the Department proposed to renovate the entire facility to store large amounts of plutonium. An inspection concluded that the complainant's allegations concerning the design and construction of the facility were accurate. The inspection also concluded that there was not sufficient basis for the Government to recover damages from any contractors on the project. A Root Cause Analysis Report, prepared by the Department's Los Alamos Area Office, stated that Department officials and the management and operating contractor were responsible for inadequate design requirements for the facility. The report also stated that there was inadequate construction management by the Department and its contractors.

Inspection Identifies a Contractor to be in Noncompliance with Federal and Department Policies on Tape Recording of Conversations (S94IS094): The Office of Inspector General received an allegation concerning the tape recording of conversations at a Department of Energy Site. The inspection found that the contractor employee did record approximately 30 telephone conversations between himself and a Department of Energy employee. About 25 percent of these recordings were made on the Federal site. The inspection did not find evidence that the tape recording of those telephone conversations was contrary to state law. The inspection concluded, however, that the tape recording of the telephone conversations was contrary to both Federal and Departmental policies.

False Claims for Cost Mischarging Lead to a $2.7 Million

Civil Settlement (I93LL016): An Office of Inspector General investigation of Work-For-Others projects at Lawrence Livermore National Laboratory disclosed evidence of cost mischarging related to overruns, loans, non-deobligations (unused funds were not returned to a sponsor after a project was completed), and transactions that were inadequately explained and/or supported. The Assistant U.S. Attorney issued a demand letter to the Laboratory and a settlement agreement for $2,718,291 was signed by the Laboratory and the U.S. Attorney's Office. A total of $2,925,451 was received from the laboratory for all transactions and for administrative and legal costs.

An Asbestos Removal Subcontractor Falsifies Certifications (I95IF007): The U.S. Attorney's Office and the Environmental Protection Agency requested assistance from the Office of Inspector General on an investigation of allegations that a company had falsified medical survey records and certificates of training related to Government-funded asbestos removal subcontracts. The company performed asbestos removal for local school districts and for Federal Government agencies, including the Department of Energy at the Idaho National Engineering Laboratory. The company and its president were convicted of environmental and fraud-related crimes as part of a plea agreement. The court fined the defendants a total of $25,750 and sentenced the president to 6 months incarceration.

A Civil Action Results in Voluntary Debarment and Cash Settlement by Contractor Principals (I89RL008): The Office of Inspector General investigated allegations that two principals of a Government contractor had directed their employees to falsely charge non-Department work to the contract. The investigation determined that the total loss to the Department was about $1,652,173. Both defendants pled guilty in the criminal case and were sentenced to 33 months and 18 months, respectively. The company was also fined $30,000 and debarred for 3 years. The two principals and the Government also recently signed a civil settlement agreement wherein they agreed to pay $25,000 and $15,000 to the Government and to a self-debarment of 5 and 3 years, respectively.

Two Hanford Site Subcontractor Employees Falsely Claim Over $30,000 in Per Diem (I95RL019): An investigation determined that two subcontractor employees, a husband and wife, both fraudulently obtained per diem subsistence based on false representations that they maintained a permanent residence outside of Richland. The subjects received about $31,653 in false per diem claims. The U.S. Attorney's Office filed an indictment against both subjects. The husband was sentenced to 6 months home detention with electronic monitoring and required to pay restitution in the amount of $24,560. The wife entered into a pretrial diversion agreement, requiring restitution in the amount of $7,093 plus a $1,000 penalty, and supervision for a 24-month probationary period.

AUDIT OF THE DEPARTMENT OF ENERGY'S
CONSOLIDATED FINANCIAL STATEMENTS

On February 24, 1997, the Office of Inspector General issued its report on the Audit of the U.S. Department of Energy's Consolidated Financial Statements For Fiscal Year 1996. The report included the Office of Inspector General's opinion that the Department's financial statements presented fairly, in all material respects, the financial position of the Department as of September 30, 1996, and the results of its operations and changes in net position for the year then ended. The Department's Consolidated Statement of Financial Position reported total assets of $94 billion and total liabilities of $264.5 billion including an Unfunded Environmental Liability of $227.7 billion which represented the environmental remediation costs of nuclear weapons production. The Department's Consolidated Statement of Operations and Changes in Net Position reported total revenues and financing sources of $25 billion and total expenses of $33.9 billion.

The report identified three internal control reportable conditions that did not materially affect the financial statements but were significant in that they could adversely affect the Department's ability to ensure that control objectives are achieved. These conditions included the need to refine its process for estimating environmental remediation cost for the Department's active facilities, to fully integrate and provide adequate controls over financial management systems, especially by integrating the Power Marketing Administrations into the Department's Primary Accounting System, and to strengthen internal controls over property, plant and equipment.

Additionally, the Office of Inspector General reported a number of other conditions relating to the Department's internal control structure that were not material to the financial statements including control weaknesses over the verification of performance measurements reported in the Department's Overview to its financial statements. These matters were reported in 11 separate reports to Headquarters and field level managers.

The report on the Department's Fiscal Year 1996 consolidated financial statements was a hallmark event for the Department. It was the culmination of a multi-phased effort by the Office of Inspector General to audit the statements of the Department of Energy. Phase I focused on the Department's Fiscal Year 1995 Consolidated Statement of Financial Position and provided the Department with early notification of significant weaknesses that needed to be corrected prior to the statutorily required statements for Fiscal Year 1996. This early notification allowed the Department to take corrective actions in time for the Phase II audit of the Fiscal Year 1996 statements. Additionally, the audit of the statements was completed within the statutory reporting date of March 1, 1997, established by the Government Management Reform Act.

The consolidated financial statements audit is a mandated yearly requirement which is unprecedented in its scope and resource demands on the Office of Inspector General. For example, the Fiscal Year 1996 audit provided nationwide coverage of the Department's financial management activities including 29 financial reporting entities which were subject to detailed testing. Although the vast majority of staff resources for this effort were provided by Office of Inspector General personnel, an independent public accounting firm and internal audit staffs provided significant support to the audit.

During the Fiscal Year 1997 audit, the Office of Inspector General will have to increase the scope of its work to focus on how the Department is implementing new standards, such as the Federal Accounting Standards Advisory Board's Managerial Cost Accounting Standards, as well as new reporting requirements such as the Federal Financial Management Improvement Act. This increased workload and associated resource demand continues to be of special concern to the Office of Inspector General given the decreasing resources available to meet statutory requirements for financial and performance audits.

SECTION I

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.

MISSION

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

1. 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.

2. 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.

3. 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.

4. 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:

7 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.

7 The identification and prosecution of participants in such fraud or abuse.

5. 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.

ORGANIZATION AND STAFFING

The activities of the Office of Inspector General are performed by four offices.

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, including reviews based on administrative allegations. In addition, the Office investigates contractor employee allegations of employer retaliation 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). The Office also processes referrals of administrative allegations to Department management. The Office of Inspections includes 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 Resource 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. The Office 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: Financial Resources, Human and Administrative Resources, 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.

The Office of Inspector General staff, over the last several years, has been reduced by 20 percent in order to meet downsizing targets. The Office of Inspector General must reduce its workforce even further, thus making it extremely difficult to fulfill our statutory obligations and meet customer expectations. This has come at a time when additional programmatic responsibilities, resulting in increased workload, have been levied upon the Office 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. These audits provide assurance as to the integrity of the Department's financial management systems which Congress has been highly critical of in the past. This effort consumes about 50 staff years and requires the expert assistance of a major accounting firm on a contractual basis. These experts, for whom it is not cost effective to retain as Federal employees, provide specialized skills in areas such as petroleum engineering, cost modeling, and actuarial services. Other examples of increased costs with no funding provided include the statutory requirement to provide investigators with availability pay which amounts to additional expenditures of $1 million annually; and the requirement to audit and pay into the Department's Working Capital Fund, which amounts to almost $2 million annually. In addition, the Office of Inspector General has been required to cover normal salary increases without additional funds.

