



U.S. DEPARTMENT OF  
**ENERGY**  
OFFICE OF INSPECTOR GENERAL

April 1 – September 30, 2013



*Semiannual Report to Congress*



**Department of Energy**  
Washington, DC 20585

October 29, 2013

The Honorable Dr. Ernest Moniz  
Secretary of Energy  
Washington, DC 20585

Dear Secretary Moniz:

I am pleased to submit the Office of Inspector General's (OIG) *Semiannual Report to Congress*. This report summarizes significant OIG activities and accomplishments during the six month period of April 1 through September 30, 2013. This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to the Department, the Congress, and the taxpayer.

Please do not hesitate to contact me if you have any questions about the report.

Sincerely,

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

Gregory H. Friedman  
Inspector General

Enclosure



# TABLE OF CONTENTS

<b>From the Desk of the Inspector General .....</b>	<b><u>2</u></b>
---	-----------------

## **Impacts**

<i>Key Accomplishments .....</i>	<i><u>3</u></i>
<i>Positive Outcomes.....</i>	<i><u>3</u></i>

## **Reports**

<i>Investigative Outcomes .....</i>	<i><u>6</u></i>
<i>Audits .....</i>	<i><u>8</u></i>
<i>Inspections .....</i>	<i><u>16</u></i>
<i>Recovery Act .....</i>	<i><u>19</u></i>

## **Results**

<i>Congressional Hearings .....</i>	<i><u>23</u></i>
<i>Legislative and Regulatory Reviews .....</i>	<i><u>23</u></i>
<i>Reports Lacking Management Decision .....</i>	<i><u>24</u></i>
<i>Prior Significant Recommendations Not Implemented.....</i>	<i><u>25</u></i>
<i>Audit and Inspection Reports with Recommendations for Better Use of Funds.....</i>	<i><u>30</u></i>
<i>Audit and Inspection Reports with Questioned and/or Unsupported Costs .....</i>	<i><u>31</u></i>
<i>Investigative Activity.....</i>	<i><u>32</u></i>
<i>Hotline Activity .....</i>	<i><u>33</u></i>
<i>Whistleblower Retaliation Complaints .....</i>	<i><u>34</u></i>
<i>Peer Reviews.....</i>	<i><u>35</u></i>

## **Summaries**

<i>Investigative Outcomes .....</i>	<i><u>36</u></i>
<i>Audit Reports .....</i>	<i><u>44</u></i>
<i>Inspection Reports .....</i>	<i><u>60</u></i>
<i>Recovery Act Reports .....</i>	<i><u>66</u></i>
<i>Reporting Requirements Index .....</i>	<i><u>76</u></i>

## *From the Desk of the Inspector General*

On behalf of the Office of Inspector General, I am pleased to submit the Semiannual Report to Congress for the period ending September 30, 2013. This report highlights key accomplishments of the Office of Inspector General, particularly pertaining to our efforts to ensure the economy, efficiency, and effectiveness of Department of Energy programs and operations.

During this reporting period, we issued a total of 56 audit and inspection reports. Among a number of important topics, these reports addressed allegations of prohibited personnel practices at the Bonneville Power Administration, the administration of energy savings performance contract biomass projects, and quality assurance for the Waste Treatment and Immobilization Plant at the Hanford Site. In general, these reports emphasized the need for more effective oversight of Departmental programs and operations.

In addition, the Office of Inspector General continued to aggressively pursue those attempting to defraud the Department and the taxpayers. This report summarizes our investigative efforts, which resulted in fines, settlements, and recoveries of nearly \$8 million as well as significant criminal convictions and other administrative actions.

While this report marks the end of Fiscal Year 2013, our efforts continue. We look forward to working with Secretary Moniz, senior Department leadership, and program officials in our mutual effort to protect the interests of the U.S. taxpayer.



Gregory H. Friedman  
Inspector General

# IMPACTS

## Key Accomplishments

Results	
Total Reports Issued	56
<i>Audit Reports Issued</i>	31
<i>Inspection Reports Issued</i>	10
<i>Recovery Act Reports Issued</i>	15
Funds Put to Better Use	\$85.9 Million
Questioned Costs	\$265.1 Million
Unsupported Costs	\$2.0 Million
Dollars Recovered (Fines, Settlements, Recoveries)	\$7.8 million
Criminal Convictions	12
Suspensions and Debarments	29
Civil and Administrative Actions	25
Hotline Complaints Received and Processed	3,338

## Positive Outcomes

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

- The Department of Justice and the United States Attorney's Office for the Eastern District of Washington finalized a settlement agreement with Fluor Hanford, Inc. and its parent company, Fluor Corporation (Fluor Hanford). Fluor Hanford agreed to pay \$1.1 million to resolve its potential civil False Claims Act liability, of which \$500,000 was paid to the Department. This settlement of a complaint originally brought under the *qui tam* provisions of the False Claims Act follows an investigation that determined Fluor

Hanford used Department funds to hire lobbyists to influence Congress and other Federal officials. The complaint alleged that Fluor Hanford paid for lobbying to increase funding for a hazardous materials management and emergency response training center. The use of Federal funds to pay lobbyists violated Fluor Hanford's contract with the Department.

