

DOE/IG-0034



# U.S. DEPARTMENT OF ENERGY OFFICE OF INSPECTOR GENERAL SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2003 - MARCH 31, 2004

Front Cover

View of McNary Dam, Bonneville Power Administration

Zond Systems Wind Turbines at Tehachapi Pass, California

University of Missouri Rolla going at speed limit on route 66 during

The American Solar Challenge 2003

Preaccelerator Units at Argonne National Laboratories Intense Pulsed Neutron Source



Department of Energy  
Washington, DC 20585

April 29, 2004

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

Dear Secretary Abraham:

I am pleased to submit the Office of Inspector General's (OIG) *Semiannual Report to Congress*. This Report summarizes significant OIG activities and accomplishments during the 6-month period ending March 31, 2004.

The Report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to you, the Administration, and the Congress. In particular, it describes OIG accomplishments in identifying the most significant management challenges facing the Department.

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

Sincerely,

A handwritten signature in cursive script that reads "Greg Friedman".

Gregory H. Friedman  
Inspector General

Enclosure



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# INSPECTOR GENERAL'S MESSAGE



I am pleased to submit the Department of Energy (Department) Office of Inspector General (OIG) Semiannual Report to Congress for the period ending March 31, 2004. This report, issued in accordance with the provisions of the Inspector General Act of 1978, as amended, represents the OIG's accomplishments in identifying areas of Department operations most vulnerable to waste, fraud and mismanagement.



During this reporting period, the OIG identified and reported on a number of opportunities to enhance accountability, accelerate cost savings, and return hard dollars to the Federal Government. Our reviews have resulted in the identification of programmatic economies and efficiencies representing millions of dollars in savings to the Department and the U.S. taxpayer. Furthermore, all of our efforts focus on improving the Department's programmatic results. For example, following our audit on the Recovery of Highly Enriched Uranium Provided to Foreign Countries, IG-0638, the Secretary directed the Department's National Nuclear Security Administration to consolidate the U.S. Foreign Research Reactor Spent Nuclear Fuel Acceptance Program within its nonproliferation mission. The decision is intended to accelerate and strengthen the Department's efforts to return weapons-usable nuclear materials of U.S.-origin back to the U.S.; will refocus and strengthen the international campaign to deny terrorists opportunities to seize nuclear materials; and will increase the Department's effectiveness in achieving the reduction and eventual elimination of the use of weapons-usable materials in civil commerce worldwide. We believe the Secretary's actions represent an important initiative that addresses the issues raised in our audit report.



We accomplished our mission through employee dedication and by implementing and executing a comprehensive strategic plan. This plan focused on core goals relating to issues that have the greatest impact on the Department's very diverse portfolio of activities.

Highlights of our work during the current reporting period, which are set forth in the following sections of this report, are organized by management challenge area. As required by the Reports Consolidation Act of 2000, the OIG annually identifies the most significant management and performance challenges facing the Department. This year, the OIG has determined that the most serious challenges facing the Department are:

Mission-Related Challenges

Environmental Cleanup  
National Security  
Stockpile Stewardship

Internal Control Challenges

Contract Administration  
Project Management  
Information Technology



Additionally, the OIG has streamlined its semiannual reporting process by providing shortened report summaries. Each identified public report is available in full on our website [www.ig.doe.gov](http://www.ig.doe.gov).



Finally, I would like to express my continued appreciation to all of the OIG employees for their commitment and dedication to our mission. On behalf of the American taxpayers, I thank the OIG staff for their performance as "agents of positive change" during this reporting period.



**Gregory H. Friedman**  
**Inspector General**



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**Gregory H. Friedman**  
**Inspector General**

# DEPARTMENT OF ENERGY

## CONSOLIDATED FINANCIAL STATEMENTS



### REPORT ON THE DEPARTMENT OF ENERGY'S CONSOLIDATED FINANCIAL STATEMENTS

This is the fifth consecutive year that the Department received an unqualified (clean) audit opinion on its consolidated financial statements. The OIG conducted the audit pursuant to the Government Management and Reform Act of 1994 through a contract with the accounting firm of KPMG LLP. KPMG concluded that the consolidated financial statements present fairly, in all material respects, the Department's financial position as of September 30, 2003, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended.

While the audit opinion was unqualified, the examination revealed that two reportable conditions existed in the Department's system of internal controls: (1) certain network vulnerabilities and general access control weaknesses could affect unclassified information system security; and (2) while the Department has made significant progress in its performance measurement reporting, more remains to be done to satisfy Office of Management and Budget requirements. These conditions were also observed during last year's audit.

To ensure the quality of the audit, the OIG approved the scope of KPMG's assignment, monitored its work, and reviewed the audit report and related work papers for compliance with auditing standards. Department management generally agreed with the audit findings and initiated or agreed to initiate specific corrective actions. The KPMG audit report and the OIG transmittal memorandum to the Secretary are included in the Department's Fiscal Year (FY) 2003 Performance and Accountability Report, DOE/ME-0025. (OAS-FS-04-02)

# MANAGEMENT CHALLENGES

## CONTRACT ADMINISTRATION



### CENTRAL OFFICE EXPENSES FOR THE THOMAS JEFFERSON NATIONAL ACCELERATOR FACILITY

An OIG audit questioned about \$4.6 million of the \$4.8 million paid for home office expenses over nearly 3 years to the contractor that operates the Department's Thomas Jefferson National Accelerator Facility. Such charges included entertainment and alcoholic beverages. The audit also found that the Department's Oak Ridge Operations Office had not provided adequate financial oversight of the contractor's operations. (IG-0629)

