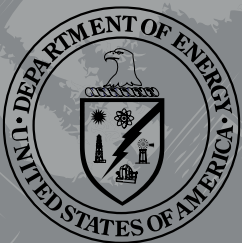


SEMIANNUAL

REPORT TO CONGRESS



OCTOBER 1, 2007 | MARCH 31, 2008



U. S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

Front Cover Photographs

300 ft tower surrounded by sun tracking mirrors at Solar Two Power Plant, Daggett, CA

300-micrometer-thick charge-coupled device (CCD) with more than 21 million pixels



Department of Energy
Washington, DC 20585

The Honorable Samuel W. Bodman
Secretary
U.S. Department of Energy
Washington, DC 20585

Dear Secretary Bodman:

I am pleased to submit the Office of Inspector General's (OIG) *Semiannual Report to Congress*. This report summarizes significant OIG activities and accomplishments during the six month period ending March 31, 2008.

This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to you, the Administration, the Congress, and the taxpayer. In particular, the report details OIG accomplishments in identifying the Department's most significant management challenges.

We look forward to working with you on matters of mutual interest.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory H. Friedman".

Gregory H. Friedman
Inspector General

Enclosure



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Message From the Inspector General

I am pleased to provide the Office of Inspector General's (OIG) *Semiannual Report to Congress* for the reporting period beginning October 1, 2007, through March 31, 2008. This report highlights our audit, inspection, and investigative activities which support our commitment to promote effective, efficient, and economical operations of the U. S. Department of Energy (Department).

Over the past six months, we have conducted reviews that led to significant opportunities for programmatic cost savings, operational efficiencies, and enhanced program results. We issued 45 audit and inspection reports, which contained recommendations identifying over \$14.5 million in potential savings and questioned costs. In addition, we referred nine investigations for prosecution; had five criminal convictions; and had investigative recoveries of over \$21.4 million in fines, settlements and restitutions. Summaries of some of our most notable projects are presented in this report.

As part of its recurring statutory responsibilities, the OIG identifies the most challenging risks to the Department's operations and management processes. The results of our work in this area are provided in our annual Management Challenges Report. One of the most significant challenges in 2008 concerns cyber security. During this period, largely because of the inherent risks associated with managing the Department's \$2.5 billion a year information technology program, we focused our resources on cyber security issues such as: (1) the Cyber Security Incident Management Program; (2) the Management of Publicly Accessible Websites; and, (3) unclassified cyber security controls. The unclassified cyber security controls review was mandated by the Federal Information Security Management Act of 2002. Although the Department remains diligent in its efforts to improve cyber security, our work identified a number of operational deficiencies and opportunities for cost savings.

Despite being faced with limited resources, the OIG continues to provide high quality audit, inspection, and investigative products which yield significant results that enhance Department operations. Our work as an organization is dependent upon the professionalism of the OIG staff. I would like to express my gratitude for the accomplishments of all the OIG

employees and commend them for their dedication and commitment to good government.

Finally, the Secretary, other senior Department officials, and the Congress have expressed significant interest in our work. We appreciate their support and look forward to working together to enhance the Department's performance.

A handwritten signature in black ink, reading "Greg Friedman", is centered within a light gray rectangular box.

Gregory H. Friedman
Inspector General



Introduction to Our Organization

As mandated by the Inspector General Act of 1978, as amended, the Office of Inspector General promotes the effective operation of the U. S. Department of Energy, including the National Nuclear Security Administration (NNSA) and the Federal Energy Regulatory Commission (FERC). The OIG's goal is to ensure that the Department is:

- Fulfilling its program goals effectively;
- Using its resources efficiently in this pursuit;
- Operating within the scope of its legislative mandates;
- Meeting the President's Management Agenda; and,
- Addressing Department priorities established by the Secretary.

The OIG consists of the immediate office of the Inspector General and the following components:

Office of Audit Services provides internal and contracted audit activities for Department programs and operations. The Office strives to provide reliable, credible, financial and performance information to senior management, the Congress, and the taxpayer.

Office of Inspections and Special Inquiries conducts performance and allegation-based inspections, as well as special inquiries in response to concerns raised by Congress, senior managers of the Department, and others. The Office also manages the OIG Hotline and Management Referral System.

Office of Investigations conducts investigations into alleged violations of law that impact Department programs, operations, facilities, and personnel. Priority is given to investigations of suspected violations of criminal and civil statutes, as well as serious administrative misconduct.

Office of Counsel provides legal advice and assistance to the Inspector General on a wide range of issues.

Office of Resource Management provides administrative and management support to the Office of Inspector General. It also formulates and executes the OIG budget and is responsible for all human resource support activities, information technology, strategic planning, performance reporting, and property management.



