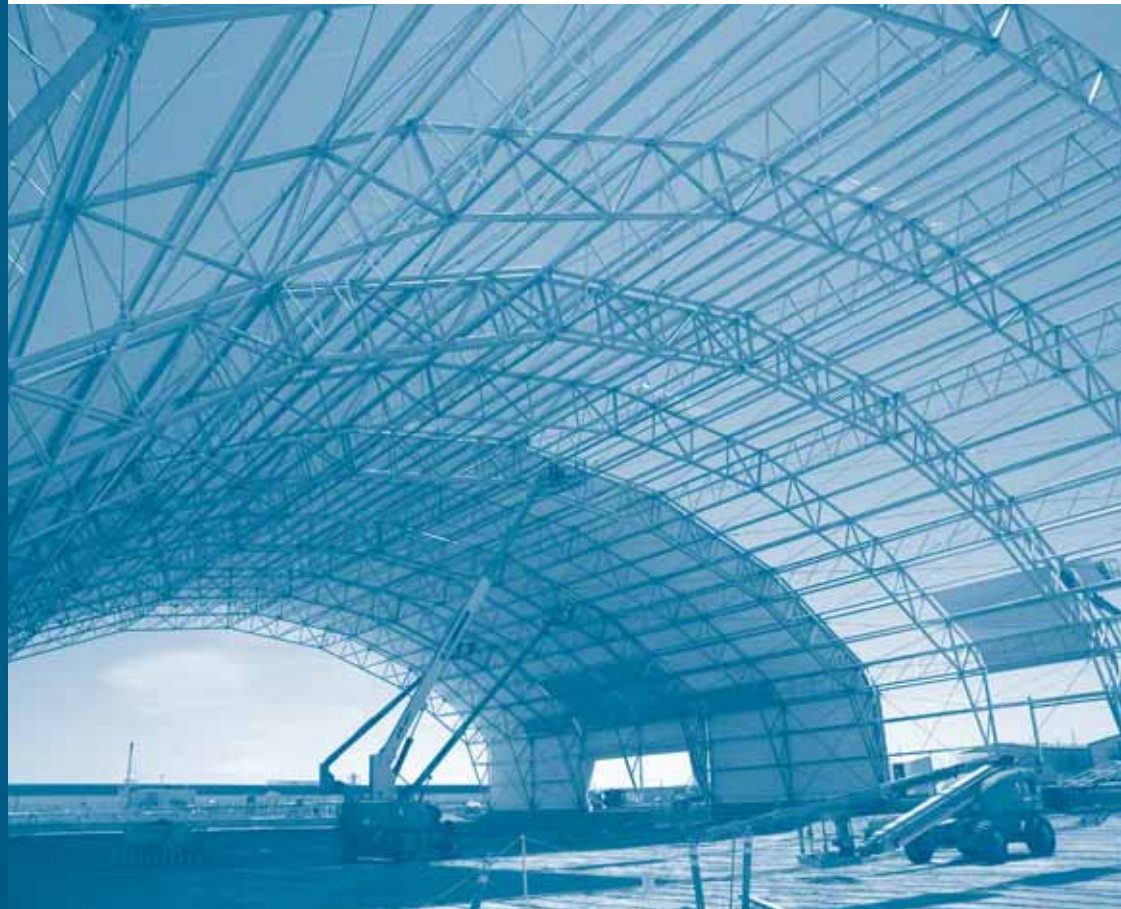
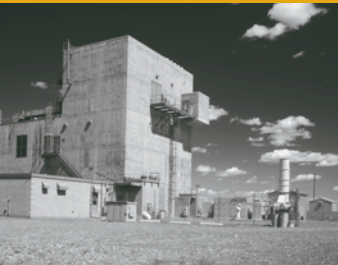


# INSPECTOR GENERAL

## *Semiannual Report to Congress*



U.S. Department of Energy • Office of Inspector General



DOE/IG-0040?

October 1, 2004 – March 31, 2005

## Front Cover

---

Workers install the exterior fabric liner over the steel frame structure at the Pit 4 Retrieval Enclosure Building in Idaho Falls, Idaho.

*From left to right:*

An evaporator, shown here at the Hanford site in Richland, Washington, evaporates water from radioactive liquid waste and crystallizes the chemical salts to form immobile solid wastes.

A cask at the Waste Encapsulation Storage Facility at the Hanford site is being re-assembled in preparation for long term storage.

The Fermi National Accelerator Laboratory is one of the world's foremost laboratories dedicated to high energy physics research. This building houses the administrative functions, offices and support facilities.

Operators use a push-pull device to remove a standard waste box from the waste transporter at the Waste Isolation Pilot Plant (WIPP) near Carlsbad, New Mexico.

A transuranic package transporter travels to the WIPP. The tractor-trailer and specialized containers are designed to safely transport radioactive waste to the WIPP.

---



**Department of Energy**  
Washington, DC 20585

April 28, 2005

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 6-month period ending March 31, 2005.

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 black ink that reads "Greg Friedman".

Gregory H. Friedman  
Inspector General

Enclosure





# Table of Contents

Inspector General’s Message . . . . .1

Significant Investigative Accomplishments . . . . .3

Management Challenges . . . . .7

    Contract Administration . . . . .7

    Environmental Cleanup . . . . .9

    Information Technology . . . . .11

    National Security . . . . .12

    Project Management . . . . .15

    Stockpile Stewardship . . . . .16

Other Significant Accomplishments . . . . .17

    Other Significant Work . . . . .17

    External Peer Review . . . . .19

    Congressional Responses . . . . .19

    Results . . . . .20

    Qui Tams . . . . .21

    Management Referral System . . . . .21

    Intelligence Activities . . . . .22

    Legislative and Regulatory Review . . . . .22

    Hotline System . . . . .22

    Reports Issued . . . . .23

    Statistical Information . . . . .29

This page intentionally left blank.

# Inspector General's Message

I am pleased to provide the Office of Inspector General's (OIG) *Semiannual Report to Congress* for the period ending March 31, 2005. This report, issued in accordance with the provisions of the Inspector General Act of 1978, as amended, highlights our most significant accomplishments in identifying areas of Department of Energy (Department) operations most vulnerable to waste, fraud, and mismanagement. Through our work, we strive to promote positive change by identifying opportunities for improvements in the performance and efficiency of the Department's programs and operations.

