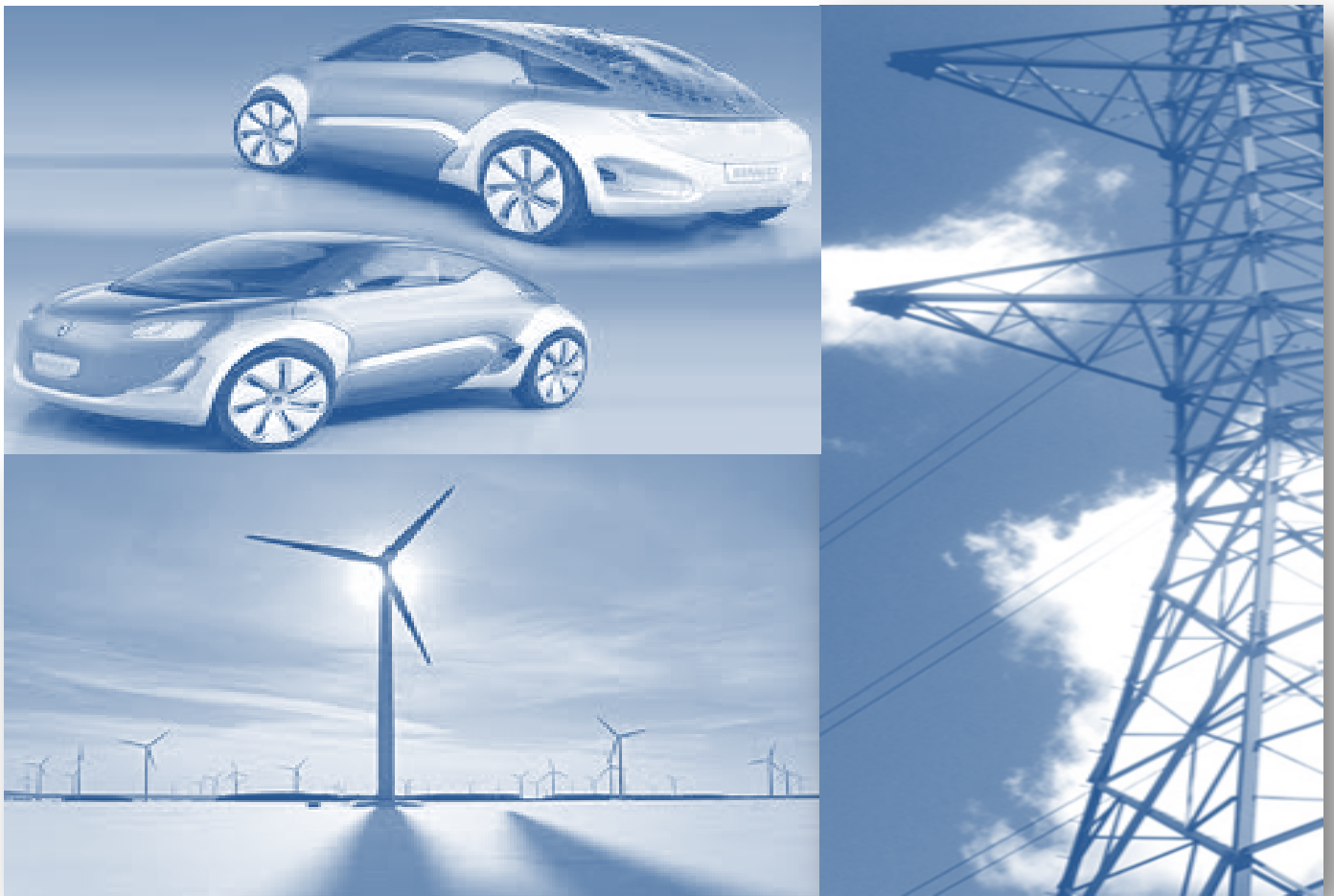




U.S. DEPARTMENT OF

ENERGY

OFFICE OF INSPECTOR GENERAL



Semiannual Report to Congress

October 1, 2012 – March 31, 2013

DOE/IG-0064

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Inspector General's Message

I am pleased to submit the Semiannual Report to Congress for the period ending March 31, 2013. This report highlights our efforts to strengthen the integrity, economy and efficiency of the Department of Energy's (Department) programs and operations.

During this reporting period, we focused our efforts on Departmental programs and operations that are critical to the success of the Department's core mission. Our work focused on areas such as cyber security, small business innovation research and technology transfer, stockpile stewardship, American Recovery and Reinvestment Act of 2009 (Recovery Act)-related programs, environmental clean-up and contractor governance. As a result of limited resources, our efforts in these and other areas are designed to assist the Department in making thoughtful and consistent programmatic and management choices that maximize impact.

I appreciate the efforts of my staff for their commitment in providing independent, accurate, timely and balanced information to Department leadership, Congress and other key stakeholders.



Gregory H. Friedman
Inspector General

Impacts

Key Accomplishments

Total Reports Issued:	68
<i>Audit Reports</i>	39
<i>Inspection Reports</i>	9
<i>Recovery Act Reports</i>	20
Funds Put to Better Use	\$ 15.0 million
Questioned Costs	\$526.5 million
Unsupported Costs	\$ 14.9 million
Dollars Recovered (Fines, Settlements, and Recoveries)	\$ 25.2 million
Criminal Convictions	11
Suspensions and Debarments	22
Civil and Administrative Actions	12
Hotline Complaints Received and Processed	2,591

Positive Outcomes

Highlights Based on Our Work

During this reporting period, the Department took positive actions as a result of Office of Inspector General (OIG) work conducted during the current or previous periods.

Consistent with our findings and recommendations:

- The Department of Justice and the U.S. Attorney for the Eastern District of Washington have announced a global settlement agreement with CH2M Hill Hanford Group, Inc. (CH2M Hill) and its parent company. In summary, CH2M Hill has agreed to pay a total of \$18.5 million to resolve allegations of wide-spread timecard fraud at the Hanford Site. The settlement follows an investigation that confirmed extensive timecard fraud by CH2M Hill employees from 2005 to 2008.

Company hourly employees involved in the cleanup routinely overstated the number of hours they worked. Additionally, we learned that CH2M Hill management condoned the practice and submitted inflated claims to the Department that included the fraudulently claimed hours. To date, eight of the employees have entered guilty pleas, and a number are pending adjudication. The global settlement consists of CH2M Hill paying \$16.5 million to resolve its civil liability under the False Claims Act. In addition, CH2M Hill entered into a Non-Prosecution Agreement with the U.S. Attorney's Office for the Eastern District of Washington to resolve its criminal liability. Under the terms of that agreement, CH2M Hill will refund an additional \$1.95 million in wrongfully obtained profits, dedicate \$500,000 to foster increased accountability at the Hanford Site, and pay for independent monitoring to ensure that CH2M Hill takes adequate corrective actions.

- A former professor of Material Science and Engineering at Pennsylvania State University was sentenced to 41 months incarceration, a 1-year supervised release, and was ordered to pay \$640,660 in restitution in the U.S. District Court for the Middle District of Pennsylvania. The sentencing follows an investigation confirming that the professor applied for and received a \$1.9 million research grant from the Department's Advanced Research Projects Agency – Energy (ARPA-E) after already receiving a grant from the National Science Foundation (NSF) to perform the same work. ARPA-E was created to foster research and development of energy-related technologies. In order to avoid

“double paying” for research already funded by other Government and private entities, grant applicants were required to disclose other grants that overlapped with work proposed to ARPA-E. As previously reported, the investigation determined that the professor falsely certified in his grant application that he was not receiving additional funding to perform similar work, when, in fact, he had received the NSF grant. Additionally, the investigation revealed that the professor's private company had received a separate \$1.2 million grant from the National Institutes of Health (NIH), for which he had claimed to perform work that he had not performed while diverting proceeds from this grant to himself. The professor pled guilty to wire fraud, false statements, and money laundering.

- The Department and National Nuclear Security Administration (NNSA) issued a joint Acquisition Letter to address Contractor Domestic Extended Personnel Assignments. The Department and NNSA agreed that Department Manual 321.1-1, *Intergovernmental Personnel Act Assignments – IPAs* would apply to all IPAs throughout the Department. Further, Lawrence Livermore National Laboratory (Livermore) and NNSA have reached an agreement on the questioned costs pertaining to Livermore. The contractor will reimburse the Government \$1.9 million for unallowable costs associated with change of station assignments and intergovernmental personnel assignments.
- NNSA and Sandia National Laboratories (Sandia) resolved questioned costs related to Home Office Expenses incurred during FY 2002. After

reviewing the Defense Contract Audit Agency's audit of these expenses, the Contracting Officer negotiated a final settlement and executed the settlement agreement with Sandia.

- The California Energy Commission was able to spend over 99 percent of its Recovery Act grant before its expiration, and successfully completed 15,287 energy efficiency retrofits of existing residential and commercial buildings.
- The Livermore Site Office performed a documented assessment of all security significant changes made to national security information systems at Livermore over a 14-month period. As a result of this review, additional changes were made to Livermore's change control process to ensure that system changes continue to be properly approved and the process is adequately controlled.
- To enhance consistency in physical and cyber security practices, the Office of Environmental Management (EM) required that all qualified Federal and contractor employees, including those with and without security clearances, would be processed for the Homeland Security Presidential Directive – 12 credential.
- In response to our review, the Office of Energy Efficiency and Renewable Energy (ERRE) recovered \$842,189 in unallowable costs related to questionable labor practices at LG Chem Michigan Inc. In addition, the Department required the recipient to implement corrective actions to ensure that the issues identified would not occur again.
- In response to findings issued in conjunction with our Fiscal Years (FY) 2010 and 2011 reports on the

Department's unclassified cyber security program, programs and sites had taken corrective action to address previously identified cyber security weaknesses in the areas of access control, configuration and vulnerability management, integrity of web applications and cyber security awareness training. These actions resulted in the closure of 40 prior year findings at programs and sites throughout the Department.

- The Director, Office of Management, stated that contractor travel costs would receive an in-depth review by the Chief Financial Officer that would also identify best practices. Additionally, the Department's Management and Operating contractors would be directed to assess their foreign travel needs and submit action plans to reduce foreign travel and achieve cost savings for taxpayers.
- The Energy Efficiency and Conservation Block Grant Program (EECBG Program) had taken corrective action in response to numerous reports issued over the course of the last six months to improve the management of the Program. In particular, actions were taken to ensure grant recipients were on track to meet expenditure goals for their financial incentive programs, and were provided guidance on their responsibilities for long-term monitoring and reporting of financial incentive program funding. Further, the EECBG Program had taken steps to ensure recipients were complying with applicable laws and regulations related to Recovery Act job reporting, financial and cash management, Davis-Bacon wages, and fixed asset management. Total questioned costs of about \$1.2 million either have been or are in the process of being resolved by the Department.

- The Office of Intelligence and Counter Intelligence, a critical partner of the Department and the Intelligence Community, agreed to take corrective action to address the inadvertent exclusion of internal procedures necessary to accomplish its essential supporting functions in its next iteration of the Continuity of Operations Planning Implementation Plan. Essential supporting functions are crucial to ensure that the right personnel have sufficient resources and guidance to accomplish specific tasks during a continuity event.
- The Oak Ridge Office (ORO) and Portsmouth Paducah Project Office took corrective actions to ensure that the organizational conflicts of interests identified during the inspection were mitigated. Specifically, they prepared organizational conflicts of interest mitigation plans and agreed to develop an effective process to identify, avoid or mitigate potential organizational conflicts of interest.

