DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

October 1998

Editor's Note: *In a continuing effort to streamline the OIG reporting process, the OIG Semiannual Report to Congress for this reporting period has been revised. For example, we have deleted the section of the report in which the Mission and Organization of the OIG has traditionally been described. Information on the OIG Mission and Organizational Structure can be obtained electronically at the following* ***world wide website address: http://www.hr.doe.gov/ig.***

In addition, OIG reports are available electronically at the above address. Persons wishing to request hardcopies to be mailed to them may do so by calling the automated ***OIG Reports Request Line at (202) 586-2744***.

October 30, 1998

The Honorable Bill Richardson
Secretary
U.S. Department of Energy
Washington, D.C. 20585

Dear Secretary Richardson:

This Semiannual Report to Congress for the second half of Fiscal Year (FY) 1998 is submitted by the Office of Inspector General for transmittal to the Congress, pursuant to the provisions of the Inspector General Act of 1978. The Act requires you to transmit the Semiannual Report to the appropriate congressional committees and subcommittees within 30 days, along with any comments.

The Office of Inspector General continued, during this reporting period, to advise Headquarters and field managers of opportunities to improve the efficiency and effectiveness of the Department's diverse functions, with particular emphasis on coverage of issues addressed in the Department's Strategic Plan. For example, we continued to concentrate on reviewing performance-based contracting, performance outcomes, cost reduction incentive programs, and the Department’s management information systems. Through these efforts, we assisted the Department in implementing the Government Performance and Results Act (Results Act). In a noteworthy accomplishment, three Office of Inspector General employees received commendations for their outstanding participation in special projects undertaken by the President’s Council on Integrity and Efficiency.

In FY 1999, we plan to concentrate our efforts in the following areas: auditing the Department’s consolidated financial statements, reviewing the Department’s implementation and execution of the Results Act, reviewing Department “high risk” areas such as performance-based contracting, conducting performance reviews at several major Department facilities, and emphasizing the successful pursuit of complex criminal and civil investigations.

This submission marks my first Semiannual Report as the Inspector General. As I undertake this responsibility, I want to assure you that my staff and I are committed to a Department which is responsive to the needs of the citizens of this nation and one which is operated efficiently and effectively. We look forward to working with you, other Department and Administration officials, and the Congress in pursuing our mutual objectives.

Sincerely,

/s/

Gregory H. Friedman
Inspector General

Enclosure

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INTRODUCTION

This Semiannual Report to Congress covers the period April 1 to September 30, 1998. The report summarizes significant Office of Inspector General (OIG) audit, inspection, and investigative accomplishments for the reporting period. These OIG efforts facilitated Department of Energy (Department) efforts to improve the overall management of its programs. The OIG has developed a Strategic Plan which sets out its overall goals and objectives. The Office's significant accomplishments are grouped by the strategic goals against which the OIG measures its performance.

The following statistical information helps, in summary form, to put in context the OIG's accomplishments for this reporting period:

- Audit and Inspection reports issued: **58**
- Dollar value of recommendations that funds be put to better use: **$238,793,841**
- Dollar value of management commitments to taking corrective actions: **$17,561,683**
- Questioned costs: **$1,180,375**
- Investigative cases opened: **41**
- Investigative cases closed: **90**
- Open *Qui Tam* investigations: **25**
- Open multi-agency task force and joint agency investigations: **70**
- Indictments/convictions: **12**
- Investigative fines and recoveries: **$1,642,000**
- Debarments: **3**
- Administrative actions: **9**
- Cases referred for prosecution: **26**
- Investigative reports to management recommending positive change: **16**
- Hotline calls received: **426**
- Hotline letters and referrals: **148**
- Total Hotline actions predicated: **186**

HIGHLIGHTS

Following are OIG accomplishments during the reporting period which are particularly noteworthy.

- **Prime Contractor Fees Policy Needs Strengthening.** In FY 1996, the Department's major contractors awarded $5.3 billion in subcontracts. These contractors obtain assistance from subcontractors to achieve the Department's objectives and missions. The Department's Acquisition Regulations allow payment of a fee to Department for-profit major operating contractors based on factors such as difficulty of work and level of required skills. Subcontractor costs, under the regulations, should be excluded from the fee base to the extent that such costs do not accurately reflect a major operating contractor's technical and management effort.

  An OIG audit of 12 major contractors disclosed that the Department did not adjust the fee bases of the major contractors to reflect actual managerial and technical effort associated with the oversight of subcontractors. This occurred because the Department did not define what subcontractor costs should be excluded from or included in major contractor fee bases. As a result, major contractors were paid fees for the administration of subcontracts as well as fees for the subcontractors' effort. For the entities audited, the 12 major contractors were paid $34 million in fees for work performed by subcontractors.

  The OIG recommended that the Department: (1) issue specific guidance to the Department's procurement offices identifying the types of subcontractor costs and the extent to which these subcontractor costs may be included in prime contractor fee bases; and (2) review, as part of a Procurement and Assistance Management quality assurance mechanism, subcontractor cost analyses performed to ensure the fee policy is implemented.

  Department management did not take exception to the audit finding and recommendations, but stated that the Department should not remove all or even the majority of subcontractor costs from the prime contractors' fee bases. Management suggested that the new Department fee policy, which limits the subcontracted costs that can be included in prime contractors' fee bases to 80 percent, was appropriate. (IG-0427)

- **Low-level and Low-level Mixed Waste Management Program Needs Improvement.** An OIG audit of the Department's FY 1993-1996 disposals of low-level and low-level mixed waste found that the Department generally did not dispose of low-level and low-level mixed waste as cost-effectively as possible. Most Department facilities stored large quantities of waste on-site, and disposals of low-level waste were often not cost-effective. In addition, the Department built low-level waste disposal facilities at Savannah River and Oak Ridge, at a cost of $27.1 million, even though off-site disposal would have been more cost-effective.

  The OIG recommended that the Department: (1) revise its strategy for disposal of low-level and low-level mixed waste; (2) require justification and a cost-benefit analysis before constructing any additional on-site disposal facilities; and (3) periodically evaluate sites' implementation of the Departmentwide strategy to ensure disposals are made in a cost-effective manner. Department management concurred with the finding and recommendations, stating that the Department will use the report as part of the structure it is developing to support the low-level and low-level mixed waste management program. (IG-0426)

- **Hazardous Waste Training Agreement Cost $6 Million More Than Necessary.** An OIG audit determined that an interagency agreement between the Department and the National Institute of Environmental Health Sciences (NIEHS) was not the most cost-effective method of acquiring hazardous waste training. Under the terms of the agreement, recipients of NIEHS training grants were to provide Hazardous Waste Operations and Emergency Response training to Department sites. The Department had obligated over $40 million to the agreement. The rates charged by NIEHS grantees were significantly higher than the rates charged by other nonprofit organizations for similar training. However, the Department did not perform sufficient analysis to compare the cost of training provided by the grantees to the cost of training available from nonprofit organizations near the sites. NIEHS was paid through an automated withdrawal system without verifying the reasonableness of payments. As a result, the Department incurred $6 million more than necessary for this training in FY 1996.

