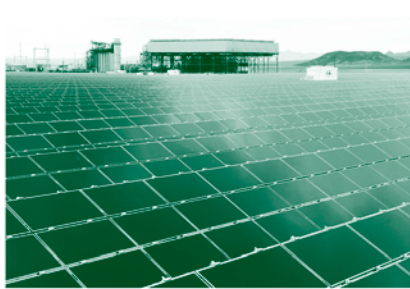




U.S. DEPARTMENT OF
ENERGY

Inspector General Semiannual Report to Congress



October 1, 2008 — March 31, 2009





Department of Energy
Washington, DC 20585

April 30, 2009

The Honorable Dr. Steven Chu
Secretary of Energy
Washington, DC 20585

Dear Secretary Chu:

I am pleased to submit the Office of Inspector General's (OIG) *Semianual Report to Congress*. This report summarizes significant OIG activities and accomplishments during the six month period ending March 31, 2009. This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to you, the Administration, the Congress, and the taxpayer.

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

Sincerely,

A handwritten signature in black ink that reads "Greg Friedman".

Gregory H. Friedman
Inspector General

Enclosure



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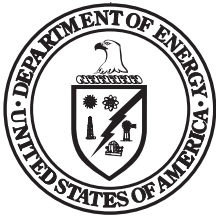
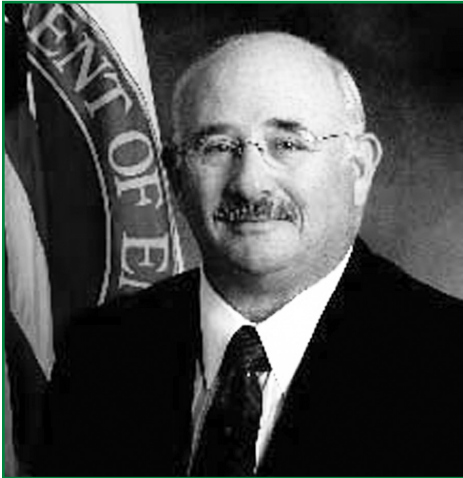


Table of Contents

Message from the Inspector General	1
American Recovery and Reinvestment Act Reports	3
Significant Audits, Inspections, and Other Reviews	4
Significant Investigative Activities	11
Positive Results	17
Highlights Based on Office of Inspector General Work	17
Congressional Responses	18
Hotline System	19
Management Referral System	19
<i>Qui Tams</i>	19
Intelligence Activities	19
Legislative and Regulatory Review	20
Statistical Information	21
Recovery Act Reports Issued	21
Audit Reports Issued	22
Inspection Reports Issued	25
OIG Issued Audit Reports with Recommendations for Better Use of Funds	26
OIG Issued Audit Reports with Questioned Costs	27
Reports Lacking Management Decision	28
Prior Significant Recommendations Not Implemented	28
Summary of Inspections/Special Inquiries Activities	29
Summary of Investigative Activities	30

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Message from the Inspector General



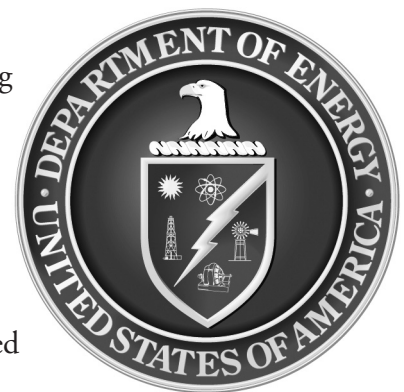
On behalf of the Department of Energy's Office of Inspector General, I am pleased to submit our *Semiannual Report to Congress* for the period ending March 31, 2009. The Report highlights key accomplishments of the Office of Inspector General, particularly pertaining to our efforts to ensure the economy, efficiency, and effectiveness of Department of Energy operations. Details pertaining to some of our most significant reviews and projects are presented in the Report.

This reporting period has been quite eventful. On February 17, 2009, the President signed the *American Recovery and Reinvestment Act of 2009*. The stated intent of this new legislation is to strengthen the U.S. economy through the creation of new jobs, aiding State

and local governments with budget shortfalls, cutting taxes for working families, and investing in the long-term health of the Nation's economic prosperity.

The Recovery Act establishes the status of the Nation's energy supply as a prime focus. Specifically, the Department of Energy will receive approximately \$40 billion for various energy, environmental, and science programs and initiatives. The passage of this legislation makes the coming months an exciting and transformative time for the Department of Energy and the Office of Inspector General. In recognition of the need for effective oversight to protect taxpayer interests, the Recovery Act includes the creation of the Recovery Act Accountability and Transparency Board and mandates specific actions by the Inspectors General. I will be a permanent member of this newly created Board, along with nine other Inspectors General whose agencies are significant recipients of Recovery Act funds.

Since the passage of the legislation, my office has developed a strategy consistent with the objectives outlined in the Recovery Act. The overarching goal of the strategy is to ensure that the taxpayers' interests relating to the performance and results of the Recovery Act are protected. During this reporting period, my office issued two reports pertaining to the Recovery Act. In our first report entitled, "The American Recovery and Reinvestment Act at the Department of Energy," we identified "lessons learned" based on prior work with the intention of providing the Department with a resource as it moves forward with its Recovery Act-related efforts. Secondly, we recently issued a report entitled, "The Department of Energy's Acquisition Workforce and its Impact on Implementation of the American Recovery and Reinvestment Act of 2009," which describes the current status of the Department's acquisition workforce, positive actions that have already been taken, and the challenges that remain in light of the impact of the Recovery Act.



Additionally, although not initiated as a Recovery Act report, shortly after the passage of the legislation, we issued a related report entitled, “The Department of Energy’s Loan Guarantee Program for Innovative Energy Technologies,” in which we evaluated the Department’s progress in establishing internal and operational controls over the program. Further, we have conducted nearly 40 fraud awareness briefings to nearly 2,000 Department and contractor officials. While such briefings are a routine part of our work, these particular briefings were specifically designed to heighten awareness of the vulnerabilities, risks, and potential fraud schemes related to the Recovery Act.