Reports

Investigative Outcomes

Outcome	Outcome Summary Page
Actions in Timecard Fraud Investigations	31
Sentencing on Research Grant Fraud	31
Actions in Per Diem Investigations	31
Actions in Defective Body Armor Investigation	32
Actions in Purchase Card Fraud Investigations	32
Management and Operating Contractor Repays \$4 Million in Fees	32
Weatherization Contractor Enters into Pretrial Diversion Agreement	32
Former Department Contractor Employee Enters into a Pretrial Diversion Agreement	33
Sentencing in Recovery Act Grant Fraud Investigation	33
Actions in Rhode Island Weatherization Assistance Program Bribery Investigation	33
Guilty Plea Reached in International Investigation	33
Former Department Contractor Employees Sentenced for Theft of Government Property	34
Former Department Contractor Sentenced and Debarred for Theft of Services	34
Former Subcontractor Employee Sentenced for Theft of Copper Wire	34
Oak Ridge Office Takes Action in Response to Investigative Report to Management	34
Former Bonneville Contractor Employee Debarred	35
Recovered Funds as a Result of an OIG Investigation	35
Former Bonneville Employee Debarred	35
Former Department Employee's Spouse Sentenced	35
Former Department Contractor Employee Debarred	35
Guilty Plea in Western Area Power Administration Theft	36
Returned Recovery Act Funds	36

Audit Reports

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
DOE/IG-0871	The 2020 Vision One System Proposal for Commissioning and Startup of the Waste Treatment and Immobilization Plant	October 3, 2012				37
DOE/IG-0872	The Department of Energy's Management of Foreign Travel	October 16, 2012	\$15,000,000			37
DOE/IG-0874	Management Challenges at the Department of Energy – Fiscal Year 2013	October 19, 2012				38
DOE/IG-0873	Management of Western Area Power Administration's Cyber Security Program	October 22, 2012				38
DOE/IG-0875	Review of the Compromise of Security Test Materials at the Y-12 National Security Complex	October 26, 2012				39
DOE/IG-0876	The Department of Energy's Small Business Innovation Research and Small Business Technology Transfer Programs	November 6, 2012		\$848,616	\$525,842	40

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
DOE/IG-0877	The Department's Unclassified Cyber Security Program – 2012	November 8, 2012				40
DOE/IG-0878	Follow-up Audit of the Department's Cyber Security Incident Management Program	December 11, 2012				41
DOE/IG-0879	Naval Reactors Information Technology System Development Efforts	December 21, 2012				41
DOE/IG-0880	Management of Los Alamos National Laboratory's Cyber Security Program	February 11, 2013				42
DOE/IG-0881	National Nuclear Security Administration Contractor Governance	February 19, 2013				42
OAS-M-13-01	Paducah Gaseous Diffusion Plant's Waste Diversion Efforts	March 15, 2013				43
OAS-M-13-02	Cooperative Research and Development Agreements at National Nuclear Security Administration Laboratories	March 15, 2013				43
OAS-L-13-01	The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2012	November 7, 2012				44

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-L-13-02	Questioned, Unresolved and Potentially Unallowable Costs Incurred by Los Alamos National Laboratory During Fiscal Year 2010	November 20, 2012				44
OAS-L-13-03	The Management of the Plateau Remediation Contract	December 21, 2012				45
OAS-L-13-04	Department of Energy's Management of Surplus Nuclear Materials	January 11, 2013				45
OAS-L-13-05	The Department of Energy's International Offices and Foreign Assignments	January 16, 2013				46
OAS-L-13-06	The National Nuclear Security Administration's Weapons Dismantlement and Disposition Program	January 29, 2013				46
OAS-FS-13-01	Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2011 Financial Statement Audit	October 11, 2012				Summary Not Publicly Available – Official Use Only
OAS-FS-13-02	Management Letter on the Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2011 Financial Statement Audit	October 11, 2012				Summary Not Publicly Available – Official Use Only

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-FS-13-03	Federal Energy Regulatory Commission's Fiscal Year 2012 Financial Statement Audit	November 15, 2012				47
OAS-FS-13-04	Department of Energy's Fiscal Year 2012 Consolidated Financial Statements	November 15, 2012				47
OAS-FS-13-05	Department of Energy's Nuclear Waste Fund's Fiscal Year 2012 Financial Statement Audit	November 28, 2012				47
OAS-FS-13-06	Southwestern Federal Power System's Fiscal Year 2011 Financial Statement Audit	November 29, 2012				48
OAS-FS-13-07	Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2012 Financial Statement Audit	December 3, 2012				Summary Not Publicly Available – Official Use Only
OAS-FS-13-08	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2012	January 10, 2013				48

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-FS-13-10	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2012	January 10, 2013				Summary Not Publicly Available – Official Use Only
OAS-FS-13-09	Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2010 Balance Sheet Audit	January 15, 2013				48
OAS-FS-13-11	Management Letter on the Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2010 Balance Sheet Audit	February 26, 2013				Summary Not Publicly Available – Official Use Only
OAS-FS-13-12	Performance Audit of the Department of Energy's Improper Payment Reporting in the Fiscal Year 2012 Agency Financial Report	March 14, 2013				Summary Not Publicly Available – Official Use Only

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-V-13-01	Assessment of Audit Coverage of Cost Allowability for Los Alamos National Laboratory during Fiscal Year 2010 under Department of Energy Contract No. DE-AC52-06NA25396	November 19, 2012		\$459,342,956		Summary Not Publically Available – Official Use Only
OAS-V-13-02	Assessment of Audit Coverage of Cost Allowability for Bechtel BWXT Idaho, LLC under Department of Energy Contract No. DE-AC07-99ID13727 during Fiscal Year 2011 and the three months ended December 31, 2011	November 20, 2012		\$741		Summary Not Publically Available – Official Use Only
OAS-V-13-03	Assessment of Audit Coverage of Cost Allowability for Lawrence Livermore National Laboratory for the period October 1, 2008 thru September 30, 2010 under Department of Energy Contract No. DE-AC52-07NA27344	December 21, 2012				Summary Not Publically Available – Official Use Only

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-V-13-04	Assessment of Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC07-05ID14517 during Fiscal Year 2011	January 29, 2013				Summary Not Publicly Available – Official Use Only
OAS-V-13-05	Assessment of Audit Coverage of Cost Allowability for National Security Technologies, LLC for the period October 1, 2007 thru September 30, 2011 under Department of Energy Contract No. DE-AC52-06NA25946	January 29, 2013		\$8,945		Summary Not Publicly Available – Official Use Only
OAS-V-13-06	Assessment of Audit Coverage of Cost Allowability for Fermi National Accelerator Laboratory during Fiscal Years 2008 through 2011 under Department of Energy Contract No. DE-AC02-07CH11359	February 12, 2013				Summary Not Publicly Available – Official Use Only

Report Number	Audit Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-V-13-07	Assessment of Audit Coverage of Cost Allowability Sandia Corporation during Fiscal Years 2009 and 2010 under Department of Energy Contract No. DE-AC04-94AL85000	February 20, 2013		\$12,760,295		Summary Not Publically Available – Official Use Only
OAS-V-13-08	Assessment of Audit Coverage of Cost Allowability for Brookhaven National Laboratory during Fiscal Years 2008 through 2011 under Department of Energy Contract No. DE-AC02-98CH10886	March 15, 2013		\$23,086,303		Summary Not Publically Available – Official Use Only

Inspection Reports

Report Number	Inspection Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
INS-O-13-01	Allegations of Organizational Conflicts of Interest at Portsmouth and Oak Ridge	November 5, 2012				49
INS-O-13-02	Tactical Response Force Pursuit Operations at Idaho National Laboratory	November 30, 2012				49
INS-O-13-03	Radiological Waste Operations in Area G at Los Alamos National Laboratory	March 20, 2013				50
INS-L-13-01	Alleged Conflict of Interest at Sandia National Laboratories, New Mexico	November 5, 2012				50
INS-L-13-02	Alleged Improper use of Patented Technology at the Idaho National Laboratory	November 5, 2012				51
INS-L-13-03	Continuity of Operations Planning and Intelligence Readiness	November 16, 2012				51
INS-L-13-04	Allegations Concerning Contracting for Services of Former Employees at Sandia National Laboratories	March 15, 2013				51
INS-SR-13-01	Alleged Wasteful Spending Regarding International Travel by the Department of Energy's Deputy Secretary	January 31, 2013				52

Report Number	Inspection Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
DOE/IG-0882	Approval of Contractor Executive Salaries by Department of Energy Personnel	March 22, 2013				52

Recovery Act Reports

Report Number	Recovery Act Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-RA-L-13-01	Implementation of the Department of Energy's Concentrating Solar Power Program	November 1, 2012				54
OAS-RA-13-08	The Department of Energy's \$700 Million Smart Grid Demonstration Program Funded through the American Recovery and Reinvestment Act of 2009	January 17, 2013		\$12,300,000		54
OAS-RA-13-10	The Department of Energy's Management of the Award of a \$150 Million Recovery Act Grant to LG Chem Michigan Inc.	February 8, 2013		\$842,189		55
OAS-RA-L-13-03	The Department of Energy's Solid-State Lighting Program	February 28, 2013				55
OAS-RA-13-15	The Department of Energy's Industrial Carbon Capture and Storage Program Funded by the American Recovery and Reinvestment Act	March 21, 2013		\$3,886,000	\$14,373,000	56

Report Number	Recovery Act Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
Energy Efficiency and Conservation Block Grant Program Reports						
OAS-RA-13-01	California Energy Commission – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	October 9, 2012		\$678,000		57
OAS-RA-13-02	County of Los Angeles – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	October 9, 2012				57
OAS-RA-13-04	The Department of Energy’s American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – Efficiency Maine Trust	November 8, 2012		\$560,000		57
OAS-RA-L-13-02	The Department’s Implementation of Financial Incentive Programs under the Energy Efficiency and Conservation Block Grant Program	December 3, 2012				58

Report Number	Recovery Act Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-RA-13-12	City of Los Angeles - Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	February 19, 2013				58
OAS-RA-13-09	North Carolina State Energy Office - Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	February 19, 2013				59
OAS-RA-13-13	Texas State Energy Conservation Office - Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	February 21, 2013				59
OAS-RA-13-14	Connecticut Department of Energy and Environmental Protection - Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009	February 28, 2013				59

Report Number	Recovery Act Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-RA-13-16	The Department of Energy's American Recovery and Reinvestment Act Energy Efficiency and Conservation Block Grant Program – State of Colorado and County of Boulder, Colorado	March 28, 2013		\$2,008,000		60
Weatherization Assistance Program Reports						
OAS-RA-13-03	Community Action Partnership of Orange County – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	October 17, 2012		\$214,900		61
OAS-RA-13-05	Prince George's County Department of Housing and Community Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	January 17, 2013				61

Report Number	Recovery Act Reports	Date Issued	Better Use of Funds	Questioned Costs	Un-supported Costs	Report Summary Page
OAS-RA-13-06	Montgomery County Department of Housing and Community Affairs – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	January 17, 2013				62
OAS-RA-13-07	The Department of Energy’s Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Maryland	January 17, 2013		\$9,562,150		62
OAS-RA-13-11	Fresno County Economic Opportunities Commission – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	February 19, 2013		\$3,800		63
OAS-RA-13-17	Community Action Partnership of San Bernardino County – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	March 28, 2013		\$393,300		63

Results

Congressional Responses

During this reporting period, the Inspector General testified at two hearings, noted below:

1. Strategic Forces Subcommittee, House Armed Services Committee, on February 28, 2013. The hearing was entitled, "Nuclear Security: Actions, Accountability, and Reform."
2. Subcommittee on Oversight, House Committee on Science, Space, and Technology, on March 14, 2013. The hearing was entitled, "Top Challenges for Science Agencies: Reports from the Inspectors General - Part 2."

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. During this reporting period, the Office of Counsel reviewed 23 pieces of proposed legislation/regulations.

Reports Lacking Management Decision

The Department has a system in place to track audit and inspection 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 6 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.

[Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site \(IG-0862; April 10, 2012\)](#)

The Department is working with the OIG to identify what actions are needed to address the OIG's concerns regarding related-party transactions between the contractor and its corporate parents. The anticipated completion date for the management decision is June 30, 2013.

The Department of Energy's Clean Cities Alternative Fuel Vehicle Grant Program Funded under the American Recovery and Reinvestment Act (OAS-RA-12-12: May 22, 2012)

The finalization of the management decision on this report is awaiting review and concurrence by the necessary Department elements. This should occur by May 30, 2013.

Efforts by the Department of Energy to Ensure Energy-Efficient Management of its Data Centers (IG-0865, May 25, 2012)

Management actions to implement the OIG's recommendations were, in part, based on the issuance of an Energy Savings Performance Contract task that has since been put on hold until further notice by the Office of Management and Budget. Upon learning their decision as to whether the Office of the Chief Information Officer and the Office of Management can proceed with the task award, a revised management decision will be developed. Anticipated completion date of a final management decision is June 30, 2013.

Prior Significant Recommendations Not Implemented

As of March 31, 2013, closure actions on recommendations in 36 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. Further, the Department has closed 139 recommendations in the past 6 months. Information on the status of any report recommendation can be obtained through the OIG's Office of Audits and Inspections.

Audit and Inspection Reports with Recommendations for Better Use of Funds

October 1, 2012 – March 31, 2013

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

	Total Number	Better Use of Funds
A. Reports issued before the reporting period that include recommendations for better use of funds for which decisions on dollars have not been made:	13*	\$524,903,514
B. Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made):	1	\$15,000,000
Subtotals (A + B)	14	\$539,903,514
C. Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period:	1**	\$1,108,077
(i) Agreed to by management:		\$1,108,077
(ii) Not agreed by management:		\$0
D. Reports that include recommendations for better use of funds for which decisions on dollars have not been made at the end of the reporting period:	13*	\$538,795,437

Better Use of Funds: *Funds that could be used more efficiently by implementing recommended actions.*

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.*

*This figure includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

**This figure does not include reports for which the Department has made decisions on some aspects of the report but not all.