During this reporting period, we continued to make significant contributions to the Department's mission-related priorities. OIG audits, inspections, reviews and investigations identified opportunities for cost savings and operational efficiencies and also returned hard dollars to the Department and the U.S. Treasury as a result of civil penalties and criminal prosecutions. During this period, we referred 14 investigations for prosecution and recovered \$21,719,622 in fines and settlements. We also issued 39 audit and inspection reports containing recommendations

identifying over \$371 million in one time savings.



In the coming period, we will continue to promote positive change as we look forward to working with Secretary of Energy Samuel Wright Bodman and his team on our common objective of improving the performance of Departmental operations. In addition to our teaming efforts with the Department, I was recently appointed Vice Chair of the President's Council





on Integrity and Efficiency (PCIE). Established by Presidential Executive Order, the PCIE's mission is to coordinate and enhance Government initiatives to promote integrity and efficiency; promote efforts to detect and prevent fraud, waste and abuse; and, increase the professionalism and effectiveness of Federal Inspector General personnel. In my role as Vice Chair, I have learned that the work of the PCIE and its members has a far reaching effect throughout the Federal Government. It is my hope that our leadership role in the PCIE will only enhance our efforts to promote a more effective and efficient Department of Energy.

I am proud of the diligent work of all OIG employees and would like to express my appreciation for their continued commitment and dedication to serving the American taxpayers.

Gregory H. Friedman  
Inspector General





# Significant Investigative Accomplishments

This reporting period, the Office of Inspector General (OIG) has chosen to highlight some of the significant investigative accomplishments of this office (other investigative results are discussed throughout the report).

## **\$13 Million Settlement Resolves Allegations that a University Inappropriately Charged Expenses to the Department**

An OIG investigation determined that a university inappropriately charged expenses to the Department of Energy (Department). The university did not meet its cost matching requirements and charged unrelated administrative costs and other university project costs directly to a cooperative agreement held with the Department. As a result of the OIG investigation, the university agreed to repay \$11.5 million and forgo claims against the Department for another \$1.7 million. **(I03SR001)**

## **Two Subjects Sentenced for Fraud and Conspiracy**

As reported in a prior Semiannual Report, a joint investigation with the Federal Bureau of Investigation (FBI) that received significant Congressional and media attention determined that two former Los Alamos National Laboratory (LANL) employees purchased items with LANL funds for their personal use, including television sets, automobile parts, and barbecue grills. A Federal grand jury returned a 28-count indictment for fraud, conspiracy, theft of Government property, and making false statements to investigators. During this reporting period, one subject was sentenced to 1 year plus 1 day of confinement, 2 years supervised probation, \$39,401 restitution and a \$200 special assessment fee. The second subject was sentenced to 6 months confinement, 6 months of electronically monitored home detention, 2 years supervised probation, a \$30,000 fine, \$39,401 restitution, and a \$200 special assessment fee. **(I02AL017)**



## **\$2.9 Million Civil Settlement Agreement Reached Regarding Falsified Safety Tests for Cylinders Sold to Department Laboratories**

An OIG investigation determined that a Department contractor and its affiliated companies falsified test results and other services relating to compressed gas cylinders. The cylinders were used to store a variety of gases, including hydrogen, oxygen and natural gas. The contractor and its affiliated companies entered into a \$2.9 million civil settlement with the Department of Justice, Civil Division. The agreement followed an OIG investigation with other Federal law enforcement agencies of a *Qui Tam* complaint filed under the False Claims Act. (I03AL024)

### **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.**

## **\$1.9 Million Settlement Agreement Reached in Improper Cost Transfer Allegations**

An OIG investigation determined that a prime contractor improperly transferred costs between projects to cover cost overruns and allowed work to begin before funding was secured from other Federal agencies. The Department and the prime contractor finalized a \$1.9 million settlement agreement to resolve the allegations. (I95SR004)

## **Contractor Enters into a \$2.6 Million Settlement Agreement to Resolve Improper Travel Claims**

An OIG investigation determined that a prime contractor at the Savannah River site allowed employees to claim Long-Term Temporary Assignment per diem when they had effectively relocated their personal residences to the temporary assignment location. The investigation found that many prime contractor employees relocated themselves and their families to the temporary assignment duty stations, did not maintain residences in their prior permanent duty locations, and received travel per diem both at the temporary locations and when they made business trips back to their permanent duty stations. The OIG investigation resulted in a \$2.6 million settlement agreement between the Department and the prime contractor. (I97SR006)

## Vendor Sentenced for Paying a National Laboratory Employee for Bid Information

As previously reported, a joint investigation with the FBI determined that a contractor procurement official received approximately \$120,000 from two Lawrence Berkeley National Laboratory vendors in return for providing the vendors with confidential bid information. The procurement official pleaded guilty and was sentenced to 3 years probation and 6 months home confinement, ordered to pay \$120,000 in restitution, a \$50,000 criminal fine, and a \$100 special assessment fee. The procurement official was terminated from his position at the laboratory. During this reporting period, one of the vendors pleaded guilty in U.S. District Court, Northern District of California, to one count of Title 18 U.S.C. Section 201(c)(1)(A), Bribery of a Public Official, was sentenced to 3 years probation and \$1,100 in fines and fees, and was ordered to home confinement with electronic monitoring for 6 months. **(I02LL002)**

## Former Department Employee Pleads Guilty to Embezzling Funds

An OIG investigation determined that a Department employee, a member of the board that oversees the Department's Child Development Center, converted \$6,300 in Child Development Center funds to personal use. The subject, who resigned during the course of the investigation, fully reimbursed the Department. The subject pleaded guilty to one count of first degree theft, Title 22 of the District of Columbia Code, Sections 3211 and 3212(a). The subject was sentenced to 2 years supervised probation and was ordered to perform 50 hours of community service. **(I05HQ003)**