Savings as a result of reduced staff levels have been offset by increased program and financial responsibilities. Therefore, expenditure levels have remained relatively constant over the last few years. However, operating program requirements have far exceeded appropriation amounts. Some activities, such as training, contract audits, and permanent changes of station, have been restricted to minimal funding. The use of carryover funds has helped mitigate somewhat the impact of the funding shortfall. However, all carryover funds are expected to be used in FY 1997.

The Office of Inspector General has always accepted the need to participate with the Department in its effort to downsize and streamline operations. However, further resource reductions may be inadvisable as they will inhibit the detection and prevention of fraud, waste and abuse. During organizational downsizing and changes in internal control structures, such as the Department is now experiencing, there may be increased vulnerabilities, greater frequency of fraud and waste, and increased numbers of complaints requiring resolution. Furthermore, the Office□s workload is driven by the number of Departmental programs, rather than the Department□s staff size. The Department's downsizing effort is focused more on reducing program budgets than eliminating programs. As a result of our resource constraints, we now have a higher threshold for investigative case openings and inspection of administrative allegations, resulting in less coverage and less deterrent effect. The Office's investigative efforts have been redirected toward cases of increased severity, including cases of serious criminal violations, large civil fraud matters, and significant administrative misconduct.

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

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. During Fiscal Year 1996, we:

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

7 In coordination with the Department, relied 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.

7 Worked highest priority issues, categorized as "most significant," and addressed remaining issues afterward until resources are exhausted.

7 Raised thresholds for accepting complaints for Office of Inspector General action and referred more complaints to

Department management for resolution.

7 Investigated as a high priority those cases with the best potential for successful criminal or civil prosecution, and only investigated the remainder as resources permit. Criminal cases which did not score high were 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.

7 Conducted 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 still faces further 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 166 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 64 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. The following are examples of the results of referrals to Department management.

7 As a result of a management review having substantiated an allegation that documents were inappropriately purged from a Department of Energy employee's personnel security file by site management, the site initiated steps to develop guidelines for managers and to train managers on Privacy Act requirements.

7 In separate cases, allegations were substantiated that

an employee had used a Government computer for personal matters and another employee was inappropriately using a Government computer and Internet access to solicit private business. The first employee received a verbal reprimand, and the other employee received a verbal warning.

7 Concern was expressed to the Office of Inspector General about certain aspects of the Department's participation in a for-profit forum at a resort location. Management determined that the Department's participation was appropriate, however, Department management advised that the conference sponsor has been informed that future Department participation will be dependent upon the conference being held in a "more appropriate location." Also, management was initiating action to disseminate guidance to Departmental employees reminding them of the Department's policy on conference attendance.

7 An allegation that a high-ranking Department official made a political trip at Government expense to a Department site under the guise of announcing a site initiative was refuted: the trip was not paid for by the Department, nor was Government-rate airfare used.

LEGISLATIVE AND REGULATORY OVERVIEW

Congressional Requests

During the reporting period, congressional committees or subcommittees, members of Congress, and their respective staffs made 54 requests to the Office of Inspector General. We responded by providing 7 briefings and providing data or reports in 69 instances, including 16 interim responses and 54 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 2 legislative and regulatory items.

SECTION II

PERFORMANCE MEASURES

Significant Office of Inspector General work is presented in this section under 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: Recommendations Accepted or Implemented by Management

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

ANNUAL SAVINGS OF AT LEAST $500,000 COULD BE ACHIEVED THROUGH IMPROVED COORDINATION OF CONTRACTORS' GROUNDWATER MONITORING

The Department's Richland Operations Office is responsible for ensuring that its contractors' tasks are mission-oriented and are completed at the least cost to the Department. Three of Richland's prime contractors perform cleanup work at the Department's Hanford Site. A part of those cleanup efforts is monitoring waste source areas such as tank farms, ponds, and landfills to determine if contaminants have been released into the groundwater. In Fiscal Year 1996, Richland provided $48 million to the three contractors to perform groundwater monitoring, remediation, and surveillance activities such as well drilling and maintenance, groundwater sampling and analysis, and reporting.

An Office of Inspector General audit showed that while Richland's groundwater monitoring was mission essential, it was not performed in the most cost-effective manner. Work performed by the three principal contractors overlapped, resulting in duplicative groundwater monitoring activities. Because of duplicative efforts, the Department spent at least $700,000 more than it should have in Fiscal Years 1995 and 1996, and could save at least $500,000 annually by implementing action to ensure coordination of contractors work for Hanford's groundwater monitoring.

The auditors recommended that Richland give mission authority to the groundwater monitoring group to develop a management strategy to coordinate Hanford Site contractors' groundwater monitoring activities. Department management concurred with and took action that was responsive to the recommendation to develop the management strategy. (WR-B-97-03)

INSPECTION IDENTIFIES INTERNAL CONTROL WEAKNESSES IN THE PLANNING AND EXECUTION OF FOREIGN TRAVEL

At the request of the Secretary of Energy, the Office of Inspector General reviewed the Secretary's foreign travel taken over a 30-month period. The Secretary traveled overseas on 16 occasions between June 1993 and December 1995. An inspection identified $4.58 million, excluding salaries and overtime, spent for these trips. Four of the 16 trips, costing $3.42 million, were trade missions to India, Pakistan, China, and South Africa to help advance U.S. international economic and policy objectives, and help create business for U.S. firms. Although the Department has identified numerous non-monetary outcomes resulting from the trade missions, the Department has not always been clear in describing the monetary outcomes. While the monetary outcomes reported by the Department include the signing of 143 business agreements with a potential value of $19.7 billion, these agreements are not all firm contracts and they do not represent the actual dollars going to U.S. companies.

The inspection also found:

(1) Internal control deficiencies existed in the administration of the Secretary's foreign trips in such areas as support costs and chartering aircraft.

(2) The Department lacked written internal control procedures for planning, coordinating, and executing international trade missions.

(3) The Department could not accurately account for who participated in the Secretary's 16 foreign trips.

(4) Department procedures for invitational travel were not followed.

(5) Travel vouchers reviewed by inspectors (which had been filed as a result of the four trade missions) showed that almost all the Department participants claimed full per diem.

(6) Several internal control weaknesses existed in the process used by Department officials to obtain support from U.S. embassies and to control embassy support costs.

The inspection report contained 31 recommendations for corrective action. Department management concurred with the recommendations and has made significant progress in implementing corrective actions. (IG-0397)

AUDIT REPORTS IDENTIFY NEED TO IMPROVE CONSTRUCTION PLANNING PROCESS

In Fiscal Year 1996, the Department of Energy's budget submission of about $18 billion included about $1.1 billion for construction projects. Ensuring that these construction projects meet bonafide existing or future Departmental needs becomes increasingly important as the Department's missions evolve and as it faces additional budget reductions.

Office of Inspector General reports issued in 1994 and 1995 identified recurring problems when changes in mission needs were not fully considered in initially approving funding of new or ongoing construction projects. In addition, these reports identified instances where Department management did not fully consider viable alternatives to construction of new facilities. Further, the Department's construction plans were not always updated to reflect emerging program and mission changes resulting in the potential construction of unneeded or oversized facilities. Although the problems identified were at single locations, the magnitude of the construction program and the length of the planning process created a potential for the recurrence of similar problems. While management did not agree with all aspects of the audit reports, it canceled or downsized several of the construction projects.

In November of 1996, the Office of Inspector General issued an audit report that synthesized issues from the 1994 and 1995 audit reports. This report highlighted issues dealing with additional opportunities to improve the construction planning process. An analysis of the construction program planning process indicated that the budget validation process did not provide information to facilitate program office assessments of continued mission need. Without documentation that there is a continued mission need, higher level management cannot effectively evaluate the assertion in the budget validation process.