Aerial view of Thomas Jefferson National Accelerator Facility



### MANAGEMENT CONTROL WEAKNESSES OVER SUBCONTRACT ADMINISTRATION BY THE NATIONAL RENEWABLE ENERGY LABORATORY

An OIG audit found that the National Renewable Energy Laboratory (NREL) had not always effectively managed aspects of its subcontract procurement cycle. Specifically, we observed that:

- For 8 of the 24 contracts we reviewed, subcontractor acquired property with an original acquisition value of about \$1 million could not be located;
- Experimental property fabricated by subcontractors valued at about \$15 million had not been included in inventory and was not properly safeguarded; and,
- NREL had not de-obligated as much as \$3 million of unexpended funds that may be available, or recovered at least \$2.9 million in property associated with completed or expired contracts. (OAS-M-04-02)

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## MANAGEMENT CONTROL WEAKNESSES OVER SUBCONTRACT ADMINISTRATION AT ARGONNE NATIONAL LABORATORY

An OIG audit determined that Argonne National Laboratory (Argonne) relied heavily on sole source procurements without, in many cases, adequately supporting their use, and did not always adequately inventory property acquired by subcontractors. We noted that Argonne used sole source awards for 62 percent of its FY-2002 active contracts over \$100,000 and that 50 percent (14 of 28) of sole source contract files reviewed did not demonstrate a compelling reason for limiting competition. (OAS-M-04-01)

## ENVIRONMENTAL CLEANUP

### TRANSURANIC WASTE RETRIEVAL AND PROCESSING AT THE HANFORD SITE

An OIG audit determined that the Department faces significant challenges in its efforts to retrieve and process transuranic (TRU) waste at the Hanford Site. Specifically, as of July 2003, the audit concluded that:

- (1) the nearly 10,000 existing containers of TRU waste had not been retrieved and that the Department faced substantial technical challenges in its retrieval schedule; and,
- (2) in total, only 6,700 TRU waste containers had been processed.

At the current rate of processing, the audit found that only a little more than half of the legacy TRU waste will be prepared for shipment by the Department's target date of 2015. (IG-0624)



TRU Waste Burial Grounds, Hanford

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## REINDUSTRIALIZATION OF THE EAST TENNESSEE TECHNOLOGY PARK

An OIG audit disclosed that since the East Tennessee Technology Park reindustrialization program began, work on the site's most contaminated and unsafe building has been deferred while buildings with perceived reuse potential have been cleaned up in an effort to increase commercial tenants. Additionally, the Department obtained commitments for the reuse of only a small fraction of available space. (IG-0623)

## IMPROVEMENTS POSSIBLE IN THE DEPARTMENT'S DEPLETED URANIUM HEXAFLUORIDE CONVERSION

The OIG conducted an audit to determine whether the Department has implemented an efficient plan for conversion of its depleted uranium hexafluoride inventory.

Our review concluded that the Department's plan for converting depleted uranium hexafluoride inventories could be improved by adding increased production capacity at the Portsmouth facility. This increased production would result in 4,500 metric tons of additional material processed annually, completion of the project nearly 5 years earlier than planned, and a savings of about \$55 million. (IG-0642)



Storage yard of depleted uranium hexafluoride cylinders

## SUBCONTRACTOR REIMBURSES GOVERNMENT FOR UNVERIFIED CHEMICAL ANALYSIS STUDIES ON CONTAMINATED GROUNDWATER

An OIG investigation determined that a subcontractor employee, conducting chemical analysis studies on groundwater contamination at the Paducah Gaseous Diffusion Plant, submitted reports with no certifiable data to back up the studies. The employee was subsequently terminated. The Department, in coordination with the OIG and the Western District of Kentucky United States Attorney's Office, accepted a \$347,076 settlement from the subcontractor for costs associated with the unverified studies and reports. (I03OR009)

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## TWO GUILTY PLEAS AND ONE SENTENCING OF DEPARTMENT SUBCONTRACTOR EMPLOYEES FOR TRANSPORTATION OF HAZARDOUS WASTE WITHOUT A MANIFEST

During the current reporting period, two subcontractor employees pleaded guilty to violations of 42 USC 6928 (Transportation of Hazardous Waste Without a Manifest). One employee was sentenced to 5 years' probation, 300 hours' community service, a \$100 special assessment, and restitution in the amount of \$12,190. Sentencing is pending for the other subcontractor employee.

As previously reported, this investigation was conducted in conjunction with the East Tennessee Environmental Crimes Task Force and has resulted in prior fees, fines, and penalties against the subcontractor corporation. (I99OR003)

## INFORMATION TECHNOLOGY

### WEAKNESSES IN LAWRENCE LIVERMORE NATIONAL LABORATORY CLASSIFIED COMPUTER AND REMOVABLE MEDIA INVENTORY CONTROLS

The OIG conducted an evaluation of internal controls over classified computers and classified removable media at the Lawrence Livermore National Laboratory (LLNL). Although all materials were accounted for, the OIG identified certain internal control weaknesses in LLNL's administration of its classified computer and classified removable media inventories. These weaknesses concerned increased vulnerability to loss, abuse, and theft. (IG-0628)

Aerial view of  
Lawrence Livermore  
National Laboratory



### WEAKNESSES FOUND IN IMPLEMENTATION OF INDICATIONS, WARNING, ANALYSIS AND REPORTING CAPABILITY OF CYBER SECURITY INCIDENTS

Based on prior audit work, the OIG initiated an audit to determine whether the Department had improved its cyber security incident reporting process and had sufficient information to manage its network intrusion threat.