## Laboratory Physicist Sentenced for Two Counts of Theft

As previously reported, a joint investigation with the FBI determined that a physicist at Lawrence Livermore National Laboratory submitted duplicate time and attendance records and travel vouchers that resulted in a loss to the Government of nearly \$50,000. The subject pleaded guilty to two counts of Theft, Title 18 U.S.C. Section 641. During this reporting period, the subject was sentenced to 3 years probation, 6 months home confinement, \$49,600 restitution, a \$2,000 fine, and a \$200 court assessment fee. The Department is also considering suspension and debarment of the physicist. **(I02LL006)**



*Pacific Northwest National Laboratory*

## Laboratory's Award Fee Reduced for Duplicate Travel Reimbursements

An OIG investigation determined that a Department laboratory employee was reimbursed certain travel expenses from both the Pacific Northwest National Laboratory (PNNL) and other outside employment sources because the laboratory did not follow applicable reimbursement procedures. The investigation resulted in the employee repaying PNNL nearly \$1,100. The investigative results were also a factor in the Department's reduction of the laboratory's award fee by \$100,000. **(I01RL002)**



# Management Challenges

As required by the Reports Consolidation Act of 2000, the OIG annually identifies the most significant management and performance challenges facing the Department. Although the Department has taken significant positive steps to address the six management challenges identified last year, we continue to consider these challenges to be the most serious risks facing the Department:

## Internal Control Challenges

Contract Administration  
Information Technology  
Project Management

## Mission-Related Challenges

Environmental Cleanup  
National Security  
Stockpile Stewardship

## Contract Administration

### Contractor Home Office Expenses

An OIG audit found that the Department did not always ensure that reimbursements to contractors were limited to an equitable share of their home office expenses. Our review of five National laboratory contracts identified questionable fees, fixed payments, and/or home office expense reimbursements that were (1) potentially duplicative; (2) not adequately documented; (3) improperly calculated; and/or (4) for specifically unallowable items. As a result of the lack of adequate financial examination of home office expenses, we estimated that by the end of Fiscal Year (FY) 2005 the Department will have reimbursed two contractors about \$30 million for unallowable and inappropriate costs. We made recommendations intended to enhance oversight and recover overpayments. **(IG-0676)**



*Original Monticello Mill Site and associated tailing piles before site preparation begins*

### Restoration of the Monticello Mill Site at Monticello, Utah

An OIG audit disclosed that the Department's actions to monitor and control certain aspects of the Monticello Mill Site restoration project were not completely effective. Restoration was completed in August 2001, as required; however, since that date, the City of Monticello (Monticello) had not adequately maintained the

site and, as a result, significant erosion had occurred. While the Department took action to correct erosion problems that were of immediate concern, it did not ensure that Monticello used funds provided under the agreement for long-term maintenance. Our review questioned \$4.3 million Monticello was permitted to expend for public works projects unrelated to the restoration project. We concluded that the Department had not properly structured the cooperative agreement with Monticello nor had it required strict compliance with certain terms of the agreement. We recommended that the Department seek recovery of the funds spent for erosion control activities made on behalf of Monticello, and ensure that cooperative agreements used for future mill site restoration activities are more clearly structured and complied with so that the public interest is protected. **(IG-0665)**

## Gas Centrifuge Enrichment Plant Cleanup Project at Portsmouth

An OIG audit concluded that the Department will incur Gas Centrifuge Enrichment Plant Cleanup Project costs for activities not specifically related to cleanup of the Portsmouth site. We recommended the Department develop a comprehensive baseline containing required activities and supporting cost information for the project. **(IG-0678)**

## Transmission Capacity Inefficiencies at the Bonneville Power Administration



*Bonneville Power Administration's beautified special transmission structure near Hood River, Oregon*

An OIG audit found that the use of memo schedules by the Bonneville Power Administration (BPA) did not always provide for the efficient utilization of transmission capacity. During the 2-month period we examined, certain memo schedule customers either scheduled more megawatt hours of transmission than they used or used more than they scheduled. Customers were not scheduling accurately because BPA had not:

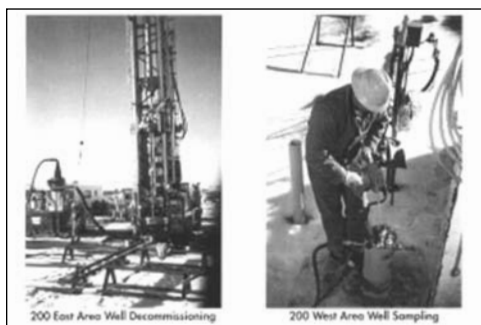
- Conducted a thorough examination of its contractual agreements to determine its authority to enforce more accurate estimates;
- Developed a mechanism to require customers to more accurately estimate their transmission needs;
- Implemented a formal tracking system to permit comparison of scheduled transmission to actual usage for memo customers; and,
- Charged customers for the non-firm transmission they scheduled but did not use.

Recommendations were made to help BPA ensure that its use of memo schedules provides for the most efficient use of transmission capacity. **(OAS-M-05-01)**

## Subject Convicted of Possessing Stolen Property Ordered to Pay Restitution

As previously reported, an OIG investigation determined that a former subcontractor employee possessed stolen property from the Department's Hanford site valued at approximately \$25,000. During this reporting period, the subject was ordered to pay \$5,000 in restitution to the Government to offset the costs of investigating the theft and recovering the stolen property. The former subcontractor employee was subsequently convicted in a Washington State county court, sentenced to 30 days in jail and 240 hours of community service, and assessed a variety of monetary penalties. (I02RL007)

## Environmental Cleanup



*Hanford Site - 200 East Area well decommissioning*

### Well Decommissioning Activities at the Hanford Site Need Improvement

An OIG audit disclosed that abandoned and unused wells at the Hanford site had not been decommissioned in a timely manner. Although Richland officials estimated that the site had the capability to decommission between 104 and 150 wells per year, only 146 wells were decommissioned in the 3-year period from

FY 2002 to 2004. Wells were not decommissioned promptly because Richland had not developed a comprehensive decommissioning plan that included (1) an inventory that described the type, age, condition, and location of all wells at the site; (2) a risk-based scheduling and prioritization; and, (3) an accurate estimate of funding and resources necessary to complete decommissioning activities. Our recommendations were designed to address each of these issues and to improve well decommissioning activities at Hanford. (IG-0670)