LOCATION OF OIG FIELD OFFICES





Significant Audits, Inspections, and Other Reviews

Management Challenges

As now required by the *Reports Consolidation Act of 2000*, the OIG creates an annual list of challenges facing the Department. This effort also takes into account emerging issues affecting Departmental operations and highlights activities that demonstrate, in our opinion, systemic or recurring performance problems. We also developed a “watchlist,” which consists of significant issues that do not meet the “management challenge” threshold, yet warrant continued attention by the Department. Based on work performed by the OIG over the past reporting period, the following represent the most serious challenges facing the Department:

- Contract Management
- Cyber Security
- Environmental Cleanup
- Human Capital Management
- Project Management
- Safeguards and Security
- Stockpile Stewardship

The “watchlist” consists of: Infrastructure Modernization, and Worker and Community Safety. (DOE/IG-0782)

Review of Departmental Open Recommendations

At the request of the Chairman of the House Committee on Oversight and Government Reform, we initiated a review to provide an analysis of the Department’s audit resolution and follow-up process. We found that the Department has taken action to close a significant number of report recommendations. However, as noted in an earlier review of the Department’s audit resolution and follow-up process, the OIG found that

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the Department's follow-up process could be further strengthened. Specifically, approximately one-third of the unimplemented recommendations included in this analysis were not completed prior to the original estimated completion date. In addition, although it represented the exception rather than the standard, in some cases, corrective action plan or status updates were not included in the required data field within the Department's tracking system. (OAS-L-08-07)

Handling of Personally Identifiable Information Incident

Concerns were raised to the Office of Inspector General regarding the discovery of Personally Identifiable Information (PII) on the website of a former Los Alamos National Laboratory (LANL) subcontractor. We subsequently determined that LANL had taken a number of positive steps to address the PII incident, but that there were several weaknesses with respect to the handling of the incident. For example, the reporting of the possible compromise of PII to the appropriate entities was not done within required timeframes; LANL had not included 10 affected individuals on a list it compiled of those whose social security numbers may have been compromised, so no attempt had been made to notify the individuals of the incident; and, the subcontractor did not treat Privacy Act information in accordance with the requirements of its subcontract. (INS-L-08-04)

Improvements Needed Over Departmental Sensitive Compartmented Information Access Program

An inspection was initiated to determine if the Office of Intelligence and Counterintelligence had adequate controls for granting, maintaining, and terminating sensitive compartmented information access authorizations to Department Federal and contractor employees. We found a lack of internal controls and recommended establishing

improved safeguards to ensure compliance with existing requirements. Management agreed with our recommendations. (DOE/IG-0790)

Internal Control System Needed Over Royalty Oil

The OIG initiated an audit to evaluate the effectiveness of the Department's control system over the receipt of royalty oil for the nation's Strategic Petroleum Reserve. Our audit found discrepancies in the number of barrels received versus the amount scheduled for delivery. The Department took no action to resolve or explain the differences. Further, required contractor documentation was not always sufficient to ensure that royalty oil receipts were accurately recorded and reported. Also, the Department had not addressed the potential vulnerabilities associated with contractors acting as both the shipping agent for Department of Interior's Mineral Management Service and the receiving agent for the Department of Energy. (DOE/IG-0786)

Nevada Test Site Contract Transition Activities

The OIG conducted an audit to determine whether contract transition activities for the new management contract at the Nevada Test Site were effective in protecting the government's interest, and whether relocation costs were allowable, allocable, and reasonable. We found that during this transition, employee concerns records were not retained as required by Federal regulations and \$86,112 in questionable relocation costs were incurred. We recommended that the Contracting Officer modify the contract to require the retention of employee concerns files consistent with Departmental orders and Federal Administrative Record Schedules, and determine the allowability of questioned relocation costs. (OAS-M-08-02)

Concerns Over Excess Charges at Los Alamos National Laboratory

The OIG initiated an inspection in response to multiple complaints alleging irregularities in cost estimating and charging by a LANL subcontractor. We found that actual costs exceeded estimated costs by more than 20 percent for 75 percent of the work order tasks we reviewed. We also found other financial management and internal control weaknesses and made recommendations to strengthen the processes associated with the reported activities. (DOE/IG-0780)

Improvements Needed for Publicly Accessible Websites

An audit was initiated to determine whether the Department was maintaining publicly accessible websites that were secure and managed in accordance with Federal requirements. Our audit revealed a number of weaknesses in the Department's security of its websites. Management agreed with our recommended improvements over these publicly accessible websites. (DOE/IG-0789)



Waste Receiving and Processing at Hanford Site.