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The audit determined that despite efforts to strengthen policy, overall reporting had not improved significantly. Specifically, Federal law enforcement officials were notified of only 20 of 49 successful system intrusions reported to the Department's Computer Incident Advisory Capability; site personnel did not always preserve evidence needed to investigate or determine the source of attacks; and, attacks originating from foreign sources were not always reported to Federal counterintelligence officials. (IG-0631)

### UNITED KINGDOM TEENAGER SENTENCED FOR HACKING INTO A LABORATORY'S COMPUTER NETWORK

An unprecedented, joint investigation with the New Scotland Yard Computer Crime Unit established that a British citizen gained unauthorized access to 17 Government-owned computers at the Department's Fermi National Accelerator Laboratory. The investigation determined that the hacker uploaded and shared copyrighted computer programs, motion pictures, and MP3 music files to the Government-owned computers. None of the computers were classified.

The United Kingdom's Magistrate Court accepted the case for criminal prosecution. The subject of the investigation pleaded guilty to violating the United Kingdom's Computer Misuse Act of 1990. The subject was sentenced to 200 hours of community service. (I02TC024)

### UNAUTHORIZED INTRUDER COMPROMISES GOVERNMENT DESKTOP COMPUTER

An OIG investigation determined that an unauthorized cyber intruder compromised a Government-owned desktop issued to a contractor employee at LLNL. The intruder was found to have altered data and system files on the unclassified computer. An Administrative Report to Management made recommendations regarding cyber security and computer systems configuration management policy at LLNL. In response, LLNL has implemented a corrective action plan to address the recommendations. (I03TC006)



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## NATIONAL SECURITY

### REPORTING OF SECURITY INCIDENTS AT LLNL

An OIG inspection concluded that LLNL did not have adequate internal controls to ensure that: (1) security incidents involving missing master keys and Tesa cards were reported within required timeframes, and (2) timely follow-up actions were taken to identify and address any potential security vulnerabilities resulting from the incidents. (IG-0625)

### WEAKNESSES IN THE DEPARTMENT'S BASIC PROTECTIVE FORCE TRAINING PROGRAM

An OIG review determined that the Department's core basic training curriculum for its protective force officers had been applied inconsistently throughout the complex. At 10 of the 12 sites reviewed, significant modifications to the Department's core curriculum had been made. For example, at one site, about 40 percent of the required 320 hours of basic security police officer training had been eliminated. Because facilities were not required to report such departures to Headquarters officials, there was no effective way to evaluate the impact of these actions on the security interests of the Department. (IG-0641)



### PROTECTIVE FORCE PERFORMANCE TEST IMPROPRIETIES AT OAK RIDGE FACILITY

An OIG inspection found a compromise of controlled test sensitive information associated with a June 26, 2003, protective force performance test at the Department's Y-12 facility. The compromise occurred when certain protective

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force personnel were given advance access to computer simulations of the test. In our judgment, the test results were tainted. Further, we were provided compelling testimony that there had been a pattern of actions by site security personnel going back to the mid-1980's that may have negatively affected the reliability of performance testing at the Department's Oak Ridge facilities. (IG-0636)

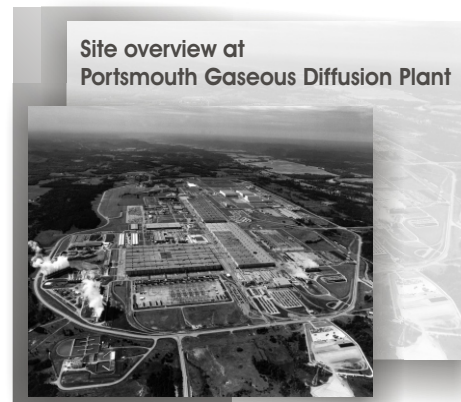
## WEAKNESSES IN SAFEGUARDS OVER SENSITIVE TECHNOLOGIES

An OIG audit of safeguards over sensitive technologies determined that, at Sandia, Los Alamos, and Oak Ridge National Laboratories, controls over sensitive technologies had not been employed in all instances. The audit found, for example, foreign nationals were being assigned to potentially sensitive projects without authorization. (IG-0635)

## PROJECT MANAGEMENT

### COST INCREASES IN THE COLD STANDBY PROGRAM AT THE PORTSMOUTH GASEOUS DIFFUSION PLANT

The OIG conducted an audit that concluded that the Department had not clearly defined the termination point of the Cold Standby Program and that total program costs had almost doubled (increase of \$189 million) from initial project estimates. The review determined that the Department had not: formally updated the program mission requirements; assigned responsibility for the program to a single organization; executed the most cost effective procurement strategy; or developed a programmatic baseline. (IG-0634)



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## PROJECT MANAGEMENT CONTROLS IN THE REESTABLISHMENT OF ENRICHED URANIUM OPERATIONS AT THE Y-12 COMPLEX

A review of the National Nuclear Security Administration's (NNSA) enriched uranium operations at the Y-12 National Security Complex showed that several key activities, including wet chemistry, oxide conversion, and salvage treatment, necessary for resumption of enrichment, will not be operational until at least July 2004, more than 5 years later than originally planned. It was further found that the estimated cost of this project has grown to nearly three times the original estimate to approximately \$400 million. (IG-0640)

## IMPROVEMENTS NEEDED IN THE DESIGN OF THE URANIUM STORAGE FACILITY AT THE Y-12 NATIONAL SECURITY COMPLEX

The OIG conducted an audit to evaluate whether the current design of the highly enriched uranium materials facility at the Y-12 National Security Complex would achieve intended objectives. The review determined that the facility's current design would not meet management's expectations. Specifically, this design would result in:

- Higher life-cycle costs than the original design;
- Personnel security requirements that would be greater than the previous design; and,
- More complex construction requirements that may add cost and time to the project schedule.