### Hanford's Chemical Separation Facilities

An OIG audit disclosed that the Department did not thoroughly evaluate the feasibility and potential cost savings associated with using one of Hanford's chemical separation facilities to dispose of mixed and low-activity waste. As a result, the Department may not realize

Public reports are available in full text on our website at [www.ig.doe.gov](http://www.ig.doe.gov)

savings of up to \$500 million. The audit report highlighted the importance of the Department's oversight of its contractors' activities to ensure that decisions are based on reasonable and accurate assumptions. As such, we recommended the Department ensure the Hanford study is based on complete and accurate data and that the results are adequately considered and reflected in the Department's Record of Decision. **(IG-0672)**



*Certified transuranic waste storage containers at the Los Alamos National Laboratory*

## Transuranic Waste Management at Los Alamos National Laboratory

An OIG audit concluded that the Department will not meet its commitments for removing transuranic waste from LANL. Based on current projections, the Department will not remove all high-risk waste until at least October 2005, about 10 months behind schedule. We also estimated that the Department is unlikely to remove the remaining legacy transuranic waste at the site until

at least 2014 - 4 years beyond the commitment date. Waste disposal commitments will not be met because LANL did not adhere to waste certification requirements and the Department did not provide the mobile waste processing equipment necessary for achieving the accelerated disposal commitments. Unless the Department accelerates processing rates and recovers schedule slippages, the total cost of completing the transuranic waste disposition project could increase by over \$70 million and take 4 years longer than planned. **(IG-0673)**

## The Department's Pollution Prevention Program

An OIG audit found that the Department had not maintained a completely effective pollution prevention program. In some cases, sites did not systematically research cost-effective opportunities to reduce waste generation or to increase recycling/reuse of materials. Additionally, sites did not always implement identified cost-effective measures to reduce pollution. We recommended that the Department conduct operational assessments, employ innovative funding strategies, develop performance measures, and hold managers accountable for implementation. **(IG-0680)**

## Fast Flux Test Reactor Deactivation, Decontamination, and Decommissioning

An OIG special report found that recent operating changes to the Fast Flux Test Facility (FFTF) shutdown project could impact the Department's existing project plan and acquisition strategy. Specifically, the final end state of the FFTF remains uncertain; the Environmental Protection Agency and the State of Washington have questioned the priority

of the decommissioning work on the facility; significant progress has been made on the deactivation work under the existing contractual arrangement, making the wisdom of transitioning to a new contractor problematic at this juncture; and, a number of key technical personnel have not transitioned to the new contractor as anticipated, raising obvious concerns about the skill mix of the prospective workforce. Each of these issues, we believe, should be thoroughly examined as part of a comprehensive re-evaluation of the Department's future plans to deactivate, decontaminate, and decommission the FFTE. **(IG-0683)**

## Information Technology

### Financial System Faces Continued Challenges

Successful implementation of the Standard Accounting and Reporting System is vital to the Department's ability to provide timely and accurate financial reports. An OIG follow-up audit report determined that although improvements had been made, significant issues remain that increase the risk that the Department may not be able to successfully deploy a fully capable system on schedule. In particular, we found that (1) two separate accounting systems must be used to produce the consolidated financial statements; (2) accelerated reporting schedules imposed by the Office of Management and Budget provide only limited time to correct implementation problems; and, (3) the burden of auditing two separate systems of controls will severely stress both accounting and audit resources. We recommended specific actions be taken to resolve testing, controls, and training issues. **(OAS-L-05-02)**

### Mobile Communications Services Not Optimized

An OIG audit found that the Department had only limited assurance that mobile communication devices and services were being used and managed in a cost-effective manner. At three of the eight sites visited, as much as \$1.13 million annually could be saved by adopting more efficient methods for the use and management of communication devices and services. In particular, the review noted opportunities for improvement at Headquarters, Lawrence Livermore National Laboratory and at the Y-12 National Security Complex. **(IG-0669)**

Public reports are available in full text on our website at [www.ig.doe.gov](http://www.ig.doe.gov)



## Hackers Guilty of Unauthorized Access to Government Computers

As previously reported, a joint OIG investigation with the FBI and other investigative agencies established that two individuals gained unauthorized access to multiple unclassified Government-owned computers, including two web servers at the Department's Sandia National Laboratory. The investigation determined that the hackers modified two webpages on Sandia's computer network. One subject pleaded guilty to a felony count of Title 18 U.S.C. Section 1030, Fraud and Related Activity in Connection with Computers. During this reporting period, the subject was sentenced by the U.S. District Court, District of Columbia, to 1 year home detention, 3 years probation, \$135,548 restitution, \$200 special assessment fee, and ordered not to access the Internet for 4 years. The second subject pleaded guilty in U.S. District Court, Northern District of California (Oakland Division), to five counts of Title 18 U.S.C. Section 1030 and will be sentenced at a later date. **(I02TC020)**

## Three Individuals Disciplined for Improperly Selling a Government-Owned Computer Code

An OIG investigation determined that four employees at Los Alamos National Laboratory were involved in the improper sales and distribution of a Department-owned computer code. As a result, the Department recovered \$22,278 and took disciplinary action against three of the individuals. **(I03AL009)**

## National Security

### Security and Other Issues Related to the Shipment of Classified Parts to the Waste Isolation Pilot Plant\*

An OIG inspection concluded that the shipment of unsanitized classified weapons parts and process equipment from the Rocky Flats Environmental Technology Site to the Waste Isolation Pilot Plant for disposal was not consistent with existing directives for the handling of this type of material and that some of the security provisions for the classified material were not consistent with Department security requirements. We made recommendations to management designed to enhance safeguards and security over the classified parts and equipment. **(IG-0679)**

*\*This inspection report is not publicly releasable and is not on our website because it contains information that is for OFFICIAL USE ONLY.*



*Train carrying shipment of foreign spent nuclear fuel*

## Measurement of Spent Nuclear Fuel Returned from Foreign Countries

An OIG inspection identified concerns with the measurement of spent nuclear fuel returned from foreign countries and the coordination with other agencies regarding the measurement of the fuel. We made recommendations to Department management to improve interagency communication. (INS-L-05-02)

## Unauthorized Handguns on the Nevada Test Site

An OIG inspection found that a Federal employee and a contractor employee violated Department policies and procedures when they brought Government and privately owned handguns onto the Nevada Test Site without authorization. Furthermore,

- The Federal employee took his personal weapon to the Test Site to have a contractor employee perform repairs on it, an apparent violation of the Federal Standards of Ethical Conduct for Employees of the Executive Branch.
- The Government handguns were signed out of a Department armory without following requirements for the issuance of firearms; they were passed among several individuals, including a private citizen, without following chain-of-custody requirements; and they were stored off-site without authorization.
- The Government handguns were from a group of Government firearms relocated from one Department armory to another without a determination as to which armory's policies and procedures would apply, which we believe resulted in a loss of weapon accountability, inconsistent with fundamental procedures for managing Federal arms inventories.

