



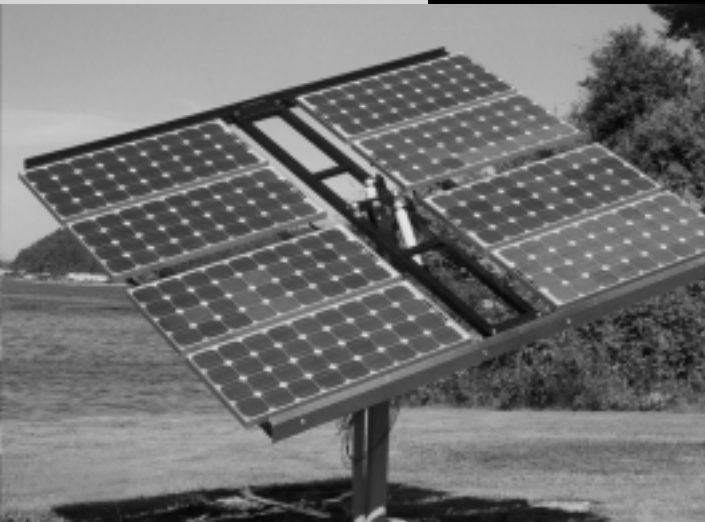
Office of Inspector General

Semiannual Report to Congress

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October 1, 2002 - March 31, 2003



Department of Energy

Washington, DC 20585

April 29, 2003

The Honorable Spencer Abraham
Secretary
U.S. Department of Energy
Washington, DC 20585

Dear Secretary Abraham:

I am pleased to submit the Office of Inspector General's *Semiannual Report to Congress* for the 6-month period, October 1, 2002, to March 31, 2003. The Report presents our significant activities and accomplishments for this period.

We appreciate the cooperation and assistance of the Department's senior leadership and we look forward to working with you on matters of mutual interest.

Sincerely,

A handwritten signature in cursive script that reads "Gregory H. Friedman".

Gregory H. Friedman
Inspector General

Enclosure



Printed with soy ink on recycled paper

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This Semiannual Report presents the Office of Inspector General's (OIG) significant accomplishments for the 6-month period, October 1, 2002, through March 31, 2003. During this reporting period, the OIG helped the Department identify areas of its programs and operations most vulnerable to waste, fraud, and mismanagement.

The OIG completed its annual assessment of the most serious challenges facing the Department. This year, the OIG identified seven key management challenge areas, which are briefly discussed in the *Management Challenge* section of this Report. One of the seven areas highlighted in the *Management Challenge* report is contract administration. Because the Department is heavily reliant on contractors to perform its missions, successful contract administration is critical to effective operations.

On March 20, 2003, I testified before the U.S. House of Representatives Committee on Government Reform on the Department's contract administration activities. Over the past several years, the Department initiated a series of actions to improve its contract administration. These initiatives included developing alternative contracting approaches, increasing competition and using performance-based contracts. Despite these efforts, OIG reviews show that the Department continues to have significant contract administration weaknesses. As a result, taxpayer funds are not always spent economically and efficiently. Weaknesses disclosed by our reviews include the failure to:

- Develop quantifiable, outcome-oriented contractor performance measures;
- Maintain a system to track critical aspects of contractor performance;
- Require strict adherence to contract terms;
- Require utilization of a full range of project management tools; and



Gregory H. Friedman
Inspector General

- Rate and reward contractors commensurate with their performance.

In recent months, we also have focused substantial attention on the Department's Los Alamos National Laboratory (LANL) because of allegations about procurement and other irregularities. On February 26, 2003, I testified before the House Subcommittee on Oversight and Investigations on the OIG's recent inquiry which focused on whether LANL had engaged in a deliberate coverup of procurement irregularities and security concerns. This review, originally requested by the National Nuclear Security Administration (NNSA) Acting Administrator, was expanded to evaluate the circumstances surrounding the termination of employment of two security officials who had been vocal in criticizing LANL management's handling of property loss and theft issues.

Our report noted that actions taken by LANL officials obscured serious property and procurement problems and weakened relevant internal controls. These actions created an atmosphere in which LANL employees were discouraged from, or had reason to believe they were discouraged from, raising concerns to appropriate authorities. Furthermore, despite these weaknesses, the Department gave LANL an excellent rating in both personal property and procurement management. A summary of our report, *Operations at Los Alamos National Laboratory (IG-0584, January 2003)*, can be found on page 5.

Similarly, an OIG inspection reported on February 21, 2003, that weaknesses existed at LANL in its administration of its firearms inventory. We noted, for example, that 12 firearms received in 1999 were not entered into LANL's inventory. A summary of this report can be found on page 6.

Other OIG reviews, as well as matters under the purview of the Federal Bureau of Investigation (FBI), are continuing at LANL to address a number of related concerns. These efforts include:

- A review of allowable costs claimed by the University of California under its contract to manage LANL for the Department;

- A review of LANL's controls over laptop and desktop computers; and
- A number of investigations regarding misuse of purchase authority.

In addition, the OIG continues to conduct reviews to assess the Department's progress in implementing the *President's Management Reform Agenda* and addressing the key management challenge areas and the Secretary's priorities.

We look forward to continuing to help the Department, including the NNSA, in its efforts to improve program efficiencies and economies.

efficiency

This section of the Report highlights the OIG's review of the seven most serious management challenge areas facing the Department. Report summaries associated with each of the management challenges are also included in this section.

Management Challenges at the Department of Energy

As required by the Reports Consolidation Act of 2000, the OIG annually identifies the most significant management and performance challenges facing the Department. As in the past, the methodology employed by the OIG relies on recent and ongoing audit, inspection, and investigation work.

The following are the most serious challenges facing the Department in 2003:

- *Contract Administration*
- *Environmental Cleanup*
- *Information Technology Management*
- *National Security*
- *Performance Management*
- *Stockpile Stewardship*
- *Worker/Community Safety*

Since the OIG's last report, the Department's senior management has had some success in addressing previously reported challenges. As a result, the previously identified Energy Supply, Human Capital, and Research and Development Investment challenges have been deleted from the list of challenges. It should be noted, however, that these areas are complex in nature and will continue to require management's attention and assessment.

The OIG will continue to evaluate agency performance and accountability in an effort to improve programs and operations, particularly as they relate to the management challenge areas mentioned above. (IG-0580)

A brief description of each of the management challenges facing the Department and reports that are associated with the challenge areas follow.

O Contract Administration

Did you know?

For FY 2002, the Department spent about 92 percent of its total annual budget, or about \$19.5 billion, on contracts. Of that amount, the Department spent about \$15.7 billion on contracts to manage or operate 28 major Department sites.

Source: FY 2004 Congressional Budget Submission, and the Department Procurement and Assistance Data System.

The Department's programs are largely accomplished through contractors that operate and manage a broad range of scientific and production activities and facilities for the Department. These contracts, with an annual value of about \$15.7 billion, represent the largest share of the Department's budget. Contract administration, which includes project management, has been a longstanding challenge. Although the Department changed its contract management approach, it continues to experience difficulties in the management of some of its major projects. Since the early 1990's, the OIG has issued a series of reports critical of the planning, justification, and management of major projects. Recent OIG reviews have found the following.

Special Inquiry Raises Serious Concerns Regarding Management Operations at the Los Alamos National Laboratory

The OIG conducted an inquiry into allegations that senior management of LANL engaged in a deliberate coverup of security breaches and illegal activities, in particular, with respect to reported instances of property loss and theft. The Acting Administrator, NNSA, requested this inquiry based on numerous media reports that LANL employees had misused the Government purchase order system to buy millions of dollars worth of goods for personal use and that LANL management attempted to cover up security breaches and hide illegal activities from the Department and the public. Shortly after the inquiry began, LANL terminated the employment of two security officials who had been vocal in criticizing LANL management's handling of property loss and theft issues. The OIG expanded its review to evaluate the circumstances surrounding the terminations. Subsequent to the review, the University re-hired the two security officials.

The inquiry disclosed a series of actions by LANL officials that had the effect of obscuring serious property and procurement management problems and weakened or

overrode relevant internal controls. These actions contributed to an atmosphere where LANL employees were discouraged from, or had reason to believe that they were discouraged from, raising concerns about property loss and theft or other concerns to appropriate authorities. Although the inquiry did not substantiate the allegation that LANL's management deliberately hid criminal activity, the OIG found that LANL management: (1) issued, then immediately rescinded, a memorandum requiring corrective actions to address problems regarding the management of Government property; and (2) issued documents that could be interpreted as discouraging LANL employees from reporting on the extent or severity of control weaknesses. In addition, the inquiry raised serious concerns about the firing of the two security officials. LANL fired these officials soon after they spoke with the OIG. The OIG found both the timing of and the rationale for the terminations to be incomprehensible.

The inquiry corroborated a number of the concerns expressed by the terminated security officials related to weak internal controls and other property management issues. Specifically, the OIG found: (1) inadequate or untimely analysis of and inquiry into property loss or theft and security issues; (2) a lack of personal accountability for property; (3) a substantial degree of dysfunction in LANL's communication and assignment of responsibilities for handling property loss and theft concerns; and (4) inadequate controls over procurement and property systems.

The OIG recommended a series of corrective actions. In particular, responsible Department officials must ensure that the University of California and LANL's management are held accountable for implementing and executing corrective actions resulting from the current situation at the Laboratory. (IG-0584)

Internal Control Weaknesses Over Firearms at Los Alamos National Laboratory

The OIG conducted an inspection to determine the adequacy of internal controls over LANL's firearms and whether the LANL firearms inventory was appropriately administered. After several unsuccessful efforts to obtain an accurate

firearms inventory from LANL sources, the OIG used the best data available to account for firearms maintained as LANL property. The inspection concluded that significant internal control weaknesses existed in the receiving process and the administration of the firearms inventory. Specifically, the OIG found that: (1) LANL officials were unable to readily provide an accurate firearms inventory list, due in part to the use of inconsistent nomenclature descriptions in the LANL property database; (2) some firearms were not entered in the inventory, including 12 shotguns that were received in 1999; (3) inventory validations conducted in 2000, 2001, and 2002 failed to identify inaccuracies that existed in LANL's firearms inventory; (4) separate firearm inventories maintained by LANL and the protective force contractor were not reconciled; and (5) all firearms were not consistently processed through a central receiving point, resulting in delays in entering some firearms into LANL's property inventory.

The OIG recommended a series of actions designed to improve LANL's internal control over firearms and the administration of its firearms inventory. Department management agreed with the recommendations and initiated corrective actions. (IG-0587)

Brookhaven National Laboratory's Emergency Medical Coordination Agreement Not Fully Implemented

To respond to possible exposure to radioactive and hazardous materials and industrial accidents at DOE sites, the Department's site contractors have established formalized agreements with local emergency medical providers. These arrangements are generally documented through memoranda of agreement (MOAs). The OIG conducted an inspection to determine if the contractor operating the Brookhaven National Laboratory (Brookhaven) effectively implemented and adequately managed its May 11, 1999, emergency medical response agreement with Stony Brook University Hospital (Stony Brook).