Overall, the Department risks spending at least \$25 million more than necessary to construct this storage facility. (IG-0643)

## ELECTRICITY TRANSMISSION SCHEDULING AT THE BONNEVILLE POWER ADMINISTRATION

An OIG audit determined that the Bonneville Power Administration's (BPA) scheduling system does not fully meet present and future

Equipment yard at Bonneville Power Administration's Celilo Converter Station



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transmission needs. For example, a system that was expected to be fully operational by June 2000, cannot yet meet the need for rapid, reliable, and accurate electronic tagging and scheduling of a large volume of complex transmissions. (IG-0637)

## THE MCNEIL BIOMASS PROJECT

An audit determined that although the Department had made policy changes designed to improve the management of energy-related financial assistance awards, its oversight of the McNeil Biomass Project (McNeil) was inadequate. Specifically, in FY 2002, the Department continued to fund McNeil even though there was little or no progress in meeting annual programmatic performance objectives. (IG-0630)

## STOCKPILE STEWARDSHIP

### MODERNIZATION OF TRITIUM REQUIREMENTS SYSTEMS

The OIG conducted an audit to determine whether the NNSA's efforts to modernize the Tritium Simulation System and related systems would result in accurate tritium requirement estimates.

The audit determined that even after modernization, the new system would not account for tritium lost during processing and would duplicate modeling capabilities that were already available in separate systems. The OIG report on this matter recommended NNSA strengthen management controls over the project and improve the accuracy of its tritium requirements model. (IG-0632)

Aerial view of tritium facilities at Savannah River



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## RECOVERY OF HIGHLY ENRICHED URANIUM PROVIDED TO FOREIGN COUNTRIES

In May 1996, in an effort to reduce the threat of nuclear weapons proliferation, the Department initiated a program to recover foreign research reactor spent fuel containing highly enriched uranium (HEU) produced in the United States. An OIG audit of this program determined that as of August 2003, the Department was likely to recover only about half of the HEU planned to be recovered. Moreover, there was no effort to recover additional HEU dispersed to foreign countries that was not included in the program. (IG-0638)

# OTHER SIGNIFICANT ACCOMPLISHMENTS



## ADMINISTRATIVE SAFEGUARDS

### DEPARTMENT RECOUPS \$1.9 MILLION AS A RESULT OF \$3.9 MILLION CIVIL SETTLEMENT FOR GOVERNMENT MISCHARGING AT LLNL

The U.S. Department of Justice, Civil Division, entered into a settlement agreement with the University of California, as operator of the Department's LLNL, in the amount of \$3,897,366 to settle a Civil False Claim Action for mischarging at LLNL. One-half of the amount paid, \$1,948,683, was credited back to the Department. (I99LL007)

### CIVIL JUDGMENT AGAINST FORMER DEPARTMENT SUBCONTRACTOR FOR FILING FALSE COAL TEST INVOICES AND REPORTS

During the current reporting period, a civil judgment in the amount of \$2,914,589 was rendered against one Department subcontractor and its owner as a result of a joint investigation by the OIG Office of Investigations and other Federal law enforcement agencies.

The previously reported investigation determined that two subcontractor officials and their respective companies knowingly submitted false claims to the Departments of Energy and Defense in the form of coal test reports and invoices. (I94SR018)

Technician holding table shale type mineral in her left hand and bituminous coal in her right



### SUBCONTRACTOR EMPLOYEE FORFEITS AUTOMOBILE FOR THEFT VIOLATION

An OIG investigation resulted in a subcontractor employee entering into a Pretrial Diversion Agreement for violating 18 USC 641 (Theft of Government Property). The investigation determined that the subcontractor employee placed a large number of overpriced computer part orders on behalf of LLNL; and in each order, the vendor provided contest entry forms with a chance to win a Chrysler PT Cruiser. Through these purchases, the subcontractor employee submitted the forms and won the automobile, valued at approximately \$20,000. Administrative forfeiture resulted in recovery of the PT Cruiser and the subcontractor employee resigned from his position. (I02LL004)

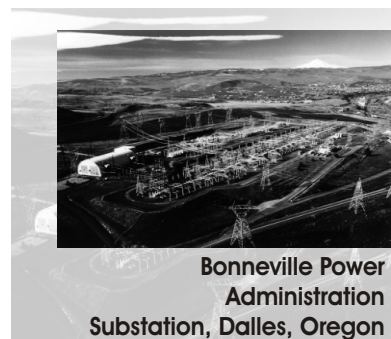
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## CONTROL DEFICIENCIES IDENTIFIED IN Y-12'S RADIOACTIVE CONTAMINATION RECORDS AND THE SAFEGUARD OF PRECIOUS METALS

An OIG investigation identified internal control weaknesses regarding the recording of radioactive contamination measurements and the safeguard of precious metals at the NNSA's Y-12 facility in Oak Ridge, Tennessee. In response to an Administrative Report to Management, the prime contractor at Y-12 was tasked with performing a detailed audit of the internal controls for the receipt, transfer, storage, shipment, accountability and protection of precious metals. (I03OR005)

## INDIVIDUAL SENTENCED FOR THEFT OF ALUMINUM FROM BPA SUBSTATION

A joint OIG investigation with the Bureau of Alcohol, Tobacco, Firearms, and Explosives (BATF&E) and local law enforcement determined that a private citizen stole in excess of 20,000 pounds of aluminum conductor from a BPA substation in Linn County, Oregon. The individual pleaded guilty to one count of 18 USC 641 (Theft of Government Property); was sentenced to 24 months' incarceration, 3 years' probation; and was ordered to pay restitution in the amount of \$32,734.44. (I03RL005)