Audit and Inspection Reports with Questioned and/or Unsupported Costs

October 1, 2012 – March 31, 2013

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

	Total Number	Questioned Costs	Unsupported Costs	Total Costs
A. Reports issued before the reporting period that include questioned and/or unsupported costs for which decisions on dollars have not been made:	22*	\$640,057,371	\$788,658	\$640,846,029
B. Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	16	\$526,496,195	\$14,898,842	\$541,395,037
Subtotals (A + B)	38	\$1,166,553,566	\$15,687,500	\$1,182,241,066
C. Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period:*	6**	\$29,052,230	\$0	\$29,052,230
(i) Value of disallowed costs:		\$12,742,297	\$0	\$12,742,297
(ii) Value of costs not disallowed:		\$16,309,933	\$0	\$16,309,933
D. Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period:*	32*	\$1,137,501,336	\$15,687,500	\$1,153,188,836

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

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

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

*This figure includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

**This figure does not include reports for which the Department has made decisions on some aspects of the report but not all.

Investigative Activity

October 1, 2012 – March 31, 2013

Cases open as of October 1, 2012	244
Cases opened during period	61
Cases closed during period	55
Multi-Agency Task Force Cases Opened	27
Qui Tam* investigations opened	7
<i>Total Open Qui Tam investigations as of March 31, 2013</i>	18
Cases currently open as of March 31, 2013	250
IMPACT OF INVESTIGATIONS:	
Administrative discipline and other management actions	10
Recommendations to management for positive change and other actions	34
Suspensions/Debarments	22
Accepted for prosecution**	13
Indictments	10
Criminal convictions	11
Pre-trial diversions	4
Civil actions	2
TOTAL DOLLAR IMPACT*** (Fines, settlements, recoveries)	\$25,158,886

*For more information on *Qui Tams*, please select this link:

http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm00932.htm

**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 involving multiple agencies.

Hotline Activity

October 1, 2012 – March 31, 2013

Total Hotline calls, emails, letters, and other complaints (contacts)	2,591
• Hotline contacts resolved immediately/redirected/no further action	2,427
• Hotline contacts predicated for evaluation	164
Total Hotline predications processed this reporting period	203*
• Hotline predications transferred to OIG Program Office	34
• Hotline predications referred to Department management or other entity for information/action	96
• Hotline predications closed based upon preliminary OIG activity and review	56
• Hotline predications awaiting referral (as of 3/31/13)	0
• Hotline predications open at the end of the reporting period	17

Whistleblower Retaliation Complaints

October 1, 2012 – March 31, 2013

Recovery Act Whistleblower Retaliation Complaints received	1
Accepted Complaints carried over from prior period(s)	2
Disposition of Whistleblower Retaliation Complaints:	
<ul style="list-style-type: none"> • Reports issued 	2
<ul style="list-style-type: none"> • Complaints Dismissed: 	
<ul style="list-style-type: none"> - Elected another forum 	1
<ul style="list-style-type: none"> - Complaints withdrawn 	0
<ul style="list-style-type: none"> - Upon receipt of Complaint, determined not related to covered funds at the outset 	0
<ul style="list-style-type: none"> - After investigation, determined not related to covered funds after investigation 	0
<ul style="list-style-type: none"> • Recovery Act Complaints that received extensions 	2

Peer Reviews

October 1, 2012 – March 31, 2013

Results of Reviews Conducted by DOE/OIG: *Office of Audits and Inspections*

Date of Recent Peer Reviews (s)	Reviewed OIG	Outstanding Recommendations
	None	

Results of Reviews Conducted by DOE/OIG: *Office of Investigations*

Date of Recent Peer Reviews (s)	Reviewed OIG	Outstanding Recommendations
	None	

There are no outstanding recommendations from any previous peer reviews.

Results of Reviews Conducted by Other OIGs: *Office of Audits and Inspections*

Date of Recent Peer Review(s)	Reviewing OIG	Requirements For Review Frequency	Outstanding Recommendations/Link
10/2012	U.S. Treasury Inspector General for Tax Administration	At least once every 3 years	None

Results of Reviews Conducted by Other OIGs: *Office of Investigations*

Date of Recent Peer Review(s)	Reviewing OIG	Requirements For Review Frequency	Outstanding Recommendations/Link
	None		

Summaries

Investigative Outcomes

Actions in Timecard Fraud Investigations

The U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Washington reached a global settlement agreement with CH2M Hill Hanford Group, Inc. (CH2M Hill) and its parent company. The agreement required that CH2M Hill pay a total of \$18.5 million, of which \$16.5 million was to resolve its civil liability under the False Claims Act. Additionally, CH2M Hill entered into a Non-Prosecution Agreement with the U.S. Attorney's Office to resolve its criminal liability, requiring that CH2M Hill will refund \$1.95 million in wrongfully obtained profits, dedicate \$500,000 to foster increased accountability at the Hanford Site, and pay for independent monitoring to ensure that CH2M Hill takes adequate corrective actions. The investigation determined that CH2M Hill employees routinely falsified their timecards and that CH2M Hill management not only condoned the practice, but submitted inflated claims to the Department that included the fraudulently claimed hours. This is an ongoing investigation.

Sentencing on Research Grant Fraud

A former Pennsylvania State University professor was sentenced in U.S. District Court for the Middle District of Pennsylvania to serve 41 months incarceration, a 1-year supervised release, and was ordered to pay \$640,660 in restitution. The professor pled guilty to wire fraud, false statements, money laundering, and defrauding the NIH on a separate \$1.2 million research grant. As previously reported, the investigation determined the professor applied for and received a \$1.9 million research grant from the Department's ARPA-E after already receiving a grant from the NSF to perform the same work.

Actions in Per Diem Investigations

The OIG has continued to conduct a number of investigations involving improper per diem payments at the Savannah River Site. Many of these payments involved Recovery Act funds. During this reporting period, judicial and/or administrative action was taken against seven individuals and one company. These actions included plea agreements, pre-trial diversion agreements, sentencing, a civil settlement agreement, debarments, and one administrative recovery of funds. To date, the per diem investigations have resulted in over \$2.3 million in recoveries.

Actions in Defective Body Armor Investigation

As previously reported, a joint investigation was conducted into allegations that a body armor manufacturer knowingly participated in the manufacturing and sale of defective body armor. The manufacturer sold this defective body armor to the Department, as well as to other Federal, State, local, and Tribal law enforcement agencies. Several individual companies that provided component parts of the armor, or the armor itself, previously agreed to pay a total of \$60 million to resolve allegations that they violated the False Claims Act. During this reporting period, First Choice Armor and Equipment, Inc. and two of its former principals entered into civil settlement agreements to pay \$250,000 to settle False Claims Act allegations.

Actions in Purchase Card Fraud Investigations

The OIG conducted a number of investigations involving the improper use of Government purchase cards by contractor employees at the Department's Hanford Site. As previously reported, several former contractor employees were convicted, sentenced, and ordered to pay over \$1 million in restitution. Additionally, three companies previously agreed to pay over \$6 million in civil settlements. During this reporting period, one former contractor employee pled guilty to one count of misprision of a felony, and another former contractor employee pled guilty to one count of having violated the Anti-Kickback Act.

Management and Operating Contractor Repays \$4 Million in Fees

As a result of an OIG investigation, the Savannah River Site Management and Operating contractor repaid the NNSA \$4 million in award fees associated with construction of the Waste Solidification Building, which processes waste from the Mixed Oxide Fuel Fabrication Facility. The investigation determined the contractor provided NNSA with inaccurate and incomplete cost and scheduling information that resulted in the higher fee being awarded. This is an ongoing investigation.

Weatherization Contractor Enters into Pretrial Diversion Agreement

The U.S. Attorney's Office for the District of Kansas entered into a pretrial diversion agreement with the owner of a company contracted to provide weatherization services through funds awarded to the State of Kansas under the Recovery Act. As a condition of the agreement, the owner agreed to future debarment action, as well as 12 months of probation. The investigation determined the owner submitted payroll reports that falsely certified all of the company's employees working on weatherization projects had been paid in accordance with minimum wage requirements, when they had not. This was a joint investigation with the U.S. Department of Labor's OIG.

Former Department Contractor Employee Enters into a Pretrial Diversion Agreement

The U.S. Attorney's Office for the District of Oregon entered into a pretrial diversion agreement with a former Department contractor employee. As a condition of the agreement, the former contractor employee was required to pay \$30,000 in restitution to the Department and remain on good behavior for 18 months. The investigation determined that between 2003 and 2009, the former contractor employee falsified transmission line testing reports that were submitted to the Bonneville Power Administration (Bonneville).

Sentencing in Recovery Act Grant Fraud Investigation

An owner of a Department subcontractor company was sentenced in U.S. District Court for the Western District of Texas to serve 60 months incarceration, 6 years supervised release, pay an assessment, and forfeit interest and rights to 76 various weapons, explosive devices, stun grenades, and ammunition with an estimated value of \$16,175. The owner pled guilty to one count each of being a felon in possession of a firearm and possession of a destructive device. The investigation determined the owner and a former Texas State Recovery Act Grant Coordinator conspired to submit fraudulent documents and false claims to obtain approximately \$2 million in Department Recovery Act funds. This was a joint investigation with multiple State and Federal agencies.

Actions in Rhode Island Weatherization Assistance Program Bribery Investigation

A former weatherization energy auditor for a community action agency was sentenced to 1 year home confinement, 2 years probation, and 400 hours of community service. As previously reported, the energy auditor pled guilty to one count of bribery and one count of false statements. The investigation determined the former energy auditor accepted kickbacks in excess of \$30,000 from a former weatherization subcontractor while working at a community action agency between 2006 and 2007. The former energy auditor then made false statements regarding his involvement in the kickback scheme during the OIG investigation. Additionally, in response to an Investigative Report to Management (IRM), the weatherization auditor and the former weatherization subcontractor were each debarred for 3 years for their involvement in the bribery/kickback scheme. This was a joint investigation with multiple Government agencies.

Guilty Plea Reached in International Investigation

A former Department contractor employee pled guilty in the U.S. District Court for the District of Minnesota to one count of violating bulk cash smuggling. The investigation determined that the former Department contractor employee received cash bribes from subcontractors in Taiwan who were working on a NNSA project and transported as much as \$70,000 in cash back to the United States without declaring it to Customs and Border Protection.

Former Department Contractor Employees Sentenced for Theft of Government Property

Two former Idaho National Laboratory subcontractor employees were sentenced in the Butte County District Court in Arco, Idaho, to 14 days incarceration and 3 years probation, and they were fined \$750 and \$1,000, respectively. The two subcontractor employees each pled guilty to one count of Grand Theft. The investigation determined that the two subcontractor employees stole Department-owned tools and property from the Idaho National Laboratory.

Former Department Contractor Sentenced and Debarred for Theft of Services

A former Oak Ridge National Laboratory contractor employee was sentenced in the Ninth Judicial District of Tennessee to 3 years probation and ordered to pay restitution to the Department in the amount of \$20,000. The former contractor employee pled guilty to one count of theft of services in connection with submitting falsified time sheets. Additionally, in response to an IRM, the employee was debarred for a period of 3 years.

Former Subcontractor Employee Sentenced for Theft of Copper Wire

A former subcontractor employee at the Y-12 National Security Complex (Y-12) was sentenced in the Seventh Judicial District of Tennessee in Anderson County to 30 months probation and ordered to pay restitution to Y-12. The subcontractor pled guilty to one count of theft. The investigation determined that the employee stole approximately 1,400 pounds of copper wire from the Y-12 site and sold it at a local scrap yard on 15 separate occasions.

Oak Ridge Office Takes Action in Response to Investigative Report to Management

The Oak Ridge Office (ORO) responded to an IRM that addressed its electronic information management system. In response to the report, ORO created a new information security policy, which consolidated existing policies into one document and included procedures for removable media devices. Additionally, ORO procured auditing and forensics tools to help prevent any future incidents. As previously reported, the investigation determined that a former Department contractor employee copied proprietary software and a computer file from ORO systems containing personally identifiable information for 16,068 current and former Department employees and contractors without authorization prior to his termination.

Former Bonneville Contractor Employee Debarred

In response to an IRM, a former Bonneville contractor employee was debarred for a period of 3 years. As previously reported, the investigation determined that the individual embezzled approximately \$36,000 in Department funds for personal use and purchases including electronics, gym memberships, and vacations.

Recovered Funds as a Result of an OIG Investigation

As a result of an OIG investigation, the Lawrence Livermore National Laboratory (Livermore) paid \$222,264 to the Department from its management fee. The investigation determined that a Livermore contractor employee made an unauthorized purchase, reimbursed by the Department, of equipment from a company in which he held a financial interest.