The 1996 audit report recommended that the Department emphasize the need for effective evaluations of the Department's current and future mission needs as part of the annual approval process for ongoing and planned construction projects. To its credit, the Department recognized that opportunities existed to improve the construction planning process and has initiated a number of process improvements that are designed to enhance the construction planning process. However, many of the Department's initiatives have not been fully implemented or tested, and therefore their effectiveness cannot be evaluated at the present time. Except for the Office of Energy Research, Department management agreed with the recommendation. (IG-0398)

$13.6 MILLION IN UNREASONABLE AND UNALLOWABLE CONTRACTOR EMPLOYEE RELOCATION AND TEMPORARY LIVING COSTS ARE IDENTIFIED

The Office of Inspector General issued an audit report to alert senior Department of Energy managers of an area of contracting that requires Departmental attention. Over the past 5 years, the Office of Inspector General has issued nine audit reports that identified almost $13.6 million of unreasonable or unallowable charges by contractors for employee relocation and temporary living costs. These unreasonable and unallowable costs were reimbursed because the Department did not use clearly defined contractual provisions that were consistent with the Federal Acquisition Regulation and the Department of Energy Acquisition Regulation, as applicable, to establish reasonable and allowable charges for contractors.

The nine audit reports showed that the Department reimbursed contractors for employee relocation costs of about $2.2 million that, in the opinion of the Office of Inspector General, were unreasonable and unallowable. An additional $3.4 million was charged and reimbursed for specifically unallowable income taxes related to relocation costs. The audits also identified problems with charges for temporary living and associated travel. Temporary living expenses and associated travel costs are authorized for employees who work away from their official or permanent duty locations and incur additional living expense. However, the audits of temporary living expenses and associated travel costs performed on several subcontractors identified charges of about $8 million that did not meet that requirement.

In November 1994, Department management issued a memorandum to all operations offices and contracting personnel that identified measures designed to reduce the amount of unreasonable or unallowable costs claimed by and reimbursed to contractors. Corrective action was also taken by Department field elements and their respective contractors for site specific problems. In order to resolve the root cause of the problem and enhance contract administration, the Office of Inspector General recommended in this summary report that the Department use clearly articulated Federal Acquisition Regulation and Department of Energy Acquisition Regulation standards and criteria for reasonableness and allowability for employee relocation and temporary living costs in its contracts and, when appropriate, in advance agreements. The Department concurred with the recommendation and provided a plan to improve contractual coverage of these costs. (IG-0400)

INSPECTION IDENTIFIES INTERNAL CONTROL WEAKNESSES IN THE MANAGEMENT AND ADMINISTRATION OF A $14.22 MILLION PERFORMANCE BASED INCENTIVE PROGRAM

While conducting other inspection work at the Department of Energy's Richland Operations Office, the Office of Inspector General identified the Fiscal Year 1995 Richland Performance Based Incentive (PBI) Program as an area of concern. Specifically, the inspection work was unable to identify any written policies describing implementation procedures or program controls for this $14.22 million program. As a result, the Office of Inspector General initiated an inspection to review (1) Department policies and guidance for the establishment and implementation of PBI Programs at the Department's Operations Offices, (2) the guidance developed by the Richland Operations Office for the administration of the Fiscal Year 1995 PBI Program, (3) the process used by Richland to nominate and select projects for the PBI Program, and (4) the establishment of PBI objectives at Richland and the justification for specific PBI award amounts.

The inspection found that the Fiscal Year 1995 PBI Program at Richland has not always made the best use of incentive dollars paid to the management and operating (M&O) contractor. For example, the inspection disclosed: (1) an instance where the fee paid was excessive when compared with the cost of labor and material to perform the PBI work, (2) instances where PBI fees were paid for work that was accomplished prior to the establishment of the PBI Program at Richland, (3) instances where PBI fees were paid for work that was not completed, (4) instances where PBI fees were paid for work that was easily achieved by the M&O contractor, and (5) an instance where quality and safety were compromised by the M&O contractor to achieve a PBI fee.

Specific examples include:
(1)The payment of a $225,000 PBI incentive fee to the M&O contractor to procure and install a ventilation fan with a total Fiscal Year 1995 cost of only $24,766.
(2)The payment of a $225,000 PBI incentive fee to the M&O contractor to complete the installation of alarm panels in seven tank farms when all the work was not completed prior to the PBI completion date as claimed by the contractor.
(3)The payment of a $185,870 incentive fee to the M&O contractor for the replacement of compressed air systems in 10 tank farms when all the work was not completed prior to the PBI completion date as claimed by the contractor.
(4)The payment of a $100,000 PBI incentive fee to the M&O contractor for the implementation of laboratory software, when, in fact, the software installation was completed prior to the incentive fee being offered.

The inspection also found $950,000 in penalties that should be assessed against the M&O contractor for incomplete PBI work.

Numerous PBI Program weaknesses were also found in the implementation of the Fiscal Year 1995 PBI Program at Richland. For example, this program was established without any specific written policies and procedures for the management and administration of an incentive fee program. As a result, the rationale for selecting PBI Performance Objectives was unclear, the justification for specific PBI fee amounts could not be determined, the scope of the PBI work and the criteria for acceptance were not always clearly defined, and the expected financial and operational benefits from individual projects selected under the PBI Program were undefined in most cases.

The inspection report included 19 recommendations to improve the PBI Program. Department management concurred with all 19 recommendations. (IG-0401)

ALLEGATION OF DEFICIENCIES IN DESIGN AND CONSTRUCTION OF A DEPARTMENT NUCLEAR MATERIALS STORAGE FACILITY

A complainant alleged to the Office of Inspector General that the Department of Energy's Nuclear Materials Storage Facility at the Los Alamos National Laboratory was so poorly designed and constructed that it was never usable and that the Department proposed to renovate the entire facility to store large amounts of plutonium. The complainant believed it imperative that the public receive some assurance that this waste will not recur and that the facility will be made safe.

An inspection was conducted to determine if the allegations were accurate, and if so, to determine if the Government could recover damages from the Architect/Engineer and/or the construction contractor. The inspection also reviewed the Department's proposed actions to renovate the facility.

The inspection concluded that the complainant's allegations concerning the design and construction of the facility were accurate. Office of Inspector General inspectors learned that deficiencies in the facility were so serious that they rendered the facility unusable for its intended purpose. These deficiencies included, for example, the inability to control and balance the heating, ventilation, and air conditioning (HVAC) system to maintain acceptable negative pressures within the facility. The inspection determined that deficiencies alleged by the complainant were similar to deficiencies that had been identified by the Department and the contractor.

The inspection also concluded that there was not a sufficient basis for the Government to recover damages from any contractors on the project. A Root Cause Analysis Report prepared by the Department's Los Alamos Area Office stated that Department officials and the management and operating contractor were responsible for inadequate design requirements for the facility. The report also stated that there was inadequate construction management by the Department and its contractors.

As a result of the inspection, the Office of Inspector General made several recommendations for corrective actions that management should take to ensure the facility is successfully renovated. Management generally concurred with the recommendations and is taking corrective action. (INS-0-97-01)

INSPECTION FINDS WEAKNESSES IN COMPLYING WITH DEPARTMENTAL POLICY TO REPORT FRAUD, WASTE, AND ABUSE TO THE OFFICE OF INSPECTOR GENERAL

The Office of Inspector General conducted an inspection of the Department of Energy's Savannah River Site to determine whether the site was fully complying with the provisions of a Departmental policy on reporting fraud, waste, and abuse to the Office of Inspector General. Departmental Order 2030.4B, Paragraph 6c, specifically requires Departmental contractors to (1) annually notify their employees of their duty to report allegations of fraud, waste, abuse, corruption, or mismanagement; (2) display and publish the Office of Inspector General Hotline telephone number in common areas of buildings; (3) publish the Office of Inspector General Hotline number in telephone books and newsletters; and (4) notify the Office of Inspector General regarding cases referred to other law enforcement entities. The Order applies to all integrated and management and operating contractors performing work for the Department as provided by law and/or contract.