## TWO INDIVIDUALS INDICTED AND ONE SENTENCED FOR THEFT OF INSULATED COPPER WIRE FROM BPA SUBSTATION

An OIG investigation determined that two individuals stole approximately 2,000 feet of insulated copper valued at \$14,000 from the BPA Oregon City Substation. The first subject was indicted and pleaded guilty to a one count violation of first degree theft (Oregon Revised Statute 164.055). He was also sentenced to 13 months' incarceration, 1 year of probation, \$2,500 in restitution, and fines and assessments totaling \$635. The second subject was indicted and an arrest warrant has been issued for a one count violation of first degree theft (Oregon Revised Statute 164.055). (I03RL021)

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## FORMER LABORATORY EMPLOYEE AGREES TO CIVIL SETTLEMENT FOR FRAUDULENT EXPENSES

As part of a civil settlement agreement, a former Pacific Northwest National Laboratory employee reimbursed the Government \$10,425.43. The settlement followed an OIG investigation which determined that the subject improperly charged labor while on personal travel, filed a fraudulent travel voucher, and misused a Government-assigned cellular telephone and toll-free service number for personal use. The subject resigned during the course of the ongoing investigation. (I03RL015)

## INDIVIDUAL SENTENCED FOR THEFT OF PROTECTIVE FORCE UNIFORMS

An OIG joint investigation with a local police department determined that an individual, not associated with the Department or its contractors, stole Department contractor protective force uniforms valued at \$1,500 from a dry cleaner. The investigation resulted in an admission by the individual and recovery of the uniforms. The individual subsequently entered a guilty plea to a violation of Tennessee Code 39-14-103 (Theft of Property, Class D Felony) and was sentenced to 90 days' incarceration and 4 years' supervised probation. (I04OR001)



## FORMER CONTRACTOR EMPLOYEE SENTENCED FOR ILLEGAL POSSESSION OF FIREARMS

Pursuant to a search warrant executed in an OIG joint investigation with the Federal Bureau of Investigation (FBI) and the BATF&E focusing on alleged theft of classified materials, a former contractor employee was found to illegally possess firearms at his residence. The individual pleaded guilty to a felony count violation of 18 USC 922 (g)(4) (Possession of a Firearm by a Prohibited Person) and was sentenced to 5 years' supervised probation. He was ordered to pay a \$100 special assessment fee and to forfeit four seized firearms. (I02IF009)



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## CONTRACTOR PROCUREMENT OFFICIAL SENTENCED FOR BRIBERY

During the current reporting period, a Department contractor procurement official was sentenced to 3 years' probation, 6 months' home confinement, ordered to pay \$120,000 in restitution, a \$50,000 criminal fine, and a \$100 special assessment fee for violation of 18 USC 201 (b)(2)(A) (Bribery of a Public Official). The procurement official was also terminated from his position at the Lawrence Berkley National Laboratory.

This previously reported joint investigation with the FBI determined that a contractor procurement official received approximately \$120,000 from two Laboratory vendors in return for providing the vendors with confidential bid information. (I02LL002)

## SECOND INDIVIDUAL ENTERS PLEA AND IS SENTENCED IN CONNECTION WITH COUNTERFEIT DEPARTMENT OF ENERGY SECURITY BADGES

During the current reporting period, an individual pleaded guilty to a three count violation of 18 USC 1028 (a)(6) (Fraud and Related Activity in Connection with identification Documents); was sentenced to 16 months' incarceration, 3 years' supervised release; and was ordered to pay \$200.

This previously reported joint investigation with the FBI involved the theft and forgery of Department security badges to facilitate the cashing of fraudulent checks. (I02AL013)

## **OTHER SIGNIFICANT WORK**

### IMPROVEMENTS NEEDED IN THE DEPARTMENT'S AUDIT RESOLUTION PROCESS

An OIG review of the Department's audit resolution process determined that although the Department had made efforts to improve the effectiveness of this process:

- Target dates for completion of corrective actions had not been established for 44 percent of the 104 recommendations reviewed;
- Where target dates were established, 57 percent of the corrective actions taken exceeded closure milestones;

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- Recommendations were closed even though corrective actions had not been taken; and,
  - Potential savings of about \$26 million were foregone because of delays in implementation. (IG-0639)

## PERFORMANCE MANAGEMENT WEAKNESSES AT THE FEDERAL ENERGY REGULATORY COMMISSION

The OIG conducted an audit to determine whether the Federal Energy Regulatory Commission (FERC) had established appropriate performance measures for its significant programs and whether it had met its annual performance goals.

The audit found that: in a few key activities, including investigations of potential market abuses, FERC did not have performance measures; measures did not always directly address program activities performance; performance measures in the competitive markets area were generally not objective, quantifiable, or oriented towards outcomes or outputs; and, in some cases, management could not demonstrate that it had actually achieved reported results.

The performance management system did not reach its full potential because FERC had not promulgated necessary guidance. In addition, a process to document and validate reported results had not been implemented. (IG-0627)

## CONGRESSIONAL RESPONSES

During this reporting period, the OIG received 9 requests for information from Congress, provided information in 14 instances to Congress, briefed Committee staff on 10 occasions, and testified at 1 hearing.