We made several recommendations that were intended to enhance safeguards and security and weapon controls, as well as to ensure appropriate action was taken with respect to the employees involved. (IG-0674)

## Employee Out-processing Procedures at LANL

An OIG inspection disclosed that more than 40 percent of the terminating employees in our sample did not follow LANL out-processing procedures. As a result, there was no assurance that, prior to departure, LANL terminating employees turned in security badges, completed the required Security Statement, or had their security clearances and access authorizations cancelled in a timely manner. Further, there was no assurance that

terminating employees accounted for classified holdings and personal property or cleared any outstanding financial obligations prior to departure. Subsequent to completion of our fieldwork, LANL revised its out-processing procedures to address some of the concerns raised during the inspection. We made several recommendations that were designed to further enhance safeguards and security and property controls at LANL. **(IG-0677)**

## **Department Review of Chemical and Biological Export License Applications**

Our inspection of the Department's process for reviewing chemical and biological export license applications concluded that the Department's license review process is appropriately assisting the Government in its efforts to deter the proliferation of chemical and biological commodities that could be used in weapons of mass destruction. However, we did find that some Department licensing officers were unable to effectively access the export license application database maintained by the Department of Commerce. We made recommendations aimed at enhancing the export control review process. **(IG-0682)**

## **Management of the Costs for the Department's Counterintelligence Inspection Program\***

An OIG inspection found that the mechanism used to procure support for the Department's counterintelligence inspection program was inconsistent with Department policy on purchasing by management and operating contractors. Further, in the report we expressed our concern that there appeared to be significant philosophical operating differences between officials of the Office of Counterintelligence and the Office of Defense Nuclear Counterintelligence. We believe that these inconsistencies have the potential to undermine the effectiveness of the Department's counterintelligence program. **(IG-0671)**

*\*This inspection report is not publicly releasable and is not on our website because it contains information that is for OFFICIAL USE ONLY.*

## Project Management

### Western Area Power Administration's Central Valley Project Transmission Services

An OIG audit found that the Western Area Power Administration (Western) was unable to furnish all planned transmission services to its Central Valley Project customers by January 2005. We noted that:

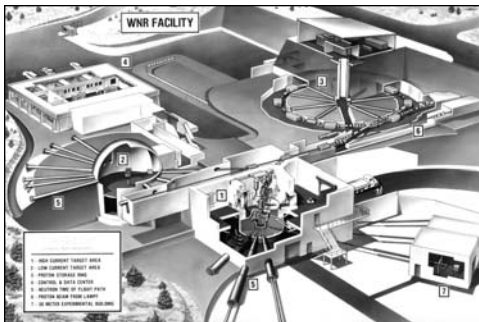
- A majority of critical project tasks were behind schedule, including those related to power billing, systems integration, and power scheduling; and,
- Western had not developed contingency plans to ensure continued operations in the event critical project tasks were not completed as scheduled.

As a result, Western will likely encounter billing and scheduling challenges and incur increased costs that may be passed on to its customers. We made several recommendations to improve project management and monitoring and address contingency planning. **(OAS-M-05-02)**

### Alternative Financing for Office and Support Facilities at Y-12

An OIG audit disclosed a number of challenges to the Department's implementation of alternative financing to acquire new office and support facilities at the Y-12 National Security Complex. We noted differences among the financial instruments supporting the alternative financing arrangement that need to be resolved in determining whether the lease can be funded on an annual basis with operating funds under the Office of Management and Budget's criteria for operating leases. Our review also disclosed that potential security issues posed by commercial office space being located in close proximity to secured areas may not have been adequately evaluated. We recommended that each of these issues be fully considered and resolved before the proposed transaction is finalized. **(OAS-M-05-03)**

## Stockpile Stewardship



*Cutaway drawing of the LANSCE complex*

### Los Alamos Neutron Science Center

An OIG audit determined that the Los Alamos Neutron Science Center's (LANSCE) ability to provide needed research capabilities in the future is uncertain. Increasing reliability problems coupled with the lack of a long-term plan detailing funding and mission priorities increased the risk that LANSCE may not be capable of operating effectively in the future. In particular, we observed that:

- Annual beam reliability has declined to 77 percent, which is 8 percent less than the standard for similar scientific facilities, and fell to a low of 44 percent in August 2003;
- Major components have become obsolete, are years beyond their expected service lives, and could cause a shutdown of up to 1 year while replacements are custom fabricated; and,
- Deferred maintenance has accumulated to over \$42 million.

We recommended that the Department determine whether LANSCE has a viable mission and, based on mission determination, develop plans to address upgrades and deferred maintenance issues or shut down the facility. **(IG-0666)**

### Subcontractor Sentenced for Submitting False Certifications on Government Contracts

An OIG investigation with other law enforcement agencies determined that over a 3-year period, a Department subcontractor submitted false certifications to various Government organizations in connection with heat treatment and quality testing of aluminum alloy parts. The aluminum was used at LANL to manufacture canisters to hold "pits" during the production of nuclear weapons. The Department subcontractor pleaded guilty in U.S. District Court, Central District of California, to seven counts in violation of Title 18 U.S.C. Section 1001, was sentenced to 2 years probation and was ordered to pay fines and restitutions valued at \$302,800. **(I02HQ021)**



# Other Significant Accomplishments

## Other Significant Work

### The Department of Energy's Fiscal Year 2004 Consolidated Financial Statements

For the sixth consecutive year, the Department received an unqualified 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 KPMG LLP accounting firm. KPMG concluded that the Department's consolidated financial statements, for the year ending September 30, 2004, present fairly, in all material respects, the financial position of the Department in conformity with generally accepted accounting principles. 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.