Management Controls Over Operations of the Integrated Disposal Facility at the Hanford Site

The OIG conducted an audit to determine whether it would be cost-effective to start up Hanford's Integrated Disposal Facility (IDF) in 2010, as planned. Our audit found that it would not be economical based on the currently projected volumes of waste requiring disposal. Specifically, construction of facilities, which are to produce waste identified for IDF, have been delayed. Potential savings could total approximately \$13 million by postponing operations of the IDF until 2017 when low-activity waste generated at the Waste Treatment Plant will be available for disposal. We recommended that the Chief Operating Officer for Environmental Management

re-evaluate current plants to start up operations of the IDF in 2010.
(OAS-M-08-04)

Cyber Security Incident Management Program

In response to cyber attacks on Federal information systems, the OIG conducted an audit to determine if the Department had developed an integrated and effective cyber security incident management program. Generally, we found the lack of a unified, Department-wide cyber incident response strategy. The Department, consequently, may be unable to respond to successful attacks; recognize and develop response strategies for systemic attacks; and, ensure that systems and the critical, operational, and personally identifiable information they contain are adequately protected. We made recommendations to help the Department prepare for and respond to emerging threats. (DOE/IG-0787)

Concerns Over the Chronic Beryllium Disease Prevention Program at the Y-12 National Security Complex

Beryllium processing is an important mission of the Department's Y-12 National Security Complex in Oak Ridge, Tennessee. As a consequence of this mission, the Department's worker safety program has recognized the possibility that beryllium remains in buildings as well as on equipment and other surfaces that may pose risks of beryllium sensitization or Chronic Beryllium Disease.

In November 2006, our office received an allegation that Y-12 workers were not adequately protected from beryllium exposure. In response, we initiated an audit to determine whether the site contractor had implemented surface contamination controls in accordance with its Prevention Program. This audit included three buildings where beryllium operations were historically co-located with non-beryllium operations and focused on surface contamination outside of beryllium operations. Our review found that the contractor had not consistently implemented key controls in non-beryllium operations areas as required by its Prevention

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Program. Specifically, the contractor had not always (1) posted signs alerting workers to the potential for beryllium surface contamination or (2) performed or documented hazard assessments for beryllium contamination. As a result, the contractor may not be fully mitigating potential risk to workers exposed to beryllium in non-beryllium operations areas. (DOE/IG-0783)

Security Concerns at the Y-12 National Security Complex

In response to an OIG Hotline complaint, an OIG inspection found that proper protocols were not followed when a contractor employee brought an unclassified laptop computer into a Y-12 Limited Area. Subsequently, security staff failed to:

- properly secure the subject laptop computer;
- report the incident within 32 hours as required; and,
- timely report the discovery that as many as 37 additional laptop computers may have been improperly introduced into the Limited Area.

Our report made specific recommendations to management at Y-12 to help strengthen policies at the complex. The OIG also recommended that management hold accountable those responsible for the breach. (DOE/IG-0785)

Improvement Still Needed for Pandemic Influenza Planning

On November 1, 2005, the President required Federal agencies that perform mission-critical functions to develop agency pandemic influenza plans. We conducted an inspection to determine if the Department was taking appropriate and timely actions regarding its pandemic influenza planning. We concluded that while Headquarters

and many Department sites were making progress, much remained to be implemented. For example, we noted that only 53 of 80 Department organizations had submitted their pandemic plans. (DOE/IG-0784)

Improvements Needed Over Department's Uranium Leasing Program

The OIG initiated an audit to determine if the Department was effectively administering its Uranium Leasing Program. We found that the Department failed to (1) re-evaluate the methodology for calculating lease royalties since 1982, despite changes in market price and supply; and, (2) collect final production royalty payments in a timely manner. Management concurred with our recommendations and initiated corrective action. (OAS-M-08-05)

Follow-up on Departmental Unclassified Foreign Visits and Assignments Program

In 2002, the OIG reported that the Department had not adequately controlled unclassified foreign visits and assignments. The OIG initiated a follow-up review to determine whether the Department had improved its management of the Foreign Visits and Assignments Program. The Department had addressed several previously reported issues. Additional and continuing weaknesses, however, diminished the effectiveness of controls designed to reduce the security risk associated with foreign visits and assignments. When viewed collectively, these problems or programmatic shortcomings caused us to conclude that security risks associated with the Departmental program remained higher than necessary. (DOE/IG-0791)

Improved Safety Measures Needed at Department Laboratories

According to Department regulations, the Department and its contractors should use best practices and national consensus standards when

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Nanofluid developers at the Argonne National Laboratory.

establishing safety policies to protect workers. We initiated an audit to determine whether the Department's laboratories were employing appropriate safety measures specifically tailored for working with nanoscale materials based on the standards established by the Centers for Disease Control and the National Institute of Occupational Safety and Health (CDC/NIOSH). We found that the Department and its laboratory contractors had not always complied with precautionary measures outlined by the CDC/NIOSH. In addition, the Department had not established a mechanism to disseminate nanoscale materials safety information. (DOE/IG-0788)

Security Procedures at Sandia

In response to an incident involving an unauthorized weapon discharge in a controlled security area at Sandia National Laboratory-New Mexico, we initiated an inspection to review security policies, procedures, and practices relevant to the circumstances surrounding the incident. We found related violations of security policies and procedures. As a result, we made several recommendations designed to improve the security at the Sandia Site. Management agreed with the recommendations. (INS-O-08-01)