## RESULTS

### HIGHLIGHTS OF POSITIVE RESULTS BASED ON PRIOR OFFICE OF INSPECTOR GENERAL WORK

During the current reporting period, the Department took the following positive actions as a result of prior OIG work. Consistent with our findings and recommendations in:

- 
- Our report entitled, "Oversight Funds Provided to Local Governments in the State of Nevada," DOE/IG-0600, the Office of Civilian Radioactive Waste Management agreed with our report finding of questioned costs in the amount of \$2,138,273 and has withheld \$1,526,974 from the appropriate local jurisdictions. Management also plans to withhold the remaining amount from future direct payments.
  - Our report entitled, "Inspection of Department of Energy Fresh Pursuit Policies and Practices," (U) IG-0557, LLNL conducted a field exercise with local law enforcement personnel that was the culmination of months of pre-coordination sessions, table top exercises, and significant amounts of shared training experiences. Improved communication between the organizations was identified as the area of most improvement that resulted from the exercise.
  - Our report entitled, "Oversight of Shock Sensitive Chemicals at the Department's Ames Laboratory," IG-0615, the Department's Office of Safety and Health published a safety notice, for distribution throughout the Department, that provides specific guidance regarding the definition of shock sensitive chemicals, tips to control safety hazards, and strategies to improve shock sensitive chemical management, including acquisition control, usage, storage, tracking, training, and disposal.
  - Our report entitled, "The Department's Unclassified Cyber Security Program-2003," IG-0620, the Office of the Chief Information Officer (CIO) has taken steps to improve identification, tracking, and correcting cyber security weaknesses. The CIO requested that program offices ensure that all cyber security weaknesses are identified and tracked in the Department's Plan of Action and Milestone (POA&M) database. The CIO has also issued instructions that offices provide data on the extent to which they verify the accuracy of all cyber security weaknesses reported as closed in the POA&M.
  - Our report entitled, "Audit of Princeton University's Employee Benefit Costs for Princeton Plasma Physics Laboratory Contract DE-AC02-76CH03073 Fiscal Years 1996 to 2002," OAS-FC-04-01, the Department recovered unallowable employee benefit costs of \$37,591. The contracting officer and the contractor agreed to this resolution on March 11, 2004.
  - Our audit entitled, "Power Marketing Administration Infrastructure Protection," OAS-B-03-01, the Administrators of the Western and Southwestern Power Administrations have begun to take the necessary actions to analyze the vulnerabilities of their critical assets and to use those analyses to make changes in how the assets are protected.

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- Our audit entitled, "Transfer of Excess Personal Property from the Nevada Test Site to the Community Reuse Organization," DOE/IG-0589, the Nevada Site Office has stopped transferring excess property to the Community Reuse Organization. In addition, the NNSA is incorporating the Department's new guidelines, including a revenue sharing provision into a memorandum of understanding with the Community Reuse Organization.

## QUI TAMs

Since 1996, the OIG has been instrumental in working with the Department of Justice (DOJ) in Qui Tam cases. The OIG is currently working with the DOJ on 22 Qui Tam lawsuits involving alleged fraud against the Government in the amount of approximately \$215 million.

### Did you know?

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

## 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.

The OIG referred 98 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 36 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 management responses demonstrate management's use of OIG information to stimulate positive change or to take decisive action:

- 
- The OIG referred to management an allegation that employees at a Department laboratory were using Government computers to download and share pornography from the Internet. The Department contractor initiated an investigation that resulted in the termination of two individuals, nine suspensions without pay, and four written reprimands.
  - The OIG referred to management an allegation that a contractor at one of the Department's sites had inappropriately calibrated its radiation scanners. The relevant program office launched an independent investigation into the matter and found deficiencies in technical documentation, the training and qualification of radiological control technicians, and the performance of radiological surveys. The contractor took action to remedy the deficiencies and developed a corrective action plan so that the deficiencies do not reoccur.

## INTELLIGENCE ACTIVITIES

The OIG issued one quarterly report 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 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 were identified that were contrary to Executive or Presidential directive.

## 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 38 legislative and regulatory items during the reporting period.

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## HOTLINE SYSTEM

The OIG operates a Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. During the reporting period, the Hotline processed 516 complaints.

# AUDIT REPORTS ISSUED



OCTOBER 1, 2003, TO MARCH 31, 2004

REPORT NUMBER	TITLE	DATE OF ISSUE	SAVINGS	QUESTIONED COSTS
IG-0623	Reindustrialization of the East Tennessee Technology Park	10-14-03	\$25,800,000	\$534,000
IG-0624	Transuranic Waste Retrieval and Processing at the Hanford Site	10-23-03		
IG-0626	Management Challenges at the Department of Energy	11-12-03		
IG-0627	Federal Energy Regulatory Commission's Performance Management	11-24-03		
IG-0629	Central Office Expenses for the Thomas Jefferson National Accelerator Facility	12-08-03		\$4,621,619
IG-0630	The McNeil Biomass Project	12-11-03		\$2,000,000
IG-0631	Implementation of Indications, Warning, Analysis and Reporting Capability	12-12-03		
IG-0632	Modernization of Tritium Requirements Systems	12-16-03	\$650,000	
IG-0634	Cold Standby Program at the Portsmouth Gaseous Diffusion Plant	12-22-03	\$62,000,000	
IG-0635	Safeguards Over Sensitive Technology	01-13-04		