  The OIG recommended that the Department either terminate the interagency agreement with NIEHS and award grants directly to nonprofit organizations, or modify the terms of the agreement to require that training costs closely resemble prices available from competitive nonprofit organizations. The Department did not concur with the finding or recommendation. However, the report was referenced in a recent Conference Report (House Report 105-749) on Making Appropriations for Energy and Water Development for the Fiscal Year Ending September 30, 1999. In that report the conferees direct the Department to use the most cost-effective alternatives available to meet all training needs. (IG-0421)

- **Controls Over Architect-Engineering Costs Need Improvement.** An OIG audit of Architect-Engineering (A-E) costs at two of the Department's National Laboratories--Los Alamos and Sandia--disclosed that Sandia's A-E costs were reasonable in relation to adjusted industry standards, but that Los Alamos' costs were not. The audit found that A-E costs for the Los Alamos projects were 65 percent, or $2.5 million, over the adjusted standard, primarily because controls and performance measures were inadequate. If these controls and performance measures are not improved, the OIG estimates the Department will spend $8 million in excess of the adjusted industry standards on projects planned for funding at Los Alamos over the next 3 years.

  The OIG recommended that the Albuquerque Operations Office require Los Alamos to: (1) establish performance measures for A-E costs as a percentage of construction with an expected level of performance and weight for performance evaluation purposes; and (2) award contracts for A-E services (including design orders) competitively based on technical competence and price. The Albuquerque Operations Office agreed with the finding and recommendations, and tasked the Los Alamos Area Office to generate a corrective action plan to address the recommendations. (IG-0424)

- **Funds Expended Contrary to Congressional Direction and Internal Budget Execution Guidelines.** At the request of the Secretary of Energy, the OIG investigated the Department's expenditure of nearly $3.7 million on the Russian Replacement Power Initiative Program in FY 1995 and FY 1996. The investigation found several deficiencies, including that: (1) the Department expended FY 1996 funds on the initiative contrary to congressional denial of FY 1996 funds for this program; (2) the Department violated internal budget execution reprogramming guidelines in expending $3 million in FY 1995 and $690,000 in FY 1996; and (3) a Department contractor expended funds on the initiative in excess of Department authorization. The OIG issued a report to management recommending a series of actions that, if implemented, should reduce the likelihood that internal safeguards will be overridden in the future and maintain the integrity of the Department's budget execution practices. The Department subsequently advised program offices to observe sound financial management practices to ensure that: (1) internal controls are effective for preventing and detecting improper use of funds; (2) funds are spent for the purposes justified in the Department's budget requests; and (3) contractors have proper funding guidance. (I98PT001)

- **Company Mischarges Costs on Several Federal Contracts.** A company voluntarily notified the OIG that it had mischarged time on an Energy Information Administration contract and other Government contracts with several agencies. The company disclosed approximately $25,000 in questionable charges. The mischarging involved at least one company employee who was terminated. The terminated employee then filed a *Qui Tam* suit against the company under the False Claims Act, asserting that a company supervisor had directed the mischarging. An OIG investigation and a Defense Contract Audit Agency audit confirmed the time mischarging and revealed additional time mischarging by the company supervisor with other employees. After negotiations with the Department of Justice Commercial Litigation Branch, the company entered into a $425,000 civil settlement agreement on the *Qui Tam*. (I94HQ005)

- **Year 2000 Computer Issues**. The OIG contributed audit resources to the Chief Information Officer's (CIO) review of Year 2000 (Y2K) issues. The OIG participated in scheduled compliance reviews and commented on the resulting reports. The OIG representative participated in CIO reviews of the Savannah River Operations Office, the Nevada Operations Office, the Office of Nonproliferation and National Security, and the Office of the Chief Financial Officer. In addition, the OIG reviewed site reports for the Albuquerque and Richland Operations Offices and discussed these reports with CIO staff.

- ***Qui Tam* Investigations.** The False Claims Act provides that private citizens may file suit on behalf of the U.S. Government for false claims violations. This is referred to as a *Qui Tam* action. When a *Qui Tam* complaint is filed, the Government is obliged to make an initial assessment and determine whether it will join the proposed suit. The OIG often becomes involved in the assessment process and provides investigative support as necessary. Furthermore, if the Government joins the suit, the OIG conducts investigative activities in support of the Department of Justice. Over the past 5 years, *Qui Tam* referrals from the Department of Justice to the OIG have doubled.

  The OIG had 25 open *Qui Tam* investigations at the end of FY 1998--the highest number ever--with claims ranging from $400,000 to over $100 million. The number of new *Qui Tam* investigations in FY 1998 increased by 85 percent from the previous year, with expectations that this number will grow in the future. Despite the resource intensive nature of the *Qui Tam* effort, the OIG remains dedicated to providing necessary support to the Department and to the Department of Justice.

- **Task Force Investigations**. OIG participation in task force and joint agency investigations is significant and continues to rise. These investigations maximize the use of investigative resources whenever agencies share common interests. The OIG had 70 open task force and joint agency investigations at the end of Fiscal Year 1998.

During this reporting period, Department management took significant action in response to OIG reports issued in earlier reporting periods. For example:

- **Financial Assistance Grantees**. An OIG report issued in December 1994 disclosed that some financial assistance grantees did not provide final technical and/or financial reports as required by the terms of their awards. During this period, the OIG was notified that, as a result of the review, the Department took aggressive corrective action by providing guidance on preaward, administration, and close-out responsibilities and procedures via the April 17, 1998, Financial Assistance Letter 98-02.

- **DOE Suspect/Counterfeit Items Information Trending and Analysis.** Suspect/counterfeit items (S/CI) have been a continuing concern within the Department. One OIG recommendation from a 1991 S/CI report was that the Department should periodically disseminate current and comprehensive information regarding suspect parts to all Department elements and operating facilities. In 1996, the Department established a Senior Managers Task Group to respond to OIG concerns regarding the lack of Department progress in completing corrective actions in response to OIG recommendations in the report. As a result, the Department issued two reports in 1998 that contained S/CI trends and analyses for the period January 1991 through June 1998. Further, Department elements are able to electronically access this information, which is updated on a semiannual basis, via the World Wide Web.

- **Management Information Systems**. The Department tracks the status of its Performance Agreement commitments and success measures in the SOLOMON tracking system. An OIG review of the Department's Consolidated Financial Statements for FY 1997 found that the performance information in SOLOMON was not always supported, accurate, complete, or up-to-date. During this reporting period, the Department issued a memorandum to its program offices reminding them that some of the Department's management systems may need attention and that the Department needs to do a better job of maintaining these systems. (IG-FS-98-01)

OIG ACCOMPLISHMENTS IN MEETING ITS STRATEGIC GOALS

The planning of OIG work supports the goals, objectives, and strategies outlined in the OIG's 5-year Strategic Plan. The OIG organizes and prioritizes its workload to ensure that audits, inspections, and investigations help the Department in enhancing the overall performance of its core business lines (Energy Resources, National Security, Environmental Quality, and Science and Technology). Several key external factors affect the OIG's achievement of its goals and objectives. These factors have significant impact on assigning workload, formulating budgets, assessing organizational structure, evaluating procedures and establishing priorities. These factors include numerous mandatory, statutory, and regulatory requirements, and requests from external sources.