Formalizing the Department's Terrorism Watchlist Nomination Process

In 2003, the Terrorist Screening Center was established as part of Homeland Security Presidential Directive-6 to consolidate the United States Government's terrorism watchlist activities. The information maintained by the Terrorist Screening Center is available to appropriate Federal, state, local, tribal, and territorial government officials for screening purposes. Our inspection revealed that the Department did not have a formal process in place for nominating individuals for inclusion to the watchlist. We concluded that it would be prudent for

the Department to formalize a process, which would include providing employee awareness training on watchlist issues. (DOE/IG-0778)

Greater Management Controls Needed Over the Bonneville Power Administration's Personal Property Accountability

We initiated an audit to determine whether Bonneville had effective controls over its personal property. Our audit found that effective controls were not in place over Bonneville's personal property tracked through an accountability database. For example, Bonneville had not always ensured that (1) equipment susceptible to loss or theft, such as leased computers, was entered into the database; (2) inventory information accurately identified the property location; (3) the transfer of property between custodians was validated; and, (4) inconsistencies in information about lost or stolen property were reconciled. (OAS-M-08-01)

Concerns Over Homeland Defense Equipment Reuse Program

In January 2007, due to management concerns surrounding the control and dissemination of Homeland Defense Equipment Reuse (HDER) Program property, the Department's Oak Ridge Office suspended such property transfer activities. We subsequently conducted an audit and found key property controls were not in place as prescribed in established procedures. Specifically, we found that:

- approved items transferred to the HDER Program could not be located; and,
- the HDER Program contractor distributed equipment to first responders without prior Department of Homeland Security approval.

Management took action to address our recommendations to correct weaknesses identified during our review. (OAS-M-08-03)

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Improvements Are Needed Over East Tennessee Technology Park's Security Clearance Retention Process

Department policy requires security clearances be terminated when individuals end their association with the Department. A previous OIG report disclosed that retention of security clearances at the East Tennessee Technology Park (ETTP) was not consistent with Department policy. We conducted a follow-up review to determine whether the practice of maintaining active security clearances at ETTP for terminated employees was appropriate. Our review disclosed that security clearances for terminated ETTP employees were inappropriately and unnecessarily retained beyond the period cited in Departmental policy. Specifically, we identified 54 former employees who improperly retained security clearances after their separation from ETTP, a 50 percent increase from the previous report. **(DOE/IG-0779)**



Significant Investigative Activities

Fraud Awareness Briefings

The OIG regularly provides fraud awareness briefings to groups of Federal and contractor managers and employees. We tailor our briefings to the audience and the potential illegal behaviors they may encounter. During this semiannual reporting period, our office conducted 16 fraud awareness briefings.

During the last two years, we have reviewed numerous allegations and opened approximately nine investigations as a result of information provided to our office subsequent to fraud awareness briefings. For example, an OIG investigation determined that owners and employees of a metal distribution company orchestrated a company-wide scheme to provide fraudulent test certifications and substandard metals to the Government and its contractors in the defense, nuclear, and aerospace industry.

\$15 Million Settlement Agreement Reached Involving Defective Body Armor

A joint investigation determined that a body armor manufacturer knowingly participated in the manufacturing and sale of defective body armor containing Zylon. The body armor company sold the defective body armor to the Department as well as to other Federal, state, local and tribal law enforcement agencies. The company involved agreed to pay a total of \$15 million to resolve allegations that it violated the False Claims Act.

Department Employee Received 90-Day Suspension for Overtime Irregularities

An OIG investigation determined that a Department employee submitted claims for approximately 3,231 hours in questionable overtime. As a result of a report to management, the employee was suspended without

pay for 90 days. Also, management recommended that the employee's security clearance be revoked and procedures be initiated to recoup approximately \$112,782 from the employee.

Former Department Employees and Contractor Sentenced in Kickback Scheme

An investigation determined that a former contractor paid over \$390,000 in gratuity payments to current and former Western Area Power Administration employees for their assistance in awarding a \$1.2 million contract. Three employees and the contractor pled guilty and received sentencing ranging from five months in prison to five years probation, and were ordered to make restitution payments ranging from \$40,864 to \$79,958. The Department will receive a combined total of \$266,892 in restitution.

"Gray" Market Investigation

As previously reported, a joint OIG investigation determined that the owner and an employee of an information technology sales company misrepresented and sold "gray" market and counterfeit networking and computer equipment to the Department of Energy and the Department of Defense. The owner and the employee of the company both pled guilty to one count of conspiracy to defraud the Government. During this reporting period, the owner was sentenced to 5 months home confinement, 2 years probation, 200 hours of community service, and ordered to pay approximately \$46,995. The employee was sentenced to 2 years probation, 200 hours community service, and was ordered to pay \$5,452 in fines and restitution. Also, the company, the owner, and the employee were debarred from Government contracting.

Department Grantee Employee Debarred

As previously reported, a joint investigation with the National Science Foundation (NSF) Office of Inspector General determined that a Department grantee employee used a purchase card to make fraudulent purchases, which were charged to grant programs funded by the Department and the NSF. The individual was sentenced to 16 months incarceration and 3 years supervised release and ordered to pay restitution of approximately \$18,000. During this reporting period, the grantee was debarred from Government contracting for a period of three years.