The audit disclosed that the Department met the challenges posed in the President's Management Agenda by improving financial reporting and successfully eliminating the previous year's reportable condition on performance measurement. Although the Department made considerable progress toward resolving the prior year's reportable condition in unclassified information system security, the audit revealed that the condition continues to exist. The Department has certain network vulnerabilities and general access control weaknesses that could put the integrity of financial system data at risk. The Department concurred with the audit findings and initiated or agreed to initiate specific corrective actions. The audit opinion will be printed in the Department's FY 2004 Performance and Accountability Report. **(OAS-FS-05-01)**

### Concerns Regarding Training at the Bonneville Power Administration and the Savannah River Operations Office

An OIG inspection identified employee training issues at the BPA and the Savannah River Operations Office (SRO). For example:

- At BPA, student employee training was not fully documented in the established management information system, as required by BPA procedures;
- SRO officials lacked adequate documentation to support the award of a sole-source contract for training;

- Training costs associated with the sole-source contract appeared excessive when compared to courses provided by local accredited universities; and,
- SRO officials did not have employees sign continued service agreements as required when a training activity exceeded 160 hours.

We made recommendations designed to enhance the Department's training program. **(IG-0668)**



*Department of Energy Headquarters at the James Forrestal facility in Washington, D.C.*

## Headquarters Purchase Card Practices

An OIG audit found that the Department's Headquarters purchase card program was not always administered in an efficient manner. Headquarters organizations did not take full advantage of the electronic system intended to streamline procurements, and purchase card controls were not sufficient to prevent or detect violation of policies. In addition, some cardholders had purchase limits that exceeded their

documented delegation of purchase authority; were not aligned with their demonstrated needs; or, should have been terminated because they were no longer needed. We made specific recommendations aimed at strengthening the Department's controls over Federal purchase card procurements. **(IG-0675)**

## Concerns Regarding a Non-Viable (Dead) Anthrax Spore Research Project at the Oak Ridge National Laboratory

An OIG inspection disclosed that a Guest Researcher at the Oak Ridge National Laboratory (ORNL) was working on an anthrax spore project at a site laboratory without authorization. We also found that (1) security reviews required to fully implement the Department's Integrated Safeguards and Security Management initiative at ORNL were not conducted for the anthrax spore project and certain other biological projects and (2) the anthrax spores were not adequately controlled and secured. We made recommendations to management intended to improve the security of research projects involving biological materials. **(IG-0681)**

Public reports are available in full text on our website at [www.ig.doe.gov](http://www.ig.doe.gov)

## Oak Ridge Operations Office Purchase Card Transactions

An OIG inspection concluded that the Oak Ridge Operations Office's (ORO) internal controls regarding the purchase card program could be improved. We found two purchases by a Government purchase cardholder that may have been unauthorized. We also identified examples of non-compliance with ORO purchase card guidelines. (INS-L-05-03)



*OIG senior staff with Mr. Orowe - seated, center*

## Senior Staff Briefs Government Official from the Republic of Kenya

On March 7, 2005, our senior staff presented a briefing on the history and function of the President's Council on Integrity and Efficiency to Mr. Lawrence Orowe, a key Government official from the Republic of Kenya. Mr. Orowe, the law and policy advisor to the Permanent Secretary in the Department of Governance and Ethics, was

invited to the United States under the auspices of the State Department's International Visitor Leadership Program. We provided Mr. Orowe an overview of the activities of the President's Council on Integrity and Efficiency, of which the Inspector General is the Vice Chair, and of the operations of the Department of Energy. Mr. Orowe expressed special interest in the operation of the OIG's investigative function.

## External Peer Review

A provision of the Homeland Security Act of 2002 amended the Inspector General Act of 1978 to grant statutory law enforcement authority to all Inspectors General appointed by the President. This legislation required periodic peer reviews of the offices' investigative functions. During this reporting period, the Department of Education, Office of Inspector General, completed the first peer review of the Department of Energy's Office of Investigations and issued a report which concluded that the Office of Investigations was in full compliance with applicable quality standards.

## Congressional Responses

During this reporting period, the OIG received 10 requests for information from Congress, provided information in 14 instances, and briefed Committee staff on 4 occasions.



# Results

## Highlights of Positive Results 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:

- Management improved its monitoring of the Waste-Management Education and Research Consortium Project by defining roles and responsibilities for monitoring the project and by requiring the consortium members to submit invoices that align with cost information set forth in the annual budget proposals;
- The Department instituted a more rigorous process for measuring performance, including establishing the Program Analysis and Evaluation Group and implementing the Joule tracking system to perform quarterly monitoring of the Department's performance;
- The Standard Accounting and Reporting System Project Team commenced end-to-end integration testing and strengthened application security to address some of the challenges facing the Department in its implementation of a new financial system;
- The Department took actions to ensure computer systems are certified and accredited as secure for operation by identifying cyber security weaknesses in the Plan of Actions and Milestones database and by verifying that weaknesses are corrected before being closed;
- The Bonneville Power Administration re-evaluated its automated electricity scheduling system options and selected a system that is now expected to meet its future transmission scheduling needs;
- The Department issued its interim final rule on processing allegations of research misconduct; and,
- The Department negotiated a buyout of the BNFL contract to design, construct and operate the Advanced Mixed Waste Treatment Facility in Idaho aided by the contract deficiencies, as well as operational and performance problems we identified in previous audit reports.

## 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 23 *Qui Tam* lawsuits involving alleged fraud against the Government in the amount of approximately \$250 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.

