DOE/IG-0023

United States
Department of Energy

Office of Inspector General

Semiannual Report to Congress

April 1, 2001, to September 30, 2001

Department of Energy
Washington, DC 20585

October 29, 2001

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

Dear Secretary Abraham:

I am pleased to submit the Office of Inspector General's (OIG) Semiannual report to Congress. The report summarizes significant OIG activities and accomplishments during the 6-month period ending September 30, 2001. The Inspector General Act, as amended, requires you to forward the report to the appropriate congressional oversight committees within 30 days of your receipt of this report.

This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to the Administration, the Department, 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,

Greg Friedman

Gregory H. Friedman
Inspector General

Enclosure

Printed with soy ink on recycled paper

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Inspector General's Message

Gregory H. Friedman
Inspector General

On behalf of my colleagues in the Department of Energy's (Department) Office of Inspector General (OIG), we are greatly saddened by the tragic events of September 11, 2001, and thereafter, and we join the President, the Secretary, Members of Congress, and the Nation in expressing our sincere sympathy to the victims and to their families. We also commend the heroic efforts of all who risked their lives for the sake of others during the terrible series of events.

A number of persons from the ranks of the Inspector General community have been impacted by this tragedy and many are also helping in ways too numerous to mention here. The day after these events, our office received a request from the Federal Bureau of Investigation's National Infrastructure Protection Center to assist in coordinating certain aspects of the Federal law enforcement and counterintelligence efforts relative to the terrorist attacks. We immediately provided the services of OIG personnel to work full-time on this challenge. We also assigned staff to the Federal Aviation Administration's Air Marshal Program.

I am proud to be associated with people who are participating in addressing this national challenge, and our office remains committed to assisting the Department's efforts during a most difficult time.

At the same time, and consistent with the President's admonitions, the other work of Government will and must go on. Thus, for the semiannual reporting period ending September 30, 2001, we continued to assist the Department in meeting its management challenges associated with its programs and operations considered to be most vulnerable to waste, fraud, and abuse. Of significant importance are the information technology and security challenges. During this reporting period, we performed evaluation and audit work involving the Department's unclassified and classified information systems security, in conformance with the Government Information Security Reform Act of 2001 (GISRA), and found that:

Additional information on the OIG, including the full text of its public reports and Department management's comments, can be found on the OIG website – www.ig.doe.gov.

- While the Department had made improvements in its unclassified cyber security program, the program did not adequately protect data and information systems as required by the GISRA. Specifically, we found problems with security program planning and management, including problems with risk management, contingency planning, computer incident reporting, and training management. We believe these weaknesses increase the risk that critical systems, a number of which enable delivery of essential services to members of the public and other Federal agencies, could be compromised or disabled by malicious and unauthorized users. Further, the OIG's audit of the Office of Independent Oversight and Performance Assurance's (OA) evaluation of classified information systems was performed as required by GISRA. Overall the Department's evaluation of classified information systems was performed as required by GISRA. However, we were unable to complete verification procedures and determine whether all requirements had been satisfied because OA's documentation to support past evaluations was not always available. In addition, we were unable to determine whether all evaluation requirements had been satisfied because policies and procedures to govern the conduct of cyber security reviews had not been finalized.

We also completed a review of the Department's virus protection strategy and cyber security incident reporting methods:

- The Clinger-Cohen Act and Federal regulations require the Department to establish a comprehensive cyber security program that includes a robust virus protection strategy and an incident response capability designed to identify the Department's overall cyber security threat. An OIG audit found that the Department had not developed and implemented an effective enterprise-wide strategy for virus protection and cyber security incident reporting. As a result, the Department spent over $3.8 million annually for computer incident response capability that cannot adequately assess the threat throughout the Department.

efficiency

In addition, the OIG assisted the Department's senior management and the Congress by identifying opportunities for improving program performance and accountability. Recent examples include:

- Highlighting the importance of fully implementing the Government Performance and Results Act of 1993 by identifying, in a response to a request from the Chairman, Committee on Government Reform, U.S. House of Representatives, the 10 most significant performance measures contained in the Department's accountability report. We also identified the extent to which the data or information underlying the measures are valid and accurate.

- Briefing the Secretary of Energy on OIG reviews that presented opportunities for cost savings in the Department's Environmental Management programs. One OIG audit found that the Department's cleanup at its Miamisburg, Ohio, facility is 4 years behind schedule and $500 million over budget. Also, citing a 1999 OIG report, the Chairman of the House Energy and Commerce Committee's Subcommittee on Oversight and Investigations requested a comprehensive General Accounting Office review of the environmental compliance agreements to which the Department is a party. The 1999 report concluded that the Department could save $66 million by deferring processing of 3,100 cubic meters of waste until a new Treatment Facility was operational.

- Assisting in the recovery of over $8 million, $3.8 million of which will be returned to the Department as a result of a false claims investigation of a major engineering and construction contractor.

- Issuing a report summarizing a body of OIG work evaluating the Department's progress in implementing the Clinger-Cohen Act and other information technology (IT) requirements, thereby helping to ensure that the Department's IT architecture is corporate, coherent, and cost-effective.

- Recommending that the Department develop and implement a comprehensive, multi-year workforce-planning program, including performance measures, that emphasizes the aggressive and creative use of available human resource tools to attract and retain a highly skilled scientific and technical workforce. These recommendations are complementary to the Office of Management and Budget's (OMB) bulletin on workforce planning and restructuring and the Department's response to OMB.

- Recommending that the Department reconsider building a Plutonium Immobilization Plant at Savannah River and analyze the use of existing site facilities. The overall cost savings associated with an alternative approach could be in excess of $650 million.

We look forward to continuing to be of service on matters of importance to the Department.

effectiveness

The OIG's work focuses on major challenges it has identified as most vulnerable to fraud, waste, and mismanagement in Department programs and operations, including the National Nuclear Security Administration (NNSA). Since 1997, the OIG has provided the Secretary and Congress with an annual assessment of the most significant management challenges confronting the Department. For Fiscal Year (FY) 2001, the challenges were:

- ***Information Technology;***
- ***Human Capital;***
- ***Security;***
- ***Environmental Remediation/Safety and Health;***
- ***Effective Establishment of the NNSA;***
- ***Contract Administration;***
- ***Energy Supply/Demand Technology; and,***
- ***Property Controls and Asset Inventories.***

■ Information Technology (IT)

Did you know?

Federal agencies invest more than $40 billion in IT to support some 26,000 information systems.

Source: Budget of the United States Government, Fiscal Year 2002

The Department spends an estimated $1.4 billion annually on IT. It is essential that the Department develop and implement an effective IT management, investment and control process. Since 1996, OIG reports have identified numerous weaknesses in the Department's implementation of the Clinger-Cohen Act of 1996 and in the management of its $1.4 billion annual IT expenditures. Several reviews completed during this semiannual reporting period recommended ways to improve the integrity and management of the Department's IT activities, as required by the Clinger-Cohen Act.

The Department's Efforts to Implement the Clinger-Cohen Act Have Not Achieved Expected Results

To enhance the management and control of IT, Congress passed the Clinger-Cohen Act requiring Federal Agencies to appoint a Chief Information Officer (CIO) to manage IT investments and to adopt a performance-and-results-based management approach to acquiring, using, and disposing of IT. The OIG issued a special report highlighting problems that have been identified and reported over time with the Department's implementation of the Clinger-Cohen Act.

The audit found that while the Department has taken action to address certain IT-related management problems, it has not been completely successful in implementing the requirements of the Clinger-Cohen Act. Since the passage of the Clinger-Cohen Act, the OIG had issued 13 IT-related reports that identified problems associated with meeting the requirements of the Clinger-Cohen Act. Cumulatively, these reports demonstrate systemic problems with the Department's approach to IT management and its method of addressing requirements of the Clinger-Cohen Act. Specifically, the Department has not satisfied major requirements of the Clinger-Cohen Act to: (1) develop and implement an integrated, enterprise-wide, IT architecture; (2) closely monitor policy implementation efforts; and (3) acquire IT-related assets in an effective and efficient manner. Factors such as a decentralized approach to IT management, the organizational placement of the CIO, and the lack of an IT baseline may have contributed to these problems and impacted the Department's ability to satisfy the Clinger-Cohen Act's requirements. As pointed out in OIG reports, potential operational efficiencies and savings totaling more than $100 million were possible through better implementation of Clinger-Cohen Act requirements.

The OIG made a series of recommendations designed to improve Clinger-Cohen Act implementation efforts and the overall management of the IT program. Department management agreed with two of the OIG recommendations. However, it did not agree with the OIG's primary recommendations to realign the Office of the CIO to report to the Head of the Agency and to provide the office with greater oversight authority. As of October 2001, the Department changed its position and agreed to implement all of the OIG's recommendations. (IG-0507)

The Department's Virus Protection Strategies and Cyber Security Incident Reporting Need Improvement

The Clinger-Cohen Act and Federal regulations require the Department to establish a comprehensive cyber security program that includes a robust virus protection strategy and an incident response capability to identify its overall cyber security threat. An OIG audit found that the Department's virus protection strategies and cyber security incident reporting methods did not adequately protect information systems from damage by viruses and did not provide sufficient information needed to manage its network intrusion threat. For example, site virus protection strategies were not consistent with best practices and varied widely in levels of coverage and effectiveness. Additionally, the Department was unable to accumulate sufficient information necessary to manage its network intrusion threat and risked compromising evidence of computer crimes because little or no information was being reported regarding cyber security incidents. These problems existed because the Department had not developed and implemented an effective enterprise-wide strategy for virus protection and cyber security incident reporting. As a result, the Department spent over $3.8 million annually for computer incident response capability that cannot adequately assess the threat experienced throughout the Department.

The OIG made a number of recommendations designed to improve the effectiveness of the Department's virus protection strategy and cyber security incident reporting programs. Department management agreed to develop policy and establish specific performance goals to measure the effectiveness of policy implementation. Management also agreed to investigate the viability of a centrally managed procurement for virus protection software. (IG-0500)

The Acquisition of Information Technology Support Services Not Being Effectively Managed

The OIG performed an audit to determine whether the Department had a comprehensive framework for the acquisition of IT support services.

The audit found that the Department did not have a comprehensive framework for acquiring IT support services. Despite CIO sponsored initiatives, the Department was not effectively managing the acquisition of IT support services. For example, Headquarters and field elements routinely resorted to open-market procurements without formally

effectiveness

considering the use of existing Federal contracts. When existing contracts were used, Headquarters program elements did not coordinate or consolidate requirements and issued 58 separate task orders against a single contract for the same or similar services. Despite Clinger-Cohen Act requirements, the Department did not require organizations to use existing Federal contracts or to consolidate acquisitions when acquiring IT support services. As a result, for Headquarters program offices alone, annual costs were at least $16 million more than similarly sized Federal agencies. Departmentwide savings of as much as $44 million may be possible by adopting an enterprise-wide approach to acquiring IT support services.