Former Bonneville Employee Debarred

The Deputy Director of the Office of Procurement and Assistance Management debarred a former Bonneville Federal employee for a period of 3 years. As previously reported, the investigation determined that the former Bonneville employee stole copper cable, worth more than \$20,000, from his duty location and was sentenced in Spokane County Superior Court, Washington, to 1 day incarceration and ordered to pay \$10,232 in restitution to Bonneville.

Former Department Employee's Spouse Sentenced

The spouse of a former member of the Department's Senior Executive Service was sentenced in U.S. District Court in Greenbelt, Maryland, to serve 2 years probation, pay a \$1,000 fine, and ordered to pay the Department \$104,000 in restitution. As previously reported, the spouse was convicted on one count of aiding and abetting. The investigation determined the former employee arranged for the spouse to receive over \$1.2 million in consulting fees and subcontract payments on a Department project the former employee orchestrated.

Former Department Contractor Employee Debarred

The Deputy Director of the Office of Procurement and Assistance Management debarred a former National Energy Technology Laboratory (NETL) contractor employee for a period of 3 years. As previously reported, the former NETL contractor employee was convicted of stealing over \$5,000 in Government property from NETL and was sentenced in the Monongalia County Circuit Court in Morgantown, West Virginia, to 2 years unsupervised probation, ordered to perform 100 hours of community service, and fined. This was a joint investigation with the Morgantown Police Department.

Guilty Plea in Western Area Power Administration Theft

An individual not affiliated with the Department pled guilty to theft of Government property and destruction of an energy facility in the U.S. District Court for the District of Colorado. The investigation determined that the individual and an accomplice burglarized a Western Area Power Administration (Western) electrical substation in Sterling, Colorado, and stole several items, including a vehicle. The OIG recovered most of the property, which was valued at approximately \$100,000. This was a joint investigation with the Federal Protective Service and the Logan County, Colorado, Sheriff's Office.

Returned Recovery Act Funds

The OIG was notified that a Department grantee returned \$842,189 to the Department. The grant funds were awarded under the Recovery Act, and an audit by the OIG determined that the grantee used the funds for activities beyond the approved scope of work. Specifically, the grantee, in lieu of pending work furloughs, paid some of its employees with Department funds to work on unrelated non-profit projects outside of the workplace. This investigation continues in support of Civil False Claims Act penalties.

Audit Reports

[The 2020 Vision One System Proposal for Commissioning and Startup of the Waste Treatment and Immobilization Plant](#)

The Department is considering a proposal known as the *2020 Vision One System* (2020 Vision) that would implement a phased approach to commissioning the \$12.2 billion Waste Treatment and Immobilization Plant (WTP) including making the Low-Activity Waste (LAW) facility operational approximately 15 months before commissioning the remainder of the project. Although the implementation of the phased approach offers potential benefits, early operation of the LAW facility presents significant cost, technological and permitting risks that could adversely affect the overall success of the Office of the River Protection Project's mission of retrieving and treating Hanford Site's tank waste in the WTP and closing the tank farms to protect the Columbia River. Despite identified challenges, the Department had not developed a detailed analysis of the costs, benefits and risks of the proposal even after such steps were recommended by two independent review teams. Department officials told us that they completed a high level business analysis of certain WTP costs. However, our review found that this effort did not include a cost analysis with sufficient detail to satisfy the recommendations in the external review reports. Additionally, key technology attributes needed for the proposal may not be adequately developed to support operations. In response to our findings, Department management concurred with our recommendations, and proposed and initiated corrective actions to develop a more detailed business case analysis and to gain stakeholder input on the early treatment of LAW prior to making a decision to proceed with the proposal. (DOE/IG-0871)

[The Department of Energy's Management of Foreign Travel](#)

The Department and its workforce of 116,000 Federal and contractor personnel have numerous international exchanges and interactions at different levels and for a variety of important programmatic and other purposes. According to the Department's centralized travel database, the Foreign Travel Management System (FTMS), Federal and contractor employees made approximately 109,000 individual international trips at a cost of about \$360 million from FY 2007 through FY 2012— a 6-year period. Consistent with the Department's organizational structure and its significant reliance on contractor assistance, the vast majority of these taxpayer-funded trips, in fact about 85 percent, were taken by contractor employees. This equates to over 90,000 contractor employee foreign travel trips in the period with a cost to the government of just over \$300 million. Despite the sizable expenditure of Federal funds, the Department had not made a concerted effort to reduce contractor international travel costs. In particular, we found that the FTMS was not being fully utilized to identify overall trends in foreign travel, potential wasteful practices, and possible strategies to reduce the Department's international travel expenditures. Further, while the Department implemented a mandatory 30 percent reduction in Federal employee travel, management officials informed us that parallel action had not been taken to manage or control foreign travel by contractors. Based directly on the information sourced from the FTMS, had the Department applied the 30 percent reduction criteria to the international travel costs incurred by its 100,000 contractor workforce, as much as \$15 million

could be saved each year. In response to our immediate concern, Department management concurred with our recommendations and proposed and initiated corrective actions to assess and reduce international travel expenditures. (DOE/IG-0872)

Management Challenges at the Department of Energy – FY 2013

The Department is a multi-faceted agency responsible for executing some of the Nation's most complex and technologically advanced missions. Since the passage of the Department of Energy Organization Act in 1977, the Department has shifted its emphasis and priorities over time as the Nation's energy and security needs have evolved. In recent years, the Department has focused on issues such as clean energy innovation, energy efficiency and conservation, and science and engineering research and development. While these areas have received increased attention, the Department has continued its vital work in the areas of environmental cleanup, nuclear weapons stewardship, and nuclear nonproliferation. In order to execute this diverse portfolio, the Department receives an annual appropriation approaching \$30 billion, employs more than 115,000 Federal and contractor personnel, and manages assets valued at more than \$180 billion, including, among other facilities, 16 Federally Funded Research and Development Centers.

With this diverse set of agency objectives in mind, on an annual basis, the OIG identifies what it considers to be the most significant management challenges facing the Department. Now codified as part of the Reports Consolidation Act of 2000, under this effort we assess the agency's progress in addressing previously identified challenges and consider emerging issues facing the Department. Consistent with our mission, our goal is to use this process to advance efforts to work with the Department to enhance the effectiveness of agency programs and operations. (DOE/IG-0874)

Management of Western Area Power Administration's Cyber Security Program

The Department's Western Area Power Administration (Western) markets and delivers hydroelectric power and related services to 15 states within the central and western United States. To successfully transmit hydroelectric power to customers and local utilities within its territory, Western relies on a number of information systems that support the operation, maintenance and management of a massive electrical power complex, as well as financial and administrative activities. The audit found that Western had made a number of enhancements to its cyber security program since our prior review. However, we identified several weaknesses related to vulnerability management and security controls that could negatively impact its cyber security posture. In particular, nearly all of the workstations tested contained at least one high-risk vulnerability related to software updates or patches. Also, during internal vulnerability scanning, a network server was running an unsupported version of a software application and 30 network servers were identified that contained vulnerabilities that could have been made more secure by applying publicly available security patches and updates. In addition, external vulnerability testing revealed a public-facing application server that was configured with a default username and password, and testing of cyber security controls identified weaknesses related to access security controls. The weaknesses identified occurred, in part, because Western

had not always implemented policies and procedures related to vulnerability and patch management. In response to our finding, Department management concurred with the recommendations and initiated corrective actions for program improvements. (DOE/IG-0873)

Review of the Compromise of Security Test Materials at Y-12 National Security Complex

Following the July 28, 2012, security breach at Y-12, the Department's Office of Health, Safety and Security (HSS) was tasked with conducting a comprehensive inspection of the site's security organization. The inspection, initiated on August 27, 2012, included both practical exercises and tests designed to evaluate the knowledge, skills and abilities of the site's Protective Force. In our continued monitoring of the situation, the OIG initiated a special review into alleged compromise of the HSS inspection.

Our inquiry confirmed that the security knowledge test, including answers to the test questions, had been compromised and that it had been distributed in advance of the test to numerous WSI-Oak Ridge (WSI-OR) Captains, Lieutenants, and Security Police Officers, the very people whose knowledge was to have been evaluated as part of this process. Specifically, despite the fact that the document was labeled as a test and was initially distributed via encrypted email to individuals appointed as "Trusted Agents," WSI-OR officials treated the document as if it were a training aid, mentioned its receipt at daily Protective Force supervisor meetings, and widely distributed it to a variety of officers.

We observed several opportunities to improve the integrity and transparency of the knowledge testing process. Although the Federal official who initially distributed the test took action to protect its contents by encrypting the email used to transmit it and sending it only to "Trusted Agents," the email did not contain specific instructions for protecting the test against compromise. The transmitting email only asked for comments on the applicability of the security questions to the Y-12 environment. The lack of detailed instructions is particularly relevant in that the Department Order regarding the designation of "Trusted Agents" does not specifically mention that the practice is also applicable to security knowledge tests. In addition, as with the recent intrusion at the Highly Enriched Uranium Materials Facility described in our Special Report on *Inquiry into the Security Breach at the National Nuclear Security Administration's Y-12 National Security Complex* (DOE/IG-0868, August 2012), problems with the administration of the NNSA's contractor governance system appeared to have had a role in the compromise of the test materials at Y-12, certainly, the assurance system did not prevent the compromise. Therefore, we made several recommendations that, if fully implemented, should help restore confidence in the integrity of the Department's protective forces.

Management did not agree that its implementation of the governance process was a contributory cause of the knowledge test compromise. We recognize that there was a breakdown of controls at the contractor level regarding the Trusted Agent concept. However, our analysis also led us to conclude that there was a more fundamental issue involving the lack of in-depth security knowledge and involvement of Federal oversight officials. Management agreed to implement our recommendations regarding the integrity of security testing at all sites.

After publication of our report, Babcock and Wilcox Technical Services Y-12 (B&W Y-12) sent the Office of Inspector General a letter asking us to clarify one aspect of the report. Specifically, B&W Y-12 believed that a reader could incorrectly conclude from our report that one of its management officials routinely distributed proposed tests to security police officers prior to the test being administered. As our report notes, however, the B&W Y-12 official told us that the test was distributed to “protective force management” for validation prior to administration. **(DOE/IG-0875)**

The Department of Energy's Small Business Innovation Research and Small Business Technology Transfer Programs

The Department's Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs award grants to encourage scientific effort leading to the application of new ideas and technology. The combined annual funding available for these two programs grew from \$116.8 million in FY 2006 to \$175.5 million in FY 2012. In addition, the programs received \$92 million in American Recovery and Reinvestment Act of 2009 funding. The audit found that the Department had not always effectively managed the SBIR and STTR programs. Specifically, we identified problems with grant financial management and grant award scoring; and substantiated an allegation that potential conflicts of interest had not been identified and properly mitigated. In the area of financial management, we found that grant closeouts continued to be an issue and the Department had not fully addressed prior concerns regarding questioned costs. During the audit, we also identified an additional \$534,000 in erroneous and unsupported costs involving bid and proposal costs, costs not allocable to the grant, excess labor charges not in compliance with Federal cost principles, and costs that lacked documentation. A Chicago Office official told us the closeout backlog was due to an increasing workload and insufficient resources. Also, we noted that neither topic managers nor merit reviewers were required to certify for each funding opportunity announcement that they were free from conflicts of interest. In response to our finding, management generally concurred with the recommendations and proposed corrective actions to address issues identified in the areas of financial management and grant awards. **(DOE/IG-0876)**

The Department's Unclassified Cyber Security Program - 2012

As the use of information technology resources continues to expand, the number of cyber security threats against Federal agencies has also increased. To help mitigate the risks posed by such threats, the Department expended significant resources in FY 2012 on cyber security measures designed to secure its information systems and data that support various program operations. We noted that the Department and the NNSA took corrective actions to address 40 of 56 weaknesses identified during our prior year evaluation and initiated a transition to a more risk-based approach to securing its resources. While this is a positive trend, our current evaluation found that the types and severity of weaknesses continued to persist and remained consistent with prior years. In addition to the 16 previously identified weaknesses that remained uncorrected, including 4 from FY 2010, an additional 22 cyber security weaknesses were identified at various locations including problems with access controls, vulnerability management, integrity of web applications, planning for continuity of operations, and change

control management. The weaknesses identified occurred, in part, because Department elements had not ensured that cyber security requirements were fully developed and implemented. In addition, programs and sites had not always effectively monitored performance to ensure that appropriate controls were in place. The Department concurred with the finding and recommendations, and agreed to take necessary corrective actions. (DOE/IG-0877)

Follow-up Audit of the Department's Cyber Security Incident Management Program

The Federal Information Security Management Act of 2002 requires each agency to implement procedures for detecting, reporting and responding to cyber security incidents, including notifying and consulting with the Federal information security incident center, law enforcement agencies and Inspectors General. To meet this requirement and counter the threat posed by cyber attacks, the Department's Office of the Chief Information Officer, the NNSA and a number of field sites established organizations to provide expertise in preventing, detecting, responding to and recovering from cyber security incidents. In 2008, we reported in *The Department's Cyber Security Incident Management Program* (DOE/IG-0787, January 2008) that the Department and NNSA established and maintained a number of independent, at least partially duplicative, cyber security incident management capabilities.