The inspection found that Brookhaven had not fully implemented the terms of its MOA with Stony Brook.

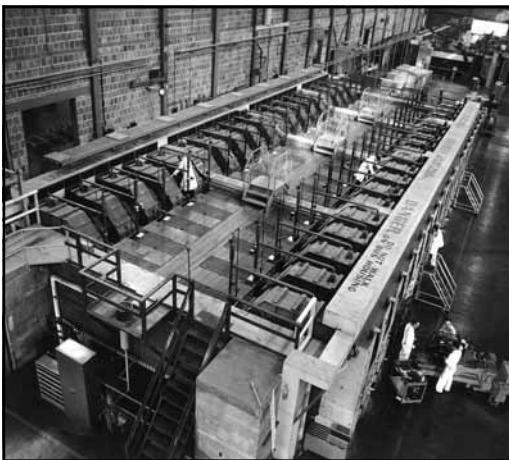
Brookhaven was obligated under the MOA to provide Stony Brook with annual training and any agreed upon decontamination equipment and supplies needed for the care of victims of radiation accidents. Brookhaven did not provide annual radiological training to Stony Brook personnel in FY 2001 and had not provided the training for FY 2002 as of the time of the OIG site visit in June 2002. Also, as of the time of the site visit, Brookhaven officials had not met with hospital officials to determine what type of decontamination equipment and supplies should be provided to Stony Brook for the care of victims of radiation accidents.

Further, the OIG found that the MOA had not been updated or reviewed since it was signed in May 1999. The MOA contained incomplete and outdated information. The OIG also found that key emergency response management documents, including Brookhaven's Emergency Plan, Hazard Assessment, and MOA, had not been reviewed or approved by the Department because Brookhaven had not routed the documents to the Department for review and approval.

The OIG recommended that the Department take appropriate steps to: (1) ensure that the Brookhaven MOA is fully implemented; (2) ensure that the MOA is periodically reviewed and appropriately updated; and (3) ensure that the Department has the opportunity to review and approve the MOA and other emergency management documents. Department management agreed with the recommendations. (IG-0594)

The Department Needs to Better Evaluate the Necessity to Dismantle Its Domestic Calutron Isotope Production Capabilities

In August 2002, the Department formalized its plan to permanently eliminate the domestic capability to produce electromagnetically enriched stable isotopes. The Department intended to dismantle the machinery used to produce the isotopes, called calutrons, and rely on one of the following: (1) existing Department inventories; (2) Russian-produced isotopes; or (3) the adaptation of other isotope separation technologies to meet the domestic demand for stable isotopes. An audit was conducted to determine if the



A track of calutrons which produce stable isotopes. Oak Ridge National Laboratory's Y-12 Plant.

Department would be able to ensure the availability of stable isotopes if it eliminated its domestic isotope production capability.

The audit determined that the Department may not be able to ensure the availability of a full range of stable isotopes if the calutrons were dismantled. The audit disclosed that: (1) the current inventories of some isotopes are insufficient to cover future demand; (2) the future supply of Russian-produced isotopes may be unreliable; and (3) no proven alternative technologies to replace the calutrons are available. Furthermore, the audit concluded that if the Department proceeded with its plans, the United States would lose the capability to produce up to 110 stable isotopes and potentially become more dependent on Russia to meet its domestic needs.

The OIG recommended that the Director of the Office of Nuclear Energy, Science and Technology: (1) conduct a comprehensive study to identify the cost and operating benefits of disabling the calutrons versus continuing to maintain their current condition until such time as replacements can be obtained; and (2) continue to maintain the calutron isotope production capability until a more viable alternative has demonstrated the ability to produce a wide variety of isotopes similar to that provided by the calutrons.

Department management partially concurred with the recommendations and, based on the results of the recommended cost analysis, agreed to maintain the calutrons in a standby but operable condition until they are no longer needed. Management did not believe, however, that the entire production capacity associated with the current calutrons would be needed. Management also stated that, based on its own 4-year inventory analysis, there was no meaningful shortage of isotopes in the United States inventory. In addition, management stated that the Russian supply of isotopes was reliable and that the world stable isotope supply was robust and competitive. Finally, management planned to continue pursuing the purchase of a small number of replacement calutrons to pair with other technologies to address the possible future need for small quantities of specialized research isotopes. (IG-0574)

Idaho Settlement Agreement Activities Exceed Cost Expectations



Final shipment of transuranic waste leaving INEEL for the Department's Waste Isolation Pilot Plant

In 1995, the Department entered into a settlement agreement with the State of Idaho and the Department of the Navy concerning the management of spent nuclear fuel and radioactive waste at the Idaho National Engineering and Environmental Laboratory (INEEL). The agreement resulted in the end of litigation with the State and required the Department to remove all transuranic (TRU) waste, high-level waste, and spent nuclear fuel from the State by 2035. The agreement also mandated that during this period the State of Idaho would allow DOE and the Department of the Navy to continue shipping spent nuclear fuel to INEEL for storage. The OIG conducted an audit to determine whether the Department has met the commitment dates and cost expectations set forth by the terms of the agreement.

The audit determined that the INEEL has met the Department's time commitment for transferring the spent nuclear fuel it received from Three Mile Island to dry storage and is on track to meet its commitment for shipping 3,100 cubic meters of TRU waste out of the State of Idaho to the Waste Isolation Pilot Plant (WIPP). However, the Three-Mile Island spent nuclear fuel project exceeded cost expectations by \$18 million and the TRU waste project is expected to exceed cost expectations by \$150 million. Although events outside the Department's control contributed to cost overruns, the audit found that weaknesses in basic project management controls were also factors. As a result, these overruns have caused the Department to cancel, defer, or reduce the scope of other mission-critical work at the INEEL.



A group of 14 drums of transuranic waste at INEEL being lowered into a Trupact-2 shipping cask

The OIG recommended that the Assistant Secretary for Environmental Management apply the project management principles contained in Department Order 413.3, *Program and Project Management for Acquisition of Capital Assets*, to all projects, including operational projects. The OIG also recommended that the Manager, INEEL, strengthen project management controls to ensure that: (1) project plans adequately define the work to be performed; and (2) life-cycle cost estimates are established before work begins, including contingencies for unknown factors that could result in additional costs.

Department management agreed with the recommendations to improve project management controls. The Office of Environmental Management has taken actions to enforce the implementation of Department Order 413.3 to all projects. In addition, the INEEL contractor is implementing a planning process identifying the detailed work scope, schedule, and resources necessary to complete the project. (IG-0571)

Transfer of Excess Property to a Community Reuse Organization Does Not Assure that the Government Received Reasonable Value

During the 1990's, as a result of changes in program direction, the Department downsized or reconfigured a number of facilities, including the Nevada Test Site. To mitigate economic impact, Congress authorized the Department to transfer excess personal property and provide other aid to local development organizations, commonly referred to as community reuse organizations (CRO). Transferred excess property was to be used solely for community transition activities. Despite the realization that the transfers might be made at less than fair market value, the Department was to receive reasonable consideration from the CROs for the personal property. The OIG conducted an audit to evaluate the process through which the Nevada Site Office (NSO) transferred personal property to the local CRO.

The audit disclosed that NSO's personal property transfer practices did not strike an appropriate balance between the effort to assist community development and the need to assure that Federal taxpayers received reasonable consideration. Specifically, NSO: (1) sold a drill rig to the local CRO for \$50,000 that is now being offered for sale by an out-of-State equipment broker for \$3.9 million; (2) transferred hundreds of pieces of equipment, including trucks, office machines, and trailers, to the CRO for \$1 per transfer; and (3) provided laboratory equipment to the CRO that was needed at another Department site, ultimately causing the Department to spend \$2.5 million unnecessarily.

The OIG found that, in most cases, NSO made little, if any, effort to determine the current market value of the property provided to the CRO, nor did it confirm that the equipment's ultimate use would be for purposes directly related to

developing the economies of communities in and around the NSO. Under these circumstances, the OIG does not think it was possible for the NNSA, NSO's parent organization, to make informed judgments as to the appropriateness of particular property transfers.

On January 22, 2003, the Department issued a memorandum providing new operating guidance that should help ensure the close monitoring of future personal property transfers. The memorandum, among other things, provided that the proceeds from asset conversion programs must be used in support of clear community economic development purposes and set forth the priorities for use of excess personal property.

While the new guidance is a good start, the OIG believes the NNSA needs to emphasize that only unneeded property is transferred to the CROs and that the Department receive reasonable consideration for transfers of property to the CROs. Further, the NNSA should better define the term "reasonable consideration." NNSA agreed with the OIG recommendations. (IG-0589)

O Environmental Cleanup

Cleaning up contaminated sites and disposing of radioactive waste is one of the greatest challenges the Department faces. The Department continues to encounter significant environmental challenges due to past operations that left a legacy of unacceptable risk to the environment. These circumstances dictate that continued high priority must be given to evaluating and correcting the impacts of past practices and activities. The Department's goal is to clean up as many sites as possible by 2006. While the Department has implemented an aggressive plan to accelerate cleanup of its contaminated sites, OIG reviews continue to disclose the need for increased management attention to achieving its goal. The OIG completed the following reviews of this important challenge area.

Audit Identifies Operational Inefficiencies in the Treatment of Mixed Incinerable Waste

The Department estimates that about 11,000 cubic meters of mixed incinerable solid waste will require treatment and

Did you know?

By the end of FY 2002, the Office of Environmental Management had completed cleanup of 75 of the 114 contaminated sites for which it was responsible.

Source: Department of Energy FY 2002 Performance and Accountability Report.



Toxic Substances Control Act Incinerator, Oak Ridge, Tennessee.

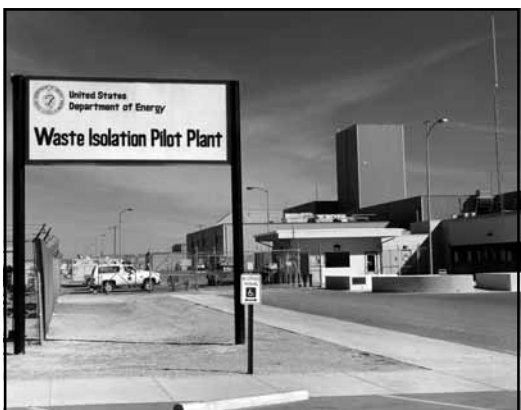
disposal through 2010. The two major resources available for treatment of this waste are the Toxic Substances Control Act (TSCA) Incinerator and the Vacuum-Assisted Thermal Desorption (VTD) System, both located in Oak Ridge, Tennessee. The OIG conducted an audit to determine whether the Department was treating its mixed incinerable solid waste in an expeditious and cost-effective manner.