The work of safeguarding public resources and the public trust is a collaborative effort that stretches across government, including agency management and the Congress. Much work has been done, but more remains and we look forward to the coming challenges.



Gregory H. Friedman
Inspector General



American Recovery and Reinvestment Act Reports

The American Recovery and Reinvestment Act at the Department of Energy

The American Recovery and Reinvestment Act of 2009 was signed into law on February 17, 2009, as a way to jumpstart the U.S. economy, create or save millions of jobs, spur technological advances in science and health, and invest in the Nation's energy future. This national effort requires an unprecedented level of transparency and accountability. Our report provided the Department of Energy (Department) with “lessons learned” and suggested approaches for reducing the risks associated with the extraordinary level of Recovery Act funding. The report identified specific risks that we discovered during past reviews and investigations in areas such as fund accountability and reporting, grants and cooperative agreement execution, contract management, and management of loan guarantee efforts. The report also outlined ongoing and planned Office of Inspector General (OIG) activities designed to help ensure that the Recovery Act programs are well managed and that funds are protected from waste, fraud and abuse.

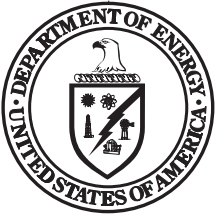
Based on a review of our report, management indicated that it had taken a number of corrective actions to address specific problems identified in

prior reviews. Management agreed to re-evaluate the potential risks identified in our report at all sites in light of the significant additional funding provided under the Recovery Act.

(OAS-RA-09-01)

Challenges Facing the Department's Acquisition Workforce

In 2007, the OIG initiated a review to examine the staffing levels of the Department's acquisition workforce. The results of the review were conveyed in an advisory memorandum to the Deputy Secretary raising concerns that the number of departmental contract specialists had not kept pace with the demand for their services. With the signing of the Recovery Act, \$40 billion was injected into the Department's budget for various energy, environmental, and science programs and initiatives to be spent as expeditiously as possible. Given the Department's almost total reliance on the acquisition process (contracts, grants, cooperative agreements, etc.), sound contract administration policies as well as a stable, experienced acquisition workforce are essential components for the effective execution and performance of its core missions. Although the number of contract specialists increased since the previous review, the impact from current demands, including the Recovery Act, poses a tremendous burden on the existing workforce. We concluded that the Department staffing efforts should continue and suggested the Department periodically re-evaluate the need for additional contract specialists and other procurement professionals as well as maximize all options for employee recruitment. (OAS-RA-09-02)



Other Significant Audits, Inspections, and Reviews

Management Challenges

As required by the Reports Consolidation Act of 2000, the OIG creates an annual list of challenges facing the Department. The effort highlights the agency's most demanding issue areas as well as those that represent key impediments to the fulfillment of the Department's critical functions. We also developed a "watchlist," which consists of significant issues that do not meet the "management challenge" threshold, yet warrant continued attention by the Department. Based on work performed by the OIG over the past reporting period, the following represent the most serious challenges facing the Department:

- Contract Administration
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Safeguards and Security
- Stockpile Stewardship

The "watchlist" consists of: Human Capital, Infrastructure Modernization, and Worker and Community Safety. (DOE/IG-0808)

The Department's Loan Guarantee Program Not Fully Implemented

The Energy Policy Act of 2005 authorized the Department to make \$42.5 billion in loan guarantees to support innovative energy projects such as new or significantly improved energy production technologies that avoid, reduce, or sequester air pollutants and other greenhouse gases. Our review disclosed that while a number of key programmatic safeguards had been developed and implemented, the Department had not yet:

- Completed a control structure necessary to award loan guarantees and monitor associated projects;
- Finalized policies and procedures for evaluating loan applications, approving loan guarantees, monitoring project and loan guarantee performance, qualifying potential lenders and monitoring participating lenders;
- Formalized procedures for disbursing loan proceeds to successful applicants; and,
- Fully staffed the Loan Guarantee Program Office.

Management concurred with our recommendations and implemented corrective actions to improve the Program. (DOE/IG-0812)

Cyber Security Improvements Needed at Bonneville Power Administration

During this audit, we sought to determine whether the cyber security program at Bonneville Power Administration adequately protected its data and

information systems. Our review identified risk management weaknesses related to the certification and accreditation of Bonneville's critical information systems. If not adequately addressed, these weaknesses could adversely impact the security of Bonneville's critical systems and the data they contain. Management concurred with the recommendations and pledged to correct problems with its cyber risk management program. (DOE/IG-0807)

Concerns over Cyber Security Risk Management Practices at Select Power Administrations

The Southeastern, Southwestern, and Western Area Power Administrations provide electrical power to customers in 29 states. Under the Federal Information Security Management Act, each entity is required to certify and accredit its information systems. This formal process is designed to ensure systems are secure prior to beginning operation and that they remain so throughout their lifecycles.

We conducted this audit to determine whether the cyber security programs at Southeastern, Southwestern, and Western Area Power Administrations adequately protected operational data and information systems. Our review identified critical certification and accreditation process weaknesses that could, if not adequately addressed, adversely impact the security of the Power Marketing Administration (PMA) systems and the data they contain. In particular, these PMAs had not:

- Developed adequate security plans for each of the 12 systems we reviewed;
- Ensured that physical and cyber security controls were tested and operating as intended;

- Developed corrective action plans necessary to resolve weaknesses in a number of important control areas; and,
- Developed contingency plans to ensure that systems could be recovered in the event of a significant outage.