The inspection found that the Savannah River Site's management and operating contractors were not fully complying with three of the four specific requirements in Paragraph 6.c. of the Order. First, the inspection found that the management and operating contractors were not annually notifying their employees of their duty to report allegations of fraud, waste, abuse, corruption, or mismanagement in the Department's programs, operations, funds, or contracts to appropriate authorities and, when appropriate, directly to the Office of Inspector General.

Second, the inspection disclosed that the management and operating contractors were not adequately displaying and publishing the Office of Inspector General Hotline number in common areas of buildings. Third, the inspection determined that the management and operating contractors were either incorrectly publishing or not publishing the Hotline number in telephone books and in newsletters under the contractors' cognizance. The inspection found, however, that the applicable management and operating contractor had notified the Office of Inspector General of alleged incidents of fraud, waste, and abuse that had been referred to Federal, State, or local law enforcement entities.

Department management agreed with the report recommendations and took positive actions to comply with the Department's Order. (INS-O-97-02)

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 IV 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 IV of the Semiannual Report.

SUBSTANTIAL SAVINGS COULD BE REALIZED THROUGH THE DISPOSAL OF NONESSENTIAL LAND

The Department and its predecessor agencies acquired control of about 2.4 million acres to carry out wide-ranging programs. However, recent changes in the world's political climate have had a profound impact on the Department's mission and its need for this land. The Department's mission is now focused on weapons dismantlement, environmental clean-up, technology development, and scientific research. Because of these mission changes, the Office of Inspector General initiated an audit to determine whether the Department has any land holdings that are excess to current and anticipated future needs.

Federal regulations require that executive agencies hold only that land necessary to economically and efficiently support mission related activities. The audit found that Department sites at Hanford, Oak Ridge, and Idaho retained about 309,000 acres of land which, in the opinion of the Office of Inspector General, are not essential to carrying out current and foreseeable mission requirements. The audit also found that rather than dispose of nonessential land, the Department issued a land use policy expanding land management activities and began seeking public and private ideas for new land uses. Therefore, the Department is holding land valued at $126 million that could be transferred to other Federal or state agencies, or a portion sold for private uses. Further, the Department's liability for payments in lieu of taxes on purchased land could be reduced by $1.7 million annually.

The audit recommended that the Department (1) dispose of nonessential land holdings at Hanford, Oak Ridge, and Idaho, (2) reevaluate requirements for all remaining Departmental land holdings against current and foreseeable requirements and dispose of nonessential land, and (3) reevaluate the policy of defining ecosystem management as a valid new use and a basis for retaining Department owned or controlled real property. Department management did not concur with the audit finding and recommendations, stating that the Department should finish realigning itself to new missions before identifying and disposing of excess properties. Also, management stated that the recommendations appeared to be contrary to the Administration's ecosystem management policies. (IG-0399)

COST SAVINGS COULD BE ACHIEVED BY REDUCING A NEED FOR LEASED WAREHOUSE SPACE

The Department of Energy and its contractors use warehouses for storing furniture, equipment, and office supplies. The Department spends over $2.5 million annually to lease about 3.5 million total square feet of warehouse space of which about 493,400 square feet was leased from outside sources.

An Office of Inspector General audit assessed the efficiency of the Department's use of warehouse space and whether the Department was minimizing the need for warehouse space for storing furniture, office supplies, and equipment. Although Federal Property Management Regulations require Government agencies to continuously review the need for space, the audit found that this was not always being accomplished throughout the Department. A review of four entities (entities are both Department and contractor operations) showed that the Department had more space than needed because about 76,000 square feet of warehouse space was used to store unusable, unneeded and/or excess furniture and equipment. In addition, office supplies were warehoused instead of adopting a just-in-time or equivalent delivery system.

The audit report recommended that Department management take action to dispose of excess and unneeded property, reduce the storage of office supplies, and establish stock levels for any furniture and office supplies that need to be warehoused. The report also recommended that specific actions be taken at three of the four entities reviewed that dealt with specific conditions identified at these locations. Department management agreed with the finding and three of the four recommendations. Management did not agree to relinquish leased warehouse space at Department Headquarters until further studies are completed. (CR-B-97-01)

$1.35 MILLION IN COSTS COULD BE AVOIDED BY ELIMINATING DUPLICATIVE ELECTRICAL COMMUNICATIONS PROJECTS

During the Cold War, the Department of Energy used the Nevada Test Site to test nuclear weapons. In order to meet the mission, Nevada had to construct many facilities, and maintain infrastructure support. However, the Cold War has ended and a Presidential Directive in October 1992 placed a moratorium on nuclear testing that is still in effect. Because these events changed the Test Site□s mission substantially, the Office of Inspector General performed an audit to assess whether Nevada was structuring cost effective projects with defined mission needs.

In response to changes in its mission, Nevada changed and rescoped several projects. The audit found that two projects contained electrical communications systems that were duplicative. The first project included digital-microwave and fiber-optic communications at a cost of $1.1 million; the second included a pure fiber capability costing $2.6 million. By its own estimate, Nevada could avoid about $1.35 million by taking action to eliminate this duplication. This situation occurred because of Nevada's uncertainty with the funding levels that would be provided for the pure fiber-optic system.

The audit report recommended that Department Management pursue the most cost-effective option that meets overall technical requirements. Management concurred with the recommendation. (WR-B-97-01)

REDUCTIONS IN BUS SERVICE SUBSIDIES AT A NATIONAL LABORATORY COULD SAVE AN ESTIMATED $7.2 MILLION PER YEAR

The National Performance Review report, Making Government Work Better and Cost Less (September 1993), and the Secretary of Energy's strategic alignment plan recommended reducing subsidies for services that could be more fully paid for by their users. An Office of Inspector General audit assessed whether bus service subsidies at the Department's Idaho National Engineering Laboratory were still necessary or reasonable.

Since May 1992, the Idaho Operations Office and the Laboratory's contractors have issued a series of bus operations reports that included recommendations to make the Laboratory's bus service smaller and less costly to operate. The audit found that these recommendations had not been implemented; therefore, the Laboratory's bus service was neither cost-effective nor efficient. Further, ridership was less than a desired rate per bus, and ticket fares were significantly lower than the costs to provide this service. The Department of Energy's subsidies averaged more than $14.6 million per year for the Laboratory's bus service since Fiscal Year 1993.

An Office of Inspector General report recommended that Idaho decrease the bus service subsidy by adopting a park and ride system, minimizing overtime costs, increasing ticket prices, setting and maintaining a system-wide minimum occupancy level, increasing use of Laboratory buses, and periodically comparing bus service costs with ticket sale revenues. The Office of Inspector General estimated that the Department could save as much as $7.2 million per year by implementing these recommendations.

Management partially concurred with one recommendation and fully concurred with the others, but did not provide proposed actions and completion dates for these recommendations. (WR-B-97-02)

HANFORD SITE'S $58 MILLION RAILROAD SYSTEM IS NOT FULLY USED

As a part of its stewardship responsibilities, the Richland Operations Office must ensure that all available physical assets at the Department's Hanford Site are integrated into the project management process and used in a cost-effective manner to accomplish the Department's missions. An Office of Inspector

General audit determined that the $58 million railroad system at the Hanford Site was not fully used to support Richland's environmental programs. This asset was not integrated into Hanford's activities because Richland did not fully ensure its contractor fully evaluated transportation alternatives for moving large quantities of material within the Hanford Site. Also, Richland planned to excess and dispose of the system. This discouraged potential system users from considering it for use in their cleanup plans.

The audit showed that if Richland incorporated the railroad system into the transportation segment of one ongoing project, the Department could save about $29 million over the life of that project. In addition, by using the railroad system to transport the material, the risk of accidents is significantly reduced.

The audit report recommended that Richland fully implement the project man-agement principles outlined in Department regulations and make every effort to cost-effectively use the railroad system and other physical assets at the Hanford Site. Management indicated partial concurrence with the audit recommendations and stated it would take every effort to cost-effectively use the Hanford railroad system. (WR-B-97-04)

PERFORMANCE MEASURE: Legislative and Regulatory Compliance Related to Office of Inspector General Recommendations

Explanation: Department adoption of principles and guidance contained in statutes, executive orders, and U.S. Code of Federal Regulations based on Office of Inspector General recommendations.