The audit disclosed significant inefficiencies in the treatment and storage of the Department's mixed incinerable waste. Specifically, the TSCA Incinerator, in FY 2002, was only used at 31 percent of its demonstrated capacity; the VTD System, for the first 9 months of 2002, utilized only 55 percent of its capacity to process mixed incinerable waste; and 7 Departmental sites continued to store 2.5 million pounds of incinerable waste locally despite underutilized treatment facilities. In addition, the Department approved the development of a VTD treatment facility in Utah, even though Oak Ridge existing facilities were underutilized. The OIG concluded that the Department was not doing all that it could to minimize the risk of processing the materials. Furthermore, better utilization of existing treatment facilities could result in the avoidance of \$45 million in unnecessary costs over the next 4 years.

The OIG made a number of recommendations intended to assist: (1) the Office of Environmental Management in managing the treatment of materials as a complex-wide activity; and (2) the Oak Ridge Operations Office in more effectively managing the TSCA Incinerator. Department management agreed with the recommendations and initiated corrective action. (IG-0588)

Audit Recommends Suspension of Plans to Centralize the Processing of Contact-Handled Transuranic Waste

The WIPP in Carlsbad, New Mexico, is the Department's underground repository for defense-generated TRU waste. TRU waste that can be safely handled without special equipment is referred to as contact-handled TRU waste. As of December 2000, the Department was responsible for 26 sites in 15 States that processed contact-handled TRU waste. The Department notified the New Mexico Environment



Waste Isolation Pilot Plant, Carlsbad, New Mexico

Did you know?

The WIPP is the world's first underground repository licensed to safely and permanently dispose of transuranic radioactive waste left from the research and production of nuclear weapons. Transuranic waste is currently stored at 23 locations nationwide. Over a 35-year period, WIPP is expected to receive about 37,000 shipments of transuranic waste.

Source: WIPP website, <http://www.wipp.carlsbad.nm.us/>.

Department in June 2001 of its intention to centralize the capability for processing contact-handled TRU waste at WIPP. According to the permit modification, the proposed capability would enable the Department to expedite the removal of contact-handled TRU waste from temporary storage sites and minimize total costs of disposal. The OIG conducted an audit to determine whether the centralized waste disposal capability would expedite the removal of contact-handled TRU waste and minimize costs.

The audit found that the plan to centralize the processing is unlikely to expedite the removal of waste or save costs to the extent of management's estimates. The audit also disclosed that of the 26 sites with contact-handled TRU waste, the vast majority would not benefit from the centralized capability. The audit determined that, although the Department contended that additional capabilities would inherently speed up the waste disposal process and save at least \$100 million over the life of the contact-handled TRU waste program, it did not perform a complete analysis to demonstrate where and how efficiencies would be gained. The audit concluded that, without such an analysis, the Department risks investing time and resources in an unnecessary capability, ultimately delaying cleanup, increasing costs, and creating new health and safety concerns.

The OIG recommended that the Assistant Secretary for Environmental Management direct the Carlsbad Field Office to: (1) conduct a cost and schedule analysis comparing the costs for establishing a centralized capability at WIPP versus new construction at small quantity sites and utilizing existing sites; and (2) postpone establishing a centralized capability pending the results of the analysis.

The Assistant Secretary for Environmental Management agreed that a cost analysis should be performed and that activities associated with the capability should not proceed until the analysis is completed. (IG-0577)

The Department Should Reevaluate the Construction Plans of a Remote Treatment Facility

Currently, about 676 cubic meters of highly radioactive waste are stored at the INEEL reservation and additional waste

continues to be generated by ongoing Department operations. Approximately half of the waste is the responsibility of the Office of Nuclear Energy (NE), and the other half is the responsibility of the Office of Environmental Management (EM). NE has plans to construct a Remote Treatment Facility to safely segregate, characterize, treat, and repackage the radioactive waste. An audit was initiated to determine whether the proposed facility was designed to safely treat all of the radioactive waste at the INEEL reservation.

The audit found that the Department's design plan for the Remote Treatment Facility did not provide the capability to treat all of the radioactive waste at the INEEL reservation. Although the plan dealt with waste currently stored and generated by NE, it did not specifically address treating the radioactive waste managed by EM. As a consequence, the facility would not be able to meet all of the Department's operational needs, nor would it be able to simultaneously process all the radioactive waste in accordance with established deadlines. Further implications could include fines and enforcement actions against the Department and, ultimately, construction of a second remote handling facility or transportation of waste offsite for treatment.

The OIG recommended that: (1) senior management of NE and EM work together to design a facility that will permit the timely treatment of all INEEL radioactive waste; and (2) the Department should mandate a performance management system to evaluate the adequacy and completeness of contractor planning efforts.

Department management agreed with the recommendations. While yet to be reviewed or approved, management informed the OIG that it had updated a number of relevant planning documents, including the conceptual design plans. Further, management believed that the outcome of an independent review should resolve many of the concerns raised in the OIG audit. (IG-0573)

Subjects Sentenced for Clean Water Act Violation

A joint investigation by the OIG, as part of the East Tennessee Environmental Crimes Task Force, determined that a vendor to a Department subcontractor illegally

discharged hazardous waste into a drainage ditch which emptied into the Little Pigeon River located in Sevierville, Tennessee.

The corporation and its president entered guilty pleas to one-count violations of the Clean Water Act, Title 33, U.S.C. Section 1251. Pursuant to a plea agreement, the corporation was required to pay \$200,000 in restitution and a special assessment of \$125. The president was required to pay a fine of \$50,000 and assessed a \$25 special assessment fee. Also, as a result of the investigation, the corporation spent \$384,500 in process changes and engineering costs to comply with environmental regulations. (I01OR002)

Did you know?

The Federal Government's investment in IT is estimated to be \$59 billion for 2004, up from the 2003 budget request of \$53 billion. This increase is due to: better reporting, which has captured \$2 billion in IT spending not previously reported; and new spending needed to support homeland security and the war on terrorism.

Source: FY 2004 Analytical Perspectives, Budget of the U.S. Government.

O Information Technology Management

Effective information technology (IT) management is essential to the Department's performance of its multifaceted mission. While the Department has taken a number of actions designed to improve the overall management of IT resources, additional improvements in this critical area are still needed. OIG reviews completed during this reporting period provided recommendations on ways in which the Department could enhance the performance of IT activities.

Improvements Needed in the Information System Development Practices at Bonneville and Western Area Power Administrations

The Department of Energy's Power Marketing Administrations are responsible for marketing, selling, and transmitting electric power produced largely at various Federal dams to wholesale customers throughout the United States. To accomplish their missions, these organizations operate high-voltage energy transmission lines that may cross numerous States and are supported by a complex and critical information technology infrastructure. This infrastructure includes information systems to manage key business operations such as power generation, power and transmission billing, and power grid maintenance activities.

The OIG initiated an audit to assess the Bonneville Power Administration (Bonneville) and Western Area Power Administration (Western) information system development activities.



Bonneville Power Administration high-voltage energy transmission towers and power lines.

Did you know?

Western Area Power Administration (Western) owns and operates the third largest high-voltage transmission system in the Nation. Western has nearly 17,000 miles of high-voltage transmission lines spanning most of the western half of the U.S.

Source: Western Area Power Annual Performance Plan, <http://www.wapa.gov/>.

The audit determined that Bonneville and Western information system development activities were not always consistent with Federal requirements or guidance. Specifically, the OIG found significant problems with 9 of the 11 major projects included in the review. For example: (1) key planning activities such as cost-benefit analyses had not been performed for eight of the projects; (2) evaluations of suitability of potential software solutions were often inadequate or had not been performed; (3) many projects were not adequately monitored and controlled by the Chief Information Officers (CIOs) throughout their lifecycle, and project baselines and plans were not revisited in light of scope changes or delays; and (4) the Department had not conducted reengineering studies before beginning development for 6 of the 11 projects reviewed. In addition, the audit disclosed that Bonneville and Western did not consistently include all relevant project costs when accounting for development efforts.

The OIG recommended that Bonneville and Western strengthen controls over development activities and require that all projects be coordinated and monitored by the respective CIOs. Western and Bonneville management agreed with the OIG recommendations and stated that they had taken or initiated corrective action. (IG-0586)

Business Management Information System's Planning and Development Needs Improvement

The OIG initiated an audit to determine whether the development of the Business Management Information System (BMIS) satisfied Federal and Department systems development requirements and was aligned with the Department's Corporate Systems Information Architecture.

The audit found that BMIS did not satisfy key Federal requirements and was not aligned with the Department's Corporate Information Technology Architecture. Specifically, program offices were developing separate systems that were not capable of full integration with other business systems and that did not take full advantage of the existing core accounting system. Also, BMIS did not incorporate all corporate-level development efforts and, as noted in systems planning documentation, did not: (1) link performance and financial data, an element needed to satisfy

Federal financial system requirements; and (2) replace certain inefficient program and site-level financial management and managerial cost information systems.

The OIG recommended that the Director, Management, Budget and Evaluation/Chief Financial Officer, in conjunction with the CIO: (1) finalize and implement a master plan, strategy, and/or program enterprise architecture relating to corporate level business information system development efforts that includes an evaluation of capabilities to meet requirements and other functionality such as procurement, budget and performance measurement; and (2) establish specific, quantifiable, and realistic performance measures and goals to be applied immediately and included in the Department's Annual Performance Plan to guide the BMIS development effort.

Department management agreed with these recommendations and expressed its confidence that its recent initiatives, when complete, should satisfy the audit recommendations. (IG-0572)

O National Security

The Department's focus on security has substantially increased in light of September 11 and the continuing threat posed by terrorist organizations. The Department continues to make progress in strengthening its security. OIG reviews continue to demonstrate that additional controls are needed. Specifically, OIG reports identified the following weaknesses in this area.

Two National Laboratories Have Not Adequately Controlled Unclassified Visits and Assignments by Foreign Nationals

Each year, the Department's national laboratories host thousands of visitors and assignees from foreign countries. The Department and its international partners benefit from the exchange of information that results from the visits and assignments because they foster open communication, stimulate ideas, and enhance research. Along with the benefits, however, foreign visits and the resulting exchange of information raise potential national security risks. The OIG

Did you know?

National Nuclear Security Activities Net Costs in FY 2002 were \$6.8 billion.

Source: Department of Energy FY 2002 Performance and Accountability Report.

conducted an audit to determine whether controls over foreign visits and assignments at two selected national laboratories were adequate.

The audit determined that at the selected facilities, the Department had not adequately controlled unclassified visits and assignments by foreign nationals. The audit showed that the laboratories, one managed by the Office of Science and the other by NNSA, permitted certain foreign nationals to access facilities without ensuring that they had been properly admitted or authorized to remain in the United States. In many cases, the Science-managed laboratory also granted foreign visitors access before completion of national security background checks or consultations with counterintelligence. Additionally, neither laboratory reported sufficient information to enable the Department to properly track the visitors and assignees.

The OIG recommended a series of actions designed to strengthen management practices for controlling unclassified visits and assignments by foreign nationals. The Deputy Secretary agreed with the recommendations and took immediate corrective action by issuing interim guidance to strengthen the Unclassified Foreign Visits and Assignments Program at Department sites. (IG-0579)

Actions Taken in Response to Missing Hazardous Waste Containing Cyanide Raise Security and Safety Concerns

The OIG received information that a container of hazardous waste containing cyanide listed on a manifest had disappeared from a shipment of hazardous waste that originated from a Department facility. The OIG initiated an inspection to determine whether: (1) the apparent disappearance of the waste container was appropriately reported to the Department by contractor officials; (2) appropriate follow-up actions were taken; and (3) the handling of this incident had broader implications for the Department's security.