LANL Employee Pleads Guilty

A joint investigation determined that a LANL employee stole seven General Services Administration fuel cards from the Fleet Management Division at LANL and exchanged them for cash and drugs. The employee pled guilty to one count of fraud and related activity in connection with this theft and was sentenced to three years supervised probation and court ordered restitution in the amount of \$3,468.

Former Department Contractor Employee Returns \$12,500 to the Government as a Result of False Labor Charges

An OIG investigation determined that a Department contractor employee claimed and received compensation for hours he did not work. The contractor employee entered into a Civil Settlement Agreement with the U. S. Attorney's Office for the Eastern District of Washington and reimbursed the Government \$12,500. Also, the contractor employee was terminated as a result of this investigation.

Subcontractor Employee Sentenced and Debarred from Government Contracting

An investigation determined that a Department subcontractor on a long-term temporary duty assignment submitted false claims for rent and utilities. The subcontractor employee pled guilty to eight violations of theft of Government funds and was sentenced to two years probation and ordered to pay \$3,289 in fines and restitution. The subcontractor's clearance and employment were terminated. The subcontractor was also debarred from Government contracting for a period of three years.

Senior Manager Suspended as a Result of a Report to Management

An OIG investigation determined that a senior Department manager sought employment with at least four different contractors for whom he had oversight responsibilities; aided a relative in obtaining a foreign internship opportunity that was partially funded by a Department contractor; and, participated in an activity that appeared contrary to the terms of a recusal statement. As a result of an OIG report to management, the manager was suspended for three days for violating the Standards of Conduct for Employees. A record of the suspension was also placed in the manager's official personnel file.

Retired Federal Agent Convicted of Fraud

An OIG investigation determined that a grantee made three false statements when he claimed expenses totaling \$62,675 that he did not incur. The grantee, a retired Federal agent, was found guilty on three counts of false statements and two counts of wire fraud. He was sentenced to eight months home detention and ordered to pay fines and restitution in the amount of \$41,000.

Grantee Contractor Employee Pleads Guilty to Mail Fraud

A joint OIG investigation determined that an employee of a grantee contractor mailed false and fraudulent invoices to a Department grant recipient and received \$608,459 to which he was not entitled. The employee, along with other co-conspirators, devised and participated in a scheme to defraud the Department and receive kickbacks on contracts where no work was completed. The employee pled guilty in the Northern District of Illinois to a violation of Mail Fraud. Sentencing is pending.

Response to a Management Report Concerning Waste Processing Activities at the Idaho National Laboratory

The OIG received allegations that contractor employees provided false information on documents relating to waste processing activities at the Department's Idaho National Laboratory. This investigation did not substantiate any criminal misconduct related to the Laboratory's waste processing activities and its transporting of waste to the Waste Isolation Pilot Program. However, it did find that policies and procedures with regard to the Visual Examination process did not provide clear guidance. Management concurred with the report recommendation to evaluate current internal processes.

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Positive Results: Highlights Based on Office of Inspector General Work

During this reporting period, the Department took positive actions as a result of OIG work conducted during the current or previous periods. Consistent with our findings and recommendations:

- The Department took several actions to improve its cyber security posture related to the use of portable electronic devices in Limited Areas. The Oak Ridge National Laboratory held 2 sessions with approximately 500 cleared personnel to address the importance of security to the Laboratory's mission and to re-emphasize the Laboratory's commitment to security. The Y-12 Site Office reviewed and updated local policies and procedures including requirements related to laptop computers, equipment seizure, and reporting incidents affecting multiple sites.
- The Office of Secure Transportation (OST) initiated actions to strengthen its internal controls over the identification and tracking of high risk, military-type equipment. OST revised its Purchase Requisition Form to identify high risk property at the time of acquisition; modified its Sensitive Items List to include significant military-type equipment listed in the U.S. Munitions List; and, implemented accountability procedures for all law enforcement equipment.
- The Department's Chief Information Officer issued two policy documents concerning PII. The first, "Implementation Plan and Progress Report on the Department's Review, Reduction and Elimination of Personally Identifiable Information Including Social Security Numbers," established a plan for the Department to (1) review current holdings of all PII; (2) ensure such holdings are practicable, accurate, relevant, timely, complete, and kept to a minimum; and, (3) eliminate the unnecessary collection and use of PII within 18 months. DOE Notice 206.5, "Response and Notification Procedures for Data Breaches Involving Personally Identifiable Information," addressed data breaches of PII.

- Pantex installed a fire hazard suppression system at its compressed gas storage facility; placed a communications system nearby in order to be able to notify the fire department during an emergency; updated its signage in areas where hazardous chemicals were stored; enhanced the fire department's hazardous chemicals inspection criteria; conducted random reviews of physical inventories of its chemical storage facilities; enhanced the capabilities of its hazardous chemicals database; and, ensured that all of its eye wash/shower installations were functioning properly.