Management generally concurred with the overall conclusions and recommendations in the report. (DOE/IG-0805)

National Nuclear Security Administration's Innovative Technologies

We conducted this audit to determine whether the Department's National Nuclear Security Administration (NNSA) had made progress in deploying innovative technologies to meet security requirements. While progress was made, a few technologies had not performed as expected and some maintenance requirements were more than anticipated by NNSA sites. For example, sites which had deployed infrared radar systems incurred annual maintenance costs that were nearly as much as the purchase price. Further, NNSA sites did not always analyze and evaluate technologies under actual operating conditions before selecting them for deployment. We made suggestions regarding the use of validated performance data in the selection of security technologies. (OAS-L-09-02)

Y-12 National Security Complex Accountable Classified Removable Electronic Media

The objective of this inspection was to determine whether Y-12's Accountable Classified Removable Electronic Media (ACREM) was managed,

protected, and controlled consistent with applicable requirements. We found that an unmarked hard drive had not been properly identified as Secret/Restricted Data and placed into accountability as ACREM, as required. Further, 332 metallic flat discs and data tapes located in an ACREM safe may not have been properly controlled as ACREM. Management took immediate corrective actions; therefore, no formal recommendations were made.

(INS-L-09-03)

Security Clearance Processing Improvements Needed at Department Laboratories

We initiated an inspection to determine if security clearance justifications at Lawrence Livermore National Laboratory (Livermore) and Sandia National Laboratory-California (Sandia) met the Department's requirements. Approximately 9,200 individuals hold clearances at these two sites.

Our review concluded that officials at Livermore and Sandia did not fully adhere to Department requirements regarding security clearance justifications. Specifically, we found that:

- Livermore and Sandia officials requested and retained security clearances inconsistent with Department policy; and,
- There were not adequate internal controls in place to validate justifications for clearance requests. **(INS-O-09-01)**

Improvements Needed over Department's Data Centers at Contractor Sites

We initiated an audit to determine whether the Department had effectively managed its data centers at contractor sites. Our review determined that the Department had not always improved the efficiency of its contractor sites despite opportunities to do so. Improvements such as the elimination of duplicative functions and the consolidation of operational services and hardware technologies could optimize departmental operations and energy efficiency and result in a cost savings over \$2.3 million annually. Management generally concurred with our recommendations and agreed to take corrective action. **(DOE/IG-0803)**

Management Control Improvements Needed over the Department's Excess Weapons Inventories and Selected Sensitive Equipment Used by Protective Forces

Revisions in security posture at the Department have driven its sites to upgrade their defensive and tactical equipment to better respond to threats. Subsequent changes in the perceived threats have, in some cases, led to a reduction in the need for certain types of weapons, thus creating a pool of surplus equipment. Because of prior reported weaknesses in controls over defensive and tactical equipment, we initiated this audit to determine whether the Department and its contractors were properly managing excess weapons inventories and selected sensitive equipment used by protective forces. Our review disclosed that:

- Sites maintained large inventories of weapons that were no longer needed but had not been made available for use by either other Departmental sites or other Federal law enforcement agencies; and,
- Sites were not always identifying, tracking and properly disposing of potentially high risk and sensitive equipment.

Department management, including the NNSA, generally concurred with the findings and agreed to initiate corrective action. (OAS-M-09-01)

Potential Uses for Depleted Uranium Oxide

We initiated this audit to determine whether the Department had adequately followed through on identifying potential uses for depleted uranium oxide. Our audit disclosed that the Department had not taken adequate action to facilitate development of depleted uranium oxide-based products. Management concurred with our recommendations and confirmed that the Department will issue an expression of interest to industry regulators by January 2010 identifying potential uses of the depleted uranium oxide. (DOE/IG-0810)

Follow-Up Review Determined Improvements Still Needed with the Department's Management of Nuclear Materials Provided to Domestic Licensees

In 2001, the OIG reported that the Department could not adequately account for nuclear materials loaned or leased to domestic licensees. The OIG

initiated a follow-up audit to determine whether the Department had improved its management over nuclear materials. We concluded that the Department could not always accurately account for and had not adequately managed significant quantities of nuclear materials. Management generally agreed with the recommendations in the report and has implemented corrective actions to further enhance the oversight and management of these materials. (DOE/IG-0813)

Improvements Are Needed to Increase Storage Capacity at the Pantex Plant

We conducted this audit to determine if the NNSA's Pantex Plant had identified sufficient storage capacity for its weapon parts – pits and other weapon components – to meet future mission requirements. We concluded that Pantex had inadequate capacity to store certain excess pits. Pantex could also not demonstrate that plans to dispose obsolete and excess components will mitigate potential space shortages. Management recognized the limitations of storage capacity and offered performance fee incentives to dispose of obsolete and excess parts. We made several suggestions designed to facilitate accurate storage needs calculations and projections. (OAS-L-09-03)

Issues Relating to the Production of Components for the W76 Weapon System at Sandia National Laboratory-New Mexico

The inspection was initiated to review the facts and circumstances surrounding allegations of procurement, contract management and quality

assurances irregularities associated with the production of W76 weapon components at Sandia. We found significant problems with the execution of established policies and procedures in these areas, which in turn raised questions about the overall effectiveness of Sandia's quality management system for nuclear weapon products. We made nine recommendations aimed at improving the Department's production of weapon components. Management concurred with our findings and identified corrective actions taken or planned to address our recommendations. (S06IS038)

Improvements Needed over 40 MM Grenade Launcher Qualification Requirements

The Department requires formal training and qualification programs be established to ensure that protective force officers are competent to safely and effectively perform assigned tasks. We initiated an inspection to ascertain if 40 mm grenade launcher qualification courses at Department sites were conducted in accordance with Department policy. The inspection determined that three of the six sites reviewed did not conduct qualification courses in accordance with Department policy. Management generally concurred with our findings and identified completed and planned corrective actions that addressed our recommendations. (DOE/IG-0806)