At this time, it is uncertain whether the hazardous waste containing cyanide is actually missing or, instead, inventory control errors occurred. The OIG concluded, however, that the Department needs to heighten awareness of: (1) security and safety issues associated with hazardous waste materials

that could be used as weapons of mass destruction; and (2) the importance of submitting required reports regarding incidents involving such materials so that appropriate follow-up actions may be taken. The OIG also identified specific concerns with security and the inventory resolution process at an offsite waste disposal facility that processes hazardous waste for the Department location involved in this incident.

The OIG recommended that Department management: (1) enhance awareness among site Federal and contractor personnel regarding potential terrorist interest in materials that could be used as weapons of mass destruction and how incidents involving such materials should be handled; (2) strengthen controls over the hazardous waste disposition process at the location in question; and (3) enhance the security afforded Department hazardous waste materials such as waste containing cyanide. The cognizant Department organization agreed with our findings and recommendations and has identified appropriate corrective actions. In addition, because of the possible broader implications for Department security based on the lessons learned from this inspection, the OIG suggested to senior Department officials that they consider whether Departmentwide actions are warranted. (IG-0592)

Improvement Necessary in Personnel Security Clearances and Badge Access Controls at Selected Field Locations

The Department uses a formal process of security clearances and security badges to control access at its sites and facilities. The badges indicate whether the individual possesses a security clearance and whether access to agency facilities is permitted. The Department maintains a Central Personnel Clearance Index (CPCI) and site-level information systems to track clearance and badge information.

In March 2002, the OIG issued an audit report on *Personnel Security Clearances and Badge Access Controls at Department Headquarters (IG-0548)*. The audit disclosed that in many circumstances the Department had either not terminated former Federal and contractor employees' clearances or had not recovered their badges. The OIG

conducted the current audit to determine whether the Department's field offices were recovering unneeded security badges and terminating unneeded clearances.

The audit found that at three of four reviewed field locations only minor discrepancies existed regarding the issue of badge recovery. These three locations consisted of the Savannah River Site, Sandia National Laboratories, and LANL. The audit found a significant number of discrepancies, however, at Oak Ridge, where 26 of 309 records sampled indicated that former workers retained badges. Three of the badges in question could have allowed the holders access to restricted areas or classified information. At the time of the OIG's review, the Department could not account for these badges.

Additionally, the OIG determined that with regard to the maintenance of unnecessary clearances, at Savannah River, 34 of 177 former employees improperly retained clearances. Similarly, at Sandia, 14 of 108 former workers inappropriately maintained active clearances, and at Oak Ridge, 15 of 229 individuals improperly held active clearances. In contrast, clearance termination processes appeared to be effective at LANL, where only 2 of 345 former workers maintained active clearance status.

The audit concluded that current processes failed to ensure that contractors properly implemented effective controls over badge recovery and clearance cancellation. Failure to promptly revoke and recover badges and terminate unneeded clearances increased the risks associated with unauthorized access to facilities, property, and classified information.

The OIG recommended several specific actions to strengthen Departmental control over badge recovery and clearance termination. Department management generally agreed with the recommendations and planned to take corrective actions. (IG-0582)

Improvements Needed in the Process for Implementing Corrective Actions Resulting From Force-on-Force Performance Tests

The OIG conducted an inspection to determine if corrective actions were taken to address findings from force-on-force exercises conducted by the Office of Independent Oversight

and Performance Assurance in 2000 at the Pantex Plant (Pantex) and LANL's Technical Area 18. These exercises involved hypothetical threat scenarios and personnel acting as adversaries to test the overall effectiveness of site safeguards and security. The exercises resulted in one finding (an issue requiring corrective action) at Pantex, which was closed, and six findings at LANL, which were open at the time of the inspection. The OIG determined that the process of documenting activities associated with corrective action plan milestones at LANL could be improved. The OIG also determined that Pantex supervisors were unable to perform complete checks to ensure that Security Police Officers (SPOs) had all required equipment before going on patrol.

The OIG recommended that completion of corrective action plan milestones for force-on-force findings be adequately documented and that internal policies and procedures at Pantex be strengthened to ensure that complete checks of SPOs are performed. Department management concurred with the recommendations and initiated corrective actions. (IG-0585)

Inspection Identifies Weaknesses in Los Alamos National Laboratory's Safeguards and Security Survey Process

The OIG received a complaint that the Department's 2001 Safeguards and Security Survey of LANL had been compromised. Specifically, the complaint alleged that: (1) the survey team was instructed to only document observations and not findings; (2) the survey period was shortened from 2 weeks to 4 days; (3) the survey scope was reduced; and (4) the survey topical area ratings appeared to be manipulated. The OIG conducted an inspection to determine if the 2001 Safeguards and Security Survey of LANL was compromised as alleged.

In general, the inspection did not substantiate these allegations. However, the inspection did find that: (1) concerns regarding the methodology supporting a 2001 LANL force-on-force exercise had not been included in the survey report; and (2) neither a formal "murder board" nor a "working closeout" meeting had been held as part of LANL's

survey effort. The inspection concluded that had such meetings taken place, there is a high likelihood that the force-on-force matter would have surfaced and would have been appropriately resolved and addressed in the final survey report.

The OIG recommended that NNSA management: (1) review the outcome of the force-on-force exercise referenced in the 2001 Safeguards and Security Survey of Los Alamos and ensure that concerns relating to the protection strategy have been corrected; and (2) ensure that all future security survey results are fully discussed through the use of “murder boards” and “working closeouts” as part of the survey process.

NNSA management agreed with the OIG recommendations, but stated that the OIG was probably unaware that a classified report on the results of the force-on-force exercise was prepared; that the results of the exercise were, in fact, integrated into the overall survey; and all opinions from exercise observers were considered for the survey report. However, Department officials who observed the 2001 force-on-force exercise informed the OIG that the survey members had not approached them to discuss and resolve their concerns. Further, the OIG reviewed the classified report referenced by NNSA management. It is the OIG’s view that the report does not address and resolve the force-on-force concerns raised by the observers. (S02IS013)

Individual Enters Guilty Plea in Connection with Theft and Forgery of Department of Energy Security Badges

A joint investigation with the FBI determined that an individual not associated with the Department or its contractors stole and then forged Department security badges to facilitate the cashing of fraudulent checks. The individual used a computer to produce four fraudulent Department security badges after having stolen an authentic badge from a contractor employee. The individual pleaded guilty to a three-count violation of Title 18 U.S.C. Section 1028(a)(6), Fraud and Related Activity in Connection with Identification Documents, and a one-count violation of Title 18 U.S.C. Section 471, Manufacturing Counterfeit Securities of the United States. Sentencing is pending. (I02AL013)

O Performance Management

The *President's Fiscal Year 2002 Management Agenda* identified Budget and Performance Integration as a Governmentwide initiative for FY 2002. During this period, the OIG issued the following reports concerning performance management issues.

Report on the Department of Energy's Consolidated Financial Statements

This is the fourth consecutive year that the Department received an unqualified (clean) audit opinion on its consolidated financial statements. The OIG conducted the audit pursuant to the Government Management and Reform Act of 1994 (Act). The objective of the Act is to improve financial practices in the Federal Government by issuing audited financial statements for each agency. The preparation of the statements is the responsibility of the Department, and the OIG is responsible for the audit.

The OIG contracted with the accounting firm of KPMG LLP to conduct the audit. KPMG concluded that the consolidated financial statements present fairly, in all material respects, the Department's financial position as of September 30, 2002, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended. The OIG agreed with this opinion.

As part of KPMG's determination, the auditors considered internal controls over financial reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the consolidated financial statements. While the audit opinion was unqualified, the examination revealed that two reportable conditions existed in the Department's system of internal controls: (1) as in previous years, the Department had certain network vulnerabilities and general access control weaknesses that could affect unclassified information system security; and (2) while the Department has made progress in its performance

Did you know?

A record number of major Federal departments and agencies passed their annual audit. Twenty-one of 24 major departments and agencies earned auditors' approval for FY 2002—up from 18 in FY 2001—and 2 agencies met a new Governmentwide standard for timeliness of reliable financial information 2 years early.

Source: OMB Press Release, February 6, 2003

measurement reporting, more remains to be done to satisfy Office of Management and Budget requirements. It should be noted that these conditions represent findings that were also stated in last year's audit report.

To ensure the quality of the audit, the OIG approved the scope of KPMG's assignment and monitored its work. The OIG also reviewed the audit report and related work papers to ensure compliance with applicable auditing standards.

Department management generally agreed with the audit findings and initiated or agreed to initiate specific corrective actions. The OIG transmittal memorandum to the Secretary and the KPMG audit report are included in the Department's *Fiscal Year 2002 Performance and Accountability Report, DOE/ME-0014*. (IG-FS-03-01)

O Stockpile Stewardship

In 1993, the President and Congress reaffirmed the moratorium on underground nuclear testing and directed that a science-based Stockpile Stewardship Program be developed to maintain the Nation's stockpile of nuclear weapons. The Department's plan for stockpile stewardship is one of the most complex, scientifically technical programs ever undertaken. The program consists of surveillance, experimentation, computation, and production. Its focus is to maintain "high confidence" in the safety and reliability of the stockpile without nuclear testing. Responsibility for stockpile stewardship rests with the NNSA. OIG reviews continue to disclose problems the Department is having with meeting its critical stockpile stewardship mission. Recent examples include:

Scope, Schedule, and Cost Problems in W80 Refurbishment

The Department's national security mission, as managed by the NNSA, includes extending the life of the existing weapons in the Nation's nuclear stockpile. In this regard, the W80 is one of the weapon types currently undergoing refurbishment. From design to final production, the project will involve three design laboratories and four production plants, and is currently estimated to cost over \$1 billion.

Did you know?

The NNSA spends more than \$5.5 billion per year to maintain the safety and reliability of the Nation's nuclear weapons through the Stockpile Stewardship Program.

Source: Major Performance and Accountability Challenges, GAO-03-100-Department of Energy Challenges, www/GAO.gov.

As noted in a number of earlier reports by the OIG and others, the NNSA has faced significant challenges in managing and revitalizing the Nation's nuclear stockpile. The U.S. General Accounting Office has also described problems with stockpile stewardship efforts, including a 2001 finding that a key milestone for refurbishment of the W87, another weapon system, had been delayed 2 years and the project experienced cost increases of \$300 million. In light of these and other reports, the OIG conducted an audit to determine whether, under NNSA's current operating approach, the W80 will be refurbished within established scope, schedule, and cost parameters.

The audit disclosed that it is not likely that NNSA's W80 refurbishment project will meet scope, schedule, and cost milestones established in the W80 NNSA Project Plan. Specifically, Lawrence Livermore and Sandia National Laboratories have cancelled or delayed testing, weapon component completion, and support facility renovation activities, without notifying NNSA and updating project plans. Further, key management controls to oversee the refurbishment project were not in place or operating as intended.