The Department's Fiscal Year 2007 Consolidated Financial Statements

An audit of the Department's Fiscal Year 2007 Consolidated Financial Statements resulted in an unqualified audit opinion. Pursuant to requirements established by the Government Management Reform Act of 1994, the FY 2007 consolidated financial statements were presented fairly in all material respects the financial position of the Department. The examination revealed the following two significant, but non-material, weaknesses: environmental liabilities and unclassified network and information systems.

Congressional Responses

During this reporting period, the OIG provided information at the request of Congress in 12 instances. In addition, the OIG briefed Committee staff on 6 occasions.

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 this reporting period, 622 complaints were processed. The OIG Hotline System can be reached by calling **1-800-541-1625** or **202-586-4073**.

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 actions.

The OIG referred 69 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 43 of these complaints. Otherwise, Department management is asked to respond if it develops information or takes action that it believes should be reported. The following demonstrates management's use of OIG-provided information to stimulate positive change or to take decisive action:

- In response to a referral alleging that a Department site office's contract bids, which used to be opened in the presence of all bidders, were now being opened behind closed doors, the site office acknowledged that its buyers failed to follow applicable business services procedures. The site's business services division developed and implemented a number of corrective actions to remedy the procedural deficiencies, including remedial training for all buyers and subcontract administrators.
- A referral alleging that one of the Department's site security offices was not providing full background information on individuals for evaluation by psychiatrists during the security clearance process stimulated a dialogue between the Department's Headquarters security office and the site. The dialogue resulted in a change of site policy to allow psychiatrists access to full background information.

Qui Tams

Since 1996, the OIG has been instrumental in working with the Department of Justice in *Qui Tam* cases. The OIG is currently working on 16 *Qui Tam* lawsuits involving alleged fraud against the Government in the amount of approximately \$142.6 million. These cases are highly resource intensive, requiring the active participation of OIG investigative and audit assets. However, they have proven to be targets of opportunity within the Department of Energy with a high return on our investments.

Intelligence Activities

The OIG issued two quarterly 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 the Inspectors General have reason to believe may be unlawful or contrary to Executive Order or Presidential Directive. No intelligence activities, contrary to Executive Order or Presidential Directive, were reported during this period.

Legislative and Regulatory Review

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on Departmental economy and efficiency. The OIG coordinated and reviewed 44 legislative and regulatory items during the reporting period.



Statistical Information

AUDIT REPORTS ISSUED

October 1, 2007 to March 31, 2008

Report Number	Title	Date of Issue	Savings	Questioned Costs
IG-0779	Selected Aspects of the East Tennessee Technology Park's Security Clearance Retention Process	10-18-07		
IG-0781	Continuity of Operations at Bonneville Power Administration	11-06-07		
IG-0782	Management Challenges at the Department of Energy	12-13-07		
IG-0783	Beryllium Surface Contamination at the Y-12 National Security Complex	12-17-07		
IG-0786	Department of Energy's Receipt of Royalty Oil	01-04-08		
IG-0787	The Department's Cyber Security Incident Management Program	01-16-08		
IG-0788	Nanoscale Materials Safety at the Department's Laboratories	02-28-08		
IG-0789	Management of the Department's Publicly Accessible Websites	03-13-08		
IG-0791	The Department's Unclassified Foreign Visits and Assignments Program	03-24-08		
OAS-M-08-01	Management Controls over the Bonneville Power Administration's Personal Property Accountability	10-01-07	\$700,000	
OAS-M-08-02	Contract Transition Activities at the Nevada Test Site	11-26-07		\$86,112

AUDIT REPORTS ISSUED

October 1, 2007 to March 31, 2008

Report Number	Title	Date of Issue	Savings	Questioned Costs
OAS-M-08-03	Management Controls over Implementation of the Homeland Defense Equipment Reuse Program	12-11-07		
OAS-M-08-04	Management Controls over Operations of the Integrated Disposal Facility at the Hanford Site	12-18-07		\$13,000,000
OAS-M-08-05	Management Controls over the Department of Energy's Uranium Leasing Program	01-23-08		\$700,000
OAS-L-08-01	Follow-Up on the Depleted Uranium Process at the Y-12 National Security Complex	10-11-07		
OAS-L-08-02	Department's Implementation of the Strategic Integrated Procurement Enterprise System – Overall Project Planning	11-28-07		
OAS-L-08-03	The Department of Energy's Implementation of Revised OMB Circular No. A-123	12-11-07		
OAS-L-08-04	Department's Implementation of the Strategic Integrated Procurement Enterprise System – Security Planning	01-28-08		
OAS-L-08-05	Contact-Handled Transuranic Waste Characterization Capabilities at the Idaho National Laboratory	01-28-08		
OAS-L-08-06	Federal Managers' Financial Integrity Act	02-06-08		
OAS-L-08-07	Analysis of Open Office of Inspector General Recommendations	02-21-08		
OAS-L-08-08	Accountability of Sensitive and High Risk Property at the Nevada Site Office	03-21-08		