During this Semiannual reporting period, the OIG worked diligently toward achieving its strategic goals and objectives. OIG significant accomplishments are organized in this section according to the four goals outlined in the OIG Strategic Plan.

Goal: ***Conduct statutorily required audits of the Department of Energy's four business lines (Energy Resources, National Security, Environmental Quality, and Science and Technology) to enhance the public's ability to rely on the Department's financial and management systems*.**

This goal was satisfied during the previous Semiannual reporting period with the timely issuance of the report on "Audit of the U.S. Department of Energy's Consolidated Financial Statements for Fiscal Year 1997" (IG-FS-98-01) on February 26, 1998. Also, the requirement to complete individual financial statement audits at several Department sites was met with the issuance of audit reports this Semiannual reporting period. These reports are listed in the **Reports Issued** section of this document.

Goal: ***Conduct performance reviews which promote the efficient and effective operation of the Department of Energy's business lines.***

Disposal of Wastewater Containing Tritium Not Safe or Cost Effective

An OIG audit found that, contrary to Department policy, the Department's Los Alamos National Laboratory (Los Alamos) did not dispose of wastewater containing tritium in a safe and cost-effective manner. Los Alamos had 73 containers with tritium residues, and had stored 11 of the containers for over 8 years. The tritium can be recovered from at least 31 of the containers using available technology. The remaining 42 containers may not be suitable for recovery because they may contain materials that could impair economical recovery or have tritium concentrations too low for economical recovery. Los Alamos did not, however, develop a plan for the treatment or disposal of tritium residues. As a result, tritium worth about $1 million was not recovered from the wastewater, and the safety and health risk to workers and the environment was unnecessarily increased.

The OIG recommended that: (1) Los Alamos develop, obtain Department approval for, and implement plans to treat or dispose of wastewater containing tritium residues using the most cost-effective technology available; and (2) Los Alamos' progress to ensure timely, safe, and cost-effective treatment and disposal be monitored.

Department management concurred with the recommendations. Management stated that a planned analysis should address issues of environmental and personnel risk and the future for tritium as well as cost. The Department should then decide on a course of action and require Los Alamos to prepare a plan accordingly. (ER-B-98-09)

Demolition Costs Could be Avoided Through Facilities Reuse Analysis

An OIG audit found that the Rocky Flats Environmental Technology Site scheduled all of the site's facilities for demolition by 2010 or sooner without having formally analyzed the reuse potential of these facilities. The audit identified 31 facilities which may have potential for reuse. Further in-depth cost/benefit studies are needed to determine whether reusing the buildings is feasible. If the 31 facilities identified in the audit were found to be viable reuse candidates, the Department could avoid spending about $69 million in planned demolition costs.

The OIG recommended that the Department analyze the facilities at the site to determine what property is available for reuse and how best to reuse facilities. Management did not concur with the finding and recommendations. In general, management disagreed, contending that the existing facilities at Rocky Flats needed substantial improvements that would not make reuse cost effective. (IG-0425)

Work Force Restructurings Costly and Program Goals Not Being Met

The Department and Fluor Daniel Fernald (Fluor Daniel) implemented two work force restructurings at the Fernald Environmental Management Project between FYs 1994 and 1996. The restructurings were necessitated by budget reductions and the need to change the mix of workers' skills to environmental cleanup and restoration. The Department spent about $13.7 million for the restructuring.

An OIG audit disclosed that Fluor Daniel did not utilize temporary service agreements in an economical and efficient manner nor in accordance with the policy and goals of the Department's Work Force Restructuring Program. As a result, the Department did not fully achieve its restructuring goals, and the annual cost for temporary service workers increased by $7 million. Further, the Department unreasonably reimbursed Fluor Daniel at least $405,000 for separation incentives.

The OIG recommended that the Manager, Ohio Field Office: (1) require Fluor Daniel to discontinue the practice of replacing permanent employees whose jobs are being eliminated with temporary workers and to ensure that subcontract labor is considered in future work force restructuring analyses and plans; (2) closely monitor Fluor Daniel's restructuring efforts and temporary service subcontracts to ensure compliance with contractual requirements and Department policy and goals; and (3) recover $405,000 from Fluor Daniel for unreasonable separation benefits.

Department management agreed with most of the findings, but did not agree to recover $405,000 for questionable separation benefits because management considered the costs to be reasonable and allowable. (ER-B-98-06)

Peer Review Practices are in Compliance With Federal Requirements

Fulfilling the requirements of the Government Performance and Results Act of 1993 has presented Federal science agencies with the challenge of defining ways to quantify and evaluate the outcomes of research. Measuring research program performance is particularly important for the Department because of its substantial investment (approximately $7 billion in FY 1996) in research and development activities. One method of measuring the results of research is formal, objective evaluation by independent reviewers, or peer review.

An OIG audit found that the Department uses peer review programs to manage various research and development activities at the three National Laboratories included in the audit--National Renewable Energy Laboratory, Pacific Northwest National Laboratory, and Los Alamos National Laboratory. The Department used the results of these reviews to determine program direction, obtain input on ongoing programs, and prioritize funding for laboratory and Department research activities.

The audit report did not include any recommendations because the three laboratories had established processes in accordance with Office of Management and Budget and Department peer review requirements. (IG-0419)

Sponsorship and Siting Criteria for Department Solar Enterprise Zone Need Attention

To demonstrate the commercial viability of producing and marketing solar generated power, the Department is supporting the construction of a solar facility in the State of Nevada.

An OIG audit concluded that there were two major issues that needed to be addressed and resolved before a decision was made to locate a solar facility at the Nevada Test Site or elsewhere. The first concerns sponsorship of the project. The OIG found that sponsorship within the Department is presently fragmented and that the Office of Energy Efficiency and Renewable Energy, which has the expertise and program responsibility in furthering solar energy, neither manages nor funds the project. The second concern focuses on the establishment of appropriate siting criteria for the solar facility which fully consider costs, commitment, capacity and commercialization issues.

In March 1998, the Deputy Secretary issued guidance on the proposed purchase of solar power by the Nevada Test Site. This guidance established specific purchase criteria and conditions which must be met if the Department is to proceed with this transaction. (IG-0420)

Department Participates in New Generation of Vehicles Initiative

The Department is one of seven Federal agencies, along with the United States Council for Automotive Research (USCAR), representing Chrysler, Ford, and General Motors, that comprise the Partnership for a New Generation of Vehicles (PNGV). The Department has provided most of the PNGV funding. The aim of the partnership is to apply joint resources to develop and implement advanced technologies for new vehicles. The partnership has an aggressive timetable for developing the new generation of vehicles--a concept vehicle by 2000 and a production prototype by 2004.