The OIG recommended that NNSA: (1) establish complete and accurate project plans; (2) implement change controls; (3) estimate and track costs at the weapon and component levels; and (4) ensure that peer reviews are performed as scheduled. Management agreed with the recommendations and stated that corrective actions have already been initiated. (IG-0590)

Accounting for Significant Finding Investigations Needs Improvement

Since 1992, the Department and the NNSA have carried out an analytically based Stockpile Surveillance Program to help ensure the safety, reliability, and performance of the nuclear weapons in the Nation's stockpile. On a continuing basis, NNSA randomly selects weapons from the active inventory for disassembly, inspection, and testing for defects and problems. Test results serve, in part, as a basis for certifying to the President that there is no need to resume underground nuclear testing.

When the surveillance program identifies a suspected problem, NNSA must determine if further testing and analysis is warranted. If so, a Significant Finding Investigation (SFI) is opened. The OIG conducted an audit to determine whether NNSA took action to resolve recommendations resulting from SFIs.

The OIG found that of the 100 recommendations issued during calendar years 2000 and 2001, NNSA could only account for the resolution of the 26 most serious. The audit disclosed that the status of the other 74 recommendations was not tracked. The OIG analysis showed that no action had been taken on 23 recommendations and that most were not assigned to any specific individual or organization for follow-up. Furthermore, NNSA did not have controls in place to ensure that such assignments were made and that follow-up actions were completed. The audit concluded that, unless all recommendations are tracked and resolved, NNSA risks allowing certain weapons-related problems to go unresolved, and issues that are now considered minor have the potential to grow more serious with time.

The OIG recommended that the Acting Administrator, NNSA: (1) ensure that its *Development and Production Manual* and related policies and procedures are modified to address the resolution of all SFI recommendations; (2) complete the development and implementation of a system to formally document and track the resolution of SFI recommendations; (3) assign responsibility for resolution of all SFI recommendations, including previously unresolved recommendations; and (4) establish performance measures to resolve SFI recommendations as part of the overall performance goals on maintaining stockpile confidence.

NNSA agreed with the recommendations and is working to correct the deficiencies noted in the audit. (IG-0575)

OIG Identifies Potential Alternatives for Meeting Future Beryllium Metal Supply Requirements

Beryllium metal, a non-radioactive metal, is essential for many departmental applications and is primarily used to produce parts for nuclear weapons. The NNSA maintains

the capability to manufacture beryllium metal components both for nuclear weapons and for experiments required to certify the reliability of the nuclear weapons stockpile. Because domestic production of beryllium metal ceased in 2000, the only available source for this material is the National Defense Stockpile (NDS).

NNSA has estimated that, over the next three decades, it would need about 90 tons of beryllium metal to fulfill mission requirements. This is 40 tons more than is currently available to the Department for purchase from NDS. NNSA's preferred alternative to deal with the shortfall is to obtain more material from the NDS. Since the Department of Defense also has national security requirements for the same material, it is unclear whether obtaining more beryllium metal from NDS is a viable option.

The OIG conducted an audit to determine whether obtaining additional material in this manner was the most efficient and effective method for meeting future requirements for beryllium metal.

The audit disclosed that NNSA had not fully considered alternative approaches for meeting its beryllium requirements. We noted at least two options that had not previously been analyzed, each involving process changes that could help NNSA reduce its overall need for beryllium metal. The processes identified are the "near net shaping" manufacturing process and recycling. Use of the near net shaping manufacturing process would allow NNSA to use significantly less beryllium metal to manufacture parts. This process involves beryllium powder being sized to a shape that is closer to that of final parts than is possible by machining. At the OIG's request, NNSA conducted a preliminary analysis of the use of near net shaping for its manufacturing process and concluded that the process had the potential to allow NNSA to meet its beryllium requirements with less than the supplies currently available to the Department in NDS.

The audit also identified a second approach to conserve beryllium; namely, reestablishment of the Department's recycling ability. Although costs associated with purchasing or manufacturing new recycling equipment would need to be considered, NNSA has estimated that recycling could allow it

to reuse up to 98 percent of beryllium scrap metal. The audit concluded that adoption of such activities has the potential to save NNSA as much as \$42 million dollars.

The OIG recommended that the NNSA Deputy Administrator for Defense Programs: (1) formally evaluate process alternatives and recycling as methods for reducing its overall need for beryllium metal; and (2) implement the most cost-effective means for meeting mission-related requirements. Department management generally agreed with the OIG's recommendations that NNSA evaluate alternatives to meet its beryllium metal requirements. (IG-0583)

O Worker/Community Safety

The Department performs a wide variety of work to carry out its many missions. With thousands of employees and the local communities to consider, safety is a key concern to the Department. Other agencies and/or groups, such as State regulators, the Environmental Protection Agency, the Defense Nuclear Facilities Safety Board, and the Office of Independent Oversight and Performance Assurance, also help the Department stay focused on the safety of its operations and facilities. OIG reports have identified problems with safety operations or plans at several of the Department's facilities.

Nuclear Safety Program at the Department's Ashtabula Site Needs Improvement

The Ashtabula Site is owned by a private company, the RMI Titanium Company (RMI), and is comprised of two facilities, the Extrusion Plant and the Metals Plant. The OIG discovered during an earlier inspection that there were radioactive processing activities occurring at the Metals Plant without a State or Federal nuclear license and that RMI utilized Department equipment to conduct these radioactive processing activities without the Department's permission.

The OIG conducted this inspection to determine: (1) in the absence of a nuclear license covering the Metals Plant, if the radiological work was conducted in accordance with Department nuclear safety procedures; and (2) whether the



Ashtabula- Southeast corner of main plant complex, Environmental Management Project, Ashtabula, Ohio



Ashtabula—Overall view of the main plant Extrusion Complex Remediation, Ashtabula, Ohio.

RMI radioactive processing activities conducted with Department equipment occurred without a proper license and without proper nuclear safety procedures in place.

The inspection found that radiological work at the Metals Plant and commercial work with Department equipment were not covered by either a license or Department nuclear safety procedures. Because RMI owns the Ashtabula Site, it was unclear whether a nuclear license or Department regulations should have been in place.

The OIG recommended that the Department's: (1) Office of the General Counsel determine the applicability of Department regulations at the Ashtabula Site; (2) Office of Price-Anderson Enforcement determine whether Department regulations have been violated at the site; and (3) Ohio Field Office address issues relating to compliance with nuclear safety regulations and the use of Department equipment to perform non-Department radiological work.

The Office of the General Counsel determined that Department nuclear safety requirements did not apply to contractual activities at the Ashtabula Site and that these activities are under the jurisdiction of the Ohio Department of Health. Based on this determination, the Office of Price-Anderson Enforcement concluded that it would be at variance with the Department's Price-Anderson regulations to assert Price-Anderson Enforcement jurisdiction at the Metals Plant. The Ohio Field Office intends to recover all related costs that were incurred by RMI while using Department property to perform commercial work and is working with the State of Ohio to ensure nuclear safety compliance at Ashtabula. (IG-0576)

The Department's Explosives Safety Program Needs Improvement

The OIG conducted an inspection at the Department's Nevada Operations Office (Nevada) and Oak Ridge Operations Office (Oak Ridge) to determine if explosive materials were being stored safely and in accordance with applicable Department requirements.

The inspection found that: (1) programs designed to review the shelf-life of explosive materials have not been fully implemented at Nevada and Oak Ridge; (2) the Department had not incorporated the “DOE Explosives Safety Manual” into one contract at Nevada and two contracts at Oak Ridge; (3) combustible material was inappropriately stored in explosives storage magazines at Nevada; and (4) lightning protection tests on explosives storage magazines at Nevada were not being consistently completed by all contractors.

The OIG recommended a series of actions designed to improve explosives safety at Nevada and Oak Ridge. Department management agreed with the recommendations and stated that they are taking action to strengthen explosive safety. (IG-0578)

Significant Delays Found in National Nuclear Security Administration’s Nuclear Explosive Safety Study Program

The NNSA is responsible for designing, testing, and maintaining the Nation’s nuclear weapons stockpile. Many activities related to this mission are performed at the Department’s contractor-operated Pantex Plant near Amarillo, Texas. Departmental policy requires that an approved Nuclear Explosive Safety (NES) study be performed before any nuclear explosive operation is conducted. NES studies ensure protection of the public, employees, facilities, and the environment.

The OIG conducted an audit to determine whether the Department was conducting scheduled safety reviews and evaluations of nuclear explosive operations.

The audit disclosed that comprehensive NES studies had been delayed for six of the nine nuclear weapon types currently active in the Nation’s stockpile. Under the Department’s current plan, the actual time between comprehensive NES studies will range from 11 to 16 years, despite the standard to conduct a comprehensive safety study at least once every 10 years. To NNSA’s credit, NES studies have since been completed for two of the active weapon types; however, the studies did not cover all operations.

The studies were overdue because the Department: (1) had not fully implemented the required safety initiatives; (2) had not completed the safety basis documents, integral to the NES review process; (3) experienced delays in obtaining necessary information from supporting laboratories; and (4) experienced a shortage of technical personnel familiar with the nuclear explosive systems.

The OIG made several recommendations that would assist the Deputy Administrator for Defense Programs to complete all NES studies as expeditiously as possible.

NNSA management officials generally agreed with the recommendations and advised that a number of actions had been initiated to expedite the completion of NES studies. Management also noted that the design laboratories continue to certify all weapon systems as meeting their military characteristics. (IG-0581)

Radiological Incident Reporting Inadequate and Incomplete

On February 15, 2001, an unanticipated airborne release of Plutonium-238 (Pu-238) occurred from a glovebox at LANL's Technical Area 55 Site. The incident resulted in the contamination of workers. As required, LANL officials prepared an Occurrence Report outlining the circumstances of the incident. The NNSA referred to the OIG a complaint that questioned the thoroughness and competence of the incident evaluation by LANL and the failure to consider procedural violations that caused the incident. As a result, the OIG conducted an inspection to evaluate the facts and circumstances surrounding the reporting of the incident.

The inspection concluded that LANL glovebox safety operations and procedures at the time of the release were not performed in accordance with NNSA-approved policies for the handling of Pu-238. Additionally, the inspection found that the Occurrence Report was inaccurate and incomplete. The information developed during this review, including the confirmation that LANL personnel were contaminated due to exposure to Pu-238, suggests significant safety shortcomings

efficiency

at the time at LANL. The OIG is concerned, as well, by the fact that the Occurrence Report did not identify the root cause of the release and the contamination of the workers.