The OIG recommended that the Acting CIO, in conjunction with Lead Program Secretarial Officers and the CIOs' Council: (1) develop and implement an acquisition framework for IT support services; and (2) develop performance measures including a Departmentwide benchmark for IT support costs and routinely monitor performance against the benchmark. Department management concurred in principle with the OIG recommendations. Certain program officials believed that sufficient credit was not given in instances where existing contracts were used or for efforts to consolidate requirements. Nevertheless, management agreed to develop a plan to address the OIG recommendations. (IG-0516)

Corporate-level Information Technology System Does Not Fully Satisfy Management Information Needs

To support the Department's environmental remediation mission, the Office of Environmental Management (EM) developed a corporate-level project system known as the Integrated Planning, Accountability, and Budgeting System-Information System (IPABS-IS). The system, coupled with the EM Corporate Database, was to provide a centralized means to collect, store, and report program information. The OIG conducted an audit to determine whether the IPABS-IS satisfied IT architecture requirements and was meeting users' information needs and Department goals.

The audit found that IPABS-IS was not integrated into the Department's Corporate Systems Information Architecture and did not fully satisfy Department goals and meet users' information needs. Despite prior attempts at developing and operating a corporate-level information system solution, the Department did not integrate this system's development into its IT architecture project. As a consequence, there were project management and security weaknesses in the development and operation of IPABS-IS that impacted its ability to satisfy Department goals and meet users' information needs. The Clinger-Cohen Act and OMB directives required that agencies maximize the value of IT investments by monitoring and integrating development into an agency-wide IT architecture. Contrary to these requirements, the Department did not actively manage or closely monitor the system's development. As a result, EM spent about $6 million for a corporate-level information system solution that does not fully satisfy management information needs and may not achieve the Department's architecture goals. In addition, the Department could potentially save over $770,000 by utilizing existing capacity instead of outsourcing required computing services over the projected remaining life of the system.

The OIG recommended that Department management better monitor IT development and operations by: (1) requiring that IPABS-IS interfaces be established that are consistent with Corporate Systems Information Architecture components; (2) establishing performance measures or goals, to be included in the Department's Annual Performance Plans, for improving IT system development and operation; (3) immediately improving IPABS-IS access control weaknesses and continuity of operations; and (4) ensuring that actions initiated in response to a Management Alert on questionable IT procurements are completed. With the exception of Recommendation 2, management agreed with the recommendations and proposed corrective action. Management believed that including measures for a relatively small, mission related system development effort, when compared to overall program budget dollars, would be misplaced in the Department's Annual Performance Plans. (IG-0509)

Additional IT reviews found the following:

The Department Needs to Develop Procedures to Ensure that Peer-Review Literature is Collected in the *PubScience* Database

Did you know?

The National Synchrotron Light Source (NSLS), Brookhaven National Laboratory, is one of the largest user facilities worldwide. Over 2500 scientists representing more than 417 institutions, over 50 of them corporations, come to Brookhaven annually to conduct research at the NSLS.

Source: NSLS Website, DOE

The Department operates four light source facilities which are used to conduct experiments in disciplines such as chemistry, biology, and physics. In FY 2000, the light sources received $172 million in funding and served over 5,000 users. Research performed at the light sources resulted in the publication of over 540 peer-reviewed scientific journal articles in FY 2000. For Department-sponsored research performed at these facilities, the Department's Office of Scientific and Technical Information (OSTI) is responsible for collecting and preserving the resulting scientific and technical information and making the information readily available to the public and to the general science community. To accomplish its mission, OSTI established agreements with 35 publishers to receive abstracts of articles relevant to the Department's scientific community, as well as information that was developed as the result of Government-sponsored research. When received from the publishers, OSTI enters these abstracts into a database entitled *PubSCIENCE*. Researchers throughout the scientific community can access this database to search for peer-reviewed journal articles in the physical sciences and other energy-related disciplines. The OIG conducted an audit to determine if abstracts of peer-reviewed scientific journal articles generated from work performed at the light sources were available for public dissemination through OSTI.

The OIG audit found that only 44 percent of the abstracts associated with the research performed at the Department's light source laboratories in FY 2000 was available for public dissemination through OSTI. The abstracts were not available because the Department had not established adequate procedures to ensure that peer-reviewed journal literature for research performed at the light sources was collected in OSTI's *PubSCIENCE* database.

The OIG recommended that the OSTI Director establish procedures to: (1) periodically update the *PubSCIENCE* database with bibliographic records made available by the light sources in accordance with Department Order 241.1A; (2) identify and recover abstracts missing from *PubSCIENCE* from those publishers having agreements with OSTI; and (3) collect and disseminate journal citation data from the light sources for peer-reviewed articles not covered by publisher agreements. Management concurred with the OIG recommendations. (IG-0520)

Recovery of Computer Software Programming Code

An OIG investigation substantiated allegations that a Department subcontractor employee stole and destroyed a computer software programming code that was developed at a Department National Laboratory. A division of the Laboratory developed the software as a centerpiece to provide multi-sensory interactive computer communication to the scientific community. The investigation revealed that before resigning from his position as a software engineer at the Laboratory, the employee successfully destroyed the major components of the code and made a copy of the software.

A search warrant was executed upon the residence of the employee, and the OIG Technology Crimes Section (TCS) conducted forensic analysis on the computer media obtained during the search. The TCS was able to recover all of the computer software programming code that was stolen and destroyed by the employee. The software, valued at $245,000, was later returned to the Laboratory.

This case has been accepted for criminal prosecution by a U. S. Attorney's Office. The investigation is continuing. (I01TC006)

■ Human Capital

Strategic Management of Human Capital is one of the President's five major Govermentwide management initiatives and has become one of the most significant challenges facing the Department. Since 1995, the

Did you know?

As of FY 2000, up to 30 percent of the Department's critical workforce will be eligible for retirement within the next 5 years.

Source: Department of Energy Performance and Accountability Report, FY 2000

Department has reduced Federal staff from 13,640 to 10,027 through reductions in force, buyouts, and attrition during a hiring moratorium to meet budget reductions and Governmentwide downsizing goals. The massive downsizing has created mission-critical staffing needs in a number of technical areas. A recent OIG review underscores the significance and potential long-term impact this challenge presents to the Department.

The Department Needs to Develop and Implement a Comprehensive, Multi-year Workforce Planning Program

The OIG conducted an audit to determine whether the Department has been able to recruit and retain scientific and technical personnel. The audit determined that the Department has been unable to recruit and retain scientific and technical staff in a manner sufficient to meet identified mission requirements. Based on an OIG analysis of attrition and hiring since 1999, as of January 2001, the Department faced an immediate need for as many as 577 scientific and technical specialists. Further, if this trend continues, the Department could face a shortage of nearly 40 percent in these classifications within 5 years. Despite its 1998 *Workforce for the 21st Century Initiative*, the Department had not developed a comprehensive workforce plan, nor had it fully exploited available tools to recruit and retain staff. As a result, the Department may not have the Federal scientific and technical expertise to effectively administer the work of its contractors. In such an environment, there is an increased risk of a variety of management problems.

To its credit, the Department has recognized the seriousness of its human capital problem; however, the scope of its corrective actions, including new and innovative approaches, needs to be broadened, and the pace of its implementation of these actions needs to be accelerated.

The OIG recommended that the Department develop and implement a comprehensive, multi-year workforce planning program, including performance measures, that emphasizes the aggressive and creative use of available human resource tools to attract and retain a highly skilled scientific and technical workforce. These recommendations are consistent with and complementary to OMB's bulletin on workforce planning and restructuring and the Department's response. The bulletin required agencies to submit a workforce analysis to OMB and develop restructuring plans based on that analysis. In response to the OIG's recommendations, the Department convened a Human Capital Summit to initiate its Human Capital Management Plan. This plan is designed to rebuild the Department's workforce and make the Department an employer of choice. (IG-0512)

■ Security

The Department spends over $1 billion per year for physical and personnel security for NNSA and other Department sites. Previous reviews by the OIG, Congress, and others have identified weaknesses in the Department's protection of nuclear weapons-related information. In today's environment, the Nation's security is receiving heightened attention and significant changes are being undertaken to improve various aspects of the Nation's security. Congress passed the GISRA in response to the increasing threat to the Federal computing environment. GISRA requires agency inspectors general to perform an evaluation of unclassified information systems security as well as an audit of the evaluation of classified information systems security. Although the Department has taken positive steps to improve its information security systems, OIG reviews continue to identify management deficiencies. Examples include the following:

Unclassified Information Systems Security Weaknesses

While the Department has made improvements in its unclassified cyber security program, the evaluation found that the program did not adequately protect data and information systems as required by GISRA. Specifically, the OIG observed problems with risk management, contingency planning, computer incident reporting, and training management. Configuration management or access control problems also existed at many of the 24 sites evaluated. Problems with design and implementation of cyber security policy, including a lack of monitoring and specific, focused performance measures, contributed to these weaknesses and adversely impacted the effectiveness of the entity-wide program. Observed weaknesses increased the risk that critical systems, a number of which enable delivery of essential services to members of the public and other Federal agencies, could be compromised or disabled by malicious and unauthorized users.

The OIG made a number of recommendations designed to improve the effectiveness of the Department's unclassified cyber security program. Department management agreed in principle with the OIG recommendations and indicated that it would prepare a plan to address reported weaknesses. (IG-0519)

Improvements Needed in the Evaluation Process for Classified Information Systems Security

The Department formally selected the Office of Independent Oversight and Performance Assurance (OA) to perform the independent evaluation of its classified information systems security program required by GISRA. The OIG performed an audit of this evaluation to determine whether the evaluation of classified information systems complied with GISRA requirements.

Overall, the audit found that the evaluation of classified information systems was performed as required by GISRA. OA's "Report on the Status of the Department of Energy's Classified Information Systems Security Program" should provide the Department with reasonable assurance that the processes of managing and controlling classified information systems have been independently evaluated. While the approach appeared to be reasonable, the OIG was unable to complete verification procedures considered necessary because documentation to support past evaluations was not always available. In addition, the OIG was unable to determine whether all evaluation requirements had been satisfied because OA had not finalized policies and procedures to govern the conduct of cyber security evaluations.

The OIG recommended that the OA Director: (1) develop and implement a structured approach to documenting and maintaining information to support each classified information system evaluation report; and (2) adopt formal policies and procedures to govern classified information system evaluations. Such policies should cover all aspects of the evaluation process and should specifically address topics such as the extent of coverage, areas of concentration, and overall review methodology. Department management agreed with our finding and recommendations and indicated that it had initiated corrective action. (IG-0518)

The OIG completed another security-related review as follows:

Hacker Guilty of Unauthorized Access to Government Computers

In a previous Semiannual Report, the OIG Technology Crimes Section reported the results of a joint investigation into allegations that an individual gained unauthorized access to a Government web server operating at the Department's Sandia National Laboratory (Sandia), Albuquerque, New Mexico. The hacker allegedly defaced the web page replacing it with obscene statements. During the investigation, search warrants were executed at two residences and a business, which led to the subject's arrest and confession to the defacement and computer intrusions at Sandia. Additionally, the subject confessed to committing several computer intrusions at other Government and commercial entities and consequently pleaded guilty in the State of Michigan Judicial Circuit Court to one count of Computers-Unauthorized Access.

During this reporting period, the subject was sentenced to 90 days at a Military Academy, 40 hours of community service, and fines totaling $220. In addition, the subject will serve in-home detention, length of time to be determined by a probation officer. The subject is scheduled for a review hearing in January 2002. (I01TC009)

■ Environmental Remediation/Safety and Health

The Department is now faced with significant long-term environmental compliance and waste management problems

Did you know?

At the beginning of FY 2001, the Department had finished active cleanup at 71 of 113 geographic sites, leaving 42 to be completed.