An OIG audit determined that although the research projects being pursued by the Department contributed to the goals of the PNGV program, it was unlikely that some of the technologies would be fully developed in time to meet the PNGV timeframe of 2004. To bring the Department's promising but long-term research into alignment with PNGV goals, the OIG suggested that the Department: (1) work with the PNGV partners to facilitate establishing goals for developing both short- and long-term technologies; and (2) modify its Strategic Plan and the objective in the FY 1999 Annual Performance Plan to explicitly address the ongoing long-term research efforts in support of the PNGV program. In addition, the Annual Performance Report should address the barriers encountered in meeting the PNGV timeframe of 2004. Department management concurred with the report. (IG-0422)

Information Architecture Strategic Planning Goal Not Being Met

A key goal of the Department's 1997 Strategic Plan was to implement a Departmentwide information technology architecture (ITA) by January 1998. An OIG audit found that the Department had not fully developed and implemented an ITA. As of March 1998, the Department had not approved a fully defined Departmentwide architecture and was not planning to complete implementation until FY 2000. Integral to architecture implementation is the need for Headquarters program offices to develop and implement their own ITAs. As of January 1998, only one program office had initiated action to develop an ITA. Further, fully defined and implemented Departmentwide and program office architectures are needed if the Department is to assure that the Headquarters information management budget of $125 million for FY 1998 is not spent to develop and operate duplicative and overlapping information systems.

The OIG believes that continued delays could adversely affect the successful attainment of the Department's strategic goal. The development and implementation of an ITA is especially important to the Department because of its large investment in information systems. The Department's FY 1998 budget request for information management was $1.5 billion. The OIG made several recommendations to improve the development and implementation of ITAs. Based on these recommendations, the Acting Secretary and the

Acting Chief Information Officer prepared a joint management response indicating general concurrence with the points and recommendations made.

The Acting Secretary stated that the audit will assist the Department to achieve a higher degree of attention for its Information Architecture and persuade the programs and sites to properly design and align their business and information systems. (IG-0423)

Department Needs to Fully Develop and Implement Value Engineering Program

Public Law 104-106 and Office of Management and Budget Circular A-131 require Federal agencies to use Value Engineering (VE) to reduce costs and streamline operations. The Department used VE methodology primarily in construction-related processes, including design reviews, and reported savings of $31.3 million for FY 1996. The VE program was primarily executed by the Department's contractors.

An OIG audit of the effectiveness of the Department's VE program and the validity of savings reported for FY 1996 disclosed that the Department had not fully developed and implemented an effective VE program. Inadequate policy and procedures and the lack of annual plans, goals, and objectives limited the Department's success with VE. As a result, the intended VE goals of reducing costs, increasing productivity, streamlining operations, and improving quality may not have been achieved to the fullest extent possible.

Department officials were aware of deficiencies in the VE program and had taken a number of positive actions to improve it. Additional improvements are needed, however, to help ensure an effective VE program within the Department.

Management agreed with the audit finding and recommendations and agreed to take appropriate actions to correct the conditions disclosed in the report. (HQ-B-98-01)

Department Incurs Over $l Million in Unnecessary Costs in Cost-Reduction Incentive Program

In October 1992, the Department established a Cost-Reduction Incentive Program (CRIP) at Westinghouse Savannah River Company (Westinghouse). Under the CRIP, Westinghouse submits cost-reduction proposals to the Department for approval, and the Department shares the savings realized from approved proposals with Westinghouse and its employees. The Department awards Westinghouse up to 25 percent of the savings realized and requires Westinghouse to share at least 10 percent of its award with the employees who develop the proposals. Following a comprehensive review, a Department Assessment Team concluded that most of the savings identified through the CRIP occurred through greater management focus on reducing costs or "working smart" or resulted from budget constraints. The savings did not result from innovative changes in work methods and processes. The Assessment Team recommended that the Savannah River Operations Office (Operations Office) reevaluate the effectiveness of CRIP and consider either modifying or canceling the program.

An OIG audit found that the Operations Office did not take appropriate action in response to the internal assessment in 1997. The Operations Office stated that Westinghouse did not agree to the modification or cancellation of the CRIP, and the Department could not unilaterally modify or cancel the program because it was incorporated into the contract. The audit determined, however, that the Operations Office could have substantially reduced its CRIP payments to Westinghouse without amending the contract by: (1) enforcing the contract terms that required Westinghouse to use best commercial practices and industry standards in contract performance; and (2) requiring Westinghouse to comply with its internal procedure that required the cost-reduction proposals to be innovative. As a result of providing CRIP awards to Westinghouse for non-innovative proposals, the Department incurred at least $1.7 million in unnecessary costs in FY 1997.

The OIG recommended that the Department: (l) require Westinghouse to comply with its internal procedure requiring that CRIP proposals be innovative; and (2) discontinue the practice of giving incentive awards to Westinghouse for non-innovative proposals.

Management concurred that the Operations Office had not taken aggressive action towards implementing the recommendations in the internal assessment report. The Operations Office and Westinghouse are currently evaluating the CRIP program. (ER-B-98-08)

Inadequate Property Safeguards and Accountability

An OIG audit disclosed that the Oak Ridge Operations Office (Operations Office) and the Office of Scientific and Technical Information (OSTI) did not adequately safeguard or properly account for personal property in their possession and in the possession of several of their contractors. Property records were inaccurate and incomplete and financial records differed considerably from property records. These conditions occurred because Department personnel did not follow established procedures and management did not enforce requirements. As a result, 5 capital equipment items valued at $769,000 and 18 sensitive property items valued at $42,000 were missing.

The OIG recommended that the Operations Office and OSTI require all property managers to consistently follow the Property Management Regulations.

Management agreed with the audit findings and recommendations and stated that it would take appropriate action to correct the conditions disclosed in the report. (ER-B-98-07)

Science and Engineering Educational Objective Not Being Met

To achieve the Department's objective of enhancing science and engineering education in the U.S., Associated Western Universities (AWU), a nonprofit organization, administered post-secondary educational programs for the Department through grants and, occasionally, subcontracts.

An OIG audit determined that the Department was not fully achieving its objective of enhancing science and engineering education for students of U.S. colleges and universities. This occurred because the DOE Operations Offices responsible for the grants (Richland and Idaho) included grant provisions that allowed AWU to make exceptions to the citizenship, residency, and educational institution affiliation requirements of the programs. Furthermore, National Laboratory officials, who had little knowledge of educational program requirements, assumed AWU's responsibility for identifying recipients and focused on the candidates' research strengths rather than their eligibility. Additionally, the audit found that AWU had not complied with cost principles for nonprofit organizations as required under the terms of the grants.

The OIG recommended that the Department ensure that it meets the objectives of the educational programs and direct the contracting officer to have AWU comply with the appropriate cost principles for nonprofit organizations.

Department management concurred with the findings and recommendations and provided the OIG information on planned corrective action. (WR-B-98-02)

Small Business Data Inaccuracies

The OIG conducted an inspection of allegations: (1) that the Department's FY 1995 Performance Agreement with the President was incorrect regarding the Department's small business contracting goal for FY 1995; (2) the Office of Economic Impact and Diversity (ED) had not issued annual reports to Congress on the Department's small business program as required by law; and (3) ED may have provided incorrect information for use in Secretarial presentations on the Department's small business program.