Although certain actions had been taken in response to our prior report, we identified several issues that limited the efficiency and effectiveness of the Department's cyber security incident management program and adversely impacted the ability of law enforcement to investigate incidents. For instance, we noted that the Department and NNSA continued to operate independent, partially duplicative cyber security incident management capabilities at an annual cost of more than \$30 million. The issues identified were due, in part, to the lack of a unified, Department-wide cyber security incident management strategy. In response to our finding, management concurred with the recommendations and indicated that it had initiated actions to address the issues identified. (DOE/IG-0878)

Naval Reactors Information Technology System Development Efforts

Our review identified continuing system development issues related to the Enterprise Business System (EBS). In particular, we found that neither Naval Reactors Program (Naval Reactors) officials nor the project contractors had adequately considered the use of a commercial off-the-shelf product prior to upgrading and modernizing the financial components of EBS. Specifically, the project team was unable to provide any formal analyses or justification for developing the system in-house. In addition, the EBS project had not been reported to the Department and the OMB as a Major Information Technology Investment, as required. Specifically, despite spending approximately \$10 million of the budgeted \$12.8 million for the procurement phase of the EBS development effort, officials had not submitted the required budgetary information to the Department or OMB, an action that could have allowed for improved performance monitoring.

The weaknesses identified were due, in part, to the lack of adherence to Federal and Naval Reactors policies and procedures. In addition, we noted that a lack of a coordinated effort between the project stakeholders and team members likely contributed to project delays and cost increases. Without adherence to appropriate system development requirements, future information system development efforts may experience problems similar to those identified in our report related to project management and result in schedule delays and cost overruns. Management generally concurred with the report's recommendations and indicated that it will take action to address our recommendations. (DOE/IG-0879)

Management of Los Alamos' Cyber Security Program

Los Alamos National Laboratory (Los Alamos), operated by the NNSA on behalf of the Department, is one of the world's largest multi-disciplinary laboratories and is primarily responsible for helping to ensure the safety and reliability of the Nation's nuclear stockpile as part of the Department's Stockpile Stewardship Program. To accomplish program goals and objectives, Los Alamos operates and manages numerous information systems and networks to support the research, business and communication needs of its users. Although Los Alamos spends a significant amount of funds on information technology (IT) activities, we were unable to obtain an accurate amount due to the Laboratory's limited ability to track its IT spending. The audit found that while additional action is needed, Los Alamos had taken steps to address concerns regarding its cyber security program raised in prior evaluations. However, our audit identified continuing concerns related to Los Alamos' implementation of risk management, system security testing and vulnerability management practices. For instance, Los Alamos had not always developed and implemented an effective risk management process consistent with Federal requirements; had not always ensured that it had developed, tested and implemented adequate controls over its information systems; and had not always properly addressed critical and high-risk vulnerabilities. The issues identified occurred, in part, because of a lack of effective monitoring and oversight of Los Alamos' cyber security program by the Los Alamos Site Office, including approval of practices that were less rigorous than those required by Federal directives. In response, NNSA management concurred with the finding and recommendations and agreed to take necessary corrective actions. (DOE/IG-0880)

NNSA Contractor Governance

Since July 2007, the Department and the NNSA have required contractors to implement self-assessment systems to measure performance and help ensure effective and efficient mission accomplishment. In essence, contractors assessed and evaluated their own performance with some level of Federal oversight. Our audit found that despite at least 5 years of effort, NNSA and its support offices and site contractors had not yet implemented fully functional and effective contractor assurance systems. During our recent audit, we identified significant implementation issues that adversely affected NNSA's ability to deploy an effective contractor governance system. For instance, contractor weaknesses identified at the site level were not effectively communicated to senior management officials and contractor self-assessments were not effective in identifying safety weaknesses subsequently identified by independent reviews. Further, we found that Federal officials had not provided effective oversight of contractor operations as part

of the governance approach. To its credit, NNSA had self-identified deficiencies with contractor assurance system implementation and recognized the need to improve contractor assurance systems and its overall approach to contractor governance. NNSA plans an initiative to reform its contractor governance model. Therefore, we made several suggestions to NNSA to include establishing effective lines of communication between the sites and senior NNSA managers and mandating effective contractor self-assessments of operations. In response, NNSA management agreed with the suggestions and to address them in future efforts to re-evaluate and enhance their processes. (DOE/IG-0881)

Paducah Gaseous Diffusion Plant's Waste Diversion Efforts

Executive Order 13423, Strengthening Federal Environmental, Energy, and Transportation Management, mandates that each Federal facility maintain a cost-effective waste prevention and recycling program. Further, Executive Order 13514, Federal Leadership in Environmental, Energy, and Economic Performance, requires that Federal agencies achieve a 50 percent diversion rate for construction and demolition materials and debris and a 50 percent rate for non hazardous solid waste by the end of FY 2015. The Paducah Gaseous Diffusion Plant (Paducah) operations are carried out by three prime contractors and each plays a contributing role in the Department's overall waste diversion effort. Because of record keeping weaknesses, we could not determine whether Paducah was effectively diverting materials from the waste stream. While Paducah reported that it had exceeded the 50 percent diversion goals, we found that the data supporting that calculation was unreliable. In particular, we noted that Paducah lacked an accurate method of measurement of waste generation and disposal. Further, we found that the contractors had not always assessed or acted on all opportunities to divert waste from landfill disposal and were inconsistent in their diversion efforts. The problems we identified occurred, in part, because Paducah did not place sufficient emphasis on waste diversion. Management generally concurred with the report's recommendations and identified actions it has taken or planned to achieve synergies and improve waste diversion efforts. (OAS-M-13-01)

Cooperative Research and Development Agreements at NNSA Laboratories

In 1989, the National Competitiveness Technology Transfer Act established technology transfer as a Federal mission and authorized government-owned, contractor-operated laboratories to use Cooperative Research and Development Agreements (CRADAs) to facilitate the development and transfer of technology to the private sector. The NNSA site offices located at each laboratory are responsible for ensuring that laboratories obtain final reports documenting the results of research and any new inventions or technology, and forward copies of the reports to the Department's Office of Scientific and Technical Information (OSTI), which is ultimately responsible for preserving the scientific and technical information and making this information readily available to the scientific community and the public. We found that NNSA laboratories were managing the use of selected CRADA activities that we tested in an effective manner. For example, we found that the three laboratories we visited generally met the requirements for CRADAs. However, we found that controls could be improved in the area of obtaining and disseminating CRADA results. Specifically, we found that NNSA laboratories had not always obtained final reports from researchers for completed and terminated projects, and forwarded the

obtained reports to OSTI for dissemination. Reporting issues occurred because the NNSA site offices had not consistently overseen CRADA activities at the three national laboratories we reviewed. In particular, the site offices had not always ensured that the laboratories had implemented policies and procedures related to obtaining final reports and transmitting final reports to OSTI and that such policies and procedures were effective. In response to the findings, management concurred with our recommendations and proposed corrective actions to improve obtaining and disseminating results. (OAS-M-13-02)

The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2012

To achieve its mission, the Federal Energy Regulatory Commission (Commission) relies on a wide range of IT resources to help ensure that rates and terms and conditions for the wholesale of electric energy and natural gas are just and reasonable, and promote the development of a safe, reliable and efficient energy infrastructure. To help protect against continuing cyber security threats, the Commission estimated that it would expend approximately \$5.3 million during FY 2012 to secure its IT assets, a 39 percent increase from FY 2011. The Commission had taken action to further improve its cyber security posture and mitigate risks associated with the weaknesses identified during our FY 2011 evaluation. While these actions are noteworthy, our current evaluation disclosed that additional opportunities existed to better protect its information systems and data. Specifically, we continued to identify weaknesses related to the Commission's timely remediation of software vulnerabilities. As in past years, the problems we identified with the Commission's vulnerability management process were due, in part, to less than fully effective implementation of policies and procedures. In addition, Commission officials informed us that they did not follow their existing Vulnerability Management Program policies due to budget and resource constraints. As corrective action was initiated by management in certain instances, we made a suggestion to the Executive Director to update existing vulnerability and patch management procedures as needed to ensure that security vulnerabilities are remediated and verified in a timely manner. (OAS-L-13-01)

Questioned, Unresolved and Potentially Unallowable Costs Incurred by Los Alamos National Laboratory During FY 2010

On November 19, 2012, we issued a separate contract audit report on Assessment of Audit Coverage of Cost Allowability for Los Alamos National Laboratory during Fiscal Year 2010 under Department of Energy Contract No. DE-AC52-06NA25396 (OAS-V-13-01, November 2012). The objectives of the assessment included determining whether questioned costs and internal control weaknesses that were identified in audits and reviews and impacting allowable costs had been adequately resolved and whether Los Alamos conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor. We identified approximately \$50,000 in questioned and unresolved costs claimed by Los Alamos during FY 2010. We also identified nearly \$24 million in subcontract costs requiring audit; nearly \$1.4 million in unresolved questioned subcontract costs; and, approximately \$10.7 million in unresolved costs pertaining to a potential Anti-Deficiency Act violation. Finally, we identified more than \$434 million in previously reported unresolved costs

from prior years. The NNSA's management agreed with the findings and recommendations and provided proposed corrective actions. (OAS-L-13-02)

The Management of the Plateau Remediation Contract

Our review largely substantiated the allegations that CH2M Hill Plateau Remediation Company (CHPRC) had not provided change proposals and performance baselines that met contract and Federal Acquisition Regulation requirements and that the Department had not corrected performance issues. Specifically, CHPRC had not always submitted timely and/or well supported contract change proposals. Additionally, the Department was not always timely in formally notifying the contractor of needed work scope changes, which contributed to delays in finalizing performance baselines. As such, the Department could not always effectively measure the contractor's cost performance.

In response to the draft version of this report, EM concurred with the recommendations, but disagreed with several of the conclusions and observations. Accordingly, we made changes to the report, where we deemed appropriate, and provided several suggested actions to improve contract management. (OAS-L-13-03)

Department of Energy's Management of Surplus Nuclear Materials

We found the Department strengthened its nuclear materials management program by developing a life cycle nuclear materials management policy, implementing strategic plans for consolidation and disposition of nuclear materials and refining its nuclear materials management organization. However, we determined that challenges remain.

Despite requirements, the Department's Office of Nuclear Material Integration had formally proposed and gained Program and field element approval of only one Lead Material Management Organization (LMMO) to integrate and coordinate the management of specific nuclear materials. Some nuclear materials were being managed by de facto or provisional LMMOs. Also, although the Department's draft Strategic Plan concluded that specified surplus nuclear reactor components contain rare isotopes that are virtually irreplaceable and vulnerable to be processed as waste for permanent disposal, the Department had not designated certain nuclear materials as National Assets to enable their retention and continued availability.

We determined that Department officials are in discussions with program offices to designate additional LMMOs as warranted, and are working to identify materials for National Asset designation. We made two suggestions to further strengthen the nuclear materials management program. First, the Department should finalize its efforts to formally designate LMMOs to facilitate the integration and coordination of nuclear materials disposition; and second, complete the determination for the types and quantities of surplus nuclear materials containing valuable isotopes to be preserved for future programmatic and national needs before the opportunity is lost. (OAS-L-13-04)

The Department of Energy's International Offices and Foreign Assignments

In support of its mission, the Department's Federal and contractor employees travel extensively worldwide. Furthermore, the Department maintains a cadre of Energy Attachés and specialized personnel in Department offices located in U.S. Embassies, missions, consulates and military commands.

We found that the Department and its contractors, for the most part, effectively managed the selected administrative activities included in our review of international offices and foreign assignments. We did, however, note opportunities to improve international office and foreign assignment administration. Specifically, the Department was unable to fill, or fill in a timely manner, key positions at three international offices. We also observed that foreign permanent changes of station (PCS) and foreign travel were not always properly managed at the contractor level.