Resolution of Significant Finding Investigation Recommendations

We conducted a follow-up audit on our previous OIG audit report, *Resolution of Significant Finding Investigation Recommendations* (DOE/IG-0575, November 2002). The 2002 report disclosed that while NNSA could account for the resolution of many of the Significant Finding Investigation (SFI) corrective actions related to problems affecting weapon safety, reliability, or performance, the status of a number of additional corrective actions was not tracked. In response to the prior report, NNSA agreed to develop and implement a corrective action tracking database by December 2003. Despite its commitment to address tracking problems, we found that NNSA still could not always formally account for the resolution of corrective actions recommended in SFIs. Management agreed with the current report findings and corresponding recommendations and made a commitment to correct deficiencies. (DOE/IG-0804)

Laser Perimeter Awareness System at an NNSA Site

This inspection was initiated to determine the facts and circumstances surrounding allegations regarding the capabilities of a Laser Perimeter Awareness System (LPAS) at an NNSA site. We found that the capabilities of the LPAS were misrepresented in the sole source justification used to procure the system; that there was no analytical basis for the acquisition of the LPAS; and, that the LPAS cameras were inoperable at the time of our field work. Management concurred with our findings and identified corrective actions taken or planned to address our recommendations. (DOE/IG-0809)

Questionable Internal Audit Practices by the Washington Savannah River Company

We conducted a review to determine whether audits completed by the Washington Savannah River Company (WSRC) Internal Audit Department met the Institute of Internal Auditors standards. Our review disclosed that work performed by WSRC Internal Audit during FY 2007 was not satisfactory in several material respects. In particular, we noted that Internal Audit management, for example, had improperly modified audit results and omitted questioned costs from published audit reports. We concluded that the work performed by Internal Audit in FY 2007 could not be relied on. Until deficiencies are corrected, the allowability and allocability of the over \$1.4 billion in costs incurred and claimed by WSRC cannot be properly assessed. Management proposed corrective actions that are responsive to our recommendations. (DOE/IG-0811)

Inconsistent Contractor Severance Plans

We conducted an audit to determine whether the Department had developed a consistent approach to reimbursing contractor employee involuntary separation severance benefit costs. We found the Department had not established such policy. The lack of policy resulted in devising differing employee severance approaches that varied among contractors. We made suggestions to ensure that the Department's future involuntary separation action costs are reasonable and properly controlled and that separated employees and affected communities are treated equitably. (OAS-L-09-04)

Questionable Purchases Using Government Funds at the Hanford Site

We found that Hanford Site contractors used Government funds to purchase overtime meals for employees and gift items that were given away to the public, which appeared to conflict with Federal regulations and policies. Based upon our findings, the Department's Richland Operations Office and Office of River Protection advised us that future collective bargaining labor agreements would not allow for Government funds to be used for overtime meals. Further, the Richland Operations Office indicated that providing gifts to the public would be discontinued. (INS-L-09-02)

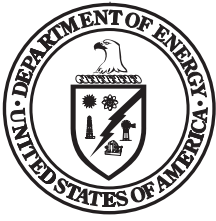
The Department's A-123 Program

We conducted this review to determine whether the final phase of the Department's implementation of A-123 conformed to established requirements. Our FY 2008 review concluded that the Department's assessment, documentation and testing of internal controls over financial reporting as of June 30, 2008, generally conformed to the requirements established by the Office of Management and Budget. In its FY 2008 Agency Financial Report Management Assurances, the Department reported that it had completed its baseline assessment and evaluation of internal controls that was initiated in FY 2006 and that its efforts provided reasonable assurance that controls were working effectively. Our review disclosed that while the Department completed the described activities, minor documentation issues existed for testing and remediation performed during the final phase of implementation. We viewed the completeness of

documentation as an important part of a successful A-123 program; accordingly, we made several suggestions to improve the processes. (OAS-L-09-05)

Improvements Needed over Compliance with Federal Managers' Financial Integrity Act

We conducted a review of selected aspects of the Department's implementation of the Federal Managers' Financial Integrity Act (FMFIA) to determine whether its FY 2008 evaluation of internal controls was carried out in a reasonable and prudent manner and adequately disclosed detected waste or other reportable problems. Overall, the Department's FY 2008 FMFIA evaluation was carried out in a reasonable manner and generally disclosed known reportable problems. However, our review found that some departmental elements continued to employ practices that did not fully comply with established policies and guidelines. We made suggestions to achieve a more robust quality assurance process. (OAS-L-09-06)



Significant Investigative Summaries

Fraud Awareness Briefings

The OIG provided fraud awareness briefings to groups of Federal employees, contractor officials, and fund recipients. These briefings aid significantly in preventing fraud, waste and abuse by heightening managers' awareness of fraud indicators and familiarizing officials with our operations and oversight of Recovery Act funds. Our office conducted 40 fraud awareness briefings hosting over 2,000 participants.

\$31 Million Settlement Reached in the Sale of Defective Body Armor

As previously reported, a joint investigation determined that a body armor manufacturer knowingly participated in the manufacturing and sale of defective body armor containing Zylon. The body armor company sold the defective body armor to the Department as well as to other Federal, State, local and tribal law enforcement agencies. The company previously agreed to pay a total of \$15 million to resolve allegations that it violated the False Claims Act. During this reporting period, another company responsible for the manufacture and sale of the defective body armor paid the Government \$30 million to settle

allegations that it violated the False Claims Act. A third company responsible for the weaving and sale of the defective body armor also agreed to pay the Government in excess of \$1 million.

Federal Grantee Agrees to Pay \$7.6 Million to Resolve False Claims Act Allegations

A joint OIG investigation determined that a Federal grantee violated Federal rules and procedures regarding cost transfers, cost allocations, and time and effort reporting over a 7-year period from January 2000 to December 2006. The grantee, a university, had improperly transferred unallowable costs to Federal grants on or about the expiration date in order to spend down remaining grant funds. The investigation also determined that the university improperly charged Federal grants for summer salaries for researchers for unrelated work. The university agreed to pay the Government \$7.6 million to resolve these issues.