Source: Department of Energy Annual Performance Plan for FY 2002

due to past operating practices that left a legacy of waste which was not stored or disposed of in accordance with current laws or standards. Cleaning up the entire nuclear weapons legacy will take several decades, with the cost estimated at about $230 billion. To the Department's credit, steady progress has been made in managing its waste disposal activities. However, recent OIG reviews continue to identify the need for increased management attention to reduce the overall cost of operations while achieving program objectives. In addition, ensuring the safety and health of its workforce and the public is another of the Department's most difficult, long-term challenges. Safety and health issues encompass all activities relating to the identification, testing, handling, labeling, cleanup, storage, and/or disposal of radioactive and hazardous waste. Other activities relate to nuclear safety and occupational and worker safety and health (e.g., nuclear safety standards). OIG reviews completed during the period addressed these challenges.

Closure of the Miamisburg Environmental Management Project Behind Schedule and Project Completion Costs Increase

In August 1997, the Department awarded a cost-plus-award-fee contract to BWXT of Ohio, Inc. (BWXTO) for remediation and closure of the Miamisburg Environmental Management Project (MEMP). Congress requires the Department to request adequate funding to keep the project on schedule for closure by 2006 or earlier.

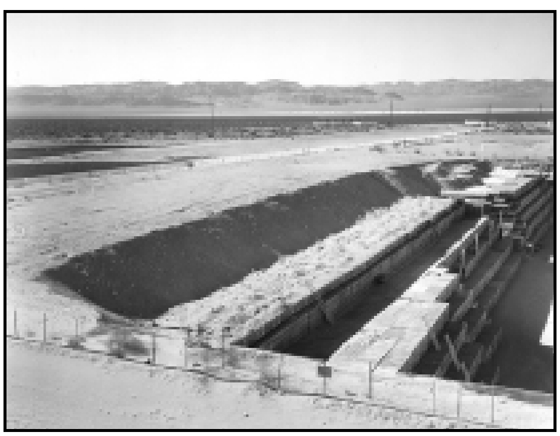
An OIG audit was conducted to determine whether BWXTO is on schedule to complete remediation and exit the site no later than September 30, 2005. The audit found that BWXTO will not complete the project until December 2009. The Department and BWXTO had committed to a project completion date without knowing whether the date was achievable. Additionally, BWXTO's original baseline estimates were based on outdated and inaccurate information. As a result of not staying on schedule, the estimated cost to complete the project has grown from $427 million to over $1 billion. This amount includes $148 million in infrastructure costs to keep the site open through 2009. Thus, the facilities will not be available for commercial use in October 2005 as planned.

The OIG recommended that the Deputy Assistant Secretary, Office of Site Closure: (1) determine the most realistic completion date and level of funding necessary to complete remediation, and notify Congress; and (2) ensure that projected completion dates and funding requests for future projects are based on a current, accurate, and complete baseline.

The OIG also recommended that the Manager, Ohio Field Office: (1) require BWXTO to prepare a complete and accurate baseline that reflects current site conditions and assumptions; (2) ensure that baseline change proposals are submitted, evaluated, and approved in a timely manner; and (3) use cost and schedule baselines to establish performance measures for evaluating contractors' performance. Department management agreed with the recommendations and initiated corrective actions. (IG-0501)

Waste Disposal Facilities Not Being Effectively or Efficiently Utilized

Since the creation of the Department's nuclear weapons complex, large amounts of low-level waste have been generated. To date, the Department has disposed of nearly 69 million cubic feet of this waste at its facilities, and over the next 70 years, plans to dispose of an additional 358 million cubic feet of low-level waste. In February 2000, the Department announced that it had developed a hierarchy of preferred options for disposal of this low-level waste. In order of priority, these were to dispose of low-level waste at: (1) the site of origin; (2) the Nevada Test Site or Hanford Site; or (3) commercial facilities. The OIG conducted an audit to determine whether the Department was fully utilizing disposal capacity at Nevada and Hanford.



Low-Level Waste Disposal, Nevada Test Site, Mercury, NV

While the Department has taken steps to improve its management of low-level waste disposal, the audit found that over the past 2 years, disposal facilities at Nevada and Hanford have operated at less than 50 percent of capacity. In spite of the availability of the unused capacity, the

Department stored large amounts of waste at generator sites and disposed of some waste commercially. This occurred because the Department did not have a comprehensive approach to maximize the safe and cost-effective disposal of waste. As a result, the Department did not realize the maximum benefit from its $30 million investment for certain waste disposal operations at Nevada and Hanford and storage operations at waste generator sites.

The OIG recommended that the Assistant Secretary for Environmental Management: (1) establish an integrated complex-wide disposal program to ensure optimal use of disposal facilities; (2) develop standard waste acceptance criteria to allow for waste generators to readily use either Nevada or Hanford; and (3) establish performance measures for the efficient use of Nevada and Hanford disposal operations. Department management concurred with these recommendations and agreed to initiate corrective action. (IG-0505)

Marketing Program for Training Center for Handling Hazardous Materials Needs Significant Reduction

The FY 1994 National Defense Authorization Act authorized the establishment of Hazardous Materials Management Emergency Response (HAMMER) Training and Education Centers at Department sites to provide training for handling hazardous materials. The only Department center built to date is located at the Hanford Site in Richland, Washington. Fluor Hanford, Inc. (Fluor) operates HAMMER under a contract with the Department's Richland Operations Office (Richland). Industry experts and other external sources provide the actual training. Because it was anticipated that Hanford employees would use only 50 percent of the training center's capacity, Fluor established a marketing department to attract non-Hanford customers. Through this mechanism, the Department and Fluor hoped to generate enough revenue to make the training center self-sustaining. An OIG audit was conducted to determine whether the marketing program for HAMMER has been effective.

The audit found that HAMMER's marketing program has not been effective. Although Fluor was able to attract external customers, the revenues generated from those customers were far less than the costs incurred in marketing the training center. For example, during FYs 1998 to 2001, the marketing program spent about $3.4 million more than HAMMER received in revenues. During the first four years of operation, non-Hanford customers have never used over 5 percent of HAMMER's training capacity even though there was over 65 percent of the total training capacity available. The reason the marketing program has not been successful is that HAMMER is not attractive to external users. HAMMER does not have its own trainers and is not physically located in a readily accessible area. The OIG estimated that Richland could better use approximately $800,000 annually if it reduced the marketing program to a reasonable level to support HAMMER's mission.

The OIG accordingly recommended that the Richland Manager reduce HAMMER's marketing program. Management concurred with the recommendation. Fluor has reorganized the HAMMER staff and significantly reduced and refocused the marketing program. The new organizational structure of HAMMER now dedicates more effort to working with the various Hanford contractors, including the Office of River Protection's contractors, and minimizing the effort to attract non-Hanford users to use excess training capacity. Richland has accepted these changes and has developed performance objectives and measures to hold the contractor accountable for results based on the new marketing effort. (IG-0525)

Transuranic Package Transporter (Trupact II) Entering WIPP, Carlsbad, NM

Audit Recommends Mixed-Low Level Waste Disposal Plans be Discontinued

During the 1970s and 1980s, about 65,000 cubic meters of transuranic waste was sent to the Idaho National Engineering and Environmental Laboratory (INEEL) for temporary storage. In 1982, the definition of transuranic waste changed and, as a result, 25,400 of the 65,000 cubic meters of this waste was reclassified as mixed low-level waste. Since there was no disposal path for mixed low-level waste, in 1995, the Idaho Operations Office (Idaho) decided to "blend-up" its mixed low-level waste with about 39,500 cubic meters of transuranic waste so that all 65,000 cubic meters of waste could be disposed of as transuranic waste at the Waste Isolation Pilot Plant (WIPP). In 2001, the Department issued a Record of Decision which designated the Hanford and Nevada Test Sites as disposal sites for mixed low-level waste. The OIG conducted an audit to determine whether Idaho should continue with plans to dispose of its mixed low-level waste at the WIPP.

The audit determined that Idaho's plans to dispose of mixed low-level waste at WIPP were inconsistent with the Department's disposal strategy. Even though Hanford and Nevada test sites were established as designated sites for mixed low-level waste, Idaho continued with its plans and did not update and integrate its planned actions with the Office of Environmental Management's disposal strategy. If Idaho's mixed low-level waste is disposed of at WIPP, the Department may spend approximately $119 million more than necessary and needlessly add waste volumes to the WIPP facility.

The OIG recommended that the Assistant Secretary, Office of Environmental Management: (1) direct the Idaho Manager to discontinue plans to blend-up Idaho's mixed low-level waste with transuranic waste and update and integrate Idaho's disposal plans with the disposal path established by the Department; (2) develop and implement Department policy and procedures that require field site disposal plans to be updated and integrated with the Record of Decision; and (3) require field sites to provide written justification and cost comparison if plans to dispose of the mixed low-level waste deviate from the Department's disposal strategy. Management agreed to examine the suitability and availability of alternative treatment processes for the Idaho waste and agreed to integrate site disposal plans. (IG-0527)

Inspection Identifies Environment, Safety, and Health Issues at the Ashtabula Environmental Management Project

The Department is currently conducting decommissioning operations at the Ashtabula Environmental Management Project in Ashtabula, Ohio. Previously, the Department and its predecessor efficiency

agencies had contracted for the manufacture of uranium parts at Ashtabula.

The OIG conducted an inspection at the Ashtabula site during which inspectors found Department machinery leaking oil onto contractor owned property, fire and electrical hazards in Department leased space, Department equipment with radiological contamination stored in a contractor building not approved for radiological operations, and a Department storage tank leaking liquid containing potential radioactive contamination.

Based on these observations, the OIG concluded that certain conditions at Ashtabula needed immediate management attention, and issued a report alerting management that the conditions indicated questionable contract implementation and administration by both the contractor and Department officials. Management took immediate action and directed the contractor to inform the State of Ohio that nuclear safety violations had occurred. The State of Ohio subsequently fined the contractor for the nuclear safety violations. (INS-L-01-05)

Improvements Recommended in Procurement Activities of Security and Emergency Operations

The Department's Office of Security and Emergency Operations (SO) officials determined that SO's program to counter the threat to the Department's security forces from chemical and biological attacks should include the use of "standardized" equipment. Therefore, SO officials initiated an evaluation of chemical protective gear for the purpose of selecting and procuring a "standard" respirator for use by protective force personnel at all sites.

An OIG inspection determined that SO's procurement of a large quantity of respirators did not achieve its goal of providing "standardized" respirators for use by protective force personnel Departmentwide. The OIG determined that not all Department organizations planned to use the respirators procured by SO; that SO officials did not adequately plan and execute the procurement; that SO officials did not appropriately coordinate with all affected organizations; and that SO officials procured considerably more respirators than needed. Further, by using the Department's procurement office to conduct the procurement, SO officials may have unnecessarily spent about $63,000.