We noted that the Department is in the process of taking action to fill the vacancies at its international offices. However, to address the concerns noted in this report, we suggested the Department fully implement Department Order 313.1, Management and Funding of the Department's Overseas Presence, and ensure that the laboratories follow the Department's PCS and foreign travel policies and procedures. (OAS-L-13-05)

NNSA's Weapons Dismantlement and Disposition Program

The NNSA met or exceeded its nuclear weapons dismantlement and nuclear weapon components disposition program goals for FYs 2010 and 2011. However, we noted potential issues related to the infrastructure for staging nuclear weapons, nuclear weapon components, and other weapon components at the Pantex Plant that could impact future dismantlement efforts and other Directed Stockpile Work programs. According to Pantex officials, as the infrastructure for staging nuclear materials at Pantex continues to age without needed improvements, Pantex may not be able to provide the level of protection required for safe and secure staging operations of nuclear materials. The security system in place to protect the Plant's Zone 4 Material Access Area was installed in the 1990s with an expected useful life of 20 years and has been due for refurbishment. Additionally, warehouses containing pits and nuclear explosives are deteriorating and in need of varying degrees of repairs. We also noted that facilities Pantex uses to stage weapon components are nearing their capacity levels. Additionally, Pantex could not provide documentation showing the estimated volume of space needed to store weapon components from future dismantlements and volume of space created through the disposition of components to demonstrate sufficient storage capacity for future dismantlement operations. (OAS-L-13-06)

The Federal Energy Regulatory Commission's FY 2012 Financial Statement Audit

KPMG, LLP (KPMG) concluded that the financial statements present fairly, in all material respects, the financial position of the Commission as of September 30, 2012, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with United States generally accepted accounting principles.

The auditors' review of the Commission's internal control structure and compliance with certain laws and regulations disclosed no material weaknesses or instances of noncompliance required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance. (OAS-FS-13-03)

Department's FY 2012 Consolidated Financial Statement

KPMG audited the consolidated balance sheets of the Department as of September 30, 2012 and 2011, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statement of budgetary resources, for the years then ended. KPMG concluded that these consolidated financial statements are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and has issued an unqualified opinion based on its audits and the reports of other auditors for the years ended September 30, 2012 and 2011.

As part of this review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The audit revealed certain deficiencies in internal controls over financial reporting related to unclassified network and information systems security that were considered to be a significant deficiency. The aforementioned significant deficiency in the Department's system of internal controls is not considered a material weakness. (OAS-FS-13-04)

Department's Nuclear Waste Fund's FY 2012 Financial Statement Audit

KPMG audited the Department's Nuclear Waste Fund's (Fund) FY 2012 balance sheet and the related statements of net cost, changes in net position and budgetary resources. KPMG concluded that the financial statements present fairly, in all material respects, the financial position of the Fund as of September 30, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles.

The auditors' review of the Fund's internal control structure and compliance with certain laws and regulations disclosed no material weaknesses or instances of noncompliance required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance. (OAS-FS-13-05)

Southwestern Federal Power System's FY 2011 Financial Statement Audit

We contracted with the independent public accounting firm of KPMG to audit the combined balance sheets of the Southwestern Federal Power System (SWFPS) as of September 30, 2011 and 2010, and the related combined statements of changes in capitalization, revenues and expenses, and cash flows for the years then ended. KPMG concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the SWFPS as of September 30, 2011 and 2010, and the results of its operations and its cash flow for the years then ended, in conformity with United States generally accepted accounting principles.

As part of this review, the auditors also considered SWFPS's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit identified four internal control deficiencies over accounting for utility plant and five internal control deficiencies over Accounting Policies and Procedures, each of which were considered to be significant. When combined together, these conditions were considered a material weakness. (OAS-FS-13-06)

Management Letter on the Audit of the Department's Consolidated Financial Statements for FY 2012

KPMG noted certain matters involving internal control and other operational matters during their audit of the Department's Consolidated Financial Statements for FY 2012. These matters are intended to improve the Department's internal controls or result in other operational efficiencies.

The management letter contains 16 new findings and 7 repeat findings that were issued during the course of the FY 2012 Audit of the Department's Consolidated Financial Statements. Management generally concurred with and provided planned corrective actions for most of the recommendations listed in the management letter and management's comments are included in each finding. (OAS-FS-13-08)

Department's Isotope Development and Production for Research and Applications Program's FY 2010 Balance Sheet Audit

We contracted with the independent public accounting firm of KPMG to express an opinion on the Department's Isotope Development and Production for Research and Applications Program's (Isotope Program) FY 2010 Balance Sheet. KPMG concluded that the Isotope Program's balance sheet as of September 30, 2010, is presented fairly, in all material respects, in conformity with United States generally accepted accounting principles. The auditors' consideration of internal control over financial reporting resulted in two material weaknesses (Controls over Inventory Accounting; and, Improvements Needed in the Preparation and Review of Manual Journal Entries) and one significant deficiency (Unclassified Network and Information Systems Security). (OAS-FS-13-09)

Inspection Reports

Allegations of Organizational Conflicts of Interest at Portsmouth and Oak Ridge

The integrity of the Federal acquisition process is protected, in part, by Organizational Conflicts of Interest (OCI) rules. These rules are designed to help the Government in identifying and addressing circumstances in which a Government contractor may be unable to render impartial assistance or advice. This report focuses on primary contractors and subcontractors at the Portsmouth Gaseous Diffusion Plant and the Oak Ridge Reservation. In June 2011, the OIG Hotline received a complaint alleging that there was potential OCI involving contractors Restoration Services, Inc. (RSI) and VETCO, LLC-Technical Services Company (VETCO) at Portsmouth. The complainant further alleged that potential OCI also existed between contractors URS CH2M Hill Oak Ridge, LLC, (UCOR) and RSI at Oak Ridge. We substantiated the allegation that OCI existed at Portsmouth and that potential OCI existed between contractors at Oak Ridge. Specifically, we confirmed that an OCI existed at Portsmouth involving a continuing financial interest between RSI and VETCO. We also confirmed that potential OCI at Oak Ridge existed between UCOR and RSI based on impaired objectivity concerning the review of work performed by RSI. We found that the actual and potential conflicts outlined in our report either had not been properly mitigated or identified by either the contractors or the federal officials involved. Management comments were generally responsive at both locations and concurred with the recommendations and took corrective actions to address the OCI issues by accepting mitigation plans submitted by the contractors. (INS-O-13-01)

Tactical Response Force Pursuit Operations at Idaho National Laboratory

Because of the presence of nuclear materials, Federal regulations require Idaho's contractor to maintain a highly trained Tactical Response Force to protect nuclear weapons, weapon components and Special Nuclear Material. As part of Idaho's protection strategy, the Tactical Response Force is equipped with vehicles to respond to attacks and pursue adversaries. It is possible for adversaries to cross jurisdictional lines and enter into a jurisdiction where several different Federal, state and local law enforcement agencies reside. Because such activities have the potential to endanger members of the public, we initiated this inspection to determine whether Idaho's Tactical Response Force was properly prepared, trained and equipped to execute its mission related to pursuit of suspects across jurisdictional lines. Our inspection revealed several weaknesses with Idaho's approach to pursuits that could cross jurisdictional lines. In particular, we identified problems with coordination, communication and equipment that could, if not addressed, result in confusion and lead to injury of members of the public. Specifically, we found that: Idaho had not coordinated with and established Memorandums of Understanding with other law enforcement bodies regarding specific roles and responsibilities during pursuits across jurisdictional lines; Emergency notification procedures necessary to communicate with Federal, state or local law enforcement agencies during pursuit operations across jurisdictional lines were not formalized and documented; and, Tactical Response Force vehicles were not properly equipped to adequately alert the public during pursuit operations. Management

concluded with the report and management's comments and planned corrective actions are responsive to our report findings and recommendations. (INS-O-13-02)

Radiological Waste Operations in Area G at Los Alamos

Los Alamos has a national security mission that includes science, engineering and technology related to radioactive and hazardous materials such as plutonium, americium, asbestos and lead. Material Disposal Area G (Area G), located in Technical Area 54, is one of Los Alamos' active disposal areas for low-level radioactive waste. To help ensure that operations are conducted in a safe and efficient manner, Los Alamos developed a program to integrate management and radiological waste operations work practices in Area G. Assessments completed by the Los Alamos Field Office and the Department's Office of Enforcement and Oversight, Office of Health, Safety and Security in 2011 identified operational problems that could adversely impact safety at Los Alamos. The inspection found that Los Alamos developed corrective actions designed to address safety issues identified during the 2011 safety assessments. However, we identified opportunities for further improvements regarding training, the consistency of Area G operational activities with safety requirements, and updating safety-related documents. For instance, we found that seven individuals who worked in Area G did not complete the required safety training, and an additional two individuals' training files were not updated with the employees' most current training information. Also, some Area G operational activities were not conducted in a manner that was consistent with specific operational safety requirements. In several observed instances, Los Alamos did not ensure Area G operated in a manner that supported the adequate protection of the workers and the environment, consistent with the required safety standards and operational safety requirements. In response to our finding, management generally agreed with the recommendations and indicated it was in the process of implementing or completing corrective actions to ensure that Area G operations are conducted in a safe manner. (INS-O-13-03)

Alleged Conflict of Interest at Sandia

We received a congressional request on behalf of a constituent alleging that another Federal agency's use of support provided by the Department facilitated an organizational conflict of interest (OCI). Specifically, it was alleged that support provided by Sandia was inappropriate in that it amounted to direct competition with the private sector, an activity prohibited by Federal Regulation. The competition allegedly occurred when Sandia provided products similar to those that had been successfully developed and demonstrated by the constituent. It was further alleged that Sandia began its prohibited competitive activity after serving in a position where it provided technical oversight of the constituent's work. The details of this report are for Official Use Only. (INS-L-13-01)

[Alleged Improper Use of Patented Technology at the Idaho National Laboratory](#)

We received a congressional request on behalf of a constituent alleging that the Idaho National Laboratory (INL) planned to market a constituent's patented technology in direct competition with the private industry. Specifically, it was alleged that the constituent pioneered the use of a particular technology and that INL planned to work with other Government agencies using that technology while excluding the constituent. The details of this report are for Official Use Only. (INS-L-13-02)

[Continuity of Operations Planning and Intelligence Readiness](#)

National Security Presidential Directive-20, National Continuity Policy, establishes continuity requirements for all executive departments and agencies. The Department developed Department Order 150.1, Continuity Programs, which establishes requirements to assist the Department with effectively responding to a wide range of events that may disrupt normal operations. The Office of Intelligence and Counterintelligence (IN), a critical partner within the Department and the Intelligence Community, is responsible for providing timely intelligence to the Secretary of Energy and other executive branch agencies on threats to energy and nuclear information. IN also provides support to the Director of National Intelligence and serves as liaison to the National Joint Terrorism Task Force. In our report on *Improvements Needed in the Department's Emergency Preparedness and Continuity of Operations Planning*, (DOE/IG-0845, January 2011), we identified significant weaknesses in the Department's emergency preparedness and Continuity of Operations Planning (COOP) programs. Because of the importance of carrying out the Department's key intelligence functions during a continuity event, we initiated this inspection to assess IN's COOP and intelligence readiness. Our inspection revealed that although IN has made various changes to its COOP Implementation Plan to facilitate intelligence readiness, additional actions could be taken to enhance its capabilities during a continuity event. Our review also identified certain issues with continuity communications (classified and unclassified), the results of which are included in a separate classified annex. (INS-L-13-03)

[Allegations Concerning Contracting for Services of Former Employees at Sandia](#)

Sandia subcontracts with various suppliers for services not available at the Laboratories. We received an anonymous complaint alleging that: (1) Sandia hired former employees as consultants at salaries exceeding what they were paid prior to retirement; and (2) one former employee was brought back through an independent consulting company for over a decade. It was also alleged that Sandia officials responsible for approving certain hiring actions were adept at circumventing rules and regulations. We substantiated the allegations. Specifically, in eight cases we reviewed, Sandia acquired the services of former employees and paid them a higher hourly rate than the employees received prior to retiring. In addition, one former employee worked as a consultant over a period of 10 years under two separate 5-year subcontracts. While neither of these conditions violated any Federal guidelines, we did find that the practices we

observed violated internal Sandia policies regarding the employment of former employees. It should be noted that Sandia has been concerned about the use of former employees as contractors and has explored ways of limiting the employment of former employees as consultants, service contractors or staff augmentation employees. As a result, Sandia revised its policy to limit, among other things, work hours and the overall period of performance. However, as demonstrated in our report, it is clear that under current policy the period of performance of former employees hired as consultants can be extended for significant periods, potentially muting Sandia's intent to limit the use of former employees. Because no violations of Federal or Departmental policy were found, no formal recommendations were made. (INS-L-13-04)

Alleged Wasteful Spending Regarding International Travel for the Department's Deputy Secretary

The Department's Deputy Secretary represents the U.S. Government, the Department and the Secretary in many high-level international and ministerial meetings. In this role, the Deputy Secretary is authorized executive protection while on international travel for security purposes, to reduce the risk of harm and aid mission accomplishment. During such travel, the Deputy Secretary is authorized premium class (first or business class) accommodations, and is usually accompanied by a special agent with law enforcement authority from the Department's Office of Special Operations (OSO), a component of the Office of Health, Safety and Security.