Washington Savannah River Company Agrees to \$2.4 Million Settlement

An investigation determined that Washington Savannah River Company withheld pension contribution information from the Department during negotiations for the management and operating contract at the Department's Savannah River Site. Failure to disclose this information had a net effect of making additional monies available for the firm's award fee pool. The contractor agreed to pay in excess of \$2.4 million to resolve allegations of fraud. The settlement also required the contractor to abandon a claim for fee payment of \$35.6 million from the Department, making the total value of the settlement to the Government in excess of \$38 million.

Romanian National Sentenced for Hacking into U.S. Government Computers

A joint DOE OIG investigation with the Naval Criminal Investigative Service, the National Aeronautics and Space Administration OIG, and the Federal Bureau of Investigation determined that a Romanian national hacked into unclassified computers and servers at different Department facilities, including Sandia National Laboratories, Lawrence Berkeley National Laboratory, Thomas Jefferson National Accelerator Facility, and Oak Ridge National Laboratory. The individual was sentenced by the First Instance Court, Arad, Romania, to 40 months probation and further ordered to pay restitution and fees of approximately \$225,821, of which \$19,032 was returned to the Department.

Two Former Contractor Employees Sentenced for Arson

A joint investigation determined that two contractor employees at the Department's Idaho National Laboratory intentionally set fire to 1,557 acres of land belonging to the Department and the Bureau of Land Management. Both individuals pled guilty to charges of Setting Fire to Public Land. One of the individuals was sentenced to 14 months incarceration. The second individual received a sentence of three months home detention and three years probation. Both individuals were ordered to pay restitution totaling \$167,820.54. One of the individuals resigned from his position. The second individual was terminated for cause.

Five Individuals Sentenced in Conspiracy to Damage/Destroy Energy Facilities

As previously reported, an OIG investigation determined that a group of eight individuals burglarized Bonneville Power Administration and Portland General Electric substations. The individuals stole recyclable metals, tools, and personal property. Their actions resulted in approximately \$50,000 in losses and damages. Each of the eight individuals previously pled guilty to Destroying or Damaging an Energy Facility. Three of the eight individuals were previously sentenced and ordered to make restitution. During this reporting period, the remaining five individuals were sentenced ranging from one day to four months in prison, and two to four years probation, and they were ordered to pay \$98,613 in restitution.

Former Department Employee Convicted of Theft of Government Property

An investigation determined that a former Headquarters administrative support specialist claimed and was paid for 2,415 overtime hours for work not performed. The employee received approximately \$94,494 in compensation over a three year period for which the employee was not entitled. The individual pled guilty to one count of Theft of Government Property. Sentencing is pending.

Four Individuals Sentenced in Conspiracy to Damage/Destroy Energy Facilities

As previously reported, an OIG investigation determined that an organized group of four individuals burglarized the Bonneville Power Administration and the Flathead Electric Cooperative substations in Montana and stole recyclable metals. Their actions resulted in approximately \$87,000 in losses and damages. Each of the four individuals previously pled guilty to Conspiring to Destroy or Damage an Energy Facility. During this reporting period, the 4 individuals received sentences ranging from 6 months home detention to 18 months in prison and each received 3 years probation. The total combined amount of restitution ordered was \$91,195.

Former Contractor Employee Debarred for Theft of Government Property

A former contractor employee at the Argonne National Laboratory was issued a Notice of Debarment in response to an OIG Investigative Report to Management. An investigation determined that the individual stole Government property valued at \$9,800. The subject previously pled guilty to theft and was sentenced to 90 days incarceration, 2 years probation, and ordered to pay \$9,800 restitution.

Individuals Sentenced for Theft of Government Property

An investigation determined that three individuals conspired to steal copper from the Oak Ridge Reservation and sell it to metals recycling companies for personal gain. The individuals, who had no affiliation with the Department, pled guilty to Theft of Property and were sentenced: 2 to probation, and 1 to 30 days incarceration and 4 years probation as well as placement in a community corrections program. The three individuals were also ordered to reimburse the Government a total of \$4,966.

Former Contractor Employee Sentenced for Theft of Government Property

An investigation determined that a former employee at Los Alamos stole four government-owned laptops and various computer-related devices valued at \$15,000. The individual pled guilty to 1 count of Embezzlement and was sentenced to 30 days incarceration, 2 years supervised release, and fined \$7,000.

Pantex Plant Employee Sentenced for Theft of Government Property

As previously reported, a joint investigation with local law enforcement determined that a contractor employee whose job included transporting nuclear weapons within the Pantex Plant stole various items, including multiple desktop computers, a flat screen monitor, and a printer/copier/facsimile unit from the Pantex Plant. The employee pled guilty to one count of Theft of Government Property. During this

reporting period, the employee was sentenced to six months incarceration and three years supervised release and fined \$2,100. The individual also was suspended from future Government contracting.

Individual Sentenced in Compensation Fraud Investigation

As previously reported, an OIG investigation determined that the son of a deceased Department employee forged his mother's signature on three Energy Employees' Occupational Illness Compensation Program Act claim forms in an attempt to obtain \$275,000 in benefits to which he was not entitled. The son pled guilty in U.S. District Court to one felony count of False Statements. During this reporting period, the son was sentenced to 6 months home confinement, 3 years probation, 100 hours of community service, and fined \$100.

Former Contractor Employee Pled Guilty to Theft of Government Property

An investigation determined that a former employee at Los Alamos stole various types of recyclable metal from the Laboratory and sold it for personal gain. The individual pled guilty to one count of Petty Larceny and was sentenced to three days in jail, six months supervised probation, and was fined \$370.