The OIG recommended actions to ensure that future efforts by SO to select and procure "standardized" equipment for protective forces are adequately planned and coordinated, and that SO officials responsible for procurement of equipment for protective forces are knowledgeable of, and appropriately trained in, the Department's acquisition process. Department management agreed with the OIG recommendations and proposed appropriate corrective action. (INS-0-01-04)

■ Effective Establishment of the NNSA

NNSA was established as a semiautonomous agency within the Department and with the responsibility to administer the Department's critical national security activities. NNSA's mission is to provide clear and direct lines of accountability and responsibility for the management and operation of the nation's nuclear weapons, naval reactors, and nuclear nonproliferation activities. NNSA continues to face a number of challenges as it further develops organizationally. Several OIG reviews completed during this reporting period addressed these challenges:

Substantial Savings Could be Achieved by Reassessing the Need to Build a New Plutonium Immobilization Plant

In September 2000, the United States and the Russian Federation entered into an agreement stipulating that each country would irreversibly transform 34 metric tons of weapons-grade plutonium into forms that cannot be used for weapons purposes. As part of the United States' commitment, the Department has developed plans to dispose of 8.4 metric tons of the plutonium and convert 25.6 metric tons into mixed oxide reactor fuel at the Savannah River Site (Savannah River). In developing a process to dispose of the 8.4 metric tons of weapons-grade plutonium covered by the agreement, as well as additional "weapons-usable" economy

plutonium, the Department planned to immobilize the material by constructing a Plutonium Immobilization Plant (Plant) at Savannah River. The Plant is designed to accept plutonium and plutonium oxides and convert the plutonium into mineral-like forms. The estimated life-cycle cost of the immobilization project is about $1.5 billion in constant FY 2001 dollars. The OIG conducted an audit to determine whether the proposed Plant duplicates a capability that already exists at Savannah River.

The audit disclosed that the proposed Plant does not duplicate existing capabilities already operating at Savannah River. However, the Plant potentially overlaps with the capability of Savannah River's FB Line Facility (FB Line), and could duplicate the capability of the Treatment and Storage Facility (TSF), which is scheduled to be operational at Savannah River in September 2008. The Department's Office of Fissile Materials Disposition had not considered the FB Line or the TSF as alternatives for disposing of excess plutonium. There could be savings in excess of $650 million if the Department used existing or planned Savannah River facilities, rather than building the Plant. Further, the FB Line and TSF may provide the Department with other alternatives to dispose of surplus plutonium and to satisfy the United States' commitment as part of the agreement with the Russian Federation.

The OIG recommended that the Acting Director, Office of Fissile Materials Disposition, analyze the FB Line and the proposed TSF as alternatives to constructing the Plant. Department management agreed with the recommendation, but did not agree with the magnitude of the estimated cost savings because the proposed alternatives have not been developed to the stage that meaningful cost estimates can be established. Management did note, however, that it is now analyzing the FB Line as part of an ongoing assessment of the use of Savannah River facilities for plutonium disposition. Management intends to complete this assessment in January 2002. The TSF utilization study will be started in

October 2002 and be completed about 6 months later. (IG-0522)

Subject Pleads Guilty to Fraud Count Involving False Credentials

A joint investigation with the Federal Bureau of Investigation substantiated allegations that a private citizen had attempted to manufacture NNSA credentials. The investigation determined that the subject knowingly and without lawful authority produced a false identification document; namely, a prototype of a "Federal Agent" credential, originally issued under the authority of NNSA. The credential falsely identified the subject as a "Federal Agent."

The U.S. Attorney's Office for the District of New Mexico accepted the case for prosecution. The primary subject of the investigation pleaded guilty to one count of violating Title 18, United States Code, Section 1028, Unlawful Production of a Government Identification Document. Sentencing is pending. (I00DN006)

Research and Development Work Not Authorized by the Department

Lawrence Livermore National Laboratory (Livermore), which is managed and operated for the Department's Oakland Operations Office (Oakland) by the University of California (University), has an annual research and development (R&D) budget of about $1 billion. Past OIG audits and the General Accounting Office have questioned the national laboratories' management of R&D activities, including the laboratories' authority to do certain work. Three of these audits were specific to University-managed laboratories and questioned Department and University control over funds used for discretionary R&D projects. The OIG conducted an audit to determine whether Livermore was performing R&D that was not authorized by the Department.

Did you know?

The Department will spend more than $7.7 billion (more than 40 percent) of its 2001 budget on a broad range of R&D activities.

Source: The President's Management Agenda, Fiscal Year 2002

The audit found that Livermore was performing certain R&D activities that were not authorized by the Department. For FYs 1998-2000, the OIG estimated that 194 projects at Livermore involved R&D for which there was no contractual authority to do the work. Livermore circumvented the work authorization process by funding the R&D through overhead accounts. As a result, the Department funded about $33.6 million of unauthorized R&D during FYs 1998-2000.

The OIG recommended that Oakland direct Livermore to: (1) discontinue ongoing, unauthorized R&D; (2) establish procedures to prevent overhead accounts from being used to fund unauthorized R&D; (3) submit for review and authorization a description of technical activities being funded through overhead accounts; and (4) reimburse the Department for the cost of unauthorized R&D. Department management partially agreed with recommendations 1, 2, and 3 and did not agree with recommendation 4. Management's comments were not considered responsive to the recommendations and issues raised in the report. In addition, management did not provide a corrective action plan to investigate the issues raised or take any action to prevent Livermore from performing unauthorized R&D in the future. (IG-0511)

■ Contract Administration

Did you know?

The Department employs over 110,000 contractor employees to perform services for the Department.

Source: Department of Energy Annual Performance Plan for FY 2002

A significant portion of the Department's mission is carried out by contractors (industrial, academic, and nonprofit institutions) operating the Government-owned plants and laboratories under a management and operating relationship. The management and operating contractors manage a variety of activities, including maintaining the nuclear weapons stockpile, performing research, and cleaning up radioactive and hazardous wastes. Consequently, these contracts represent the largest share of the Department's budget. Ongoing OIG reviews have disclosed continuing contract management problems. In particular, weaknesses have been found in the Department's management of performance-based incentives and fees at major Department contract locations, as well as its administration of grant funds and cooperative agreements. In previous years, the OIG reported grants management as a separate challenge. Grants are issued when limited Federal collaboration and participation is anticipated and when a public need is served. The Department funds numerous grants for scientific research and development, educational endeavors, and state and local projects. The Department uses cooperative agreements, rather than grants, when carrying out a public purpose that will require the Department to maintain "substantial involvement" in the funded activity. Additionally, costs associated with cooperative agreements for research, development, and deployment are to be shared when the new technology is likely to benefit the recipient economically, or when required by law. The following are highlights of OIG reviews of these areas:

Contractor Makes $3.5 Million Settlement with the Government

Under the terms of a Civil Agreement a contractor was ordered to pay the Federal Government $3.5 million. The OIG received an allegation that a Department manufacturing, engineering, and research contractor mischarged to Federal Government contracts material and labor costs that were associated with the development of a commercial product line. It was alleged that the company falsely certified that those costs were properly charged to the Government. As a result of a joint investigation with the Defense Criminal Investigative Service, the Navy Criminal Investigative Service, and the Defense Contract Audit Agency, the contractor agreed to pay the Government $3.5 million.

William R. Wiley Environmental Molecular Sciences Laboratory, Pacific Northwest National Laboratory, Richland, WA

The Department directly received $800,000 of the $3.5 million settlement. The remaining funds were divided among the Department of Justice and the Department of Defense. Also as part of the civil settlement, the contractor released its claims to $148,000 of contract funds held by the Department's National Renewable Energy Laboratory. (I98PT006)

Nonproprietary Scientific Research Results Not Being Fully Collected or Disseminated to Scientific Community

The $229 million Environmental Molecular Sciences Laboratory (EMSL), which opened in October 1997 as a National User Facility, performs cutting-edge molecular science targeting the Department's environmental mission. All potential users must sign a user agreement prior to utilizing the EMSL. Users engaged in proprietary research are obligated to pay the full-cost recovery rate for EMSL usage. Users engaged in general or nonproprietary research, however, are not charged, but must document and provide their research results to the EMSL. Facility officials must also ensure that these results are documented and that deliverables, such as technical reports, are collected and forwarded to the Office of Scientific and Technical Information (OSTI) for further dissemination to the scientific community. The OIG conducted an audit to determine if the results of nonproprietary research at the EMSL were collected and forwarded to OSTI.

The audit found that operating officials at the EMSL often did not collect and forward to OSTI the results of nonproprietary research. In fact, EMSL officials had not received research results or deliverables on 94 of 153 completed research projects. Since these deliverables were not received, they could not be forwarded to OSTI. Even when deliverables were received, however, EMSL officials often did not send them to OSTI. The OIG found that Battelle Memorial Institute (Battelle), a Department management and operating contractor, responsible for operating the EMSL, had received over 700 deliverables, but had forwarded just 60 to OSTI. The contract between the Richland Operations Office (Richland) and Battelle contained provisions to collect and forward all deliverables to OSTI. In spite of the contract provisions, Battelle developed a management system that did not identify deliverables that were due. Further, Battelle, EMSL, and Richland officials alike claimed that they did not fully understand the requirements for sending research results to OSTI. Without full dissemination of research results to the scientific community, future researchers may not benefit from discoveries. Therefore, the Department may not receive full value from the $48 million it costs annually to operate the EMSL.

The OIG recommended that the Richland Manager: (1) ensure that Richland, Battelle, and EMSL officials are fully informed of the requirements for the operation of a National User Facility and collect all deliverables and forward to OSTI those that meet the needs of OSTI; (2) establish and use performance measures to evaluate EMSL's role in collecting and forwarding deliverables to OSTI and tie the performance measure to the management fee; and (3) direct Battelle to establish a project management system that will track the life-cycle of EMSL nonproprietary research. Department management agreed with the OIG recommendations and provided a corrective action plan to implement the recommendations. (IG-0526)

Government Contractor Reimburses the Department $242,365 for Unallowable Costs

The OIG conducted an investigation into irregularities with costs claimed by a Department contractor under a procurement system known as Authority for Payment (AFP). The OIG investigation raised questions about expenditures by the contractor utilizing the AFP system, specifically for unallowable costs such as magazine subscriptions, food, banquets, alcohol, leased facilities, non-competed accounting firm fees, conventions, and entertainment.

In response to an OIG Administrative Report to Management, the contractor: (1) reimbursed the Department $242,365 in unsupported costs relating to alcohol, entertainment, gifts, and procurement card expenses that were incorrectly charged to the Department; (2) improved its policy for magazine subscriptions; (3) will track costs subject to ceiling limitations; and (4) incorporated Department Order 1103 pertaining to "Conference Management" into its new contract with the Department. (I97AL002)

Performance-Based Contracts:

Performance-Based Incentives Not Being Effectively Used to Improve Contractor Performance

The OIG conducted an audit to determine whether the Department's use of performance-based incentives has resulted in improved contractor performance at selected Department field sites. The audit found that the Department did not utilize performance-based incentives in a manner that would consistently result in improved contractor performance. Problems were identified with 12 of 19 performance-based incentives reviewed at the Savannah

Did you know?

The total new performance – based service contracts awarded in FY 2001 was $6.8 billion.

Source: Department of Energy PADS System

effectiveness

River Site and the Kansas City and Oak Ridge Y-12 Plants. Some performance incentive fees were increased without a corresponding increase in performance expectations. In other cases, the "challenge" to the contractor in the form of the performance standard was lowered while the monetary incentive remained unchanged. In all cases, these actions were taken without satisfactory explanation. Further, some incentives were established after the expected outcome had been achieved.