We received a complaint that, among several issues, alleged mismanagement of the Deputy Secretary's travel. Specifically, it was alleged that the Deputy Secretary "...directed the use of premium class accommodations while on international travel to maintain business class travel status, resulting in wasteful spending." We initiated this inspection to examine the facts and circumstances surrounding this allegation. The allegation that the Deputy Secretary improperly influenced or directed the use of premium class accommodations while on international travel was not substantiated.

Our inspection, however, revealed an administrative issue regarding the OSO's maintenance of documentation prepared to support the need for premium class accommodations. After we brought this issue to their attention, OSO officials initiated steps to address this issue. (INS-SR-13-01)

Approval of Contractor Executive Salaries by Department of Energy Personnel

In April 2011, the Department awarded a nearly \$2.2 billion contract to UCOR for the environmental cleanup at the East Tennessee Technology Park, Oak Ridge, Tennessee. As a support provider for the Office of Environmental Management, ORO is responsible for oversight of the UCOR contract, including analyzing and performing market analyses to assess the reasonableness of the proposed contractor executive salaries. The OIG received a complaint alleging that an ORO senior management official approved salaries for UCOR executives that were higher than the ORO Human Resources (ORO HR) calculated market rates without proper

authority. The inspection confirmed the essence of the complaint. The review revealed that a former ORO senior management official deviated from requirements established in the awarded contract by approving UCOR contractor executive salaries that were higher than the market rates calculated by ORO HR officials. For instance, we found that without proper authority, a former ORO senior management official approved 10 contractor executive salaries that exceeded market salary rates calculated by the ORO HR office. The issues identified were the result of several contributing factors, including inconsistently applied guidance related to the process for setting salaries. In response to the finding, management generally concurred with the recommendations and proposed corrective actions to address inconsistently applied guidance, improve the contractor executive salary setting process, and better control salary costs. (DOE/IG-0882)

Recovery Act Reports

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. The OIG's overarching goal, as with all other work, is to ensure that the taxpayers' interests relating to the performance and results of the Recovery Act are protected.

Implementation of the Department's Concentrating Solar Power Program

The Department's Office of Energy Efficiency and Renewable Energy's Concentrating Solar Power Program is intended to broaden the use of concentrating solar power by making the technology cost competitive in the conventional power market. The Department plans to achieve this goal through cost-shared contracts with private industry, as well as facilitating advanced research at its national laboratories. Concentrating solar power technologies concentrate the sun's energy and convert it to heat which is then used to drive an engine or turbine to produce electrical power. The audit found that the Department had implemented controls over the selection and monitoring of both its Baseload and Recovery Act Awards. For its Baseload Awards, the Department developed and implemented a control process that, in our opinion, provided reasonable assurance that funds were properly awarded and subsequently managed. Similarly, for its Recovery Act Awards, the Department implemented a control process that included an application and award selection process, onsite monitoring and regular performance reviews. This control process differed from the Baseload Award in that the Recovery Act Awards were restricted to national laboratories operated by established Management and Operating contractors. For both award types, test work did not identify problems with supporting documentation for costs claimed by the recipients and reimbursed by the Department. In addition, projects were generally meeting established deadlines and milestones according to available recipient and Department progress and monitoring reports.

Thus, the audit did not identify any material concerns with the management of the Concentrating Solar Power Program. Therefore, the Department was encouraged to continue its monitoring of the Concentrating Solar Power Program as projects move forward to ensure success in meeting program objectives. (OAS-RA-L-13-01)

The Department's \$700 Million Smart Grid Demonstration Program Funded through the Recovery Act

The Department's Office of Electricity Delivery and Energy Reliability received about \$4.5 billion under the Recovery Act to enhance the reliability and resilience of the Nation's power grid, or nearly 33 times the amount appropriated in Fiscal Year 2009. Of the amount awarded, the Department allocated nearly \$700 million to the Smart Grid Demonstration Program (Smart Grid) to fund 32 regional demonstrations and energy storage projects. Smart Grid also provided supplemental Recovery Act funding to 10 existing Department projects for renewable and

distributed systems integration and high temperature superconductivity. The audit found that the Department had not always managed Smart Grid effectively and efficiently. Review of 11 projects, awarded \$279 million in Recovery Act funding and \$10 million in non-Recovery Act funding, identified weaknesses in reimbursement requests, cost-share contributions, and coordination efforts with another Department program. These issues resulted in about \$12.3 million in questioned costs. Although Smart Grid had established procedures over financial reviews of projects, the problems identified occurred, in part, because it had not adequately reviewed financial transactions and planned for or monitored recipient cost-share provisions. In response to the finding, the Department concurred with the recommendations and indicated that corrective actions have been or would be initiated to improve the management of Smart Grid and to resolve questioned costs. (OAS-RA-13-08)

The Department of Energy's Management of the Award of a \$150 Million Recovery Act Grant to LG Chem Michigan Inc.

The Department's Vehicle Technologies Program was established to develop and deploy efficient and environmentally friendly highway transportation technologies to reduce the Nation's dependence on foreign oil and provide greater energy security. The Vehicle Technologies Program received \$2.4 billion under the Recovery Act for these purposes. In February 2010, LG Chem Michigan Inc. (LG Chem Michigan), formerly Compact Power, Inc., was awarded more than \$150 million in Recovery Act funding to help construct a \$304 million battery cell manufacturing plant in Holland, Michigan. On October 24, 2012, a complaint was received that LG Chem Michigan misused Recovery Act funds. The review confirmed the allegations. Specifically, LG Chem Michigan inappropriately claimed and was reimbursed for labor charges incurred by a variety of supervisory and staff employees for activities that did not benefit the project. As a result, up to about \$842,000 in reimbursements for labor charges were questioned. Also, work performed under the grant to LG Chem Michigan had not been managed effectively. Based on progress to date and despite the expenditures of \$142 million in Recovery Act funds, LG Chem Michigan had not yet achieved the objectives outlined in its Department-approved project plan. For instance, even though the facility had produced a large number of test cells, the plant had yet to manufacture battery cells that could be used in electric vehicles sold to the public. The problems identified occurred, in large part, due to grant monitoring issues with LG Chem Michigan and the Department. In response, the Department concurred with the recommendations and indicated that corrective action had been taken and/or has been initiated to address the issues identified. (OAS-RA-13-10)

The Department of Energy's Solid-State Lighting Program

The Department's Office of Energy Efficiency and Renewable Energy established the Solid-State Lighting Program to advance the development and market introduction of energy-efficient white-light sources for general illumination. The Recovery Act appropriated more than \$41 million to accelerate solid-state lighting research and development and jumpstart the manufacturing research and development initiative. Through competitive solicitations, the Department awarded financial assistance instruments to various recipients each year since the program's inception.

The audit determined that the Department had controls in place, in most instances, to effectively and efficiently manage the Solid-State Lighting Program. However, certain actions were identified that could improve the Department's management of the Solid-State Lighting Program. Specifically, we noted that the Department could enhance program operations by ensuring recipients have effective accounting controls and financial systems in place to adequately segregate and accumulate costs, and tracking external audit findings to develop lessons learned for reviewing financial assistance awards. Therefore, suggestions were made to management for improving management of the Solid-State Lighting Program. (OAS-RA-L-13-03)

The Department of Energy's Industrial Carbon Capture and Storage Program Funded by the American Recovery and Reinvestment Act

The Department received nearly \$1.5 billion through the Recovery Act to invest in clean industrial technologies and sequestration projects through the Industrial Carbon Capture and Storage Program (Carbon Program). The National Energy Technology Laboratory awarded 46 cooperative agreements to a variety of demonstration and research and development projects. The agreements required substantial involvement by Federal project managers and relied on recipients to share in the investments needed to complete the projects. The audit found that the Department had not always effectively managed the Carbon Program and the use of Recovery Act funds. In particular, our review of the Carbon Program, including 15 recipients awarded a total of approximately \$1.1 billion, revealed that the Department had not adequately documented the approval and rationale to use \$575 million of the \$1.1 billion reviewed to accelerate existing projects rather than proceeding with new awards as required by Federal and Department policies. In addition, the Department reimbursed recipients approximately \$16.8 million without obtaining or reviewing adequate supporting documentation, and awarded three recipients over \$90 million in Recovery Act funding even though the merit review process identified significant financial and/or technical issues. Further, the Department had not ensured that recipient subcontractor or vendor selections for goods and services represented the best value to the Government. Therefore, we identified up to \$18.3 million in questionable reimbursement claims that were approved by the Department for just the sample of awards reviewed. The issues identified occurred, in part, because program officials had not always provided effective monitoring and oversight of recipient activities. In response to our finding, management concurred with most of the recommendations and indicated that it had initiated and/or taken corrective actions to improve the Department's implementation of the Carbon Program. (OAS-RA-13-15)

Energy Efficiency and Conservation Block Grant Program

As part of the Recovery Act, the Energy Efficiency and Conservation Block Grant (EECBG) Program received \$3.2 billion to develop, promote, implement and manage energy efficiency and conservation projects and programs designed to reduce fossil fuel emissions, reduce total energy use of the eligible entities, and improve energy efficiency in the transportation, building and other appropriate sectors.

California Energy Commission – Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act

The California Energy Commission (Commission) received a \$49.6 million grant award from the Department's Recovery Act EECBG Program funding for the State of California that was to be expended over a 3-year period. We contracted with an independent public accounting firm to conduct an examination of EECBG Program activities of the Commission. The examination found that the Commission failed to prevent or detect two duplicate drawdowns of reimbursements from the U.S. Department of the Treasury totaling \$678,000. Commission officials were not aware of the problem until our independent certified public accounting firm brought the improper drawdowns to their attention. In response to the finding, Department management concurred with the recommendations, and proposed and initiated corrective actions to ensure Commission establishment of policies and procedures for, and the review of, all drawdowns, and to resolve questioned costs identified. (OAS-RA-13-01)

County of Los Angeles – Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act

The County of Los Angeles (Los Angeles County) received a \$15.4 million formula grant award and a \$30 million competitive grant award, both awards were to be expended over a 3-year period. We contracted with an independent public accounting firm to conduct an examination of EECBG Program activities of Los Angeles County. The examination found that Los Angeles County failed to record the grant funding source and corresponding percentage of Federal participation for \$800,000 in computer purchases in its fixed asset records; and, overstated total labor hours for a contractor included in Los Angeles County's Recovery Act report for June 2011, due to a calculation error and a lack of review. In response to the findings, Department management concurred with the recommendations and proposed and initiated corrective actions to verify that Los Angeles County establishes policies and procedures to ensure fixed asset records contain all Department-required data fields, and to ensure accurate compilation and submission of Recovery Act reporting and retention of appropriate supporting documentation. (OAS-RA-13-02)

The Department's Recovery Act Energy Efficiency and Conservation Block Grant Program – Efficiency Maine Trust

The State of Maine established the Efficiency Maine Trust (Trust) to take over responsibility for all non-transportation related energy efficiency programs and administer the State's EECBG Program, totaling about \$9.6 million. We contracted with an independent public accounting firm to conduct an examination of the Trust's EECBG Program. The examination found that the Trust lacked adequate records to support grant-related expenditures by sub-grantees. Specifically, expenditures claimed by 9 of the 56 sub-grantees reviewed in a sample were not supported with adequate documentation. As a result, about \$560,000 of expenditures claimed were questioned. The lack of adequate documentation occurred because the Trust has not enforced the provisions in the award agreement that requires sub-grantees to retain and provide documentation

supporting expenditures. In response to the finding, the Department concurred with the recommendations, and along with the Trust, proposed corrective actions to improve the administration of Recovery Act EECBG funds and to resolve questioned costs. (OAS-RA-13-04)

The Department's Implementation of Financial Incentive Programs under the EECBG Program

The Department's EECBG Program, funded for the first time by the Recovery Act, received \$3.2 billion in Recovery Act funding for competitive and formula grants. Of the \$3.2 billion, approximately \$284 million was designated by EECBG recipients for financial incentive programs. The Department had taken a number of positive steps to implement and administer EECBG financial incentive programs to ensure accountability for Recovery Act funding and compliance with laws and regulations. For example, with the launch of the Recovery Act, the Department introduced the Solution Center, an online portal for technical assistance resources that included best practices, templates, online trainings and webcasts. However, our review found two major challenges in ensuring the effectiveness of the EECBG financial incentive programs. These challenges included: (1) Ensuring grant recipients were on track to meet expenditure goals for their financial incentive programs prior to the end of their grant periods; and, (2) Finalizing grant recipient guidance on their responsibilities for long-term monitoring and reporting of financial incentive programs funding. We found that the Department understood these challenges and had taken action to address them. Additionally, we noted that the Department had identified and was taking action to address a problem with one recipient that had not complied with Federal requirements to segregate Recovery Act funds from other funding sources in its accounting system. (OAS-RA-L-13-02)