The OIG recommended that responsible NNSA officials ensure that: (1) all information surrounding the glovebox contamination incident is thoroughly reviewed; (2) LANL be directed to strengthen its internal controls to reduce or eliminate the possibilities of inadvertent contamination; and (3) LANL be directed to place greater emphasis on occurrence reporting to ensure adherence to reporting requirements. Department management agreed with the recommendations and initiated corrective actions that will be completed by December 20, 2003. (IG-0591)

Congressional Responses

During the reporting period, the Inspector General (IG) testified at two congressional hearings. On February 26, 2003, the IG testified before the House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations, on procurement and property mismanagement and theft at LANL. Additionally, on March 20, 2003, the IG testified before the House Committee on Government Reform at a hearing concerning the issue of the Department's contract administration. The OIG also provided a total of 19 briefings to Members of Congress and their Committees or personal staffs, received 13 requests for information, and provided information or reports on 17 occasions.

Costs Incurred and Claimed Audits

The IG is required to periodically assess the reliability of the internal control structure used by Department contractors and the affected field element to assure that only allowable costs were claimed and reimbursed. Based on this assessment, the OIG must determine whether to sign the contractors' Statement of Costs Incurred and Claimed (SCIC). As part of these inquiries, the OIG also reviews the internal audit function of the contractors to determine the extent to which the OIG may rely upon the work they have performed. For the period October 1, 2002, through March 31, 2003, the OIG performed SCIC assessments for five contractors.

Bechtel Nevada Corporation Under Department of Energy Contract No. DE-AC08-96NV11718, Report Number OAS-V-03-01, dated October 28, 2002.

The OIG assessment disclosed conditions, including noncompliance with contract clauses and/or laws and regulations, in the internal control structure of Bechtel Nevada Corporation (Bechtel) in effect during FYs 1999 through 2001. Specifically, Bechtel could not assure the Department received the full rebate for contract-related travel paid with corporate travel cards, did not follow the Federal Travel Regulations relating to foreign travel, and disposed of records supporting procurement card purchases. The OIG

was also concerned about the quality of work on selected audits performed by the Internal Audit group. The review of six audits found that Internal Audit did not determine the cost allowability of foreign travel costs in four audits and did not expand samples or project questioned and unallowable costs identified during its FY 1999 allowable cost audit. Based on the review, the OIG is qualifying its opinion on the SCIC for FYs 1999 through 2001.

Argonne National Laboratory Under Department of Energy Contract No. W-31-109-ENG-38, Report Number OAS-V-03-02, dated November 1, 2002 (covered FY 2001).

Battelle-Pacific Northwest National Laboratory Under Department of Energy Contract No. DE-AC06-76RL01830, OAS-V-03-03, dated November 5, 2002 (covered FY 2001).

Midwest Research Institute Under Department of Energy Contract No. DE-AC36-99GO10337, OAS-V-03-04, dated December 19, 2002 (covered FYs 1998-2001).

Westinghouse Savannah River Company Under Department of Energy Contract No. DE-AC09-96SR18500, OAS-V-03-05, dated February 28, 2003 (covered FY 2001).

In the OIG's opinion, changes to the internal control structure for these four contractors provided reasonable, but not absolute assurance, that costs claimed by the contractor and reimbursed by the Department were allowable. In addition, based on the OIG's assessment of the internal auditors' qualifications, independence, and audit work and on tests of the work performed by the internal auditors, the OIG determined that the work of the internal auditors could be relied upon.

Administrative Safeguards

Subcontractor Employee Convicted and Sentenced for Accepting Kickbacks

A joint investigation with the FBI, the Defense Criminal Investigative Service, and the Internal Revenue Service determined that a subcontractor employee at the INEEL

inappropriately provided items of value to a prime contractor employee in return for favorable treatment in the award of a mobile office contract.

The subcontractor pleaded guilty to one-count indictments of Title 18 U.S.C. Section 1341, Mail Fraud; and Title 41 U.S.C. Sections 53 and 54, Anti-Kickback Act. The employee was sentenced to 4 months' incarceration, 4 months' home detention, and 3 years' probation and was ordered to pay a \$20,000 fine, \$45,000 in restitution, and a \$200 assessment fee. The Government also seized various items valued at approximately \$50,000 through criminal asset forfeiture. During the previous reporting period, a second individual involved in the scheme pleaded guilty, was sentenced to 2 years' probation, and was ordered to pay a \$7,500 fine and a \$25 assessment fee. (I01IF001)

Contractor Procurement Official Pleads Guilty to Bribery

An OIG joint investigation with the FBI determined that a contractor procurement official inappropriately accepted cash and other items of value from a laboratory vendor. The investigation found that over a 2-year period the procurement official worked with the vendor to inflate the cost of specialty sensor parts; improperly purchased the parts with a Government procurement card; ordered and paid for parts that were never delivered; and arranged for the subcontractor to fix, repair, and re-work parts at inflated prices. The procurement official pleaded guilty to violating Title 18 U.S.C. Section 201(b)(2)(A), Bribery of Public Official. Sentencing is pending. In addition, the procurement official is no longer an employee of the contractor. (I01LL003)

DOE Supply Specialist Pleads Guilty to Receiving Kickbacks

A joint investigation with the FBI determined that a Department employee responsible for providing oversight of carpet cleaning contractors received kickbacks from a carpet-cleaning vendor. The employee, a General Supply Specialist, also provided the vendor with competitor bid information. As a result of the investigation, the employee pleaded guilty to Title 18 U.S.C. Section 201(b)(2)(A), Bribery of Public Official, and retired from Federal Service. Sentencing is pending. (I01HQ006)

Contractor Employee Pleads Guilty to Inappropriate Use of Government Sponsored Purchase Card

An OIG investigation determined that a contractor employee at the Department's WIPP misused a Government-sponsored procurement card to purchase personal items. The card was used for a down payment on an automobile and to purchase jewelry and groceries. The contractor employee, an assistant purchase card administrator, attempted to conceal these charges by altering the purchase card statements.

The contractor employee pleaded guilty to one count of Title 18 U.S.C. Section 287, False Claims, and is no longer employed by the contractor. The individual was sentenced to 5 years' probation and restitution of \$13,883.19. (I02AL003)

Department Contractor Implements Corrective Action in Purchase Card Program

As previously reported, an OIG investigation resulted in the conviction and sentencing of an Oak Ridge National Laboratory (ORNL) contractor employee for using a Government purchase card to purchase non-business related consumer electronic products totaling \$10,804.12.

During the current reporting period, the OIG issued an Administrative Report to Management reporting the results of the investigation and making recommendations regarding ORNL's purchase card program. Management informed the OIG that ORNL: (1) implemented a policy to conduct field audits of cardholder records and activity; (2) issued a notice to all credit card program participants concerning consequences of program noncompliance; and (3) updated procedures to require annual refresher training for all program participants. Management also plans to conduct an FY 2003 audit to assess the effectiveness of the contractor's corrective actions. (I01OR009)

Subcontractor Employee Pleaded Guilty to Theft of Property

A joint investigation by the OIG and FBI determined that over a 4-year period a former subcontractor employee at the INEEL stole about \$10,000 worth of Government property. The stolen property, which included a computer, printer, carpet and various tools, has been recovered. As a result of

the investigation, the subcontractor terminated the subject's employment. The individual pleaded guilty to a one-count violation of Title 18 U.S.C. 641, Theft of Government Property. Sentencing is pending. (I01IF004)

Subcontractor Employee Pleads Guilty to Theft of Government-owned Platinum

A joint investigation by the OIG and FBI determined that a former Department subcontractor employee stole Government-owned platinum from the INEEL. The individual sold the platinum to a precious metal company for \$14,608. The subject pleaded guilty to a one-count felony violation of Theft of Government Property, Title 18 U.S.C. 641, and was sentenced to 2 years' probation, 100 hours of community service, restitution of \$14,608, and a \$100 special assessment fee. In addition, the subject's employment was terminated. (I02IF005)

Vendor Submits Fraudulent Bills Overcharging the Government for Training Costs

An OIG investigation resulted in the debarment of the owner and an account representative of a Department approved vendor. The OIG determined that the vendor, responsible for providing training and education to Government and contractor employees, fraudulently charged the Government in excess of \$500,000 for computer training. The vendor is no longer in business and its assets have been liquidated. One of the individuals had no reportable source of income and the other filed for bankruptcy. As a result, the U.S. Attorney's Office for the District of Nevada declined criminal prosecution and opted not to pursue further civil prosecution in lieu of administrative action. (I98AL020)

Washington State Chiropractor Pleads Guilty to Improperly Billing the Hanford Site Workers Compensation Program

A joint OIG investigation with the Washington State Department of Labor and Industries (L&I) determined that a local chiropractor improperly billed the Department of Energy's Hanford Site Contractor's Workers Compensation Program and L&I by using his deceased father's L&I medical provider number. The improper billing occurred over an

8-month period of time. The investigation resulted in the subject pleading guilty in Benton County, Washington, Superior Court to “false statements or concealing information.” The subject was sentenced to 20 days’ partial confinement (work release); 30 days’ community service; restitution in the amount of \$15,914.53; and fines totaling \$747. (I03RL003)

Department Safeguards and Security Employee Provides False Employment Information on Department Letterhead to Obtain Credit

An OIG investigation determined that an Oakland Operations Office employee provided false employment information on Department letterhead to a creditor. The employee submitted this false information to obtain a personal home loan in the amount of \$117,000. A Department subcontractor employee also participated in the scheme. The U.S. Attorney’s Office for the Northern District of California declined prosecution in favor of administrative remedies.

In response to an OIG Administrative Report to Management: (1) the Department employee was suspended without pay pending the outcome of a review of the individual’s security access authorization; and (2) the subcontractor employee’s security access authorization was revoked, resulting in the termination of the individual’s employment. (I02LL005)

Former Contractor Employee Sentenced for Possession of Child Pornography on a Government Computer

During the current reporting period, a former contractor employee was sentenced to 27 months in Federal prison and 3 years of supervised release for possessing child pornography while working at the Rocky Flats Environmental Technology Site’s Fire Department. The individual was also ordered to register as a sex offender. (I01TC020)

efficiency

Successful Outcomes

The OIG continues to look for opportunities to influence the Department towards positive change and reduce the potential for waste, fraud, and mismanagement. The *President's Management Reform Agenda* highlights the need for Federal agencies to seek ways to measure their success from a result-oriented perspective. The Department has taken numerous actions, some of which are summarized below, that reflect the positive impact of our reports.