The OIG review also determined that field sites were not fully evaluating past performance when negotiating recurring incentives and were not using appropriate processes to modify performance metrics. Furthermore, the Department had not established a formal review and approval process for Program Offices to ensure that negotiated performance-based incentives would improve contractor performance. As such, the OIG questioned whether the Department could have better used $5.3 million provided from 1997 to 2000 for the 12 performance-based incentives with which the OIG found problems.

The OIG recommended that: (1) the Department's Acquisition Guide be revised to address the conditions noted in the audit report; and (2) parallel program-specific guidance be developed by the Offices of Environmental Management and Defense Programs. Department management disagreed with the OIG finding and recommendations, asserting that no requirement existed for individual incentives to improve contractor performance, and that only documentation issues had been identified. (IG-0510)

Performance-Based Contract Incentive Program Needs Improvement

As part of its environmental remediation responsibility, the Department's Office of River Protection (ORP) established 26 performance-based contract incentives (PBCIs) that provided its management and operating contractor the opportunity to earn incentive fees totaling about $19.4 million. Department guidance states that it is through the use of performance-based contracting concepts that improved contractor performance and greater accountability will be realized. The OIG conducted an inspection to determine if ORP's FY 2000 PBCIs effectively implemented the Department's contract reform goals of incentivizing enhanced contractor performance and assuring greater accountability.

The inspection concluded that ORP officials need to improve the administration and effectiveness of their PBCI program. Specifically, PBCIs awarded by ORP did not always challenge the contractor to achieve higher levels of performance and did not always focus on high priority tasks. Also, internal control weaknesses adversely impacted the ability of ORP management officials to effectively administer their PBCI program. These weaknesses included a lack of formal quality acceptance criteria, as well as a lack of required justifications for establishing certain incentives.

The OIG recommended that the ORP manager ensure that: (1) future performance-based contract incentives are offered to the contractor only for performance of work that enhances critical path site remediation efforts or that motivates the contractor to achieve higher levels of performance; (2) future performance-based contract incentives contain a quality assurance standard for acceptance of work products; and (3) prior to the incentives being approved by ORP officials, forms documenting the basis for future performance-based contract incentives contain all information required by internal ORP guidelines. Management generally agreed with the OIG recommendations and described corrective actions it will take to implement them. (IG-0506)

Operations Office Did Not Require Contractor to Meet Performance Objectives

In December 1997, the Oak Ridge Operations Office (Oak Ridge) awarded a $2.5 billion performance-based management and integration contract to Bechtel Jacobs Company LLC (Bechtel Jacobs) for environmental remediation activities in Oak Ridge, Tennessee; Paducah, Kentucky; and Portsmouth, Ohio. Under the terms of the contract, Bechtel Jacobs was to receive incentive fees for accomplishing performance objectives negotiated before the start of the performance period, in this case prior to the beginning of each fiscal year. The OIG conducted an audit to determine whether Oak Ridge required Bechtel Jacobs to meet performance objectives that were established before the start of the performance period.

The audit found that Oak Ridge had not established all contractor performance objectives prior to the start of the performance period and had not required the contractor to meet all previously established performance objectives. Specifically, Oak Ridge: (1) did not "incentivize" performance objectives in FY 1998; (2) did not finalize performance objectives before the start of FYs 1999 and 2000; and (3) modified performance objectives to reduce expectations during each year. Furthermore, Oak Ridge did not follow Department procedures for developing incentive fees, and did not develop plans for making compensating adjustments to fees to reflect performance objectives which were lowered during the period. Oak Ridge paid Bechtel Jacobs $6.2 million in incentive fees for FYs 1999 and 2000 performance, even though the contractor did not meet the initial performance expectations directly tied to the fees.

The OIG recommended that the Manager, Oak Ridge, implement the *Performance Evaluation Plan*, and: (1) finalize performance objectives before the beginning of each performance period; (2) ensure that incentive fees are not increased after the start of the period without requiring increased performance; (3) ensure that incentive fees are decreased or not paid when performance requirements are decreased or not met; and (4) develop plans for reallocating incentive fees when performance requirements change. Management concurred with the finding and recommendations and stated that it was revising its current *Performance Evaluation Plan* to include provisions to address the OIG's recommendations. (IG-0503)

Improvements in Documenting Fee Negotiations Recommended

Over the last decade, the Department has been involved in a major effort to reform its contracting practices, including efforts to increase the accountability and enhance the performance of its facility management contractors. While implementing its overall strategy, the Department increased fees available to its facility management contractors, including contractors managing sites primarily devoted to environmental restoration activities. This approach was designed to attract superior firms to perform the cleanup work and to provide greater financial incentives to encourage improved performance. An OIG audit was conducted to determine whether fee pools made available to three specific contractors at Rocky Flats, Oak Ridge, and Hanford were commensurate with risks and responsibilities assumed.

The OIG was unable to determine whether fees made available to the three site contractors were fully commensurate with the risks and responsibilities assumed. The OIG found that there were many complexities in determining applicable fees, and that the documented record in certain circumstances was not adequate to make a determination. In addition, the Department used a different negotiation methodology for calculating available fees at the three locations.

The OIG recommended that the Director, Procurement and Assistance Management ensure that the negotiation of fees be thoroughly documented so that the Department's rationale supporting its fee strategy is clear. Department management disagreed with the OIG assessment and indicated that current procedures are adequate. (CR-B-01-01)

The Department Needs to Maximize the Use of its Cost-Recovery Authority to Enhance the Super Energy Savings Performance Contracts

An OIG audit found that the Department did not fully recover the cost of providing assistance to other Federal agencies and did not use the funds it recovered from other Federal agencies to achieve greater energy efficiency. The Department did not develop an appropriate pricing strategy for recovering costs and did not formulate a plan for spending the funds it recovered. As a result, the Department, as well as other Federal agencies, may not meet their long-term energy-savings goals because they will miss opportunities to use private financing mechanisms to fund energy-savings projects.

The OIG recommended that the Director, Federal Energy Management Program: (1) implement a cost-recovery strategy that includes estimating, tracking, billing and collecting all costs for each project; and (2) develop and implement a plan to use recovered funds to aggressively promote super energy savings performance contracts. Management generally agreed with the recommendations and identified a number of corrective actions that will, if successfully implemented, assist the Department in furthering energy-savings initiatives. (IG-0499)

Grants:

Small Business Innovation Research Phase II Grantees Incur Unallowable Costs and Do Not Meet Cost Sharing Requirements

Did you know?

Under the President's Expanded Electronic Government initiative, Federal Agencies' use of the Web will be improved to allow applicants for Federal grants to apply for and ultimately manage grant funds online through a common web site.

Source: The President's Management Agenda, FY 2002

The Small Business Innovation Development Act of 1982 established the Small Business Innovation Research (SBIR) Program to assist small businesses in developing new ideas and technology. Under this Program, the Department sets aside 2.5 percent of its research and development budget for grants to small businesses, using a phased approach. Currently, the Department awards about $60 million annually in Phase II grants. The OIG performed an audit to determine whether the Department obtained assurance that costs claimed by SBIR Phase II grantees were incurred in accordance with acquisition regulations and met cost sharing requirements.

The audit found that the Department had not appropriately verified that all costs claimed by SBIR Phase II grantees were allowable and were used for developing the specific innovations described in the relevant grant documents. The Department generally limited its cost reviews to pre-award evaluations of the costs proposed in the applications submitted by grantees. It did not place sufficient emphasis on post-award reviews of actual costs. As a result, the Department reimbursed grantees for questionable costs—for example, three grantees did not provide any support for about $2.4 million in claimed costs. Further, the Department did not verify that grantees fully contributed their portion of cost sharing, which were requirements of the grants. Ten SBIR Phase II grantees reported providing $2.4 million less in cost sharing than required by the terms of the relevant grant agreements.

The OIG recommended that, for SBIR Phase II grants, the Managers of the Chicago and Oakland Operations Offices, in coordination with the SBIR Program Manager: (1) resolve the cost sharing shortfalls and questionable costs identified in the OIG audit and recover costs determined to be unallowable; (2) implement grant closeout procedures to include verification that costs claimed by grantees are allowable and cost sharing requirements are met; and (3) establish performance measures, in accordance with GPRA, that are relevant to post-award reviews of costs and cost sharing. Department management agreed with the OIG recommendations. The Chicago Operations Office immediately initiated corrective actions and the Oakland Operations Office plans to initiate corrective actions in October 2001. (IG-0521)

Numerous Final and Interim Grant Deliverables Not Being Received as Specified in Grants

As of September 30, 1999, the Albuquerque Operations Office (Albuquerque) administered 75 grants with a total value of $509 million. These grants funded activities such as scientific research and development, education, and state and local projects. Albuquerque personnel are responsible for ensuring that activities are in accordance with the grant terms and verifying the proper expenditure of funds. These responsibilities are accomplished through a review and analysis of various technical and financial reports called deliverables. The OIG conducted an audit to determine whether Albuquerque was receiving the deliverables specified in its grants.

The audit found that Albuquerque was not receiving many of the deliverables specified in its grants. Neither final nor interim deliverables were received for many of its grants awarded for research and development, education, and state and local activities. This occurred because Albuquerque did not have formal procedures in place to identify deliverables that were due. The lack of procedures impacted Albuquerque's ability to initiate follow-up actions when deliverables were overdue. By not having the procedures to monitor a grantee's performance and financial status, Albuquerque cannot fully exercise its fiduciary responsibility over the expenditure of public funds.

The OIG recommended that the Albuquerque Manager: (1) develop and implement formal procedures to identify when deliverables are due; (2) initiate follow-up action when deliverables are not received; (3) issue notification letters if the initial follow-up action fails; (4) carry out the remedies allowed in Financial Assistance Letter 98-2; and (5) develop performance measures related to the receipt and follow-up of interim and final deliverables. Management concurred with the finding and all recommendations and provided a corrective action plan. (IG-0524)

Employees of Non-Profit Organization Convicted for Embezzling Community Development Funds Under Financial Assistance Awards with the Department

An OIG investigation resulted in the indictment of three non-profit corporation officials and two of the officials' wives for embezzling funds from community development grants issued by the Department's Savannah River Operations Office. The OIG initiated an investigation based upon allegations that managers of a non-profit corporation, operating under grants from the Department, devised a plan to setup fictitious shell companies to fraudulently bill the grants. The case was referred to an Assistant U. S. Attorney (AUSA) for the District of South Carolina and accepted for criminal prosecution.

As a result of the OIG investigation, the accountant for the non-profit corporation was indicted on two counts of Title 18, U.S.C., Section 666 (Theft from a Program Receiving Federal Funds) and 16 counts of Title 18, U.S.C., Section 1956 (Money Laundering). Pursuant to a plea agreement (Agreement), the accountant pleaded guilty to one count of Title 18 U.S.C., Section 666 and was sentenced to 4 months imprisonment, 4 months home detention, 3 years supervised probation, fined $2,000, and ordered to pay $42,000 in restitution to the Department. Additionally, the corporation's General Manager, another corporation employee, and their spouses were also indicted on one count each of Title 18, U.S.C., Section 666, and Title 18, U.S.C., Section 371 (Conspiracy) for embezzling $27,030 in grant funds. Pursuant to an Agreement and in exchange for the AUSA dropping the charges against his wife, the General Manager agreed to reimburse the Department $27,030. The remaining employee and his wife were placed into the Pre-Trial Diversion Program for one year and they were each ordered to repay the Department $5,723.50. (I96SR003)

Cooperative Agreements:

Audit Identifies Deficiencies in Awarding Cooperative Agreements

Each year the Department of Energy spends over $16 billion to obtain goods and services from private sector companies, non-profit organizations, and other government entities. The acquisition system established to manage these expenditures includes contracts, grants, and cooperative agreements. At the end of FY 2000, the Department maintained 1,118 cooperative agreements valued at $9 billion. Cooperative agreements are only to be used to carry out a broad public purpose, such as to support basic research or to stimulate new technology development. The OIG performed an audit to determine whether the Department awarded cooperative agreements in accordance with acquisition regulations and to identify whether cost sharing provisions were used consistently.