REPORT NUMBER	TITLE	DATE OF ISSUE	SAVINGS	QUESTIONED COSTS
IG-0637	Electricity Transmission Scheduling at the Bonneville Power Administration	02-04-04		
IG-0638	Recovery of Highly Enriched Uranium Produced in the U.S. and Dispersed to Foreign Countries	02-09-04		
IG-0639	The Department's Audit Resolution Process	02-17-04		
IG-0640	Reestablishment of Enriched Uranium Operations at the Y-12 National Security Complex	02-24-04		
IG-0641	The Department's Basic Protective Force Training Program	03-12-04		
IG-0642	Depleted Uranium Hexafluoride Conversion	03-18-04	\$55,000,000	
IG-0643	Design of the Uranium Storage Facility at the Y-12 National Security Complex	03-19-04	\$28,600,000	
OAS-M-04-01	Management Controls Over Subcontract Administration at Argonne National Laboratory	03-12-04		
OAS-M-04-02	Management Controls Over Subcontract Administration by the National Renewable Energy Laboratory	03-19-04	\$24,000,000	
OAS-L-04-01	Resolution of Safety Deficiencies	10-03-03		
OAS-L-04-02	Waste Pits and Silos Remediation at the Fernald Closure Project	10-16-03		



REPORT NUMBER	TITLE	DATE OF ISSUE	SAVINGS	QUESTIONED COSTS
OAS-L-04-03	Accelerated Remediation of Tank Waste at Hanford	11-04-03		
OAS-L-04-04	U.S. Large Hadron Collider Program	11-07-03		
OAS-L-04-05	Controls Over Expenditures Within the Office of Secure Transportation	11-20-03	\$887,700	
OAS-L-04-06	Federal Managers' Financial Integrity Act Audit Report	12-05-03		
OAS-L-04-07	Facility Contractor Employee Assignments by Energy Efficiency and Renewable Energy	12-05-03		
OAS-L-04-08	Maintenance Activities at the Y-12 National Security Complex	01-22-04		
OAS-L-04-09	Department of Energy's Implementation of the Competitive Sourcing Initiative	01-21-04		
OAS-L-04-10	Safeguards and Security Program at the Rocky Flats Environmental Technology Site	01-30-04		
OAS-L-04-11	Requests for Equitable Adjustment at the Rocky Flats Environmental Technology Site	03-17-04		
OAS-L-04-12	Consolidation of Hanford's Surplus Plutonium-Bearing Material	03-26-04		

REPORT NUMBER	TITLE	DATE OF ISSUE	SAVINGS	QUESTIONED COSTS
OAS-V-04-01	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to BWXT Y-12, LLC Under Department of Energy Contract No. DE-AC05-00OR22800	11-12-03		\$200,500
OAS-V-04-02	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405-ENG-48	12-10-03		\$681,252
OAS-V-04-03	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Rocketdyne Propulsion and Power, Energy Technology Engineering Under Department of Energy Contract No. DE-AC03-76SF00700	03-02-04		\$18,093,195
OAS-FC-04-01	Princeton University's Employee Benefit Costs for Princeton Plasma Physics Laboratory Contract No. DE-AC02-76CH03073 Fiscal Years 1996 to 2002	10-06-03		\$105,865

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REPORT NUMBER	TITLE	DATE OF ISSUE	SAVINGS	QUESTIONED COSTS
OAS-FC-04-02	Interim Audit of Thomas Jefferson National Accelerator Facility Costs Claimed Under Contract DE-AC05-84ER40150 for Fiscal Years 2000 to 2002	10-14-03		\$4,621,619
OAS-FS-04-01	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2003	11-03-03		
OAS-FS-04-02	The Department of Energy's Consolidated Financial Statements	12-05-03		
OAS-FS-04-03	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2003	02-09-04		
OAS-FS-04-04	Federal Energy Regulatory Commission's Fiscal Year 2003 Financial Statement Audit	02-18-04		
OAS-FS-04-05	Department of Energy Isotope Program's Fiscal Year 2002 Financial Statement Audit	03-05-04		

# INSPECTION REPORTS ISSUED\*



OCTOBER 1, 2003, TO MARCH 31, 2004

REPORT NUMBER	TITLE	DATE OF ISSUE
IG-0625	Inspection Report on "Reporting of Security Incidents at the Lawrence Livermore National Laboratory"	11-04-03
IG-0628	Inspection Report on "Internal Controls Over Classified Computers and Classified Removable Media at the Lawrence Livermore National Laboratory"	12-04-03
IG-0633	Inspection Report on "The Security of Uranium Hexafluoride at the East Tennessee Technology Park (U)"	12-18-03
IG-0636	Inspection Report on "Protective Force Performance Test Improprieties"	01-23-04

\*Does not include non-public reports.

# AUDIT REPORT STATISTICS



OCTOBER 1, 2003, TO MARCH 31, 2004

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

	TOTAL NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS
Those issued before the reporting period for which no management decision has been made	4	\$4,436,951	\$84,241
Those issued during the reporting period	0	\$0	\$0
Those for which a management decision was made during the reporting period	1	\$1,257,530	\$0
Value of disallowed costs		\$0	\$0
Value of costs not disallowed		\$1,257,530	\$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	3	\$3,179,421	\$84,241

# AUDIT REPORT STATISTICS



OCTOBER 1, 2003, TO MARCH 31, 2004

	TOTAL NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS	TOTAL SAVINGS
Those issued before the reporting period for which no management decision has been made	10	\$3,700,287,284	\$70,113,550	\$3,770,400,834
Those issued during the reporting period	41	\$227,795,750	\$0	\$227,795,750
Those for which a management decision was made during the reporting period	24	\$336,602,555	\$0	\$336,602,555
<i>Agreed to by management</i>		\$152,000,000	\$0	\$152,000,000
<i>Not agreed to by management</i>		\$0	\$0	\$0
Those for which a management decision is not required	13	\$0	\$0	\$0
Those for which no management decision had been made at the end of the reporting period	14	\$3,776,083,034	\$70,113,550	\$3,846,196,584

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## REPORTS LACKING MANAGEMENT DECISION



The following are audit reports issued before the beginning of the reporting period for which no management decisions had been made by the end of the reporting period. The reasons management decisions had not been made and the estimated dates (where available) for achieving management decisions are also included. These audit reports are over 6 months old without a management decision. The Department has a system in place which tracks audit reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are addressed and effected as efficiently and expeditiously as possible.