- The OIG annually performs an audit to identify the most significant Management Challenges facing the Department. The Department recently initiated a corporate approach for taking timely, coordinated, and comprehensive action to address these Management Challenges as well as those identified by the General Accounting Office. A memorandum dated March 31, 2003, from the Department's Chief of Staff to senior Department managers shared the importance of taking action to address not only the problem, but the underlying causes that allow these challenges to persist. The memorandum also established a mechanism to track the corrective action plans and measure the effectiveness of the actions taken. (IG-0580)
- The Department and the Fernald Environmental Project, Fluor Fernald, Inc. (Fernald), modified the Fernald contract to require site closure in 2006, changed the contract's fee structure to emphasize schedule acceleration rather than cost control, and lowered the total project cost by over \$300 million. Furthermore, the Department changed the contract's definition of site closure to make it consistent with congressional intent. (IG-0555)
- The Secretary announced at the March 2003 International Atomic Energy Agency (IAEA) conference on the Security of Radioactive Sources that the U.S. was evaluating potential vulnerabilities in the control of radioactive sources in order to strengthen the regulatory infrastructure for accounting, tracking, and disposal of such sources. (IG-0546)

- The Department agreed to retain an Oak Ridge capability for producing stable, non-radioactive isotopes. The Department had planned to dismantle the World War II era machines, called calutrons. However, the OIG audit report showed the importance of keeping the machines in a workable condition until another domestic source is created. (IG-0574)
- An OIG review raised concerns over the use of laboratory overhead accounts to fund R&D projects as well as general management concerns on the allowability of these project costs. As a result, the Secretary of Energy directed the NNSA Acting Administrator to establish a prioritization process to ensure that only projects that support the national security mission are approved. (IG-0511)
- The Department completed an analysis of cost sharing at Ashtabula and concluded that there is support to pursue reasonable cost-sharing provisions in future contracts relating to Department and non-DOE operations. Over the course of the remaining clean-up effort at the site, the cost-sharing provision could save the Department and ultimately the taxpayer about \$34 million. (IG-0558)
- The Department took positive action to ensure that foreign visitors are properly cleared before arriving at a Department site. Procedures have been established that require all foreign visitors to have current documentation and be properly reported and that proper checks are completed before site access is allowed. (IG-0579)
- The OIG reported that the planned waste characterization capability at the Department's WIPP is unlikely to expedite the removal of waste or save costs to the extent of management's estimates. The Department is currently performing further cost benefit analyses of this program to verify that this is the most cost effective and efficient mechanism by which to aid small quantity generators in the characterization and confirmation of their waste. (IG-0577)

- The RMI Titanium Company, an operating contractor, was using Department equipment to conduct non-Departmental activities. The Department's contracting officer formally directed RMI to stop any unauthorized use and receive prior written consent from an authorized Department representative for any future use of Government equipment outside the scope of the Department's contract. (IG-0576)
- The Department's Biosafety Working Group developed a web page that provides current information on biosafety issues and identifies individuals in the Working Group that can be contacted for assistance. Recently, the Working Group provided information regarding the "Public Health Security and Bioterrorism Preparedness and Response Act for 2002," including a digest of the new law and actions required by the Department. (IG-0492)
- NNSA advised the OIG that in response to our findings about the inadequacy of the reporting of a radiological incident at LANL, LANL officials initiated a formal investigation that generated 119 corrective actions. LANL has completed 108 of the corrective actions and expects to complete the others by the end of 2003. (IG-0591)

Did you know?

The False Claims Act (Act) prohibits any person from "knowingly" presenting "a false or fraudulent claim for payment or approval" to the Federal Government. The Act authorizes individual citizens to bring private suits, referred to as Qui Tam actions, to enforce the Act on behalf of the Government.

Source: False Claims Act.

Qui Tams

Since 1996, the OIG has been instrumental in working with the Department of Justice (DOJ) in Qui Tam cases in which it is alleged that a Department contractor or grantee has submitted false claims. The OIG is currently working with the DOJ on 22 Qui Tam lawsuits involving alleged fraud against the Government in the amount of approximately \$189 million.

Management Referral System

The OIG operates an extensive Management Referral System. Under this system, selected matters received through the OIG Hotline or other sources are referred to the appropriate Department manager or other Government agency for review and appropriate action. Complaints

referred may include such matters as time and attendance abuse, misuse of Government vehicles and equipment, violations of established policy, and violations of standards of conduct.

The OIG referred 111 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 24 of these complaints. Otherwise, Department management is asked to respond if it develops information or takes action that it believes should be reported. During the reporting period management reported that five personnel actions (e.g., suspension or termination) were taken and almost \$7,000 in funds were recovered. In addition, the following management responses are particularly noteworthy because they demonstrate management's use of referred information to stimulate positive change or to take decisive action.

- A team from the Office of Environmental Management and the Office of Environment, Safety and Health partially substantiated allegations that contractor employees at the Fernald site were improperly trained and certified to work at hazardous waste sites. Federal regulations require persons dealing with hazardous materials to receive at least 40 hours of instruction "off the site" and a minimum of 3 days' actual field experience "under the direct supervision of a trained, experienced supervisor." In particular, the team found the field experience portion of the training needed improvement and recommended that the site contractor develop a training implementation plan to ensure that the 3-day field portion of the training benefits the employees and builds confidence so that employees can safely perform their duties. The team also recommended that the Director of Safety and Engineering "conduct periodic reviews of training practices" in the course of visiting sites "to ensure that the training implementation is carried out effectively."
- The Deputy General Counsel for Technology, Transfer and Procurement concluded that a Department management and operating contractor created a conflict of interest when it formed a corporation with a Cooperative Research and Development Agreement

(CRADA) partner. The Deputy General Counsel recommended that the management and operating contractor draft special procedures for cases in which it has an equity interest with its CRADA partners and licensees.

- Management inquired into an allegation that a contractor employee at a Department laboratory was misusing time and equipment. The contractor employee allegedly viewed Internet pornography and visited “chat rooms” on a regular basis. The contractor employee admitted wrongdoing and received a 60-day suspension without pay.

Intelligence Activities

The OIG issued two quarterly intelligence reports pursuant to Executive Order 12863, “President’s Foreign Intelligence Advisory Board.” The Order requires the Inspectors General of the Intelligence Community to report to the Intelligence Oversight Board concerning intelligence activities that Inspectors General have reason to believe may be unlawful or contrary to Executive order or Presidential directive. No intelligence activities were identified that were contrary to Executive order or Presidential directive.

Legislative and Regulatory Review

The OIG coordinated and reviewed 13 legislative and regulatory items, as required by the Inspector General Act of 1978 (Act). The Act requires the OIG to review existing and proposed legislation and regulations relating to Department programs and operations and to comment on the impact which they may have on economical and efficient operations of the Department.

Hotline System

The OIG operates a Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. During the reporting period, the Hotline processed 590 complaints.

President's Council on Integrity and Efficiency

The OIG is pleased to report that members of our staff received the following PCIE Awards for Excellence:

Nuclear Material Accountability Team - for conducting several high impact audits in the area of nuclear material accountability that attracted the attention of Congress, other agencies and the media.

PCIE Audit Committee Peer Review Working Group - an interagency group recognized for improving the quality and effectiveness of the peer review process through the revision and update of the April 1997 *Peer Guide for Conducting External Quality Control Reviews of the Audit Operations of the Offices of Inspector General*.

Accountability and Control of Sealed Radioactive Sources Inspection Team - for conducting an inspection that resulted in identifying a number of actions needed to assure that sealed radioactive sources were properly controlled, inventoried, and leak-tested.

Fresh Pursuit Policies and Practices Inspection Team - for conducting a review that looked at the policies and procedures applicable to the immediate pursuit for the purpose of preventing the escape or effecting the arrest of fleeing suspected terrorists or criminals who are in unauthorized control/possession of nuclear weapons/ weapons components or special nuclear material.

Ashtabula Environmental Management Team - for combined audit, inspection, and investigative efforts that resulted in improved controls over Government-owned personal property and environmental remediation alternatives and cost sharing strategies that could save the Department about \$51 million in environmental remediation costs over the life of the project.

AUDIT REPORTS ISSUED October 1, 2002, to March 31, 2003

Reports Issued

| REPORT NUMBER | TITLE | DATE OF ISSUE | SAVINGS | QUESTIONED COSTS |
|---------------|---|---------------|--------------|------------------|
| IG-0571 | Idaho Settlement Agreement Activities | 10-09-02 | | |
| IG-0572 | Business Management Information System | 11-04-02 | | |
| IG-0573 | Remote Treatment Facility | 11-05-02 | | |
| IG-0574 | Calutron Isotope Production Capabilities | 11-14-02 | \$51,000,000 | |
| IG-0575 | Resolution of Significant Finding Investigation Recommendations | 11-18-02 | | |
| IG-0577 | Planned Characterization Capability at the Waste Isolation Pilot Plant | 12-18-02 | | |
| IG-0579 | The Department's Unclassified Foreign Visits and Assignments Program | 12-23-02 | | |
| IG-0580 | Management Challenges at the Department of Energy | 12-31-02 | | |
| IG-0581 | National Nuclear Security Administration's Nuclear Explosive Safety Study Program | 01-02-03 | | |
| IG-0582 | Personnel Security Clearances and Badge Access Controls at Selected Field Locations | 01-24-03 | | |
| IG-0583 | Management of Beryllium Metal Supply | 01-27-03 | \$42,000,000 | |
| IG-0586 | Information System Development Practices at the Bonneville and Western Area Power Administrations | 02-21-03 | | |
| IG-0588 | Treatment of Mixed Incinerable Waste | 03-03-03 | \$45,000,000 | |

Reports Issued

| | | | | |
|--------------------|--|-----------------|--|--|
| IG-0589 | Transfer of Excess Personal Property from the Nevada Test Site to the Community Reuse Organization | 03-11-03 | | |
| IG-0590 | Refurbishment of the W80 - Weapon Type | 03-13-03 | | |
| IG-FS-03-01 | Department of Energy's Consolidated Financial Statements | 01-21-03 | | |
| OAS-L-03-01 | Procurement at the Rocky Flats Environmental Technology Site | 10-29-02 | | |
| OAS-L-03-02 | Project Management Practices in the Office of Science | 11-04-02 | | |
| OAS-L-03-03 | Follow-Up Audit on the Department's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies | 12-03-02 | | |
| OAS-L-03-04 | Follow-Up Audit on Internet Privacy | 12-05-02 | | |
| OAS-L-03-05 | Federal Managers' Financial Integrity Act Audit Report | 01-10-03 | | |
| OAS-L-03-06 | Recruitment and Retention at the Los Alamos and Lawrence Livermore National Laboratories | 11-27-02 | | |
| OAS-L-03-07 | Subcontracting Practices at the Savannah River Site | 12-02-02 | | |
| OAS-L-03-08 | Recruitment and Retention of Personnel in the Department of Energy | 01-22-03 | | |
| OAS-L-03-09 | Review of the Department's Administration of Financial Instruments | 01-22-03 | | |
| OAS-L-03-10 | Audit of the Research and Development Investment Criteria for Fossil Energy | 02-19-03 | | |
| OAS-L-03-11 | Audit of the Office of Science Infrastructure Modernization Initiatives | 02-26-03 | | |
| OAS-L-03-12 | Department of Energy's Safety Bases for Nuclear Facilities | 03-05-03 | | |

Reports Issued

| | | | | |
|--------------------|---|-----------------|--|-------------------|
| OAS-C-03-01 | Final Audit of Princeton University's Costs Claimed for National Aeronautics and Space Administration Contract NAS5-96021 | 11-18-02 | | \$4,057 |
| OAS-V-03-01 | Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel Nevada Corporation Under Department of Energy Contract No. DE-AC08-96NV11718 | 10-28-02 | | \$977, 684 |
| OAS-V-03-02 | Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Argonne National Laboratory Under Department of Energy Contract No. W-31-109-ENG-38 | 11-01-02 | | |
| OAS-V-03-03 | Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Battelle-Pacific Northwest National Laboratory Under Department of Energy Contract No. DE-AC06-76RL01830 | 11-05-02 | | |
| OAS-V-03-04 | Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Midwest Research Institute Under Department of Energy Contract No. DE-AC36-99GO10337 | 12-19-02 | | |
| OAS-V-03-05 | Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Westinghouse Savannah River Company Under Department of Energy Contract No. DE-AC09-96SR18500 | 02-28-03 | | |
| CR-FC-03-01 | Federal Energy Regulatory Commission's Fiscal Year 2002 Financial Statement Audit | 03-19-03 | | |
| CR-FC-03-02 | Department of Energy Isotope Program's Fiscal Year 2002 Financial Statement Audit | 03-28-03 | | |

| | | | | |
|--------------------|--|-----------------|--|--|
| CR-FS-03-01 | Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2002 | 02-25-03 | | |
| CR-FS-03-02 | Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2002 | 03-06-03 | | |

The OIG's Audit Followup Action:

- OIG recommended corrective actions agreed to by the Department are tracked by the Department until complete.
- The OIG follows up on all Department nonconcurrences with OIG report recommendations.
- When the Department and the OIG disagree, the Department must prepare a Management Decision describing its position and any alternative action.
- The Department's Office of Management, Budget and Evaluation/ Chief Financial Officer reviews the Management Decisions and may convene a meeting of the Departmental Internal Control and Audit Review Council (DICARC) to achieve mutually agreeable resolution.