AUDIT REPORTS ISSUED

October 1, 2007 to March 31, 2008

Report Number	Title	Date of Issue	Savings	Questioned Costs
OAS-C-08-01	Interim Audit of Thomas Jefferson National Accelerator Facility Costs Claimed under Contract DE-AC05-84ER40150 for Fiscal Years 2003 through 2006	01-15-08		\$14,438
OAS-V-08-01	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Bechtel Nevada Corporation Under Department of Energy Contract No. DE-AC08-96NV11718 During Fiscal Year 2006	12-07-07		
OAS-V-08-02	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Bechtel Jacobs Company, LLC During Fiscal Year 2006	12-18-07		
OAS-V-08-03	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Battelle Energy Alliance, LLC Under Department of Energy Contract No. DE-AC07-05ID14517 During Fiscal Year 2006	01-02-08		
OAS-V-08-04	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Oak Ridge Associated Universities for Fiscal Years 2003 through 2006	01-09-08		
OAS-V-08-05	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by UT-Battelle, LLC During Fiscal Year 2006	01-15-08		\$60,028

AUDIT REPORTS ISSUED

October 1, 2007 to March 31, 2008

Report Number	Title	Date of Issue	Savings	Questioned Costs
OAS-V-08-06	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Washington Savannah River Company, LLC During Fiscal Year 2006	02-04-08		
OAS-V-08-07	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Honeywell Federal Manufacturing & Technologies, LLC Under Department of Energy Contract No. DE-AC04-01AL66850 During Fiscal Year 2006	03-06-08		
OAS-FS-08-01	Federal Energy Regulatory Commission's Fiscal Year 2007 Financial Statement Audit	11-06-07		
OAS-FS-08-02	Department of Energy's Fiscal Year 2007 Consolidated Financial Statements	11-09-07		
OAS-FS-08-03	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2007	01-02-08		
OAS-FS-08-04	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2007	01-29-08		

INSPECTION REPORTS ISSUED

October 1, 2007 to March 31, 2008

Report Number	Title	Date of Issue
IG-0778	The Consolidated Terrorism Watchlist Nomination Process at the Department of Energy	10-02-07
IG-0780	Work Order Estimate and Cost Issues for Site Support Services at Los Alamos National Laboratory	10-25-07
IG-0784	The Department of Energy's Pandemic Influenza Planning	12-19-07
IG-0785	Incident of Security Concern at the Y-12 National Security Complex	01-02-08
IG-0790	Office of Intelligence and Counterintelligence Internal Controls Over the Department of Energy's Sensitive Compartmented Information Access Program	03-21-08
INS-0-08-01	Unauthorized Weapon Discharge and Related Security Policies and Procedures at Sandia National Laboratory-New Mexico	02-28-08
INS-L-08-01	Allegations of an Inadequate Sandia National Laboratories Ethics Investigation	10-29-07
INS-L-08-02	Consolidation of the Department of Energy and National Nuclear Security Administration Counterintelligence Programs	10-30-07
INS-L-08-03	Protective Force Staffing Issues at the Pantex Plant	11-05-07
INS-L-08-04	Potential Compromise of Personally Identifiable Information at Los Alamos National Laboratory	11-13-07
INS-L-08-05	Internal Controls Over Purchase Card Transactions at the Kansas City Plant	01-16-08

Does not include non-public reports

AUDIT REPORTS WITH RECOMMENDATIONS FOR BETTER USE OF FUNDS

October 1, 2007 to March 31, 2008

The following table shows the total number of audit reports and the total dollar value of the recommendations that funds be put to better use by management.

	Total Number	One Time Savings	Recurring Savings	Total Savings
A. Those issued before the reporting period for which no management decision has been made:*	7	\$904,530,602	\$6,000,000	\$910,530,602
B. Those issued during the reporting period:	29	\$700,000	\$0	\$700,000
Subtotals (A + B)	36	\$905,230,602	\$6,000,000	\$911,230,602
C. Those for which a management decision was made during the reporting period:*	16	\$7,895,743	\$0	\$7,895,743
(i) Agreed to by management:		\$1,423,460	\$0	\$1,423,460
(ii) Not agreed by management:		\$5,772,283	\$0	\$5,772,283
D. Those for which a management decision is not required:	15	\$0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	5	\$898,034,859	\$6,000,000	\$904,034,859

Definitions:

Funds put to better use: Funds that could be used more efficiently by implementing recommended actions.

Unsupported costs: A cost that is not supported by adequate documentation. Questioned costs include unsupported costs.