AUDIT QUESTIONS COSTS AWARDED UNDER ECONOMIC DEVELOPMENT GRANTS AND A COOPERATIVE AGREEMENT

As a result of the end of the Cold War, the Department of Energy has downsized many of its facilities. Because this downsizing may have a negative impact on many communities that were heavily dependent on Departmental operations for economic stability, Section 3161 of the National Defense Authorization Act for Fiscal Year 1993 required the Department to plan workforce restructuring initiatives so as to minimize the social and economic impacts on workers and communities. To meet the requirements of the law, the Department has encouraged the formation of community reuse organizations. These organizations are responsible for acting on behalf of the community to determine and sponsor initiatives to offset the consequences of the Department□s downsizing. One such initiative has been the award of economic development grants and a cooperative agreement to several local not-for-profit organizations located in East Tennessee.

An Office of Inspector General audit found that a large majority of funds awarded to East Tennessee not-for-profit organizations were being used for their intended purposes. However, significant amounts awarded to the East Tennessee Economic Council (ETEC) were not. For example, ETEC used about $161,000 to purchase furniture, equipment, and services that were outside the grants' approved scope(s) of work. Also, ETEC used about $29,000 to purchase equipment that was not held by ETEC and was not used specifically for grant purposes. These conditions occurred because the Department considered certain types of costs to be allowable even though they were outside the grants' approved scope(s) of work, and because reviews of ETEC's invoices did not reveal all items that should not have been billed or were billed in error. As a result, the Department reimbursed ETEC $220, 000 in questionable costs.

Federal regulations require that cash advances be limited to the minimum amount needed to meet grant recipients immediate cash requirements and that interest earned on cash advances be deposited in the U.S. Treasury. However, the Department advanced ETEC about $1.4 million more than ETEC needed to establish a revolving loan fund and then allowed ETEC to hold about $148,000 in interest earned on the advanced funds. This occurred because the Oak Ridge Operations Office officials responsible for awarding and administering these grants were not familiar with Federal rules on cash advances and interest earned on cash advances.

Management agreed with the findings and recommendations and will take appropriate action to correct the conditions disclosed in the report. (ER-B-97-01)

AUDIT IDENTIFIES INTERNAL CONTROL WEAKNESSES IN CASH ADVANCES

The Office of Inspector General performed an audit to determine whether funding provided for economic development at the Mound Plant was used for the Department's intended purposes. Overall, the audit found that the Department's funds were used for their intended purposes.

However, contrary to Federal regulations, the Department advanced the City of Miamisburg, Ohio, $2.6 million more than the minimum funds needed to meet immediate cash requirements, and the City kept the majority of the funds in non-interest-bearing accounts. The funds were provided to fulfill commitments previously made to the City by senior Department officials, and the Department did not require the City to comply with Federal regulations or grant terms regarding cash advances. As a result, the City held a cash advance of $2.6 million for more than a year and remitted only $10,000 in interest earned on the advance. Federal regulations require that cash advances be limited to the minimum amount needed to meet grant recipients immediate cash requirements, that each advance be kept in interest-bearing accounts, and that interest earned on cash advances be promptly deposited in the U.S. Treasury.

The audit recommended that Department management (1) ensure that any cash advances made under economic development grants are needed for immediate disbursement and maintained in interest-bearing accounts; (2) require that any interest earned on cash advances be promptly returned to the Department for remittance to the U.S. Treasury; and (3) require the City of Miamisburg to refund excess cash advances in accordance with Federal regulations and grant terms.

Management agreed with the finding and recommendations and initiated the appropriate corrective actions. (ER-B-97-02)

INSPECTION FINDS A CONTRAC-TOR TO BE IN NONCOMPLIANCE WITH FEDERAL AND DEPART-MENT POLICIES ON TAPE RECORDING OF CONVERSATIONS

The Office of Inspector General received an allegation concerning the tape recording of conversations at a Department of Energy site. Specifically, the complainant alleged that an employee of a Department contractor tape recorded conversations between himself and a Department of Energy employee at the site, without the Department employee□s knowledge.

An inspection found that the contractor employee had recorded approximately 30 telephone conversations between himself and the Department of Energy employee. These conversations were recorded by the contractor employee both at the Department of Energy site and at the home of the contractor employee. The inspection confirmed that the tape recordings were made without the knowledge of the Department employee.

The inspection concluded that the tape recording of telephone conversations on site was contrary to both Federal and Department provisions on "Consensual Listening-in to or Recording Telephone/Radio Conversations."

Department management is taking corrective actions to implement the nine recommendations in the inspection report. (S94IS094)

PEFORMANCE MEASURE: Complaints Resolved

Explanation: Complaints and allegations resolved as a result of Office of Inspector General work. Complaints and allegations are considered resolved when a case is closed. Prosecutions and exonerations are included in this measurement. Complaints and allegations which are referred to management without requiring a management response and referrals to other agencies do not count as resolutions and will not be included in this statistic.

WEATHERIZATION CONTRACTOR IS CONVICTED OF BRIBERY

The Department of Energy□s Kansas City Area Office reported to the Office of Inspector General allegations involving kickbacks and collusion in the weatherization program.

The investigation focused on theft of funds from a $309,793 Department of Energy weatherization grant. The investigation determined that a weatherization contractor provided kickbacks, amounting to $740, to a grant inspector in return for weatherization jobs. The contractor was found guilty of bribery and sentenced to one year in prison. (I93KC006)

CONFLICT OF INTEREST INVOLVES THE PRESIDENT OF A DEPARTMENT OF ENERGY GRANT RECIPIENT

The Office of Inspector General received an allegation that the president of an educational consortium that receives Department of Energy grant money hired his spouse as a consultant. The educational consortium administers Department of Energy educational grant funds that will amount to $50 million in the year 2000.

The investigation developed additional information indicating potential lobbying activities associated with the consortium's eastern office in Arlington, Virginia. The Office of Inspector General determined that the president hired his spouse as a consultant just prior to their marriage, which had been disclosed to the consortium's executive committee and to the Department. In an effort to avoid a conflict of interest, all consulting agreements subsequent to the disclosure were approved by the chair of the executive committee. Despite the disclosure and avoidance actions, an apparent conflict of interest remained because the president continued to oversee his spouse□s work. Department management responded to recommendations by the Office of Inspector General by directing the president to provide the contracting officer with a written statement assuring that he has removed himself from all oversight responsibilities for his spouse.

While there was no evidence that the consortium was using its eastern office as a conduit for lobbying activities, there were indications that the eastern office was being used to further the consortium□s non-Department expansion goals. Department management told the consortium that the costs for the eastern office will no longer be allowable after September 30, 1996. Additionally, the contracting officer will take action to ensure that any expansion efforts by the consortium are not charged to the Department's grants. (I95IF008)

CONTRACTOR EMPLOYEE FAILS TO DISCLOSE OUTSIDE INTEREST

Information was received by the Office of Inspector General which alleged a Department of Energy National Laboratory employee failed to disclose outside financial interests. The investigation revealed that the contractor employee had failed to disclose financial interests in companies which were recently prosecuted criminally and civilly for false statements and false claims by another government agency. When the employee was confronted she failed to provide complete statements of those interests as required by the Laboratory.

The terms of the Department's performance-based management contract with the contractor for the operation of the Laboratory specify that the disciplining of Laboratory employees is strictly within the purview of the contractor and Laboratory management. Based on an administrative report issued to the Department's management, the Laboratory employee was reprimanded for having twice failed to disclose those outside financial interests, and the contractor also withdrew the employee's annual raise of $1,100, which would have a cumulative effect over the remainder of the employee's working career at the Laboratory. (I96HQ007)

IMPROPER USE OF GOVERNMENT TELEPHONES

The Office of Inspector General received allegations that contractor personnel at the Department's Savannah River Site misused telephone access codes to make long distance domestic calls and international telephone calls, including calls to adult entertainment lines in Sao Tome, South Africa, while on official duty. A review of the site's telephone records listed the telephones from which the calls were made. However, not every telephone used to make calls to the adult entertainment lines could be identified with a specific office or user. Many of the telephones that were used to place these calls were located in "public" use areas, hampering specific identification of the callers. The investigation determined that over 100 calls were made to several adult entertainment lines located overseas. One contractor employee admitted making a number of the calls and was terminated.