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

**WR-C-95-01**

Independent Final Audit of Contract No. DE-AC34-RIRF00025, July 26, 1990, to March 31, 1993, Wackenhut Services, Inc., Golden, Colorado. March 14, 1999  
(Estimated date of closure: December 31, 2004)

**ER-C-97-01**

Report on Interim Audit of Costs Incurred Under Contract No. DE-AC24-92OR219721 from October 1, 1994, to September 30, 1995, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, December 20, 1996  
(Estimated date of closure: December 31, 2004)

**OAS-C-03-01**

Final Audit of Princeton University's Costs Claimed for National Aeronautics and Space Administration Contract NAS5-96021, November 18, 2002  
(Estimated date of closure: June 30, 2004)

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

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**CR-B-99-02**

Management of Unneeded Material and Chemicals,  
September 30, 1999

*Implementation/action plan and Management Decision brief to be provided to the Under Secretary for Energy, Science and Environment and the Under Secretary for Nuclear Security/Administrator for National Security Administration by June 30, 2004.*

**IG-0540**

Advanced Radioisotope Power Systems Program,  
January 14, 2002

*The finalization of the Management Decision is pending the resolution of complex issues. This is expected to occur by April 30, 2004.*

**IG-0545**

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

*The finalization of the Management Decision on this report with mandatory concurrence will be on April 2, 2004.*

**IG-0565**

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

*The finalization of the management decision on this report is pending the resolution of one outstanding legal issue. This should occur by December 31, 2004.*

**IG-0600**

Oversight Funds Provided to Local Governments in the State of Nevada,  
May 23, 2003

*The finalization of the management decision on this report is pending the resolution of legal issues. This should occur by December 31, 2004.*



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**IG-0608**

The Department of Energy's Spent Nuclear Fuel Canister and Transportation Casks,  
June 20, 2003

*The finalization of the management decision on this report is awaiting review and mandatory concurrence by the necessary Departmental Element. It is estimated that this will occur by June 30, 2004.*

**IG-0618**

Savannah River Site's Waste Solidification Building,  
September 4, 2003

*The finalization of the management decision on this report is being reviewed by the necessary Department Elements. This should occur by May 31, 2004.*

**IG-0619**

The Security Afforded Selected Tritium Reservoir Shipments (U),  
September 22, 2003

*The finalization of the management decision on this report is pending the resolution of a complex issue. This should occur by May 31, 2004.*

**MANAGEMENT DECISIONS WHERE FINAL ACTION HAS NOT BEEN COMPLETED WITHIN 12 MONTHS FROM THE AUDIT REPORTS DATE OF ISSUANCE**

The Department is currently revising its Audit Resolution and Follow-up program to provide for a more efficient and effective management review process. These revisions are designed to enhance the expeditious resolution of audit report findings and recommendations. Departmental officials and the Office of the Inspector General are continuing to work closely to ensure final action on management decisions are completed pursuant to section 5(a)(3) of the Inspector General Act of 1978 (5 USC App. 3 et. seq.).

# INVESTIGATIVE STATISTICS



OCTOBER 1, 2003, TO MARCH 31, 2004

Investigations open at the start of this reporting period	240
Investigations opened during this reporting period	46
Investigations closed during this reporting period	62
Investigations open at the end of this reporting period	224
Qui Tam investigations opened	1
Total open Qui Tam investigations as of 03/31/04	22
Multi-agency task force investigations opened	11
Total open multi-agency task force investigations as of 03/31/04	86
Investigative reports to prosecutors and Department management	14
Recommendations to management for positive change and other actions	28
Administrative discipline and other management actions	17
Suspensions/Debarment	9
Investigations referred for prosecution	18
Accepted*	18
Indictments	1
Criminal convictions	6
Pretrial diversions	4
Civil actions	4
Fines, settlements, recoveries**	\$7,479,559.09

\*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.

# INSPECTION STATISTICS



OCTOBER 1, 2003, TO MARCH 31, 2004

Inspections open at the start of this reporting period	63
Inspections opened during this reporting period	15
Inspections closed during this reporting period	11
Inspections open at the end of this reporting period	67
Reports issued (includes non-public reports)	9
Inspection Recommendations	
<i>Accepted this reporting period</i>	19
<i>Implemented this reporting period</i>	24
Complaints referred to Department management/others	98
<i>Referrals to Department management requesting a response for     OIG evaluation</i>	36

# HOTLINE STATISTICS

OCTOBER 1, 2003, TO MARCH 31, 2004

Hotline calls, e-mails, letters, and other complaints	516
Hotline calls, e-mails, letters, and other complaints predicated	185
Unresolved Hotline predications from previous reporting periods	17
Total Hotline predications	202
Hotline predications transferred to the Management Referral System	111
Hotline predications closed based upon preliminary OIG activity	81
Hotline predications pending disposition	10
Total predications processed	202

# FEEDBACK SHEET

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The contents of the March 2004 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:

United States Department of Energy  
Office of Inspector General (IG-1)  
Washington, D.C. 20585

ATTN: Jacqueline M. Becker

Name:

Daytime telephone number:

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