City of Los Angeles-Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act

In July 2009, the Department awarded the City of Los Angeles (Los Angeles) a 3-year formula grant of \$37 million. Los Angeles allocated EECBG funds to 10 of its departments, including the Department of Water and Power, General Services Department (GSD), and the Los Angeles Housing Department. Los Angeles assigned responsibility for managing its grant to the Community Development Department. We contracted with an independent accounting firm to conduct an examination of Los Angeles' EECBG Program. The examination found that Los Angeles had not ensured GSD contractors paid their employees prevailing wages in accordance with the Davis-Bacon Act. Further, Los Angeles did not properly account for or document EECBG equipment purchases in accordance with Federal regulations, and had not properly calculated total labor hours used to compute jobs created and retained. These issues occurred, in part, because Los Angeles did not perform an adequate review of certified payrolls to verify appropriate wages were paid or ensure adequate supporting documentation for apprentices was maintained. In response to the findings, the Department concurred with the recommendations and initiated corrective action to improve the administration of the EECBG Program. (OAS-RA-13-12)

North Carolina State Energy Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act

The North Carolina State Energy Office (North Carolina) received a \$20.9 million competitive grant award that was to be expended over an initial 3-year period from September 21, 2009 through September 20, 2012; however, North Carolina requested and received an extension of its grant to March 2013. We contracted with an independent certified public accounting firm to conduct an examination of the Agency's EECBG Program. The examination found that the North Carolina's quarterly reports on jobs created and retained were incomplete. Further, the months included in the reports were inconsistent with the periods required to be reported under the Recovery Act and guidance on job reporting provided by the EECBG project officer was not consistent with Program policies and procedures according to EECBG Program officials. The issues identified occurred, in part, because North Carolina did not have a formal process to record and track timely submissions of jobs data received from sub-recipients and lacked sufficient staffing resources to perform the necessary tracking and follow-up in a timely manner. In response to the finding, the Department concurred with the recommendations and initiated corrective actions to improve North Carolina's administration of the EECBG Program. (OAS-RA-13-09)

Texas State Energy Conservation Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act

The Texas State Energy Conservation Office (Agency) received a \$45.6 million grant award that was to be expended over a 3-year period from September 14, 2009 to September 13, 2012. We contracted with Lani Eko & Company, CPAs, PLLC, to conduct an examination of the Agency's EECBG Program. The examination found that the Agency complied in all material respects with the requirements and guidelines relative to the EECBG Program for the period of September 14, 2009 through October 31, 2011. (OAS-RA-13-13)

Connecticut Department of Energy and Environmental Protection – Energy Efficiency and Conservation Block Grant Program Funds Provided by the Recovery Act of 2009

The OIG contracted with an independent certified public accounting firm to conduct an examination of the Connecticut Department of Energy and Environmental Protection's (Connecticut) EECBG Program. The examination found that Connecticut did not receive certified payrolls on a weekly basis, as required, to ensure timely review of sub-grantee contractors' compliance with Davis-Bacon Act wage requirements. Additionally, Connecticut reported inaccurate and unsupported information on jobs created and retained for one quarter reviewed. Further, Connecticut failed to ensure sub-grantees were compliant with Federal requirements for recording and controlling fixed assets. The issues identified occurred, in part, because Connecticut delegated its responsibility for Davis-Bacon Act compliance for the collection, review, and initial retention of certified payrolls to sub-grantees, and Federal requirements related to fixed assets were not cited in sub-grantee contracts. In response to the

findings, the Department concurred with the recommendation, and proposed and initiated corrective actions to improve administration of the EECBG Program. **(OAS-RA-13-14)**

**The Department of Energy's American Recovery and Reinvestment Act
Energy Efficiency and Conservation Block Grant Program - State of
Colorado and County of Boulder, Colorado**

The Department awarded a \$9.6 million formula grant to the State of Colorado (Colorado) in September 2009, and a \$25 million competitive grant to the County of Boulder, Colorado (Boulder), in May 2010. These 3-year grants provided funding for activities such as outreach and advisory services, building retrofits, rebates and loans. We found Colorado and Boulder had not always managed these grants efficiently and effectively. For instance, Colorado paid local agencies about \$2 million to develop outreach strategies and action plans without ensuring costs were reasonable and activities were performed in a timely manner. Further, about \$8,000 of the \$279,618 in rebates paid by Boulder that we reviewed were either inaccurate or unsupported. As a result, about \$2 million of costs incurred and \$8,000 in rebate payments were questioned. According to Colorado officials, these issues occurred because they did not fully understand grant requirements. Additionally, we found that Colorado officials had not incorporated documentation requirements in local agency agreements, and had not held sub-recipients accountable for timely deliverables. In response to the finding, the Department concurred with the recommendations and initiated corrective actions to improve grant management and to resolve questioned costs. **(OAS-RA-13-16)**

Weatherization Assistance Program

As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Weatherization Assistance Program (Weatherization Program) received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades.

Community Action Partnership of Orange County – Weatherization Assistance Program Funds Provided by the Recovery Act

The State of California (California) received \$186 million in Recovery Act Weatherization Program funding, of which \$7.3 million was allocated to the Community Action Partnership of Orange County (Orange County) to weatherize 2,342 homes. The California Department of Community Services and Development was responsible for administering Weatherization Program grants, including funds provided to the Orange County. We contracted with an independent public accounting firm to conduct an examination of Orange County's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program for the period of July 1, 2009 through June 30, 2011. The examination found that Orange County failed to evaluate the quality of work performed on 7 of 60 homes (12 percent) reviewed. Additionally, 12 of 35 homes (34 percent) had final inspections that identified the need for necessary re-work. Finally, Orange County could not provide evidence that a cost or price analysis was performed for procured weatherization materials and contractor services. As a result, \$24,900 in costs reimbursed for the weatherization of the 7 homes reviewed and \$190,000 in procurements were questioned. In total, \$214,900 in costs charged to the Weatherization Program were questioned. In response to the finding, the Department and California concurred with the recommendations and proposed corrective actions to improve the administration of the Weatherization Program and to resolve questioned costs. **(OAS-RA-13-03)**

Prince George's County Department of Housing and Community Development – Weatherization Program Funds Provided by the Recovery Act

The State of Maryland (Maryland) Department of Housing and Community Development received \$61 million in Recovery Act Weatherization Program funding, of which \$2.1 million was allocated to the Prince George's County Department of Housing and Community Development (Prince George's County). Maryland was responsible for administering Weatherization Program grants, including funds provided to Prince George's County. We contracted with an independent certified public accounting firm to express an opinion on the Prince George's County's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. The independent firm disclaimed an opinion on whether Prince George's County had complied with the requirements and guidelines relative to the Weatherization Program. In May 2011, the former County Director of the Department of Housing and Community Development in charge of the Weatherization Program pled guilty to conspiracy to commit extortion in taking bribes from developers on housing projects. Although the charges were unrelated to weatherization, the County Director was directly responsible for management of the Weatherization Program. Comments provided by the Department were responsive to the concerns raised in the report. **(OAS-RA-13-05)**

Montgomery County Department of Housing and Community Affairs – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009

The State of Maryland (Maryland) received \$61 million in Weatherization Program Recovery Act grant funding, of which \$5.5 million was allocated to Montgomery County Department of Housing and Community Affairs (Montgomery County). Maryland's Department of Housing and Community Development was responsible for administering Weatherization Program grants, including funds provided to Montgomery County. We contracted with an independent certified public accounting firm to express an opinion on Montgomery County's compliance with Federal and State laws, regulations and program guidelines applicable to the Weatherization Program. The examination found that Montgomery County had not properly accounted for 6 of 45 transactions reviewed, or 13 percent, charging the Weatherization Program \$13,000 for items, including heating system repairs/replacements that, according to Maryland policy, should have been paid with funds from other energy-related programs; and, had not maintained records adequately accounting for equipment. The issues identified were due, in part, to inadequate supervisory review of the reimbursement process to ensure that requests for reimbursements under the Recovery Act are matched to underlying accounting records, such as invoices and receiving reports. In response, the Department concurred with the recommendation and indicated that corrective action was taken to improve administration of Weatherization Program funds. (OAS-RA-13-06)

The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Maryland

The Department subsequently awarded a 3-year Recovery Act Weatherization Assistance Program (Weatherization Program) grant of \$61.4 million to the State of Maryland (Maryland) to weatherize 6,850 homes. This grant provided over eight times the approximately \$7.4 million in Weatherization funds made available to Maryland in FY 2009. The audit found that Maryland, while achieving its production goals, had not always managed its Weatherization Program efficiently and effectively. For instance, local agencies charged 50 percent of total weatherization costs, up to \$1,500 per house, for "program support" costs (costs necessary to weatherize a home that are not otherwise captured in the direct labor and materials) that were not substantiated. Also, recent Maryland monitoring reports disclosed that other local agencies had not reconciled program support expenditures to reimbursements. As a result, about \$9.56 million in reimbursement claims for direct weatherization expenditures and program support costs were questioned. The deficiencies identified were caused by a lack of adherence to Federal regulations by local agencies. Additionally, the deficiencies were not promptly detected because of a lack of adequate local agency monitoring by Maryland. In response to the finding, the Department agreed with the recommendations and indicated that corrective actions were initiated to resolve issues identified. (OAS-RA-13-07)

Fresno County Economic Opportunities Commission - Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009

The State of California received \$186 million in Recovery Act Weatherization Program funding, of which \$11.2 million was allocated to the Fresno County Economic Opportunities Commission (Fresno County) to weatherize 5,374 homes. The State of California Department of Community Services and Development (California) was responsible for administering Weatherization Program grants, including funds provided to the Agency. We contracted with an independent certified public accounting firm to conduct an examination of Fresno County's Weatherization Program. The examination found that the Fresno County selected a contractor to administer its Recovery Act Weatherization Program without considering the price of services, and executed multiple contracts with its weatherization contractor that did not clearly document agreed-upon terms and conditions. Further, Fresno County's primary weatherization contractor improperly approved and/or documented the eligibility of applicants, and incorrectly reported its labor hours to Fresno County for purposes of reporting total jobs created and retained under the Recovery Act. The issues identified occurred, in part, because California officials were originally unaware that Fresno County had not considered price in selecting a contractor. Also, Fresno County's policies and procedures did not require a review of the eligibility process performed by its contractor prior to providing weatherization services. In response to the findings, the Department agreed with the recommendations and proposed corrective actions to improve the administration of the Weatherization Program. **(OAS-RA-13-11)**

Community Action Partnership of San Bernardino County – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009

The State of California received \$186 million in Recovery Act Weatherization Program funding, of which \$7.7 million was allocated to the Community Action Partnership of San Bernardino County (San Bernardino) to weatherize 1,931 homes. The State of California Department of Community Services and Development (California) was responsible for administering Weatherization Program grants, including funds provided to San Bernardino. We contracted with an independent public accounting firm to conduct an examination of San Bernardino's guidelines applicable to the Weatherization Program. The examination found, for instance, that San Bernardino requested inaccurate reimbursements from California for weatherization work. Additionally, San Bernardino used 13 of the 15 vehicles it purchased with Recovery Act Weatherization Program funds in support of other Federally funded or non-Federally funded weatherization activities instead of Recovery Act-related weatherization activities, as required. As a result, \$393,300 in expenditures was questioned. The issues identified occurred, in part, because San Bernardino lacked a process to reconcile actual labor hours incurred to hours billed to ensure accurate reimbursements. Further, San Bernardino did not maintain documented justification for two sole source procurements, as required. In response to the findings, the Department agreed with the recommendations and proposed corrective actions to improve the administration of the Weatherization Program and to resolve questioned costs. **(OAS-RA-13-17)**

OIG Hotline Contact

Contact the OIG Hotline if you suspect fraud, waste or abuse involving Department programs or by a Department employee, contractor or grant recipient.

Contact Information:

- Toll Free Telephone Number: 1-800-541-1625
- Washington DC Metro Telephone Number: 202-586-4073
- Email Address: ighotline@hq.doe.gov
- Physical Address: U.S. Department of Energy
1000 Independence Ave, SW
Washington, DC 20585

Feedback

The contents of the March 2013 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 submit the following information and click the “submit email” button below:

- Name
- Telephone Number
- Comments/Suggestions/Feedback