The Office of Inspector General issued a report to Department management which addressed administrative concerns relating to the misuse of the access code. Department officials concurred with the report's recommendations and tasked the contractor to initiate actions to block site telephones from accessing specific international telephone exchanges and to ensure established procedures and guidelines for the assignment and use of telephone authorization codes are disseminated to all the appropriate site employees on a recurring basis. (I96SR025)

CONTRACTOR EMPLOYEE REPRISAL COMPLAINTS

7 The Office of Inspections issued a Report of Reprisal Inquiry and, pursuant to 10 C.F.R Part 708, provided copies to Department management, the contractor, and the complainant. The complainant alleged that he made protected disclosures of information regarding health and safety issues which led to the termination of his employment and the referral of information regarding his case to local policy authorities for possible criminal prosecution. The contractor asserted that the complainant was terminated for the unauthorized use of another employee's computer password, and the dissemination of three electronic mail messages which contained obscene and threatening language directed at a fellow employee. The Report of Reprisal Inquiry found that, on at least one occasion, the complainant made good faith disclosure regarding a health and safety issue, but that he failed to establish, by a preponderance of the evidence, that the contractor's actions were related to his disclosure. (S96IS042)

7 The Office of Inspections issued a Report of Reprisal Inquiry and, pursuant to Part 708, provided copies to Department management, the contractor, and the complainant. The complaint alleged reprisal against a contractor employee who had his employment terminated through a reduction-in-force (RIF). The employee (who had complained to a Member of Congress in 1988 about his job assignment following his participation in a congressional investigation) also alleged additional past acts of reprisal, including promotion denials, low performance ratings, and his failure to be hired for other positions. The investigation concluded that the employer did rely upon business-related reasons in terminating the employee through a RIF, and that available evidence did not support a finding of reprisal. (S96IS038)

PERFORMANCE MEASURE: Investigation Recoveries/Fines and Funds Identified for Better Use

Explanation: Applies to investigations and allegation-based inspections only, and consists of recoveries and fines which were collected as a result of management actions based on Office of Inspector General work, as well as funds identified in reports for better use. Statistics on investigative recoveries/fines are collected separately and are included in Section IV of the Semiannual Report.

A CIVIL ACTION RESULTS IN DEBARMENT AND CASH SETTLEMENT

The Office of Inspector General investigated allegations that two principals of a Government contractor had falsified their qualifications as professional engineers in conjunction with a Department of Energy contract. The principals also were alleged to have directed their employees to falsely charge non-Department work to the contract. The investigation determined that the total loss to the Department was approximately $1,652,173.

Both defendants had pled guilty in the criminal case, and one of the principals was sentenced to 33 months confinement while the other was sentenced to 18 months confinement. The company was also fined $30,000 and debarred for 3 years.

A Department of Justice attorney notified the Office of Inspector General that the two principals and the Government also recently signed a civil settlement agreement wherein one defendant agreed to pay $25,000 to the Government and to a self-debarment of 5 years. The other defendant agreed to pay $15,000 to the Government and to a self-debarment of 3 years. (I89RL008)

FALSE TIMECARDS ARE SUBMITTED AT A NATIONAL LABORATORY

The Office of Inspector General received an allegation that several University of California employees located at Los Alamos National Laboratory were fraudulently claiming overtime. The employees were located in a secure area at the Laboratory.

The investigation revealed that seven University of California employees had claimed overtime to which they were not entitled. Entry and exit records were reviewed and compared to time and attendance records. It was determined that a total of 783 hours in excess overtime had been claimed. The case was referred to the U.S. Attorney's Office for the District of New Mexico, and it was declined for prosecution in lieu of administrative remedies.

As a result of an Administrative Report to management, the Department recovered $13,477 from the University of California. (I92AL005)

A SUBCONTRACTOR EMPLOYEE SUBMITS FALSE RELOCATION VOUCHERS

The Office of Inspector General investigated possible false claims filed by the former Finance Director of a subcontractor at the Department of Energy's Pantex Plant.

The investigation determined that the former Finance Director submitted false claims totaling about $14,000 pertaining to relocation expenses. The former Finance Director pled guilty and was placed on 3 years probation and ordered to make restitution. (I92AL030)

FALSE CLAIMS FOR COST MISCHARGING LEAD TO A $2.7 MILLION CIVIL SETTLEMENT

An Office of Inspector General review of Work-For-Others projects at Lawrence Livermore National Laboratory disclosed evidence of cost mischarging. An investigation validated the review□s finding and determined additional cost overruns were charged to a Laboratory overhead account and subsequently divided among numerous other Work-For Others sponsors. The investigation identified four categories of mischarging for the transactions: overruns, loans, non-deobligations (unused funds were not returned to a sponsor after a project was completed), and transactions that were inadequately explained and/or supported.

The Assistant U.S. Attorney accepted the case for civil prosecutive consideration, and the Laboratory conducted an internal audit to determine the extent of cost mischarging. The Laboratory offered to repay the $1 million it calculated as the loss to taxpayers. An investigation by the Office of Inspector General determined that the cost mischarging was greater than $1 million; therefore, the U.S. Attorney's Office accepted $716,906 from the Laboratory as a downpayment to cover the calculated mischarging; and the Laboratory paid $207,160 for audit and legal costs during the audit.

The Assistant U.S. Attorney issued a demand letter to the Laboratory and a settlement agreement for $2,718,291 was signed by the Laboratory and the U.S. Attorney's Office. The Laboratory paid a balance of $2,001,385. A total of $2,925,451 was received from the Laboratory for all transactions and for the audit and legal costs. (I93LL016)

CASHIERS WILL MAKE FULL RESTITUTION FOR STEALING TRAVEL ADVANCE FUNDS

The Office of Inspector General received allegations that two Department of Energy cashiers submitted false travel documents which resulted in their embezzlement of approximately $12,000 in travel advances.

The cases against the two cashiers were accepted for prosecution by the U.S. Attorney's Office in the District of Columbia. They both pled guilty to the thefts and agreed to make full restitution to the Department for the amounts of their theft. In addition to restitution, one cashier was sentenced to 5 years supervised probation and 300 hours of community service, and the other was sentenced to 18 months supervised probation and 25 hours of community service. One cashier also tendered her resignation.

In response to an investigative report, management established an accounts receivable to recover the money, pursuant to court ordered restitution, and made procedural changes which when implemented should prevent similar thefts in the future. (I95HQ009 and I95HQ010)

IDAHO OPERATIONS OFFICE SUBCONTRACTOR SUBMITS INFLATED INVOICES

An Idaho Operations Office contractor notified the Office of Inspector General of allegations that a subcontractor employee at the Idaho Hazardous Training Center, Pocatello, Idaho, submitted questionable invoices to the Department. The Office of Inspector General investigated the matter with assistance from the contractor audit staff that was responsible for identifying the situation. The investigation determined that the subject had submitted numerous fraudulent invoices containing approximately

$8,667 in inflated labor charges. In addition, the investigation determined that the subcontractor had stolen approximately $450 worth of Government tools.