INSPECTION REPORTS ISSUED October 1, 2002, to March 31, 2003*

Reports Issued

| REPORT NUMBER | TITLE | DATE OF ISSUE |
|---------------|---|---------------|
| IG-0576 | Inspection of Nuclear Safety at the Ashtabula Environmental Management Project | 11-26-02 |
| IG-0578 | Inspection of Explosives Safety at Selected Department of Energy Sites | 12-19-02 |
| IG-0585 | Inspection of Implementation of Corrective Actions Resulting From Force-on-Force Performance Tests | 02-12-03 |
| IG-0587 | Inspection of Firearms Internal Controls at Los Alamos National Laboratory | 02-21-03 |
| IG-0591 | Allegations Concerning the Reporting of a Radiological Incident at the Los Alamos National Laboratory | 03-20-03 |
| IG-0592 | Actions Taken in Response to Missing Hazardous Waste Containing Cyanide | 03-21-03 |
| IG-0594 | Emergency Medical Coordination Memorandum of Agreement at Brookhaven National Laboratory | 03-31-03 |
| S021S013 | Inspection of 2001 Safeguards and Security Survey of Los Alamos National Laboratory | 02-12-03 |
| INS-L-03-01 | Review of Sensitive Information on Department Websites | 12-18-02 |
| INS-L-03-02 | Review of an International Agreement | 01-08-03 |
| INS-L-03-03 | Directing of Subcontract Tasks at the Oak Ridge National Laboratory | 01-09-03 |
| INS-L-03-04 | Award of the Waste Isolation Pilot Plant Transportation Contract | 02-10-03 |
| INS-L-03-05 | DOE Departmental Management Program | 02-10-03 |

*Does not include non-public reports

OFFICE OF SPECIAL INQUIRIES REPORTS ISSUED October 1, 2002, to March 31, 2003

| REPORT NUMBER | TITLE | DATE OF ISSUE |
|---------------|---|---------------|
| IG-0584 | Special Inquiry on Operations at Los Alamos National Laboratory | 01-28-03 |

AUDIT REPORT STATISTICS

October 1, 2002, to March 31, 2003

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:* | 19 | \$3,613,668,713 | \$140,233,550 | \$3,753,902,263 |
| Those issued during the reporting period: | 37 | \$138,977,684 | \$0 | \$138,977,684 |
| Those for which a management decision was made during the reporting period: * | 25 | \$307,082,936 | \$70,120,000 | \$377,202,936 |
| <i>Agreed to by management:</i> | | \$189,526 | \$0 | \$189,526 |
| <i>Not agreed to by management:</i> | | \$46,341,860 | \$50,120,000 | \$96,461,860 |
| Those for which a management decision is not required: | 19 | \$0 | \$0 | \$0 |
| Those for which no management decision had been made at the end of the reporting period.* | 12 | \$3,706,115,001 | \$90,113,550 | \$3,796,228,561 |

*The figures for dollar items include sums for which management decisions on the savings were deferred.

AUDIT REPORT STATISTICS

October 1, 2002, to March 31, 2003

The following table shows the total number of contract 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: | 4 | \$4,458,647 | \$84,241 |
| Those issued during the reporting period: | 1 | \$4,057 | \$0 |
| Those for which a management decision was made during the reporting period: | 1 | \$25,753 | \$0 |
| Value of disallowed costs: | | \$25,743 | \$0 |
| Value of costs not disallowed: | | \$0 | \$0 |
| 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: | 4 | \$4,436,951 | \$84,241 |

REPORTS LACKING MANAGEMENT DECISION

The following are audit reports issued before the beginning of the reporting period for which no management decisions had been made by the end of the reporting period. The reasons management decisions had not been made and the estimated dates (where available) for achieving management decisions are also included. These audit reports are over 6 months old without a management decision. 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 addressed and effected as efficiently and expeditiously as possible.

The Contracting Officers have not yet made decisions on the following contract reports. The reasons for not doing so included: (1) the delaying of settlement of final costs questioned in audits pending completion of review of work papers; (2) voluminous additional records; (3) additional work by the Defense Contract Audit Agency; and (4) completion of certain legal and contractual investigations.

| | |
|------------|---|
| WR-C-95-01 | Independent Final Audit of Contract No. DE-AC34-RIRF00025, July 26, 1990, to March 31, 1993, Wackenhut Services, Inc., Golden, Colorado, March 14, 1999 <i>(Estimated date of closure: September 30, 2003)</i> |
| ER-C-97-01 | Report on Interim Audit of Costs Incurred Under Contract No. DE-AC24-92OR219721 from October 1, 1994, to September 30, 1995, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, December 20, 1996 <i>(Estimated date of closure: May 31, 2003)</i> |
| ER-C-00-03 | Interim Audit of Thomas Jefferson National Accelerator Facility Costs Incurred Under Contract No. DE-AC05-84ER40150 Fiscal Year 1994 Through 1999 <i>(Estimated date of closure: November 30, 2003)</i> |

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

| | |
|------------|---|
| CR-B-99-02 | Management of Unneeded Material and Chemicals, September 30, 1999 |
|------------|---|

Implementation/action plan and Management Decision brief to be provided to the Under Secretary for Energy, Science and Environment and the Under Secretary for Nuclear Security/Administrator for National Security Administration by July 30, 2003.

IG-0508

Stocked Inventory at the Savannah River Site, June 27, 2001

A final management decision is being reviewed by the necessary Department Elements. It is estimated that this will occur by May 30, 2003.

IG-0516

Information Technology Support Services Contract, August 23, 2001

Management has begun implementing corrective action to address the report recommendations even though the final management decision has not yet been communicated. A management decision is expected by May 30, 2003.

IG-0532

Progress of the Spallation Neutron Source Project, November 19, 2001

The finalization of the Management Decision on this report is awaiting resolution of one outstanding issue. It is estimated that this will occur by December 30, 2003.

IG-0537

Telecommunications Infrastructure, December 21, 2001

Management has begun implementing corrective action to address the report recommendations even though the final management decision has not yet been communicated. A management decision is expected by May 30, 2003.

IG-0540 Advanced Radioisotope Power Systems Program,
January 14, 2002

The finalization of the Management Decision is pending the resolution of complex issues. This is expected to occur by December 30, 2003.

IG-0545 Cyber-Related Critical Infrastructure
Identification and Protection Measures,
March 20, 2002

The Management Decision is awaiting the resolution of a nonconcurrency. It should be made by September 30, 2003.

IG-0553 Alternative Fuels Use at the Department of
Energy, May 2, 2002

A final management decision is being reviewed by the necessary Department elements. It is estimated that this will occur by May 30, 2003.

IG-0559 Privatization of Safety Management Services at
the Savannah River Site, June 18, 2002

A final management decision is being reviewed by the necessary Department Elements. It is estimated that this will occur by May 30, 2003.

IG-0565 Salt Processing Project at the Savannah River
Site, August 27, 2002

The finalization of the management decision on this report is awaiting review and mandatory concurrence by several organizations. It is estimated that this will occur by June 30, 2003.

INVESTIGATIVE STATISTICS October 1, 2002, to March 31, 2003

| | |
|---|----------------|
| Investigations open at the start of this reporting period | 210 |
| Investigations opened during this reporting period | 78 |
| Investigations closed during this reporting period | 64 |
| Investigations open at the end of this reporting period | 222 |
| Qui Tam investigations opened | 2 |
| Total open Qui Tam investigations as of 03/31/03 | 22 |
| Multi-agency task force investigations opened | 18 |
| Total open multi-agency task force investigations as of 03/31/03 | 81 |
| Investigative reports to prosecutors and Department management | 18 |
| Recommendations to management for positive change and other actions | 23 |
| Administrative discipline and other management actions | 24 |
| Suspensions/Debarments | 4 |
| Investigations referred for prosecution | 21 |
| <i>Accepted*</i> | 13 |
| <i>Indictments</i> | 12 |
| <i>Criminal convictions</i> | 13 |
| <i>Pretrial diversions</i> | 0 |
| <i>Civil actions</i> | 3 |
| Fines, settlements, recoveries** | \$1,109,590.41 |

*Some of the investigations appearing during the 6-month period were referred for prosecution during a previous reporting period.

**Some of the money collected was the result of task force investigations.

INSPECTION STATISTICS October 1, 2002, to March 31, 2003

| | |
|--|---------|
| Inspections open at the start of this reporting period | 54 |
| Inspections opened during this reporting period | 13 |
| Inspections closed during this reporting period | 13 |
| Inspections open at the end of this reporting period | 54 |
| Reports issued (includes non-public reports) | 16 |
| Inspection Recommendations | |
| <i>Accepted this reporting period</i> | 35 |
| <i>Implemented this reporting period</i> | 21 |
| Complaints referred to Department management/others | 111 |
| <i>Referrals to Department management requesting a response for OIG evaluation</i> | 24 |
| <i>Personnel management actions taken by management on matters referred</i> | 5 |
| <i>Funds Recovered</i> | \$6,927 |

Hotline Statistics

| | |
|--|-----|
| Hotline calls, e-mails, letters, and other complaints | 590 |
| Hotline calls, e-mails, letters, and other complaints predicated | 201 |
| Unresolved Hotline predications from previous reporting periods | 15 |
| Total Hotline predications | 216 |
| Hotline predications transferred to the Management Referral System | 127 |
| Hotline predications closed based upon preliminary OIG activity | 69 |
| Hotline predications pending disposition | 20 |
| Total predications processed | 216 |

FEEDBACK SHEET

The contents of the April 2003 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-121)
Washington, D.C. 20585

ATTN: Wilma Slaughter

Your name:

Your daytime telephone number:

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