The Department's FY 1995 Performance Agreement with the President committed the Department to "improving access for small business," and success would be measured by increasing small business contracting from 25 percent in FY 1994 to more than 34 percent by the end of FY 1995. About the time that the President signed the FY 1995 Performance Agreement, the Small Business Administration notified the Department that its FY 1995 small business contracting goal of 34 percent would have to be revised because, unlike previous years, DOE had excluded management and operating contractor "salaries and expenses" when the goal was calculated. Accordingly, the Department revised the small business contracting goal to 18.4 percent; however, there was no attempt to update the Performance Agreement to reflect this change.
Also, the Department did not comply with the time requirement for submitting its annual small business program report to Congress. The annual report for FY 1993 was not

submitted to Congress until August 1995, and the annual reports for FY 1994 and FY 1995 had not been submitted to Congress as of the April 1998 issuance of this report.

Regarding the allegation that incorrect information was used in small business program presentations, the OIG identified a briefing chart containing incorrect information that was used in a public presentation by a former Secretary. However, the former Secretary verbally characterized the information correctly. Also, the OIG identified four additional charts, which had been prepared for briefings by senior Department officials on the Department's small business program, that contained incorrect information.

Management agreed to: (1) ensure that program offices are aware of the mechanism to revise Performance Agreements with the President; (2) ensure required annual reports to Congress on the Department's small business program are submitted on a timely basis; and (3) strengthen internal controls to ensure small business contracting statistical information prepared for use by the Secretary and other senior officials is accurate. (INS-0-98-02)

Management and Administration of Performance Based Incentive Program Needs Improvement

An OIG inspection of the FY 1996 performance based incentive (PBI) program at the Savannah River Operations Office (Savannah River) determined that Savannah River experienced problems with establishing and implementing individual performance based incentives. These findings were similar to those identified in three OIG reports issued in 1997.

The OIG recommended that Savannah River: (1) ensure that PBI requirements are clearly written and that "Performance Criteria" are consistent with the requirements in the "Performance Standards"; and (2) review certain incentive fees paid to Westinghouse where specified funding was counted towards achieving two PBIs and determine whether any fees should be recovered.

Department management concurred with the OIG recommendations, and the Savannah River contractor returned $67,860 in fees attributable to specified funding being counted towards achieving two PBIs. (INS-0-98-03)

Intelligence

The OIG issued two quarterly intelligence reports and briefed the Counsel to the President's Intelligence Oversight Board (IOB) on the intelligence oversight activities of the OIG. This was done pursuant to E.O. 12863, "President's Foreign Intelligence Advisory Board," which requires the Inspectors General of the Intelligence Community to report to the IOB on a quarterly basis and as necessary or appropriate concerning intelligence activities that they have reason to believe may be unlawful or contrary to Executive Order or Presidential directive.

Legislation and Regulations Review

The OIG coordinated and reviewed 22 legislative and regulatory items. Also, the OIG participated with the Inspector General community in commenting on draft legislation dealing with the protection of intelligence agency employees who report concerns that may be classified. This work was done in accordance with the Inspector General Act of 1978, which 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.

Goal: ***Conduct investigations to promote efficient and effective Department operations and maintain the integrity of the Department of Energy's business lines by aggressively pursuing fraud, waste, and abuse.***

Department Contractor Employee is Convicted of Accepting Kickbacks

Acting on a referral from a Department contractor at Oak Ridge, the OIG conducted an investigation that determined that a contractor employee (buyer) made unauthorized modifications to a vendor's purchase orders in return for kickbacks. As a result of the modifications, the vendor received an overpayment of $153,115.

Following the investigation, the buyer and a vendor official were prosecuted in the Eastern District of Tennessee. The buyer pled guilty to one count of mail fraud and one count of accepting a kickback, was sentenced to 10 months of confinement and 2 years supervised probation, and ordered to pay over $111,000 in restitution and a $100 court assessment. In addition, one of the vendor owners pled guilty to one count of theft and one count of providing a kickback. This owner was sentenced to 9 months home detention, 3 years supervised probation, and 300 hours of community service, and was ordered to pay a $3000 fine, over $111,000 in restitution, and a $100 court assessment.
The vendor company also agreed to pay $29,000 to settle a Civil False Claims Act action.

As a result of OIG Administrative Reports to Management, the Department debarred the buyer, the vendor company, and two owners of the vendor company from Government contracting for 3 years. (I95OR001)

Company Erroneously Awarded Small Business Set Aside Subcontracts

At the request of the U.S. Attorney's Office, Western District of Pennsylvania, the OIG conducted an investigation into allegations made in a *Qui Tam* lawsuit. The relator alleged that a company had been erroneously awarded small business set-aside contracts by the Management and Operating contractor at the Bettis Atomic Power Laboratory. The relator asserted that the company was not eligible for the small business set-asides because of its affiliation with a large business concern.

As a result of the OIG investigation, the U.S. Attorney's Office entered into a civil settlement agreement filed in U.S. District Court. The business agreed to pay $925,000 to settle the claims of both the United States and the relator. (I98PT005)

Subcontractor Submits False Training Certificates to Los Alamos National Laboratory

The OIG received an allegation from a Department contractor's Internal Evaluation Office that a subcontractor with the Los Alamos National Laboratory (LANL) submitted false training certificates. The training was a prerequisite for a subcontract at LANL.

The investigation confirmed the allegation and found that the subcontractor had submitted false training certificates to LANL during the subcontract award process. Based, in part, upon the false training certificates, the subcontractor was awarded the LANL subcontract. The employees listed as having completed the training had not received the training prior to the commencement of the subcontract. The subcontractor then performed work under the subcontract with improperly trained personnel. Once awarded the subcontract, the subcontractor submitted seven invoices and received reimbursement for $322,620.

The OIG referred the case to the U.S. Attorney's Office, District of New Mexico, where it was accepted for civil prosecution. As a result of a civil demand letter issued by the U. S. Attorney's Office, the subcontractor entered into a settlement agreement and agreed to pay $20,000 to the Government. (I96AL006)

Subcontractor Employee is Convicted of Embezzling Monies From an Imprest Fund

The OIG received an allegation from Department management that a Western Area Power Administration (WAPA) subcontract employee had embezzled approximately $15,000 from a WAPA imprest fund. The employee processed damage claims from landowners and paid the claims through one of WAPA's imprest funds. The employee allegedly falsified claims by forging the employee's supervisor's name on the receipts and receiving payment on the receipts through the imprest fund.

The employee's supervisor advised that the employee had been experiencing financial problems during the 2 years of employment with the subcontractor. The employee admitted forging imprest receipts totaling approximately $15,000 and embezzling the money for personal use.

During the course of this investigation the employee was terminated. The OIG referred the case to the U.S. Attorney's Office, District of Colorado, where it was accepted for prosecution. Following a guilty plea to one count of submitting false claims, the employee was sentenced to 5 years probation and 4 months in-home detention, and ordered to pay $15,124 in restitution and a $100 fine. (I96DN005)

Unauthorized Removal of Equipment Results in Potential Safety Concerns

During the course of an unrelated investigation, the OIG developed information concerning the unauthorized removal of an electrical component from a telecommunications network at a Department facility in Oak Ridge. The equipment, a Ground Fault Protector, was valued at over $47,000.