The U.S. Attorney's Office, District of Idaho, allowed the subject of the investigation to participate in a Pretrial Diversion Program in exchange for the Government deferring prosecution of the subject for submitting false claims. The Pretrial Diversion Agreement required that the subject comply with certain terms and conditions, including probation for a period of not more than 12 months and making restitution of approximately $9,117. The restitution payment was made in full and returned to the Department program from which it had been taken. (I95IF002)

AN ASBESTOS REMOVAL SUBCONTRACTOR FALSIFIES CERTIFICATIONS

The U.S. Attorney's Office and the Environmental Protection Agency requested assistance from the Office of Inspector General on an investigation of allegations that a company had falsified medical survey records and certificates of training related to Government-funded asbestos removal subcontracts. The investigation revealed that records relating to the required medical surveys and asbestos removal training for some of its employees were missing or altered. The company performed asbestos removal for local school districts and for Federal Government agencies, including the Department of Energy at the Idaho National Engineering Laboratory.

The company and its president were convicted of environmental and fraud-related crimes as part of a plea agreement. The court fined the defendants a total of $25,750 and sentenced the president to 6 months incarceration. The company, its president and five related companies or individuals were debarred from performing Government contracts as a result of the investigation. (I95IF007)

DEPARTMENT EMPLOYEES VIOLATE TRAVEL POLICY

The Office of Inspector General received separate complaints on two senior Department employees assigned to the Naval Petroleum Reserves in California alleging that they used frequent flyer miles, accrued from Government travel, for personal travel. In addition, one of the employees was alleged to have submitted false travel vouchers for payment. Official travel vouchers revealed that both employees received credit on their frequent flyer accounts for Government travel. Inspector General subpoenas were issued for both employees' frequent flyer accounts. The accounts confirmed that all of the frequent flyer miles were accrued from Government travel. The investigation also revealed that one employee submitted travel vouchers for parking expenses while on annual leave and that, on more than one occasion, the employee claimed per diem to which the employee was not entitled.

As a result of the two investigations, management received restitution from the employees amounting to a total of $8,033.50 and both employees were reprimanded. (I94LL035 and I95LL003)

TWO HANFORD SITE SUBCONTRACTOR EMPLOYEES FALSELY CLAIM $30,000 IN

PER DIEM

The Office of Inspector General received allegations from a Richland Operations Office contractor that a subcontractor employee submitted fraudulent claims for per diem reimbursement while employed at the Hanford Site, Richland, Washington. The Office of Inspector General investigation determined that the subcontractor employee and his wife, who was also temporarily employed at the Hanford Site, both fraudulently obtained per diem subsistence. Their per diem payments were based on false representations that they maintained a permanent residence outside of Richland. The subjects fraudulently received approximately $31,653 in false per diem claims.

In response to the investigative report, the U.S. Attorney's Office for the Eastern District of Washington filed a one count indictment against both subjects for making false statements to the Government. The husband pled guilty in a plea agreement and was sentenced to 6 months home detention with electronic monitoring and required to pay restitution in the amount of $24,560. The wife entered into a pretrial diversion agreement, requiring her to make restitution in the amount of $7,093 plus a $1,000 penalty, and to be supervised for a 24- month probationary period.

As a result of an Office of Inspector General Administrative Report to Management, the Department recovered $4,051 in indirect overhead costs that were associated with the fraudulent per diem payments. (I95RL019)

AN OAK RIDGE CONTRACTOR EMPLOYEE PLEADS GUILTY TO THEFT

The Office of Inspector General received information that an employee of an Oak Ridge prime contractor was suspected of the theft of equipment from the Y-12 facility, Oak Ridge, Tennessee.

An investigation disclosed that the employee had stolen a copy machine and a laser printer. During an interview, the employee claimed to have disposed of the equipment in a garbage dumpster. The employee subsequently pled guilty to the theft in Federal District Court and received 18 months pre-trial diversion and 100 hours community service. The employee was also ordered to reimburse the Department $2,060. (I96OR003)

STRATEGIC PETROLEUM RESERVE CONTRACTOR DID NOT COMPLY WITH PROPERTY MANAGEMENT PROCEDURES

A Strategic Petroleum Reserve official reported to the Office of Inspector General that the property manager for the Reserve's prime contractor excessed a marsh buggy valued at $77,000 for $2,087, and that the successful bidder resold the buggy for $70,000.

The investigation revealed weaknesses in the contractor's property management procedures. The contractor excessed the equipment without complying with the Reserve's supply service manual, and detailed justification for excessing the equipment could not be located. The Office of Inspector General review of the contractor□s procurement of the replacement buggy revealed evidence of unjustified sole sourcing or restrictive specification writing. However, a competitor advised the Office of Inspector General that it could not have entered a bid lower than the successful vendor. A report to management recommended recovery of funds to pay for replacement of the marsh buggy and for random reviews of site property management activities to ensure that this matter is not systemic. The Reserve's management fully concurred with the report's findings and issued a demand to the contractor for a refund of $65,175. (I96OR008)

SECTION III

REPORTS ISSUED

The 38 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. Inspection reports are listed separately.

CONTRACT & GRANT AUDIT REPORTS

ER-C-97-01 Report on the Interim Audit of Costs Incurred Under Contract No. DE-AC24-92OR21972 From October 1, 1994, to September 30, 1995, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, December 20, 1996
Questioned Costs: $660, 000

ER-C-97-02 Audit of Selected Indirect Cost Rates for Fiscal Years 1993 Through 1996 Oak Ridge Associated Universities, Oak Ridge, Tennessee, February 10, 1997

OPERATIONAL AUDIT REPORTS

IG-0398 Special Report on the Audit of the Management of Department of Energy Construction Projects, November 21, 1996

IG-0399 Audit of the U.S. Department of Energy's Identification and Disposal of Nonessential Land, January 8, 1997
Savings: $8,500,000

IG-0400 Summary Audit Report on Contractor Employee Relocation and Temporary Living Costs, January 27, 1997

CR-B-97-01 Audit of the Department of Energy's Warehouse Space, January 28, 1997
Savings: $756,000

CR-L-97-01 Audit of the Department's Utility Purchase, October 11, 1996

CR-L-97-02 Assessment of Pittsburgh Naval Reactors Internal Audit Function, December 6, 1996

CR-L-97-03 Federal Managers' Financial Integrity Act, December 20, 1996

CR-L-97-04 Assessment of Schenectady Naval Reactors Office Internal Audit Functions, February 28, 1997

ER-B-97-01 Audit of Economic Development Grants and a Cooperative Agreement With East Tennessee Not-for-Profit Organizations, October 22, 1996
Savings: $1,400,000   Questioned Costs: $367,785

ER-B-97-02 Audit of the Department of Energy's Grant for Economic Development at the Mound Plant, February 14, 1997

ER-L-97-01 Audit of the Use of Administratively Uncontrollable Overtime in the Department of Energy, November 14, 1996

ER-L-97-02 Audit of the Department of Energy's Economic Development Activities at the Pinellas, Mound, and Rocky Flats Plants, February 7, 1997

WR-B-97-01 Audit of Electrical System Construction Projects at the Nevada Operations Office, November 6, 1996
Savings: $1,350,000

WR-B-97-02 Audit of Bus Service Subsidies at the Idaho National Engineering Laboratory, November 7, 1996
Savings: $36,000,000

WR-B-97-03 Audit of Groundwater Monitoring at Hanford, November 15, 1996
Savings: $2,484,600   Questioned Costs: $100,000

WR-B-97-04 Audit of the Use of Hanford Site Railroad System, March 20, 1997
Savings: $7,000,000

WR-L-97-01 Survey of Integrated Contractor Collection, October 4, 1996

WR-L-97-02 Audit of Use of Firing and Testing Ranges in the Albuquerque Complex, November 8, 1996

WR-L-97-03 Audit of Waste-Handling Facilities at the Rocky Flats Environmental Technology Site, November 27, 1996

WR-L-97-04 Audit of Procurement Activities at Sandia National Laboratories, February 21, 1997

FINANCIAL AUDIT REPORTS

CR-FC-97-01 Federal Energy Regulatory Commission's Fiscal Year 1996 Financial Statement Audit, February 14, 1997

CR-FS-97-01 Report on Results of Audit Procedures Performed at the Pittsburgh Naval Reactors Office During the Audit of the Department's Consolidated Fiscal Year 1996 Financial Statement, March 21, 1997