### 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 actions.

The OIG referred 93 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 39 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:

- Alleged incidents of accidental discharge of firearms during security guard training at a Department site were reported. The Department site office conducted a review and found that, although the contractor had taken appropriate actions in each incident, 50 additional corrective actions needed to be implemented relating to administrative and engineering controls as well as changes in management and training to preclude such incidents in the future;
- It was reported that maintenance personnel at a Department site were allegedly exposed to asbestos while repairing a door. The management and operating contractor at the site conducted an investigation into the root causes of the incident and provided a corrective action plan to prevent a recurrence. The cognizant Department operations office is monitoring the contractor’s implementation of the plan;

- Incidents of alleged “reverse discrimination” by contractor management at a Department site were reported. The program office’s investigation did not find evidence of reverse discrimination, but did find systemic weaknesses related to management culture, training, and oversight. The contractor’s General Manager is implementing recommended changes that the Department site and program offices are monitoring closely;
- A supervisor at a Department site was alleged to have engaged in acts that placed protective force officers under his command unnecessarily at risk. An investigation into this matter resulted in disciplinary action against the supervisor. He received a corrective action plan to improve his leadership performance and relationship skills; and,
- A Department program office was alleged to be misclassifying many of its non-technical positions and creating overlapping or duplicative functions and responsibilities. A preliminary review by the Department’s Office of Human Capital Management found support for the allegation, and the program office was alerted to the findings. In the future, the Office of Human Capital Management will continue a random review of program office positions followed by a full review including desk audits and appropriate corrective actions.

## Intelligence Activities

The OIG issued two quarterly report(s) 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 Order 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 34 legislative and regulatory items during the reporting period.

## 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, 882 complaints were processed. The OIG Hotline System can be reached by calling 1-800-541-1625 or 1-202-586-4073.



# Reports Issued

Audit Reports Issued – October 1, 2004, to March 31, 2005

Report Number	Title	Date of Issue	Savings	Questioned Costs
IG-0665	<i>Restoration of the Monticello Mill Site at Monticello, Utah</i>	10-28-04		\$4,300,000
IG-0666	<i>The Los Alamos Neutron Science Center</i>	11-30-04	\$90,000,000	
IG-0667	<i>Management Challenges at the Department of Energy</i>	11-30-04		
IG-0669	<i>Use and Management of Mobile Communications Services</i>	12-14-04	\$1,130,000	
IG-0670	<i>Well Decommissioning Activities at the Hanford Site</i>	01-03-05		
IG-0672	<i>Department of Energy Efforts to Dispose of Hanford's Chemical Separation Facilities</i>	02-03-05		
IG-0673	<i>Transuranic Waste Management at Los Alamos National Laboratory</i>	02-10-05	\$72,000,000	
IG-0675	<i>The Department's Federal Purchase Card Program at Headquarters</i>	02-11-05		
IG-0676	<i>Department of Energy Contractor Home Office Expenses</i>	02-14-05	\$29,000,000	\$955,000
IG-0678	<i>Gas Centrifuge Enrichment Plant Cleanup Project at Portsmouth</i>	03-10-05	\$33,000,000	
IG-0680	<i>The Department's Pollution Prevention Program</i>	03-17-05	\$44,800,000	
IG-0683	<i>Fast Flux Test Reactor: Re-evaluation of the Department's Approach to Deactivation, Decontamination, and Decommissioning</i>	03-29-05		

<b>Report Number</b>	<b>Title</b>	<b>Date of Issue</b>	<b>Savings</b>	<b>Questioned Costs</b>
OAS-M-05-01	<i>Management Controls over Transmission Scheduling and Usage for Memo Schedule Customers of the Bonneville Power Administration</i>	01-25-05		
OAS-M-05-02	<i>Management Controls over Western Area Power Administration's Central Valley Project Transmission Services</i>	02-14-05	\$659,000	
OAS-M-05-03	<i>Management Controls over Alternative Financing for Office and Support Facilities at Y-12</i>	03-08-05		
OAS-L-05-01	<i>Federal Managers' Financial Integrity Act Audit Report</i>	12-10-04		
OAS-L-05-02	<i>I-MANAGE STARS Implementation</i>	01-11-05		
OAS-L-05-03	<i>Office of Science Security Procedures</i>	02-18-05		
OAS-L-05-04	<i>Review of the Department's Controls over Services Acquired through Memoranda of Agreement with Other Federal Agencies and Blanket Purchase Agreements</i>	03-31-05		
OAS-L-05-05	<i>Spallation Neutron Source Project</i>	03-30-05		
OAS-V-05-01	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lawrence Berkeley National Laboratory Under Department of Energy Contract No. DE-AC03-76SF00098</i>	10-21-04		

<b>Report Number</b>	<b>Title</b>	<b>Date of Issue</b>	<b>Savings</b>	<b>Questioned Costs</b>
OAS-V-05-02	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405-ENG-48</i>	01-28-05		
OAS-V-05-03	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel SAIC Company, LLC Under Department of Energy Contract Numbers DE-AC08-01NV12101, DE-AC08-01RW12101, and DE-AC28-01RW12101</i>	01-31-05		\$95,707,785
OAS-V-05-04	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel Bettis, Inc. Bettis Atomic Power Laboratory Under Department of Energy Contract No. DE-AC11-98PN38206</i>	03-15-05		
OAS-V-05-05	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Lockheed Martin Corporation Knolls Atomic Power Laboratory Under Department of Energy Contract No. DE-AC12-00SN39357</i>	03-15-05		

<b>Report Number</b>	<b>Title</b>	<b>Date of Issue</b>	<b>Savings</b>	<b>Questioned Costs</b>
OAS-FS-05-01	<i>Department of Energy's Fiscal Year 2004 Consolidated Financial Statements</i>	11-9-04		
OAS-FS-05-02	<i>Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statement for Fiscal Year 2004</i>	11-30-04		
OAS-FS-05-03	<i>Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2004</i>	01-13-05		
OAS-FS-05-04	<i>Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2004 Financial Statement Audit</i>	02-17-05		