The investigation determined that after a subcontractor had been replaced by another company, the subcontractor instructed its employees to remove the equipment without notification to or approval from the Department. Removal of the equipment created a potential electrical safety hazard due to exposed wiring and the absence of warning signs. The investigation also revealed that despite the subcontractor's significantly decreased work load at the site, 44 subcontractor employees still held security access to Department facilities.

The investigation resulted in the immediate recovery of the equipment. In addition, in response to an OIG Administrative Report to Management, the subcontractor reinstalled the equipment at no cost and the safety hazard was alleviated. Additionally, the number of subcontractor employees with security access was reduced to seven. (I98OR003)

Department Employee Obtains Three Payroll Checks for the Same Pay Period

The OIG received an allegation from the Department's Internal Audit Services Group at the Bonneville Power Administration (BPA) that one of BPA's employees had obtained three payroll checks for the same pay period. A joint investigation with the United States Secret Service determined that the employee falsified BPA lost payroll check documentation which allowed the employee to obtain three payroll checks for the same pay period.

The OIG referred the matter to the U.S. Attorney's Office, District of Oregon, which ultimately decided to allow BPA to pursue administrative action against the employee in lieu of prosecution. As a result of an OIG Administrative Report to Management, the Department took administrative action against the employee. The employee chose to resign when faced with a proposal for termination. The Department also garnished $5,000 from the employee's final paycheck. (I97RL009)

Goal: ***Conduct inquiries which assist in fostering public confidence in the Department of Energy.***

Contractor Employee Reprisal Complaints

The Office of Inspections conducted a number of inquiries into contractor employee complaints filed pursuant to 10 C.F.R. Part 708. These complaints concerned allegations that employees disclosed fraud, waste, abuse, mismanagement, or health and safety issue information or engaged in other activity protected by Part 708 and that the disclosure(s) contributed to adverse action by contractor management against the employees. Nineteen cases were completed through issuance of Reports of Inquiry, settlement by the parties, or dismissal. The following are examples of the findings and recommendations of the Reports of Inquiry:

- A complainant alleged that he received a smaller than average salary increase and that his employment was terminated because of disclosures he made to the United States Air Force OIG. The contractor asserted that the complainant's employment was terminated because of budget reductions. The OIG inquiry found that, although the complainant did not establish that he got a smaller than average salary increase, the evidence indicated that the protected disclosures contributed to management actions to obstruct the employee's attempts to transfer to another group within his division and to terminate his employment by reduction-in-force. The OIG recommended that the employee be reinstated and receive back pay. The final outcome of this case is pending. (S96IS206)

- A complainant alleged that his employment was terminated because he participated in a Part 708 hearing conducted by the Department's Office of Hearings and Appeals. The contractor asserted that the complainant's employment was terminated by a reduction-in-force because the Department required a reduction in the number of employees and the complainant was the poorest performer in the workgroup. The OIG inquiry found that, although the complainant had engaged in protected activity when he participated in the Part 708 hearing, the evidence indicated that the complainant's employment would have been terminated despite the protected activity. The OIG recommended that the complainant's request for relief be denied. The final outcome of this case is pending. (S96IS044)

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 standards of conduct violations. The OIG referred 86 complaints to Department management and other Government agencies during the reporting period. The OIG asked Department management to respond concerning the actions taken on 40 of these complaints. The following are examples of the actions taken by management during this reporting period on referred matters:

- An employee was removed from Federal service as a result of inappropriate behavior, including having threatened at least one co-worker.

- An employee was issued a counseling letter regarding an inappropriate E-mail message sent to co-workers, and the employee was warned that more severe disciplinary action will be taken if such incidents occur in the future.

- An employee was counseled and corrective steps were taken in connection with the employee's Federal position being used in publisher's materials marketing a book written by the employee.

OTHER ACCOMPLISHMENTS

Congressional Requests

During the reporting period, the OIG received 31 requests for data from the Congress, all of which were responded to in a timely manner. OIG staff provided briefings to Committee staff on 3 occasions and data or reports were provided to the Congress in 42 instances.

Change in Audit Report Format

During the reporting period, the OIG initiated the use of a new report format. This was done as part of an overall streamlining process in the life cycle of an OIG review and to increase readability. Sections of the report were rearranged to better convey the results of OIG reviews.

Change in Semiannual Report Format

In a continuing effort to improve the readability of OIG documents, the current edition of the Semiannual Report has been revised to streamline its format and content.

Information Technology and Year 2000 Compliance

The OIG is moving aggressively to ensure that its internal operating systems, hardware and software will be Year 2000 compliant.

Earlier this year, the decision was made to transfer the operation of the OIG Data Base Management System (DBMS) from the Department of Navy's David Taylor Model Basin (DTMB) to the OIG's in-house operation. The schedule for completing the transfer of the OIG DBMS is March 31, 1999. The impact of this action is twofold. First, by transferring the DBMS in-house, the OIG will realize an annual cost savings of approximately $200,000. Secondly, this transfer allows the OIG technical staff to significantly redesign the DBMS to achieve greater efficiencies and, at the same time, change date codes to be Year 2000 compliant.

In order to ensure that all other OIG operations are Year 2000 compliant, the OIG has initiated a process to replace all noncompliant operating systems, hardware and software. The OIG has completed testing all software and operating system configurations at Headquarters and is in the process of completing this initiative in its field offices. Most non-year 2000 compliant hardware has been replaced. The OIG is on schedule to complete all milestones associated with Year 2000 compliance by March 31, 1999.

HIGH RISK AREAS

The Inspector General plays a significant role in the Department's Federal Managers' Financial Integrity Act (FMFIA) process. As part of that process, the Department details the areas of operations that it deems most vulnerable to inefficiencies. Those nine areas are listed below:

- Environmental Compliance
- Safety and Health
- Nuclear Waste Storage and Disposal
- Contract Management
- Project Management
- Materials Inventory
- Infrastructure
- Property Controls
- Security Issues

In its annual FMFIA report to the President, the Department also recognized the impact of the Year 2000 on Federal information systems. To address this issue, the Department established critical milestones reflecting Governmentwide requirements that encompass the more than 440 mission-essential systems the Department maintains.

Over this reporting period, and in the OIG planning processes, the OIG focused efforts on these critical issues.

RESOURCE CONSIDERATIONS

Several key external factors affect the OIG's achievement of its goals and objectives. These factors have significant impact on assigning workload, formulating budgets, assessing organizational structure, evaluating procedures and establishing priorities. These factors include numerous mandatory, statutory, and regulatory requirements which have recently increased the OIG's responsibilities. For example, the Chief Financial Officers Act of 1990 and Government Management Reform Act of 1994 require audit of Department financial statements; Executive Order 12863, "President's Foreign Intelligence Advisory Board," requires at least quarterly and "as necessary or appropriate" reporting to the Intelligence Oversight Board; and appropriations report language creating the Department's Working Capital Fund requires an annual OIG audit of the Fund. OMB Circular A-131 requires the OIG to audit the Department's Value Engineering Program. This trend of additional mandates appears to be continuing. For example, Congress is now considering proposed amendments to the Government Performance and Results Act which will require extensive OIG review of Department performance plans and reports. Also, the Intelligence Appropriations Act for FY 1999 includes additional responsibilities for Intelligence Community IGs (including this office) relating to Intelligence Community whistleblowers.