Management decision: Management's evaluation of the finding and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

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

AUDIT REPORTS WITH QUESTIONED COSTS

October 1, 2007 to March 31, 2008

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

	Total Number	Questioned Costs	Unsupported Costs
A. Those issued before the reporting period for which no management decision has been made:*	0	\$20,987,573	\$0
B. Those issued during the reporting period:	5	\$13,836,578	\$24,000
Subtotals (A + B)	5	\$34,824,151	\$24,000
C. Those for which a management decision was made during the reporting period:*	5	\$28,643,165	\$24,000
(i) Value of disallowed costs:		\$15,286,041	\$0
(ii) Value of costs not disallowed:		\$13,220,546	\$0
D. Those for which a management decision is not required:	0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	0	\$6,317,564	\$24,000

Definitions:

Questioned costs: A cost that is (1) unnecessary; (2) unreasonable; (3) unsupported; (4) or an alleged violation of law, regulation, contract, etc.

Unsupported costs: A cost that is not supported by adequate documentation. Questioned costs include unsupported costs.

Management decision: Management's evaluation of the finding and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

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

Reports Lacking Management Decision

The Department of Energy has a system in place to track 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 as efficiently and expeditiously as possible. Listed below are the audit reports over six months old that were issued before the beginning of the reporting period and for which no management decision had been made by the end of the reporting period. The reason a management decision had not been made and the estimated date for achieving management decision is described below.

Management Audits

IG-0669: Use and Management of Mobile Communications Services, December 14, 2004 - *The management decision has been signed by the Chief Information Officer and is currently in the review and concurrence process. This should occur by August 30, 2008.*

IG-0753: Recovery Costs for the Proprietary Use of the Advanced Photon Source, January 11, 2007 - *The finalization of the management decision is awaiting the resolution of a policy issue related to full cost recovery. A final management decision is expected by September 30, 2008.*

Prior Significant Recommendations Not Implemented

As of March 2008, closure actions on recommendation in 45 OIG report had not been fully implemented within 12 months from the date of report issuance. The OIG is committed to working with management to expeditiously address the management decision and corrective action process, recognizing that certain initiatives will require long-term, sustained, and concerted efforts. The Department has closed 275 recommendations in the last 6 months. Management updates the Departmental Audit Report Tracking System on a quarterly basis, most recently in March 2008. Information on the status of any report recommendation can be obtained through the OIG's Office of Audit Services or Office of Inspections or Special Inquiries.

SUMMARY OF INSPECTIONS/ SPECIAL INQUIRIES ACTIVITIES

October 1, 2007 to March 31, 2008

Inspections/Special Inquiries open as of October 1, 2007	109
Inspections/Special Inquiries opened during this reporting period	6
Inspections/Special Inquiries closed during this reporting period	14
Reports issued (includes non-public reports)	13
Inspections open as of March 31, 2008	101
Report Recommendations:	
<i>Issued this reporting period</i>	41
<i>Accepted by management this reporting period</i>	43
<i>Implemented by management this reporting period</i>	46
Complaints referred to Department management/others:	69
<i>Referrals to Department management requesting a response for OIG evaluation</i>	43
HOTLINE ACTIVITY	
Hotline calls, emails, letters, and other complaints	622*
Hotline calls, emails, letters, and other complaints predicated	152
Unresolved Hotline predications from previous reporting period	3
Total Hotline predications	155
Hotline predications transferred to the Management Referral System	81
Hotline predications closed based upon preliminary OIG activity	59
Hotline predications pending disposition	15
Total Hotline predications	155

*The figure includes complaints outside the purview of the Office of Inspector General. The complainants were referred to the appropriate Federal, state, local, or private organization for assistance, if applicable.

SUMMARY OF INVESTIGATIVE ACTIVITIES

October 1, 2007 to March 31, 2008

Cases open as of October 1, 2007	239
Cases opened during period	59
Cases closed during period	85
Multi-Agency Task Force Cases Opened	24
Qui Tam investigations opened	1
Cases currently open as of March 31, 2008	211
IMPACT OF INVESTIGATIONS:	
Accepted*	8
Indictments	11
Criminal convictions	9
Pretrial diversions	0
Civil actions	1
Suspensions/Debarments	19
TOTAL DOLLAR IMPACT (Fines, settlements, recoveries)	\$21,357,886**
ADMINISTRATIVE SANCTIONS:	
Employees	4
Contractors/Businesses	20
Recommendations to management for positive change and other actions	22

*Some of the investigations accepted 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.

Feedback Sheet

The contents of the March 2008 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. If you have any suggestions for making the report more responsive, please complete this feedback sheet and return it to:

U. S. Department of Energy
Office of Inspector General (IG-1)
Washington, DC 20585

ATTN: Felicia Jones

Name: _____

Daytime Telephone Number: _____

Comments/Suggestions/Feedback:
(Please attach additional sheets if needed.)

For media inquiries, please dial (202) 253-2162 for assistance.





U. S. Department of Energy

Office of Inspector General

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U. S. Department of Energy
1000 Independence Ave., S. W.
Washington, DC 20585

Additional information on the OIG and reports can be found at www.ig.energy.gov



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U.S. DEPARTMENT OF ENERGY
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