In 9 of 42 cases reviewed, the OIG found that cooperative agreements were used to obtain services for the direct benefit of or use by the Department rather than to pursue a broad public purpose. The Department also appeared to forego several opportunities for cost sharing. During the audit, the OIG discussed with the Office of Procurement and Assistance Management (Procurement) and responsible program officials the OIG's assessment that certain cooperative agreements were used inappropriately or that opportunities for cost sharing had been missed. The OIG suggested that the

Department develop and implement additional guidance for choosing the appropriate acquisition instrument and ensure that the decision to waive statutory and regulatory cost sharing requirements is fully explained and documented.

Although management did not agree with the OIG assessment in all cases, Procurement agreed that additional guidance was necessary. In September 2001, the Department developed draft guidance for program officials to determine the appropriate award instrument to use. The OIG reviewed the draft guidance, which will be issued as a Financial Assistance Letter, and concluded that when implemented it will successfully address the concerns raised in the OIG report. (CR-L-01-09)

Did you know?

The Department is working to develop renewable energy technologies such as solar energy systems. In FY 2000, the Department facilitated the installation of well over a targeted 20,000 systems, bringing the total number of installed systems to over 100,000. The end objective is to install one million solar energy systems in U.S. buildings by FY 2010.

Source: Department of Energy, Performance and Accountability Report, FY 2000

■ Energy Supply/Demand Technology

The Department leads the nation in the effort to develop affordable advanced clean energy for the 21st Century and to accelerate its acceptance and use, both nationally and internationally. This leadership is organized around five energy sectors: (1) buildings, (2) industry, (3) transportation, (4) power generation and delivery, and (5) Federal Government facilities. Partnerships with government entities and the private sector enable the Department to better leverage the Federal investment in the research, development and deployment of efficient and clean energy technologies that meet the nation's energy needs, enhance the environment, and strengthen national competitiveness. A recent OIG review was done of the Department's commercial biomass-to-ethanol program.

The Department Does Not Meet Goal to Build a Full-Scale Biomass Production Facility

The Department has the strategic objective of reducing the vulnerability of the U.S. economy to disruptions in energy supplies. As one way of meeting this objective, the Department has had a biomass-to-ethanol conversion program for several years. Working under the Assistant Secretary for Energy Efficiency and Renewable Energy (EE), the Office of Fuels Development (OFD), which manages the biomass program, had a goal to build a full-scale commercial biomass production facility by 2000. To meet its goal, OFD awarded financial assistance to two firms through cost-sharing cooperative agreements awarded by the Golden Field Office during 1997 and 1998. One firm received $4 million and the other received $10.95 million. The OFD indicated that these were the only two awards that could have led to meeting its program goal. The OIG conducted an audit to determine whether the Department is meeting its biomass program goal.

The Department did not meet its biomass program goal to have a full-scale commercial production facility built by 2000. Construction of such a facility has not been started and it is unlikely that construction will begin soon because earlier design and site preparation targets have not been met. Despite assertions that their technologies were proven and ready for commercial application, neither company has fulfilled the representations contained in their proposals or the terms of their financial assistance awards. Although much of the funding was provided through congressional earmarks, in the OIG's judgment, the Department was not precluded from exercising basic performance conditions. The Department did not meet its goal because it did not solicit competitive proposals before making any awards, implement recommendations made by merit reviewers of the two companies' proposals, or fully evaluate the firms' financial capability prior to awarding funds. As a result, the Department has spent nearly $15 million without a production facility on the horizon, and the Department will not meet its FY 2001 Performance Plan target of producing 6 million gallons of ethanol from biomass.

The OIG recommended that the Assistant Secretary for EE ensure that alternative fuels project officials: (1) address merit reviewer concerns and recommendations prior to award, and verify the ability of financial assistance applicants to meet project financial commitments; and (2) restrict project funding when recipients do not comply with award terms, including withholding, suspending, or terminating funding. Department management agreed with the recommendations, but disagreed with the report's conclusions regarding commercialization and risk reduction, earmarks, and the merit review process. EE agreed to examine its policies and practices relative to the award, monitoring, and termination of financial assistance. (IG-0513)

■ Property Controls and Asset Inventories

Did you know?

The Department is the landlord of 2.4 million acres of land and over 20,000 facilities throughout the United States.

Source: Department of Energy Strategic Plan, September 2000

For several years the OIG has been reporting, through the Federal Managers' Financial Integrity Act process, that the Department has extensive inventories of nuclear and non-nuclear materials that may no longer be necessary due to mission changes. The OIG has been concerned that funds spent to store, secure, and handle these materials could be put to better use and that the potential exists for safety and health concerns. The OIG continues to report significant deficiencies in controls over Government property, as indicated in the following summaries.

The Department Could Save About $1.5 Million Per Year by Transferring Land No Longer Needed

Hanford Reach National Monument, within the boundaries of the Department's Hanford Site

In a January 1997 report, the OIG identified approximately 138,000 acres of land at the Hanford Site (Hanford) which were not essential to carrying out the Department's mission. In June 2000, the President created the 195,000 acre Hanford Reach National Monument (Monument) within the boundaries of the Department's Hanford Site near Richland, Washington. Although the Department maintains administrative control and jurisdiction over the land within the Monument, the Department of Interior's U.S. Fish and Wildlife Service manages about 84 percent of the land. The OIG conducted an audit to determine if the Department should retain administrative control of land within the Monument.

The audit disclosed that it was not in the Department's best interest to retain administrative control of all land within the Monument. The OIG identified approximately 143,000 acres of land that could be transferred to the Department of Interior without adversely impacting operations at Hanford. In fact, the land identified for transfer includes areas which had previously been identified as nonessential for carrying out the Department's mission. Department officials stated that they were retaining administrative control of the land to provide safety buffers for Hanford operations. Current conditions at

Hanford do not support this rationale. Further, available documentation suggested that the officials had concluded that retaining the land allowed the Department to provide enhanced financial assistance to local governments. The OIG found that by transferring administrative control of the 143,000 acres, the Department could save about $1.5 million per year in payments in lieu of taxes. In the OIG's view, it might well be more productive to use these funds to expedite the environmental remediation effort at Hanford.

The OIG recommended that the Manager, Richland Operations Office, identify specific Monument lands that could be transferred without adversely impacting Department operations, and request or initiate a transfer of the land to the Department of Interior. Department management partially agreed with the OIG recommendation and is currently conducting a detailed analysis to review the costs and operational impacts of transferring portions of the Monument to the Department of Interior. However, management did not agree with the proposed transfer of about 58,000 acres at this time. Department management also disagreed with the OIG's cost savings estimate, stating that cost savings to the Federal Government as a whole are unknown and cannot be determined until a full analysis has been completed. (IG-0514)

The Department's Use of Atomic Energy Act Authority in Land Sale is Questioned

Under the Atomic Energy Act of 1954 (Act), the Department may sell land in the performance of identified programmatic functions. In February 2001, the Department sold 182 acres of land in Oak Ridge, Tennessee, for $54 per acre to a private development company. The property provides river access to an adjoining 1,217-acre parcel that the developer acquired for a new housing development. The purchase of the 1,217-acre parcel was contingent upon the developer acquiring the Department's river access property. The Department sold the land under special authorities granted in the Act. By invoking these special authorities, the Department was not required to follow the standard Federal practices for property sales, such as advertising, seeking competitive bids, and obtaining independent appraisals to establish the property's fair market value.

An OIG audit was conducted to determine if the sale of land was an appropriate use of the special authorities granted under the Act. The OIG found that while the Department had the legal authority to conduct the sale of land to a private developer, this action was not an appropriate use of this authority. Although the Act gives the Department authority to sell land in the performance of a programmatic function without regard to standard Federal practices, in the OIG's judgment, this sale did not meet those requirements. The Department invoked the authority of the Act because it has broadly interpreted what it defines as a programmatic function under the Act. Further, the Department sought to facilitate the sale to the "preferred" purchaser. As a result, there was no assurance that the land was sold at fair market value and in the best interests of the Government.

The OIG recommended that the Manager, Oak Ridge Operations Office, follow standard Federal practices for the sale of land not directly involving programmatic functions instead of invoking the special authorities granted under the Act. Management did not concur with the finding and recommendation. It contended that all the actions taken were within the Department's authority. (IG-0502)

Department Contractor Needs to Strengthen Management of Stocked Inventory

The Department's management and operating contractor at Savannah River, Westinghouse Savannah River Company (Westinghouse), manages the majority of the Department's stocked inventory at Savannah River. As of March 2001, Westinghouse maintained about 4.1 million items in its stocked inventory, with an acquisition value of about $64 million. Westinghouse estimated the cost directly related to storing these items to be about $700,000 annually. The OIG conducted an audit of Westinghouse's management of the stocked inventory at Savannah River.

The audit found that Westinghouse was not adequately managing its stocked inventory. Westinghouse had not economy

identified and disposed of items that: (1) exceeded "maximum" inventory levels; and (2) had no usage during the last 10 years. Westinghouse did not have procedures in place to calculate the amount of stocked inventory necessary for the site's mission. Further complicating the situation, Westinghouse accounting procedures penalized users for identifying and disposing of excess stocked inventory. Specifically, when items were declared excess, removed from inventory, and disposed of, they had to be charged against a specific user's budget account. Thus, the users had little or no incentive to ensure that excess inventories were properly addressed. Westinghouse incurred about $116,000 annually to store about $9 million in stocked inventory that does not appear to be needed. In addition, the OIG could not determine the potential savings associated with the disposal of the items that appeared to be excess because Westinghouse did not track revenues or expenses related to excess stocked inventory.

The OIG made a series of recommendations designed to improve Westinghouse's management of stocked inventory. Department management agreed with the recommendations and agreed to initiate corrective actions. (IG-0508)

Inventory Controls for Firearms Stored at Department Facilities Need Improvement

The OIG conducted an inspection to determine the adequacy of Office of Security and Emergency Operations (SO) inventory controls for selected firearms stored at its facilities at Headquarters and the Nonproliferation and National Security Institute (NNSI). The inspection concluded that improvements are needed in inventory controls for firearms that are stored at the SO Headquarters facility and the NNSI. All of the firearms in the OIG sample inventory at both facilities were physically accounted for. However, some firearms at the Headquarters facility were not on the SO Headquarters inventory list and others had numbers that did not match the serial numbers on the list.

Additionally, SO officials had not yet reconciled discrepancies of firearms stored at the facility identified during a 1998 inventory by the Office of Management and

Administration, now the Office of Management, Budget and Evaluation. At NNSI, incoming excess firearms shipments had not been inventoried within the timeframes established by NNSI internal procedures. In addition, NNSI officials did not document the presence or integrity of tamper indicating devices or seals that were required to be on shipping containers of excess firearms sent to the facility.