REPORTING REQUIREMENTS

Inspector General Act of 1978, as amended

IG ACT Citation	Requirement	Page
Section 4(a)(2)	Review of Legislation and Regulations	15
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies	See Write-ups
Section 5(a)(2)	Recommendations for Corrective Actions	See Write-ups
Section 5(a)(3)	Prior Recommendations Not Yet Implemented	33
Section 5(a)(4)	Matters Referred to Prosecutive Authorities	1 and 35
Section 5(a)(5) and 6(b)(2)	Summary of Refusals to Provide Information	None
Section 5(a)(6)	List of OIG Audit Reports	24-28
Section 5(a)(7)	Summary of Significant Audit Reports	See Write-ups
Section 5(a)(8)	Table--Questioned Costs	32
Section 5(a)(9)	Table--Funds to be Put to Better Use	31
Section 5(a)(10)	Summary of Prior, Unresolved Audit Reports	33-34
Section 5(a)(11)	Significant Revised Management Decisions	None
Section 5(a)(12)	Significant Management Decisions With Which the Inspector General Disagreed	None

REPORTS ISSUED

AUDIT REPORTS

CONTRACT AUDIT REPORTS

ER-C-98-02 Final Audit of Costs Claimed Under Defense Advanced Research Project Agency Contract DABT63-92-C-0053 August 1, 1992 to November 1, 1995, Princeton University, Princeton, New Jersey, April 21, 1998
Questioned Costs: $1,780

ER-C-98-03 Audit of Employee Benefit Costs for Government-Funded Agreements Fiscal Years 1998 Through 1995 Princeton University, Princeton, New Jersey, July 29, 1998
Questioned Costs: $1,178,595

ER-C-98-04 Final Audit of Costs Claimed Under U.S. Department of Energy Grant Number DE-FG02-86ER13609 Princeton X-Ray Laser, Inc., Princeton, New Jersey, July 31, 1998

OPERATIONAL AUDIT REPORTS

HQ-B-98-01 Audit of the U.S. Department of Energy's Value Engineering Program, July 17, 1998

CR-L-98-03 Audit of Subcontract Administration, June 9, 1998

CR-L-98-04 Audit of the Department of Energy's Wind Technology Program, July 13, 1998

ER-B-98-06 Audit of Fluor Daniel Fernald's Use of Temporary Service Subcontractors, April 6, 1998
Questioned Costs: $405,000

ER-B-98-07 Audit of Personal Property at the Oak Ridge Operations Office and the Office of Scientific and Technical Information, April 6, 1998
Questioned Costs: $811,000

ER-B-98-08 Audit of the Cost Reduction Incentive Program at the Savannah River Site, June 2, 1998
Savings: $1,700,000

ER-B-98-09 Audit of Disposal of Tritium Residues at the Los Alamos National Laboratory, July 20, 1998

ER-L-98-01	Audit of the Mound Plant Transition to Community Use, June 9, 1998
WR-B-98-02	The U.S. Department of Energy's Management of Associated Western Universities Grant Programs, April 8, 1998 ***Questioned Costs: $53,000*** ***Savings: $10,000,000***
WR-L-98-02	Audit of DOE Information Technology Solicitation and Contract Compliance for Year 2000 Requirements, September 1, 1998
IG-0419	The Department of Energy's Peer Review Practices, April 6, 1998
IG-0420	The U.S. Department of Energy's Solar Enterprise Zone, April 24, 1998
IG-0421	The Department of Energy's Interagency Agreement With the National Institute of Environmental Health Sciences, July 17, 1998 ***Savings: $30,000,000***
IG-0422	The U.S. Department of Energy's Participation in the Partnership for a New Generation of Vehicles Program, July 21, 1998
IG-0423	Review of the U.S. Department of Energy's Information Management System, August 7, 1998 ***Savings: $100,000,000***
IG-0424	Architect and Engineering Costs at Los Alamos and Sandia National Laboratories, August 7, 1998 ***Questioned Costs**: **$2,548,000***
IG-0425	The U.S. Department of Energy's Facility Reuse at the Rocky Flats Environmental Technology Site, August 20, 1998 ***Savings**: **$69,000,000***
IG-0426	Disposal of Low-Level and Low-Level Mixed Waste, September 3, 1998 ***Questioned Costs**: **$5,300,000*** ***Savings: $12,500,000***
IG-0427	Department of Energy's Prime Contractor Fees on Subcontractor Costs, September 11, 1998

FINANCIAL AUDIT REPORTS

CR-V-98-01	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of the Costs Claimed by and Reimbursed

to TRW Environmental Safety Systems, Inc., Under Department of Energy Contract No. DEAC01-91RW00134, June 16, 1998
Questioned Costs: $1,003,558

ER-FC-98-04 Southeastern Federal Power Program Fiscal Year 1997 Financial Statement Audit, June 2, 1998

ER-FC-98-05 Department of Energy's Uranium Enrichment Decontamination and Decommissioning Fund Fiscal Year 1997 Financial Statement Audit, August 21, 1998

ER-V-98-05 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Specialty Components, Inc., Under Department of Energy Contract No. DE-AC04-92AL73000, April 2, 1998

ER-V-98-06 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Fermi National Accelerator Laboratory Under Department of Energy Contract No. DE-AC02-76CH03000, May 7, 1998

ER-V-98-07 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Energy Research Corporation Under Department of Energy Contract Nos. DE-AC05-84OR21400 and DE-AC05-6OR22464, May 12, 1998

ER-V-98-08 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, May 13, 1998
Questioned Costs: $11,089

ER-V-98-09 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Brookhaven National Laboratory Under Department of Energy Contract No. DE-AC02-76CH00016, July 28, 1998

ER-V-98-10 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Savannah River Company Under Department of Energy Contract No. DE-AC09-96SR18500, September 11, 1998

WR-FC-98-05 Western Area Power Administration's Boulder Canyon Power System Fiscal Year 1997 Financial Statement Audit, April 7, 1998

WR-FS-98-01 Report on Matters Identified at the Idaho Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, May 5, 1998
Questioned Costs: $1,316,000

WR-FS-98-02 Report on Matters Identified at the Richland Operations Office During the Audit of the Department of Energy's Consolidated Fiscal Year 1997 Financial Statements, June 8, 1998

WR-FS-98-03 Report on Matters Identified at the Rocky Flats Field Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, June 10, 1998
Questioned Costs: $3,154,308

WR-FS-98-04 Report on Matters Identified at the Golden Field Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, June 24, 1998

WR-FS-98-05 Report on Matters Identified at the Oakland Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Statements, July 8, 1998

WR-FS-98-06 Report on Matters Identified at the Albuquerque Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, July 10, 1998

WR-V-98-06 Audit of the U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Regents of the University of California Lawrence Livermore National Laboratory Under Department of Energy Contract No.W-7405-ENG-48, April 1, 1998