Former Subcontractor Employee Debarred from Government Contracting

In response to an OIG Investigative Report to Management, a former subcontractor at Los Alamos was debarred from Government contracting and Government-approved subcontracting for a period of three years. A joint OIG investigation with the Federal Bureau of Investigation and local law enforcement determined that the subject removed classified documents and electronic media from Los Alamos without authorization. The subject previously pled guilty to one count of Unauthorized Removal and Retention of Classified Material and was sentenced to two years supervised probation.

Department Employee Suspended and Financial Reporting Requirements Strengthened in Response to OIG Conflict of Interest Investigation

An OIG investigation determined that a Bonneville Power Administration (BPA) employee performed subcontract work for a BPA contractor modifying computer-aided drawings. During this time, the BPA employee was found to have a financial conflict of interest as he was responsible for assigning work to the same contractor. In response to an OIG Investigative Report to Management, the BPA employee received a three-day suspension without pay. BPA also required that all Contracting Officer Technical Representatives receive specific ethics training and file annual Confidential Financial Disclosure Reports irrespective of occupation code or grade.

Former Department Manager Pled Guilty to Theft of Government Funds

An OIG investigation determined that a Headquarters manager improperly initiated, approved, and received a \$7,500 individual cash award for personal work performance. The individual was placed on administrative leave during the course of the investigation and subsequently resigned. The individual pled guilty to one felony count of False Statements. Sentencing is pending.

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Positive Results

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

- The Department updated policies to reflect current requirements for securing national security systems. In addition, certain programs conducted reviews to ensure that systems were in compliance with updated requirements. **(DOE/IG-0800)**
- The Department took positive actions to develop policies and strengthen network and system cyber security defense. The number of significant cyber security weaknesses identified dropped from a high of 69 in 2002 to only 9 in 2008, of which only 2 were new findings. **(DOE/IG-0801)**
- NNSA management developed a process to document performance criteria, technical specifications, and performance test needs for security technology purchases and to continue improving the quality of documentation relating to sole source justifications at a specified site. **(DOE/IG-0809)**
- Sandia National Laboratory's Nuclear Weapons Strategic Management Unit (NWSMU) Production Governance Board will review technical proposals for new contracts with nuclear weapon component suppliers for correctness and completeness. The NWSMU will also perform a self assessment of recent technical proposal evaluations to validate that the "Best Value" determination, which considers the technical/cost tradeoff, is sufficiently documented and adheres to Sandia's procurement guidelines. **(S06IS038)**
- NNSA and the Office of Environmental Management implemented actions to ensure that the sites we evaluated that use the 40 mm grenade launcher weapon system had established protective force weapon qualification courses for all environmental conditions. Such qualification courses are of particular importance to ensure protective force officers are capable of implementing site safeguards and security plans. **(DOE/IG-0806)**
- NNSA agreed to implement validation samplings of security clearance requests to address that unnecessary security clearance requests at Livermore and Sandia Laboratories contributed to excessive costs and a security clearance request processing backlog. **(INS-O-09-01)**
- NNSA officials acknowledged that an SFI corrective action database should have been completed and functional. The database has been deployed and is now being used by Sandia, Livermore, and Los Alamos Laboratories. In addition, milestones have been established to fully populate the database. Finally, the database will be accessible to NNSA's production sites by April 2009. **(DOE/IG-0804)**

- The Department developed a draft Nanotechnology Notice to prescribe safety practices for working with Nanotechnology activities within the Department of Energy. The draft Notice responded to our findings that the Department and its laboratory contractors had not always employed precautionary safety measures as outlined by the Centers for Disease Control/National Institute of Safety and Health. While some laboratories had established work practices concerning the safe handling of nanoscale materials, the Department's laboratories we reviewed generally had not (1) performed medical surveillance on individuals working with these materials; (2) monitored the workplace environment for exposure to airborne nanoscale materials; (3) provided specific training in the safe handling of nanoscale materials; and, (4) required that nanoscale materials research be performed in facilities equipped with all of the suggested engineering health and safety controls. The Department's draft Notice prescribes safety precautions to be followed by its laboratories that are consistent with measures suggested by the National Institute of Safety and Health, as well as those suggested by other voluntary consensus setting organizations. **(DOE/IG-0788)**
- NNSA recouped \$29,000 from inappropriate travel voucher claims following internal travel audits at Livermore and Los Alamos. **(DOE/IG-0794)**

The Department's FY 2008 Consolidated Financial Statements

An audit of the Department's FY 2008 Consolidated Financial Statements resulted in an unqualified audit opinion. Pursuant to requirements established by the Government Management Reform Act of 1994, the FY 2008 Consolidated Financial Statements presented fairly in all material respects the financial position of the Department. One matter, related to unclassified network and information systems security, was identified as a significant deficiency. The audit, however, disclosed no instances of noncompliance that are required to be reported under applicable audit standards. **(DOE/OAS-FS-09-01)**

Congressional Responses

During the reporting period October 1, 2008, through March 31, 2009, the OIG provided information at the request of Congress in 19 instances and briefed Committee staff on 8 occasions. In addition, the OIG testified at one congressional hearing:

On March 19, 2009, before the Subcommittee on Investigations and Oversight, House Committee on Science and Technology, entitled "Follow the Money: Accountability and Transparency in Recovery Act Science Funding."

Hotline System

The OIG operates a Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. During this reporting period, the Hotline received 1,209 contacts, of which 503 warranted further processing as complaints. The OIG Hotline System can be reached by calling **1-800-541-1625** or **1-202-586-4073**.

Management Referral System

The OIG referred 92 complaints to the Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 35 of these complaints. Otherwise, Department management was asked to respond only if it developed information or took action that it believed should be reported. The following referrals demonstrate management's use of OIG-provided information to stimulate positive change or to take decisive action:

- A complaint raised a security concern regarding removal of a guard post at a contractor-operated facility in an area where traffic had increased. In response to the complaint, the program office physically inspected the guard post, interviewed site personnel, reviewed relevant documents, and evaluated the approved security plan. Based on this information, the program office instructed the contractor to put the guard back on the post and admonished the contractor not to make changes to guard postings in the approved security plan without first consulting with the program office.