The OIG identified several inventory control issues similar to those identified previously in the 1996 OIG “Special Audit Report on the Department of Energy’s Arms and Military-Type Equipment.” The recent OIG review indicated that greater attention is required by management officials to ensure effective corrective actions are implemented.

The OIG recommended a series of corrective actions designed to strengthen inventory controls for selected firearms stored at SO Headquarters and the NNSI. The OIG also recommended that the Director, Office of Management, Budget and Evaluation, initiate actions to quickly resolve discrepancies identified by inventories. Management concurred with the OIG findings and recommendations. (IG-0517)

Fixed Assets Database Used to Track Government Property Not Accurate

Sandia National Laboratories (Sandia) is responsible for significant quantities of Department-owned personal property. Personal property is generally property of any kind, excluding real estate and permanent fixtures. To meet its responsibility, Sandia uses a Fixed Assets Database. Property meeting established criteria is assigned a property control number (property tag) and is to be included in the database. Property in the database is generally segregated as sensitive (i.e., computers and cameras) or non-sensitive (i.e., laboratory equipment). Once in the database, the location of each item is to be tracked until ultimate disposal. The property in the database is physically located at various sites, including overseas locations. As of December 2000, the database contained about 53,000 items valued at approximately $1.1 billion. The OIG conducted an audit to determine if Sandia’s Fixed Assets Database was accurate.

The audit found that Sandia's Fixed Assets Database was not accurate. All property required to be included was not, and property that was listed could not always be located. This occurred because the actions of property coordinators were not effective in ensuring the database was complete and updated as necessary, and inventory validation procedures used by Sandia were questionable. As a result, the OIG estimated that Sandia was not tracking between 6,111 and 19,501 property items, and the Department cannot be assured that inventories using information from the database were accurate.

The OIG recommended that the Manager, Albuquerque Operations Office, require Sandia to: (1) consolidate all the duties and responsibilities of property coordinators in a single document; (2) develop an action plan to ensure the database is accurate; (3) develop an inventory methodology that includes the use of reverse samples (the tracing of property back to the database) and an objective methodology to validate all verification memorandums; and (4) develop performance measures to ensure the accuracy of the Fixed Assets Database. Department management agreed with recommendations 1, 2, and 4. Albuquerque partially concurred with recommendation 3; however, proposed actions meet the intent of the recommendation. (IG-0523)

This Section of the Report includes other noteworthy OIG accomplishments, such as: congressional responses; the OIG's review of the Department's performance measures; the results of significant investigative cases; and OIG Qui Tam and Intelligence activities.

Congressional Responses

The OIG remains committed to responding to and working with the Congress and congressional staff. The OIG received 18 requests for information from Congress, provided information in 29 instances to Congress, and briefed Committee staff on 8 occasions. As a result of congressional requests, the OIG completed the following reviews:

The Department's Performance Measures Need Refinement

Did you know?

Agency Inspectors General review the progress of their agency's implementation of the Results Act to identify opportunities to improve the Act's implementation.

On April 5, 2001, the Chairman, Committee on Government Reform of the U.S. House of Representatives, requested information on the Department's implementation of the Government Performance and Results Act (Results Act). Specifically, the OIG was asked to identify the 10 most significant performance measures contained in the Department's performance report and the extent to which the data or information underlying the measures is valid and accurate. Additionally, the OIG was to determine whether the measures provided useful indicators of performance. Accordingly, the OIG examined the Department's *Fiscal Year 2000 Performance and Accountability Report* (Accountability Report) and evaluated whether it generally complied with the requirements of the Results Act. After assessing the specific measures in this report, the OIG selected the 10 performance measures that most closely paralleled the major management challenges documented in the OIG's November 2000 report, *Management Challenges in the Department of Energy* (IG-0491).

The Department has made progress in implementing the Results Act. For the last 3 years, it has issued a comprehensive Performance and Accountability Report with established goals designed to define the level of performance to be achieved by each program. In addition, the Department has worked to incorporate performance goals and objectives into its management contracts. However, the OIG identified problems with the usefulness and completeness of the performance measures and the validity and accuracy of some of the results reported. Specifically: (1) several measures were not objective or quantifiable; (2) critical measures relating to some of the Department's major challenge areas were not present; and (3) performance results reported for the selected measures were not always valid.

To improve its performance management reporting process, the OIG suggested that the Department: (1) include only performance measures that are specific, quantifiable, and relevant; (2) develop measures that address each of the agency's management challenges; and (3) ensure that results reported represent accurate information and true accomplishments. Officials in the Department's Office of Chief Financial Officer were receptive to the OIG suggestions and agreed that further refinement of performance measures was needed. (IG-0504)

Aerial View—South End of Yucca Mountain, Nevada Test Site, Mercury, NV

Inquiry into Alleged Bias in the Evaluation of the Suitability of Yucca Mountain

In response to concerns raised by United States Senator Reid and former Secretary of Energy Richardson, the OIG conducted an inquiry into allegations of potential bias within Department and contractor operations during the evaluation of Yucca Mountain as the site for the disposal of the Nation's high-level nuclear waste and spent nuclear fuel.

The OIG found several written statements in key Yucca Mountain evaluation documents that could be considered by an impartial observer to be prematurely conclusive, or inappropriately advocating a position by the Department or its contractors. The OIG could not, however, substantiate concerns that bias compromised the integrity of the site evaluation process.

The OIG review did disclose several additional matters that the Department needs to consider as it proceeds with the evaluation of the Yucca Mountain site. Specifically, several witnesses were critical of a Department or contractor position, report, or process relating to Yucca Mountain.

The OIG recommended that the Department's senior managers: (1) re-affirm the commitment to a site suitability evaluation process which is objective, unbiased, and based on the best possible science; and (2) review Department and contractor processes to ensure that this objective is faithfully executed. (IO1HQ005)

Qui Tams

Did you know?

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

Source: False Claims Act

The OIG has been instrumental in assisting the Department of Justice (DOJ) in Qui Tam cases in which a citizen sues on behalf of the Federal Government alleging false claims against the United States. The OIG is currently working with the DOJ on 26 Qui Tam lawsuits involving alleged fraud against the Government in the amount of approximately $135 million. In addition, the Department will receive a payment of $3.8 million as its portion of an $8.2 million settlement to resolve a False Claims Act Qui Tam lawsuit. A summary of the case follows:

Government Contractor Agrees to Pay $8.2 Million to Resolve False Claims Lawsuit

An engineering and construction contractor entered into a civil settlement agreement with the DOJ to pay $8.2 million to resolve a False Claims Act Qui Tam lawsuit, which alleged that the contractor "knowingly and deliberately" submitted millions of dollars in false invoices to the Government. The Department will receive a payment of $3.8 million as its portion of the proceeds. The remainder of the $8.2 million will be paid to other affected Federal agencies, the DOJ, and the Qui Tam relator. The contractor violated cost accounting standards, Federal Acquisition Regulations, and contract clauses when it improperly billed commercial overhead costs related to the operations of a division of the contractor to its Federal contracts. The Government contracts did not benefit from the work performed by the division. (I98LL001)

Administrative Safeguards

Former DOE Subcontractor Makes Over $350,000 Settlement with the Government

Under the terms of a Civil Settlement Agreement, a former subcontractor to the Bettis Atomic Power Laboratory was ordered to pay the Federal Government $351,580. The joint investigation by the Department's OIG, the Navy Criminal Investigative Service and the Defense Contract Audit Agency determined that the subcontractor made false claims for rent and/or facility usage charges. The Department directly received $175,790 of the settlement amount. (I92PT008)

Former Subcontractor Guilty of Submitting False Claims

An OIG investigation determined that a former subcontractor to the West Valley Demonstration Project, West Valley, New York, who was also the owner of the business, submitted false claims for a leased vehicle and temporary lodging for himself and a consultant. The investigation also determined that the subcontractor submitted false claims related to compensation and expenses for the consultant. The false claims resulted in a loss to the Department of approximately $210,000. The U.S. Attorney's Office in the Western District of New York accepted this case for criminal and civil prosecution.

On July 20, 2001, the owner pled guilty in the U.S. District Court, Buffalo, New York, to a one count violation of Title 18, U.S.C. § 287 (False Claims). Sentencing is scheduled for November 2001. (I99CN001)

Department Contractor Improves Internal Travel Policy

The OIG conducted an investigation into anonymous allegations that a University of California (UC) employee at the Los Alamos National Laboratory submitted and was reimbursed for travel vouchers by UC and by an outside entity with which the UC employee was affiliated for the same travel events. UC manages the Los Alamos National Laboratory for the Department.

Although the investigation did not substantiate the allegations, the OIG issued an Administrative Report to Management (ARM) to the Department's Albuquerque Operations Office. In the Department's response to the ARM, the OIG was informed that UC management agreed: (1) to determine whether the Government or an outside entity benefits from the travel when an employee is also affiliated with both the Government and the outside entity; (2) to review the subject employee's travel for any potential conflict of interest; and (3) to instruct its Travel Office to review the internal policies and practices thereby ensuring that all employees are in compliance with respect to claiming incurred and authorized travel costs. (I01AL002)

Intelligence Activities

The OIG issued two quarterly intelligence reports pursuant to Executive Order 12863, "President's Foreign Intelligence Advisory Board." The Order requires the Inspectors General of the Intelligence Community to report to the Intelligence Oversight Board concerning intelligence activities that Inspectors General have reason to believe may be unlawful or contrary to Executive Order or Presidential Directive.

Legislative and Regulatory Review

The OIG coordinated and reviewed 28 legislative and regulatory items, as required by the Inspector General Act of 1978 (Act). The Act requires the OIG to review existing and proposed legislation and regulations relating to Department programs and operations and to comment on the impact which they may have on economical and efficient operations of the Department.

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

effectiveness

Department manager or other Government agency for review and appropriate action. Complaints referred may include such matters as time and attendance abuse, misuse of Government vehicles and equipment, violations of established policy, and standards of conduct violations.

The OIG referred 141 complaints to Department management and other Government agencies during the reporting period. The OIG asked Department management to respond concerning the actions taken on 59 of these complaints.

Recognitions

The OIG received two "Awards of Excellence" from the President's Council on Integrity and Efficiency (PCIE) for inspections conducted during FY 2001. The PCIE annually recognizes audits, inspections, and investigations that were conducted in accordance with the highest standards of professionalism and excellence. The Inspectors received one award for their review of the Department's Office of Transportation Safeguards, which found that improvements were needed in the coordination of nuclear shipments with State, Tribal, and local government officials. The Inspectors received a second award for their work on an interagency export control review of the Commerce Control List and the United States Munitions List, which was conducted by representatives from the Offices of Inspector General from the Departments of Commerce, Defense, Energy, and State.