WR-V-98-07 Audit of the U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Idaho Technologies Company Under Department of Energy Contracts No. DE-AC07-94IDl3223 and No. DE-AC07-94ID13299, June 3, 1998

WR-V-98-08 The U.S. Department of Energy's 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, July 8, 1998

WR-V-98-09 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Hanford Environmental Health Foundation Under Department of Energy Contract No. DE-AC06-90RL11711, July 9, 1998

WR-V-98-10 The U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Hanford Company Under Department of Energy Contract No. DE-AC06-87RL10930, July 10, 1998

WR-V-98-11 The U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation Under Department of Energy Contract No. DE-AC04-94AL85000, July 22, 1998
Questioned Costs: $991,886

WR-V-98-12 The U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory Under Department of Energy Contract No. W-7405-ENG-36, August 5, 1998

WR-V-98-13 The U.S. Department of Energy's Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Regents of the University of California Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405-ENG-48, August 13, 1998

INSPECTION REPORTS*

INS-L-98-03 Inspection of Human Subject Research Activities Funded by the Department of Energy's Office of Energy Research, April 2, 1998

INS-O-98-02 Inspection Regarding Small Business Contracting Statistics Reporting and Presentation, April 2, 1998

INS-O-98-03 The Fiscal Year 1996 Performance Based Incentive Program at the Savannah River Operations Office, May 19, 1998

*Does not include 9 non-public Inspection reports.

STATISTICS

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

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

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

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

3. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

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

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

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

1. Reduction in outlays;

2. Deobligation of funds from programs or operations;

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

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

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

6. Any other savings which are specifically identified.

Management Decision: The evaluation by Department management of the findings and recommendations included in an audit report and the issuance of a final decision by

Department management concerning its response to such findings and recommendations, including actions determined to be necessary.

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

AUDIT REPORT STATISTICS

April 1 to September 30, 1998

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

	Total Number	One-Time Savings	Recurring Savings	Total Savings
Those issued before the reporting period for which no management decision has been made:*	9	$92,685,513	$142,203,760	$234,889,273
Those issued during the reporting period:	43	$116,793,841	$122,000,000	$238,793,841
Those for which a management decision was made during the reporting period:*	21	$44,820,354	$113,763,760	$158,584,114
Agreed to by management:		*$7,161,683*	*$10,400,000*	*$17,561,683*
Not agreed to by management:		*$6,181,785*	*$6,563,760*	*$12,745,545*
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	$196,135,886	$247,240,000	$443,375,886

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

Note: An $8,600,000 reduction to the beginning balance of "One-Time Savings" and an increase by the same amount to the beginning balance of "Recurring Savings" have been made to adjust for the mischaracterization of savings in this amount last period. Of course, the "Total Savings" figure has not changed.

AUDIT REPORT STATISTICS

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:	3	$6,578,811*	$84,241
Those issued during the reporting period:	3	$1,180,375	$0
Those for which a management decision was made during the reporting period:	0	$0	$0
Value of disallowed costs:		*$0*	*$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:	5	$7,759,186	$84,241

**This figure has been adjusted downward by $269 to the correct figure shown due to rounding on one monetary impact report submitted to the Office of Inspector General.*

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. These audit reports are over 6 months old without a management decision.

The Contracting Officers have not yet made decisions on the following contract reports for the following reasons. They include delaying settlement of final costs questioned in audits pending completion of review of work papers and voluminous additional records. 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.

ER-CC-93-05 — Report Based on the Application of Agreed-Upon Procedures With Respect to Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 20, 1990, Bechtel National, Inc., San Francisco, California, and Bechtel Savannah River, Inc., North Augusta, South Carolina, May 3, 1993
(Estimated date of closure: February 24, 1999)

WR-C-95-01 — Report on Independent Final Audit of Contract No. DE-AC34-91RF00025, July 26, 1990, to March 31, 1993, Wackenhut Services, Inc., Golden, Colorado, March 14, 1995
(Estimated date of closure: December 31, 1998)

ER-C-97-01 — Report on the 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
(Estimated date of closure: January 31, 1999*)*

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

CR-B-97-02 — Audit of Department of Energy's Contractor Salary Increase Fund, April 4, 1997

The finalization of the management decision on this report is awaiting resolution of one outstanding issue. It is estimated that this will occur by January 31, 1999.

ER-B-98-02	Audit of Environmental Monitoring and Health Physics Laboratories at the Savannah River Site, October 24, 1997 *The management decision is awaiting the resolution of a nonconcurrence. It should be made by March 1, 1999.*
ER-B-98-03	Audit of the Union Valley Sample Preparation Facility at Oak Ridge, November 7, 1997 *The management decision is under senior management review. Finalization is expected to occur by December 30, 1998.*
IG-0411	Audit of the Contractors Incentive Programs at the Rocky Flats Environmental Technology Site, August 13, 1997 *The finalization of the management decision on this report is pending the resolution of one outstanding issue. This should occur by February 26, 1999.*

INVESTIGATIVE STATISTICS

The investigative statistics below cover the period from April 1 through September 30, 1998

Investigations open at the start of this reporting period........................... 302
Investigations opened during this reporting period..41
Investigations closed during this reporting period...90
Investigations open at the end of this reporting period... 253

Qui Tam investigations opened..13
Total open *Qui Tam* investigations as of 9/30/98.. 25

Multi-agency task force investigations opened.. 9
Total number of open task force and joint investigations as of 9/30/98.................. 70
Debarments/suspensions... 13
Investigations referred to management for recommended positive action.....................................16
Administrative disciplinary actions taken...6

Investigations referred for prosecution..26
*Accepted **...19
Indictments...5
Convictions..7
Pretrial diversions..1
Fines, settlements, recoveries**...$1,642,000

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

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

Hotline Statistics

Hotline calls received..426
Hotline letters and referrals 148

Hotline actions predicated.. 182
Hotline actions received via the General Accounting Office...4
Total Hotline actions predicated..186

Investigations opened on Hotline actions...7
Hotline actions pending or transferred to Management Referral System......................... 70
Hotline actions that required no investigation by OIG.. 109
Total Hotline actions disposition... 186

INSPECTION STATISTICS

The inspection statistics below cover the period from April 1 to September 30, 1998

Inspections open at the start of this reporting period	165
Inspections opened during this reporting period	20
Inspections closed during this reporting period	61
Inspections open at the end of this reporting period	124
Reports issued*	12
Allegation-based inspections closed after preliminary review	11
Reprisal complaint actions during this reporting period	19
Reprisal complaints dismissed	*9*
Reports of reprisal inquiry issued	*6*
Reprisal complaints settled	*2*
Reprisal complaints withdrawn	*0*
Reprisal complaints completed by other means	*2*
Inspection recommendations	
Accepted this reporting period	10
Implemented this reporting period	29
Recovered funds	$67,860
Complaints referred to Department management/others	86
Referrals to Department management requesting a response for OIG evaluation	40
Personnel management actions taken by management on matters referred	3

* *Reports include non-public reports such as administrative allegations and personnel security-related reports.*

FEEDBACK SHEET

The contents of the October 1998 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-15)
Washington, D.C. 20585

ATTN: Wilma Slaughter

Your name:

Your daytime telephone number:

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

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