- In response to a complaint of time and attendance abuse by a contractor employee, the program office had the contractor's internal auditors conduct an inquiry. The inquiry showed that the employee had a serious problem reporting and recording time and that the inattentiveness of supervisors may have caused the problem to persist for several years. The report of inquiry listed corrective actions, both taken and planned, including: random audits of actual versus recorded employee time and training of supervisors.

Qui Tams

Since 1996, the OIG has been instrumental in working with the Department of Justice in *Qui Tam* cases. The OIG is currently working on 15 *Qui Tam* lawsuits involving alleged fraud against the Government in the amount of approximately \$263,625,000. These cases are highly resource intensive, requiring the active participation of OIG investigative and audit assets. However, they have proven to result in a high return on our investment of resources.

Intelligence Activities

Pursuant to requirements of the Foreign Intelligence Surveillance Act of 1978, as amended July 10, 2008, during this period the OIG issued a report entitled "Department of Energy Activities Involving the President's Surveillance Program." (INS-L-09-01)

Legislative and Regulatory Reviews

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on departmental economy and efficiency. The OIG coordinated and reviewed 26 items during the reporting period.



Statistical Information

Recovery Act Reports Issued

October 1, 2008 – March 31, 2009

Report Number	Title	Date Issued	Savings	Questioned Costs
IG-RA-09-01	<i>The American Recovery and Reinvestment Act at the Department of Energy</i>	03-20-09		
IG-RA-09-02	<i>The Department of Energy's Acquisition Workforce and its Impact on Implementation of the American Recovery and Reinvestment Act</i>	03-30-09		

Audit Reports Issued

October 1, 2008 – March 31, 2009

Report Number	Title	Date Issued	Savings	Questioned Costs
IG-0803	<i>Management of the Department's Data Centers at Contractor Sites</i>	10-30-08	\$2,300,000	
IG-0804	<i>The Resolution of Significant Finding Investigation Recommendations (U)</i>	11-18-08		
IG-0805	<i>Cyber Security Risk Management Practices at the Southeastern, Southwestern, and Western Area Power Administrations</i>	11-20-08		
IG-0807	<i>Cyber Security Risk Management Practices at the Bonneville Power Administration</i>	12-09-08		
IG-0808	<i>Management Challenges at the Department of Energy</i>	12-23-08		
IG-0810	<i>Potential Uses for Depleted Uranium Oxide</i>	01-09-09	\$413,000,000	
IG-0811	<i>Washington Savannah River Company, LLC, Internal Audit Function</i>	01-14-09		
IG-0812	<i>The Department of Energy's Loan Guarantee Program for Innovative Energy Technologies</i>	02-17-09		
IG-0813	<i>The Department's Management of Nuclear Materials Provided to Domestic Licensees</i>	02-18-09		
OAS-M-09-01	<i>Management Controls over the Department's Excess Weapons Inventories and Selected Sensitive Equipment used by Protective Forces</i>	01-22-09	\$890,000	
OAS-L-09-01	<i>Review of the Department of Energy's Contract with AHTNA Government Services Corporation Contract No: DE-AC52-04NA25282</i>	10-30-08		
OAS-L-09-02	<i>National Nuclear Security Administration's Use of Innovative Technologies to Meet Security Requirements</i>	10-31-08		
OAS-L-09-03	<i>Storage Capacity at the Pantex Plant</i>	01-29-09		
OAS-L-09-04	<i>Contractor Severance Plans at the Department of Energy</i>	02-12-09		

Audit Reports Issued

October 1, 2008 – March 31, 2009

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-L-09-05	<i>The Department of Energy's Implementation of Revised OMB Circular No. A-123</i>	02-26-09		
OAS-L-09-06	<i>Federal Managers' Financial Integrity Act</i>	03-06-09		
OAS-V-09-01	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory Under Department of Energy Contract No. W-7405-ENG-36 for Fiscal Year 2005</i>	10-14-08		\$1,380,293
OAS-V-09-02	<i>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 During Fiscal Year 2006 Under Department of Energy Contract No. W-7405-ENG-48</i>	11-14-08		\$68,991
OAS-V-09-03	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to B&W Technical Services Y-12, LLC (formerly BWXT Y-12, LLC) Under Department of Energy Contract No. DE-AC05-00OR22800 During Fiscal Years 2006 and 2007</i>	11-24-08		\$16,559,651
OAS-V-09-04	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory Under Department of Energy Contract No. W-7405-ENG-36 from October 1, 2005 to May 31, 2006</i>	11-25-08		\$4,119,763
OAS-V-09-05	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Bechtel Jacobs Company LLC During Fiscal Year 2007</i>	12-12-08		\$2,086

Audit Reports Issued

October 1, 2008 – March 31, 2009

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-V-09-06	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Fermi National Accelerator Laboratory During Fiscal Years 2005 through 2007</i>	01-08-09		\$19,024
OAS-V-09-07	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to the Stanford Linear Accelerator Center Under Department of Energy Contract Numbers DE-AC03-76-SF00515 and DE-AC02-76-SF00515 During Fiscal Years 2004 through 2007</i>	01-29-09		\$11,000,000
OAS-FS-09-01	<i>Department of Energy's Fiscal Year 2008 Consolidated Financial Statements</i>	11-13-08		
OAS-FS-09-02	<i>Federal Energy Regulatory Commission's Fiscal Year 2008 Financial Statement Audit</i>	11-13-08		
OAS-FS-09-03	<i>Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2008</i>	01-06-09		
OAS-FS-09-04	<i>Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2008</i>	01-06-09		