## Inspection Reports Issued – October 1, 2004, to March 31, 2005

Report Number	Title	Date of Issue
INS-L-05-01	<i>Portable Information Technology Security at Selected Department of Energy Facilities</i>	11-23-04
IG-0668	<i>Concerns Regarding Academic Programs at the Bonneville Power Administration and the Savannah River Operations Office</i>	12-08-04
INS-L-05-02*	<i>Measurement of Spent Nuclear Fuel Returned from Foreign Countries (UCNI)</i>	01-05-05
IG-671**	<i>Concerns Regarding the Department of Energy's Counterintelligence Inspection Program (OUO)</i>	01-18-05
IG-0674	<i>Unauthorized Handguns on the Nevada Test Site</i>	02-11-05
IG-0677	<i>Security and Other Issues Related to Out-Processing of Employees at Los Alamos National Laboratory</i>	02-22-05
IG-0679**	<i>Security and Other Issues Related to the Shipment of Classified Parts to the Waste Isolation Pilot Plant (OUO)</i>	03-10-05
IG-0681	<i>Concerns Regarding a Non-Viable (Dead) 'Anthrax Spore' Research Project at the Oak Ridge National Laboratory</i>	03-24-05
IG-0682	<i>The Department of Energy's Review of Chemical and Biological Export License Applications</i>	03-24-05
INS-L-05-03	<i>Oak Ridge Operations Office Purchase Card Transactions</i>	03-24-05

\*Report is not available on the OIG's website because it contains Unclassified Controlled Nuclear Information (UCNI).

\*\*Report is not available on the OIG's website because it contains information that is for Official Use Only (OUO).



This page intentionally left blank.



# Statistical Information

## Audit Report Statistics – October 1, 2004, to March 31, 2005

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

	<b>Total Number</b>	<b>One Time Savings</b>	<b>Recurring Savings</b>	<b>Total Savings</b>
Those issued before the reporting period for which no management decision has been made*	7	\$1,406,635,840	\$34,000,000	\$1,440,635,840
Those issued during the reporting period	29	\$371,551,785	\$0	\$371,551,785
Those for which a management decision was made during the reporting period*	19	\$589,089,770	\$28,000,000	\$617,089,770
Agreed to by management		\$182,788,100	\$6,000,000	\$188,788,100
Not agreed by management		\$30,179,885	\$22,000,000	\$52,179,885
Those for which a management decision is not required	13	\$0	\$0	\$0
Those for which no management decision has been made at the end of the reporting period	4	\$1,565,219,640	\$6,000,000	\$1,571,219,640

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

## Audit Report Statistics – October 1, 2004, to March 31, 2005

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	1	\$151,354	\$0
Those issued during the reporting period	0	\$0	\$0
Those for which a management decision was made during the reporting period	0	\$0	\$0
Value of disallowed costs		\$0	\$0
Value of costs not disallowed		\$0	\$0
Those for which a management decision is not required	0	\$0	\$0
Those for which no management decision has been made at the end of the reporting period	1	\$151,354	\$0

### Reports Lacking Management Decision

The Department 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 audit reports over 6 months old that were issued before the beginning of the reporting period and 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.

#### ■ Contract Audits

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* - The finalization of the management decision for this contract

report is pending the completion of analyses and other actions required to support the Contracting Officer's final determination on the settlement of questioned costs. The estimated closure date is December 31, 2005.

#### ■ Management Audits

CR-B-99-02: *Management of Unneeded Materials and Chemicals*, September 30, 1999 - The finalization of the management decision for this report is awaiting review and concurrence by the necessary Departmental Elements. This should occur by June 30, 2005.

IG-0565: *Salt Processing Project at the Savannah River Site*, August 27, 2002 - The finalization of the management decision for this report is pending the completion and approval of the determination for salt waste disposal, in accordance with Section 3116 of the National Defense Authorization Act for Fiscal Year 2005. This determination should occur by September 30, 2005.

### Prior Significant Recommendations Not Implemented

As of March 2005, closure actions on recommendations in 33 OIG reports had not been fully implemented within 12 months from the date of report issuance. This includes actions on 30 operational, performance, and financial reports and 3 contract reports. 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 undertaken a series of initiatives to strengthen its process for addressing recommendations in OIG reports and closed 203 recommendations in the last 6 months. Management updates the Department's Audit Reporting and Tracking System on a quarterly basis, most recently in March 2005. Information on the status of any report recommendation can be obtained through the OIG's Office of Audit Services and Office of Inspections and Special Inquiries.

## Inspection Statistics – October 1, 2004, to March 31, 2005

Inspections/Special Inquiries open at the start of this reporting period	63
Inspections/Special Inquiries opened during this reporting period	23
Inspections/Special Inquiries closed during this reporting period	12
Inspections open at the end of this reporting period	74
Reports issued (includes non-public reports)	14
Report Recommendations*	
<i>Issued this reporting period</i>	39
<i>Accepted by management this reporting period</i>	37
<i>Implemented by management this reporting period</i>	28
Complaints referred to Department management/others	93
<i>Referrals to Department management requesting a response for OIG evaluation</i>	39

\*Includes non-public report recommendations

## Hotline Statistics – October 1, 2004, to March 31, 2005

Hotline calls, e-mails, letters, and other complaints	547*
Hotline calls, e-mails, letters, and other complaints predicated	202
Unresolved Hotline predications from previous reporting period	6
<i>Total Hotline predications</i>	208
Hotline predications transferred to the Management Referral System	95
Hotline predications closed based upon preliminary OIG activity	85
Hotline predications pending disposition	28
<i>Total predications processed</i>	208

\*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.

## Investigative Statistics – October 1, 2004, to March 31, 2005

Investigations open at the start of this reporting period	239
Investigations opened during this reporting period	52
Investigations closed during this reporting period	44
Investigations open at the end of this reporting period	247
<i>Qui Tam</i> investigations opened	3
<i>Total open Qui Tam investigations as of 3/31/05</i>	23
Multi-agency task force investigations opened	16
<i>Total open multi-agency task force investigations as of 3/31/05</i>	105
Investigative reports to prosecutors and Department management	5
Recommendations to management for positive change and other actions	18
Administrative discipline and other management actions	21
Suspensions/Debarments	3
Investigations referred for prosecution	14
<i>Accepted*</i>	14
<i>Indictments</i>	10
<i>Criminal convictions</i>	6
<i>Pretrial diversions</i>	0
<i>Civil actions</i>	4
Fines, settlements, recoveries**	\$21,719,622

\*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 2005 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: Debbie Solmonson**

Name: \_\_\_\_\_

Daytime Telephone Number: \_\_\_\_\_

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