Reports Issued

AUDIT REPORTS ISSUED IN THE SECOND HALF OF FISCAL YEAR 2001

Report Number	Title	Date of Issue	Savings	Questioned Costs
IG-0499	Department of Energy's Super Energy Savings Performance Contracts	04-02-01	$2,000,000	
IG-0500	Virus Protection Strategies and Cyber Security Incident Reporting	04-05-01	$6,800,000	
IG-0501	Remediation and Closure of the Miamisburg Environmental Management Project	05-02-01		
IG-0502	Sale of Land at Oak Ridge	05-07-01		
IG-0503	Incentive Fees for Bechtel Jacobs Company LLC	05-07-01	$15,500,000	
IG-0504	Special Report on Performance Measures at the Department of Energy	05-11-01		
IG-0505	Utilization of the Department's Low-Level Waste Disposal Facilities	05-25-01		
IG-0507	Special Report on the Department of Energy's Implementation of the Clinger-Cohen Act of 1996	06-20-01		
IG-0508	Stocked Inventory at the Savannah River Site	06-27-01	$580,000	
IG-0509	Integrated Planning, Accountability, and Budgeting System-Information System	06-28-01	$774,198	
IG-0510	Use of Performance-Based Incentives at Selected Departmental Sites	07-09-01	$6,650,000	
IG-0511	Research and Development at Lawrence Livermore National Laboratory	07-09-01	$56,000,000	$33,600,000
IG-0512	Recruitment and Retention of Scientific and Technical Personnel	07-10-01		
IG-0513	Financial Assistance for Biomass-to-Ethanol Projects	07-16-01		
IG-0514	Administrative Control of the Hanford Reach National Monument	07-19-01	$7,500,000	
IG-0515	Control of Classified Matter at Paducah (Classified Report)	07-30-01		

IG-0516	Information Technology Support Services Contracts	08-23-01	$44,300,000	
IG-0518	Evaluation of Classified Information Systems Security Program	08-30-01		
IG-0519	The Department's Unclassified Cyber Security Program	08-30-01		
IG-0520	Peer-Reviewed Scientific Literature Generated at the Department's Light Sources	08-31-01		
IG-0521	Administration of Small Business Innovation Research Phase II Grants	08-3l-01		$5,000,000
IG-0522	The Plutonium Immobilization Plant at the Savannah River Site	09-11-01	$752,000,000	
IG-0523	Sandia National Laboratories Personal Property Accountability	09-17-01		
IG-0524	Albuquerque Operations Office's Grant Administration	09-18-01		
IG-0525	Hazardous Materials Management and Emergency Response Training and Education Center's Marketing Program	09-24-01	$4,000,000	
IG-0526	Dissemination of Research from the Environmental Molecular Sciences Laboratory	09-26-01		
IG-0527	Idaho Operations Office Mixed Low-Level Waste Disposal Plans	09-28-01	$40,000,000	
HQ-L-01-01	Review of Disbursements at Selected Department of Energy Sites	08-24-01		
CR-B-01-01	Issues Regarding Fee Structure for Three Environmental Management Contracts	05-09-01		
CR-L-01-08	Department of Energy's Environmental Restoration Worker Health and Safety	09-07-01		
CR-L-01-09	Review of the Department's Cooperative Agreements	09-26-01		

CR-FC-01-01	Federal Energy Regulatory Commission's Fiscal Year 2000 Financial Statement Audit	04-05-01		
CR-FS-01-02	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2000	04-25-01		
CR-FS-01-03	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2000	06-25-01		
ER-L-01-07	Federal Oversight Within the Office of Defense Nuclear Nonproliferation	09-20-01		
ER-FC-01-01	Office of Isotopes for Medicine and Science Report and Financial Statements, September 30, 2000	04-23-01		
ER-FC-01-02	Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2000 Financial Statement Audit	06-19-01		
ER-V-01-01	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Bechtel Jacobs Company LLC Under Department of Energy Contract No. DE-AC05-98OR2270	05-04-01		
ER-V-01-02	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Energy Systems, Inc. Under Department of Energy Contract No. DE-AC05-84OR21400	05-08-01		$242,000
ER-V-01-03	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Argonne National Laboratory Under Department of Energy Contract No. W-31-109-ENG-38	05-08-01		
ER-V-01-04	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Energy Research Corporation and UT-Battelle, LLC Under Department of Energy Contract Nos. DE-AC05-96OR22464 and DE-AC05-00OR22725	08-06-01		$120,057
WR-L-01-04	The Department of Energy's Process for Determining Stockpile Production Levels	09-27-01		
WR-V-01-03	Assessment of Changes to the Internal Control Structure and their Impact on the Allowability of Costs Claimed by and Reimbursed to Mason & Hanger Corporation Under Department of Energy Contract No. DE-AC04-91AL65030	06-08-01		

WR-V-01-04	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation Under Department of Energy Contract No. DE-AC04-94AL85000	07-05-01		$692,668
WR-V-01-05	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Honeywell Federal Manufacturing and Technologies Under Department of Energy Contract No. DE-AC04-76DP00613	08-07-01		
WR-V-01-06	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	08-17-01		
WR-V-01-07	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	08-30-01		

The OIG's Audit Followup Action:

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

*INSPECTION REPORTS ISSUED IN THE SECOND HALF OF FISCAL YEAR 2001**

Report Number	Title	Date of Issue	Savings	Questioned Costs
IG-0506	Inspection of Selected Aspects of the Office of River Protection Performance-Based Incentive Program	06-14-01		
IG-0517	Inspection of Selected Office of Security and Emergency Operations Firearms Inventories	08-24-01		
INS-O-02-04	Inspection of the Purchase of Protective Force Respirators	04-12-01		
INS-L-01-04	Safety Documentation Issues at the New Brunswick Laboratory	04-24-01		
INS-L-01-05	Environment, Safety and Health Issues at the Ashtabula Environmental Management Project	06-15-01		
INS-L-01-06	Department of Energy Intelligence Work-for-Others Projects	06-27-01		
INS-L-01-07	Accident/Injury Reporting at the Miamisburg Environmental Management Project	07-19-01		

*INVESTIGATION REPORTS ISSUED IN THE SECOND HALF OF FISCAL YEAR 2001**

Report Number	Title	Date of Issue
IO1HQ003	Special Review of the Profiling Concerns at the Department of Energy	04-03-01
IO1HQ005	Special Report of the Yucca Mountain Project	04-23-01

* Does not include non-public reports.

AUDIT REPORT STATISTICS
April 1, 2001, to September 30, 2001

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

	Total Number	One-Time Savings	Recurring Savings	Total Savings
Those issued before the reporting period for which no management decision has been made:*	12	$219,026,752	$484,370,516	$703,397,268
Those issued during the reporting period:	47	$823,572,769	$152,186,154	$975,758,923
Those for which a management decision was made during the reporting period:*	26	$78,102,208	$192,640,000	$270,742,208
Agreed to by management:		*$2,036,020*	*$396,000*	*$2,432,020*
Not agreed to by management:		*$57,166,188*	*$144,644,000*	*$201,810,188*
Those for which a management decision is not required:	14	$692,668	$0	$692,668
Those for which no management decision had been made at the end of the reporting period:*	19	$983,397,313	$491,516,670	$1,474,913,983

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

AUDIT REPORT STATISTICS

April 1, 2001, to September 30, 2001

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	$7,651,747	$84,241
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 had been made at the end of the reporting period:	4	$7,651,747	$84,241

REPORTS LACKING MANAGEMENT DECISION

The following are audit reports issued before the beginning of the reporting period for which no management decisions had been made by the end of the reporting period, the reasons management decisions had not been made, and the estimated dates (where available) for achieving management decisions. 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 audit reports and the reasons for not doing so included the delaying of settlement of final costs questioned in audits pending completion of review of work papers and voluminous additional records, additional work by the Defense Contract Audit Agency, and completion of certain legal and contractual investigations.

ER-CC-93-05	Report Based on the Application of Agreed-Upon Procedures With Respect To Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-8SR18035, October 1, 1987, to September 20, 1990, Bechtel National Inc., San Francisco, California, and Bechtel Savannah River, Inc., North Augusta, South Carolina, May 3, 1993 *(Estimated date of closure: December 31, 2001)*
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, 2001)*
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, 2001)*
ER-C-00-03	Interim Audit of Thomas Jefferson National Accelerator Facility Costs Incurred Under Contract DE-AC05-84ER40150 Fiscal Years 1994 Through 1999 *(Estimated date of closure: December 31, 2001)*

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

IG-0411	Contractor Incentive Programs at the Rocky Flats Environmental Technology Site, August 13, 1997. *The finalization of the management decision on this report is pending the resolution of one outstanding legal issue. This should occur by December 31, 2001.*
CR-B-99-02	Management of Unneeded Materials and Chemicals, September 30, 1999. *The recommendation to assign this responsibility to the Office of Procurement and Assistance Management has been forwarded to the Deputy Secretary for approval. A management decision is expected before December 31, 2001.*
IG-0457	Follow-up Audit of Program Administration by the Office of Science, January 24, 2000. *The Department is awaiting the Committee on Science, Engineering, and Public Policy's study, GPRA 2000, to be conducted by the end of this year, before it finalizes its management decision. It should be made by December 31, 2001.*
WR-B-00-07	Vehicle Use at Lawrence Livermore National Laboratory, September 20, 2000. *The finalization of the management decision on this report is pending conclusion of the selection of the best available measurement for Lawrence Livermore National Laboratory vehicle usage. It is estimated that this will occur by November 30, 2001.*

INVESTIGATIVE STATISTICS
April 1, 2001, to September 30, 2001

Investigations open at the start of this reporting period	198
Investigations opened during this reporting period	50
Investigations closed during this reporting period	59
Investigations open at the end of this reporting period	189
Qui Tam investigations opened	2
Total open Qui Tam investigations as of 9/30/01	26
Multi-agency task force investigations opened	13
Total open multi-agency task force investigations as of 9/30//01	72
Investigative reports to prosecutors and Department management	11
Recommendations to management for positive change and other actions	16
Administrative discipline and other management actions	19
Suspensions/Debarments	9
Investigations referred for prosecution	9
Accepted*	9
Indictments	9
Criminal convictions	8
Pretrial diversions	2
Civil actions	4
Fines, settlements, recoveries**	$12,791,047.11

**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
April 1, 2001, to September 30, 2001

Inspections open at the start of this reporting period	45
Inspections opened during this reporting period	25
Inspections closed during this reporting period	18
Inspections open at the end of this reporting period	52
Reports issued (includes non-public reports)	13
Inspection recommendations	
Made this reporting period	20
Accepted this reporting period	24
Implemented this reporting period	32
Complaints referred to Department management/others	141
Referrals to Department management requesting a response for OIG evaluations	59

Hotline Statistics

Hotline calls, emails, letters, and other complaints	489
Hotline calls, emails, letters, and other complaints predicated	177
Hotline referrals received via the General Accounting Office and predicated	3
Unresolved Hotline predications from previous reporting periods	19
Total Hotline predications	199
Hotline predications transferred to the Management Referral System	128
Hotline predications closed based upon preliminary OIG activity	60
Hotline predications pending disposition	11
Total predications processed	199

FEEDBACK SHEET

The contents of the October 2001 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. However, there may be additional data which could be included or changes in format which would be useful to recipients of the Report. If you have suggestions for making the Report more responsive to your needs, please complete this feedback sheet and return it to:

Department of Energy
Office of Inspector General (IG-121)
Washington, D.C. 20585

ATTN: Wilma Slaughter

Your name:

Your daytime telephone number:

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

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

Tear along dotted line

At Your Service

U.S. Department of Energy Office of Inspector General

HOTLINE

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Be a Good Corporate Citizen

Report Fraud, Waste, or Abuse By a DOE Employee, Contractor or Grant Recipient

Call 1-800-541-1625 or 202-586-4073

Additional information on the OIG can be found by visiting the OIG website – www.ig.doe.gov.