CR-V-97-01 Assessment of Changes to the Internal Control

Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Corporation's Knolls Atomic Power Laboratory Under Department of Energy Contract No. DEAC12-76SN000052, February 28, 1997

CR-V-97-02 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Electric Corporation's Bettis Atomic Power Laboratory Under Department of Energy Contract No. DE-AC11-93PN38195, February 28, 1997

ER-FC-97-01 Isotope Production and Distribution Program's Fiscal Year 1996 Financial Statement Audit, February 3, 1997

ER-FC-97-02 Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund Fiscal Year 1996 Financial Statement Audit, March 6, 1997

ER-V-97-01 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Fermi National Accelerator Laboratory Under Department of Energy Contract No. DE-AC02-76CH0300, January 15, 1997

ER-V-97-02 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Mound Applied Technologies, Inc., Under Department of Energy Contract No. DE-AC24-88DP43495, January 24, 1997

ER-V-97-03 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to MK-Ferguson of Oak Ridge Company Under Department of Energy Contract No. DE-AC05-91OR21900, February 26, 1997

WR-FC-97-01 U.S. Department of Energy Naval Petroleum and Oil Shale Reserves 1996 Financial Statement Audit, February 14, 1997

WR-FC-97-02 Alaska Power Administration's Fiscal Year 1996 Financial Statement Audit, February 27, 1997

WR-FC-97-03 Western Area Power Administration's Fiscal Year 1996 Financial Statement Audit, February 13, 1997

WR-FC-97-04 U. S. Department of Energy Naval Petroleum Reserve Number 1, 1996 Financial Statement Audit, March 19, 1997

WR-FS-97-01 Report on Matters Identified at the Oakland Operations Office During the Audit of the Department's Consolidated Fiscal Year 1996 Financial Statements, March 27, 1997

WR-V-97-01 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed By and Reimbursed to Allied Signal Federal Manufacturing & Technologies\Kansas City Under Department of Energy Contract No. DE-AC04-76DP00613, February 27, 1997

IG-FS-97-01 Audit of the U.S. Department of Energy's Consolidated Financial Statements for Fiscal Year 1996, February 26, 1997

*WR-FC-96-05 Western Area Power Administration's Boulder Canyon Power System Fiscal Year 1995 Financial Statement Audit, April 5, 1996

*WR-FC-96-06 Western Area Power Administration's Parker-Davis Power System Fiscal Year 1995 Financial Statement Audit, April 8, 1996

*WR-FC-96-05 and WR-FC-96-06 were overlooked last reporting period. They were not included in the October 1996 Semiannual Report, but they were accounted for in the PCIE/ECIE Annual Progress Report to the President for Fiscal Year 1996. These two reports had no dollar impact.

INSPECTION PUBLIC REPORTS

IG-0397 Inspection of the Secretary of Energy's Foreign Travel, October 7, 1996

IG-0401 Inspection of the Performance Based Incentive Program at the Richland Operations Office, March 10, 1997

INS-O-97-01 Inspection of Alleged Design and Construction Deficiencies in the Nuclear Materials Storage Facility at the Los Alamos National Laboratory, January 16, 1997

INS-O-97-02 Report on Inspection of Compliance With DOE Order 2030.4B at the Savannah River Site, March 24, 1997

INS-L-97-01 Inspection of Martin Marietta Energy Systems - Employment Status of Independent Subcontractors, November 1, 1996

INS-L-97-02 Inspection of Possible Falsification of Documents at the Paducah Gaseous Diffusion Plant, December 4, 1996

INS-L-97-03 Inspection Report on the Intelligence Oversight Inspection of the Oak Ridge Operations Office, January 22, 1997

INSPECTOR GENERAL REPORTS AVAILABILITY

On the Internet

Office of Inspector General 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 the reports at gopher.hr.doe.gov, selecting "Department of Energy Information" from the first menu, and then selecting "DOE Inspector General Reports." Published reports can also be obtained via anonymous FTP at vm1.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.

SECTION IV

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:

An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;

A finding that, at the time of an audit, such cost is not supported by adequate documentation; or

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:

Reduction in outlays;

Deobligation of funds from programs or operations;

Withdrawal of interest subsidy costs on losses or loan guarantees, insurance or bonds;

Costs not incurred by implementing recommended improvements related to Department operations, contractors, or grantees;

Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or

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:	7	$347,679,462	$23,179,360	$370,858,822
Those issued during the reporting period:	36	$14,165,905	$43,792,480	$57,958,385
Those for which a management decision was made during the reporting period:	16	$22,228,405	$21,167,040	$43,395,445
Agreed to by management:		$15,407,312	$20,511,040	$35,918,352
Not Agreed to by management:		$6,821,093	$656,000	$7,477,093
Those for which a management decision is not required:	21	$0	$0	$0
Those for which no management decision had been made at the end of the reporting period*:	6	$339,616,962	$45,804,800	$385,421,762

*NOTE: The figures for this item include sums for which management decisions on the savings were deferred.

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:	18	$17,510,370	$111,370
Those issued during the reporting period:	2	$660,000	$0
Those for which a management decision was made during the reporting period:	9	$8,830,620	$27,129
Value of disallowed costs:		$1,039,146	$0
Value of costs not disallowed:		$7,791,474	$27, 129
Those for which a management decision is not required:	0	$0	$0

Those for which no management decision had been made at the end of the reporting period:	11	$9,339,750	$84,241

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

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-96-04	Final Audit of Princeton University's Costs Claimed for Subcontract XD-O-10076-1 Under National Renewable Energy Laboratory's U.S. Department of Energy Contract DE-AC02-83CH10093, May 7, 1996
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
WR-C-96-01	Review of Mason & Hangar-Silas Mason Company, Inc., Cost Accounting Standards Compliance, October 30, 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 one outstanding issue. It is estimated that this will occur by July 31, 1997.

WR-B-96-07 Subcontracting Practices at the Nevada Operations Office and its Management and Operating Contractor, May 10, 1996

The finalization of the management decision on this report is pending the resolution of several complex issues. This should occur by August 15, 1997

INVESTIGATIVE STATISTICS

The investigative statistics below cover the period from October 1, 1996, through March 31, 1997

Investigations open at the start of this reporting period:	285
Investigations opened during this reporting period:	74
Investigations closed during this reporting period:	65
Investigations open at the end of this reporting period:	294
Debarments/Suspensions	26

Investigations Referred to Management for Recommended Positive Action	21
Complaints Referred to Management for Review and Followup	0
Administrative Disciplinary Actions Taken	14
Investigations Referred for Prosecution	17
Accepted	16
Declined	16
Indictments	12
Convictions	13
Pretrial Diversions	3
Fines, Settlements, and Recoveries	$2,338,809.90

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	254
Complaints Received via the General Accounting Office	5
Total Complaints Received	259
Investigations Opened on Hotline Complaints	16
Complaints Resolved or Pending Resolution	146
Complaints That Required No Investigation by OIG	97
Total Complaints Disposition	259

INSPECTION STATISTICS

The inspection statistics below cover the period from October 1, 1996, through March 31, 1997

Allegation-Based, Reprisal, and Management System Inspections

Inspections open at the start of this reporting period:		207
Inspections opened during this reporting period:		17
Inspections closed during this reporting period:		34
Inspections open at the end of this reporting period:		190
Reports issued		11
Allegation-based inspections closed after preliminary review		10
Reprisal complaints completed during this reporting period		6
Reprisal complaints dismissed	1	
Reports of reprisal inquiry issued	2	
Reprisal complaints settled	2	
Reprisal complaints withdrawn	1	
Inspection recommendations		
Accepted this reporting period		67

Implemented this reporting period	85
Complaints referred to Department management/others	166
Number of these referrals requesting a response for OIG evaluation	64
Personnel management actions taken as a result of inspections or complaints referred to management	1
Questioned Costs	$1,971,870

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

FEEDBACK SHEET

The contents of the April 1997 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.