Inspection Reports Issued

October 1, 2008 – March 31, 2009

Report Number	Title	Date Issued
INS-L-09-01	<i>Department of Energy Activities Involving the President's Surveillance Program</i>	11-06-08
S06IS038	<i>Issues Relating to the Production of Components for the W76 Weapon System at Sandia National Laboratory-New Mexico</i>	11-18-08
IG-0806	<i>40 MM Grenade Launcher Qualification Requirements at Department of Energy Sites</i>	11-25-08
INS-L-09-01	<i>Security Clearances at Lawrence Livermore National Laboratory and Sandia National Laboratory-California</i>	12-11-08
IG-0809	<i>Pantex Laser Perimeter Awareness System</i>	01-05-09
INS-L-09-02	<i>Questionable Purchases at the Hanford Site</i>	01-30-09
INS-L-09-03	<i>Y-12 National Security Complex Accountable Classified Removable Electronic Media Program</i>	03-16-09

OIG Issued Audit Reports with Recommendations for Better Use of Funds

October 1, 2008 – March 31, 2009
(Dollars in Thousands)

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

	Total Number	One Time Savings	Recurring Savings	Total Savings
A. Those issued before the reporting period for which no management decision has been made:*	6	\$708,460,262	\$0	\$708,460,262
B. Those issued during the reporting period:	21	\$416,190,000	\$0	\$416,190,000
C. Those for which a management decision was made during the reporting period:*	14	\$523,478,500	\$0	\$523,478,500
(i) Agreed to by management:		\$108,748,500	\$0	\$108,748,500
(ii) Not agreed by management:		\$700,000	\$0	\$700,000
D. Those for which a management decision is not required:	9	\$0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	4	\$1,015,201,762	\$0	\$1,015,201,762

Definition of Terms Used in the Table

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

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

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

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

OIG Issued Audit Reports with Questioned Costs

October 1, 2008 – March 31, 2009

(Dollars in Thousands)

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

	Total Number	Questioned Costs	Unsupported Costs
A. Those issued before the reporting period for which no management decision has been made:*	0	\$10,189,180	\$872,749
B. Those issued during the reporting period:	7	\$33,148,907	\$901
C. Those for which a management decision was made during the reporting period:*	6	\$30,403,376	\$901
(i) Value of disallowed costs:	0	\$244,842	\$0
(ii) Value of costs not disallowed:	0	\$1,170,788	\$0
D. Those for which a management decision is not required:	0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	1	\$41,922,457	\$873,650

Definition of Terms Used in the Table

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

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

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

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

Reports Lacking Management Decision

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

Management Audits

IG-0753: *Recovery Costs for the Proprietary Use of the Advanced Photon Source, January 11, 2007* - The finalization of the management decision is awaiting the resolution of a complex accounting issue. A final management decision is expected by September 30, 2009.

IG-0788: *Nanoscale Materials Safety at the Department's Laboratories, February 28, 2008* - This management decision is currently undergoing final senior management review and concurrence. The Department made a commitment to finalize a related Departmental directive prior to submitting the final management decision to ensure responsiveness to the report recommendations. The directive has now been finalized and the final management decision is expected to be issued by April 30, 2009.

IG-0795: *Meeting Medical and Research Needs for Isotopes Derived from Uranium-233, May 29, 2008* - This management decision is currently undergoing final senior management review and concurrence. The time for management decision was extended due to consideration of legislative and policy issues impacting the Department's response to the recommendations. The final management decision is expected to be issued by June 30, 2009.

Prior Significant Recommendations Not Implemented

As of March 2009, closure actions on recommendations in 35 OIG reports had not been fully implemented within 12 months from the date of report issuance. The OIG is committed to working with management to expeditiously address the management decision and corrective action process, recognizing that certain initiatives will require long-term, sustained, and concerted efforts. The Department has closed 135 recommendations in the last 6 months. Management updates the Departmental Audit Report Tracking System on a quarterly basis, most recently in March 2009. Information on the status of any report recommendation can be obtained through the OIG's Office of Audit Services and Office of Inspections.

Summary of Inspections Activities

October 1, 2008 – March 31, 2009

Inspections open as of October 1, 2008	34
Inspections opened during this reporting period	14
Inspections closed during this reporting period	14
Inspections open as of March 31, 2009	34
Reports issued (includes non-public reports)	7
Report Recommendations:	
Issued this reporting period	19
Accepted by management this reporting period	19
Implemented by management this reporting period	31
Funds recovered	\$29,000
Complaints Referred to Department management/others	92
Those requesting a response for OIG evaluation	35
HOTLINE ACTIVITY	
Hotline calls, emails, letters, and other complaints*	503
Hotline calls, emails, letters, and other complaints predicated	153
Unresolved Hotline predications from previous reporting period	2
Total Hotline predications	155
Hotline predications transferred to the Management Referral System	99
Hotline predications closed based upon preliminary OIG activity	39
Hotline predications pending disposition	17
Total Hotline predications	155

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

Summary of Investigative Activities

October 1, 2008 – March 31, 2009

Cases open as of October 1, 2008	222
Cases opened during period	52
Cases closed during period	65
Multi-Agency Task Force Cases Opened	19
<i>Qui Tam</i> investigations opened	1
Total Open <i>Qui Tam</i> investigations as of March 31, 2009	15
Cases currently open as of March 31, 2009	209
IMPACT OF INVESTIGATIONS:	
Administrative discipline and other management actions	29
Recommendations to management for positive change and other actions	29
Suspensions/Debarments	14
Accepted for prosecution*	21
Indictments	7
Criminal convictions	14
Pretrial diversions	1
Civil actions	5
TOTAL DOLLAR IMPACT** (Fines, settlements, recoveries)	\$77,376,704.95

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

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

Feedback Sheet

The contents of the March 2009 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. If you have any suggestions for making the report more responsive, please complete this feedback sheet and return it to:

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

ATTN: Felicia Jones

Name: _____

Daytime Telephone Number: _____

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

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

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U.S. Department of Energy
Office of Inspector General

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