- An OIG investigation revealed that Clean Fuel, LLC (Clean Fuel), the recipient of a \$2.5 million Recovery Act grant, defrauded the Department by submitting a series of fraudulent checks and purchase invoices for a bio-diesel fuel generator that Clean Fuel never actually purchased. The investigation revealed that the owner of Clean Fuel moved the Department grant funds to various personal and business accounts and later used the funds for personal expenses that included payments on a Manhattan condominium and a luxury suite at Lincoln Financial Field in Philadelphia, Pennsylvania. As a result of this joint investigation with the Florida Department of Agriculture and Consumer Services and the United States Secret Service, the Department received \$2,232,000 in reimbursements from Clean Fuel, the amount of the grant distributed by the Department.
- The Office of Electricity Delivery and Energy Reliability resolved the remaining questioned costs, and the Department recovered about \$11.6 million as a result of our audit on [\*The Department of Energy's \\$700 Million Smart Grid Demonstration Program Funded through the American Recovery and Reinvestment Act of 2009 \(January 10, 2013, OAS-RA-13-08\)\*](#). The Office of Electricity Delivery and Energy Reliability also took action to address our concerns relating to consultant rates and revised the best practices guide, which assists staff with enhancing cost analysis techniques related to consultants' rates.
- In our report on the *Assessment of Audit Coverage of Cost Allowability for Sandia Corporation during Fiscal Years 2009 and 2010 under Department of Energy Contract No. DE-AC04-94AL85000* (February 20, 2013, OAS-V-13-07), Sandia National Laboratories (Sandia) performed a review of all projects and prepared an amended tax return for FY 2009. As a result, Sandia obtained a refund of \$8,900,000 in April 2013. In addition, Sandia is strengthening its controls over project tax deductibility determinations and has created a new IT tool for its yearly tax review process.
- The Department's Office of General Counsel and the National Nuclear Security Administration's Office of General Counsel revised 10 CFR Part 719 to require contractors to institute a Department-approved legal management plan and submit an annual budget for legal expenses in response to our report on [\*The Department of Energy's Management of Contractor Fines, Penalties and Legal Costs \(September 30, 2009, DOE/IG-0825\)\*](#). Additionally, contractors are required to submit staffing and resource plans that demonstrate the resources to be committed to litigation for significant matters, and the Department's pre-approval is now required for settlements greater than \$25,000 or \$100,000 for matters handled by retrospective insurance carriers.

- Our inspection on [\*Concerns with Consulting Contract Administration at Various Department Sites, \(June 7, 2013, DOE/IG-0889\)\*](#) identified serious concerns with the administration and management of agreements with Heather Wilson and Company, LLC for advice and consultation provided to senior managers at four Department contractor-operated sites. As a result, the Department has recovered \$442,877 of the approximately \$464,203 paid to Heather Wilson and Company, LLC, and is reviewing the allowability of the additional amounts.
- Our September 2005 report on [\*Characterization Wells at Los Alamos National Laboratory, \(July 9, 2013, DOE/IG-0703\)\*](#), identified concerns regarding mud rotary drilling methods during well construction. Los Alamos National Laboratory no longer uses mud rotary drilling methods during well construction, and appropriate steps have been taken to ensure data derived from monitoring wells is reliable.

# REPORTS

## Investigative Outcomes

Outcome	Page
Sentencing in Access Device Fraud Investigation	<a href="#">36</a>
Actions in California Weatherization Fraud and Bribery Investigations	<a href="#">36</a>
Recovery of Funds from American Recovery and Reinvestment Act Sub-Grantee	<a href="#">36</a>
Actions in Per Diem Investigations	<a href="#">37</a>
National Energy Technology Laboratory Takes Actions in Response to Investigative Report to Management	<a href="#">37</a>
The Office of Energy Efficiency and Renewable Energy Takes Action in Response to Investigative Report to Management	<a href="#">37</a>
Former Department Manager Sentenced	<a href="#">37</a>
Settlement in Misuse of Federal Funds Investigation	<a href="#">38</a>
Sentencing in Western Area Power Administration Theft	<a href="#">38</a>
Portsmouth Prime Contractor and Subcontractor Employees Terminated	<a href="#">38</a>
Former Recovery Act Contractor Debarred	<a href="#">38</a>
Indictment in Computer Conversion/Resale Investigation	<a href="#">38</a>
Former Subcontractor Employee Debarred	<a href="#">39</a>
Former University of Kentucky Professor Indicted	<a href="#">39</a>
Former Subcontractor Employee Debarred for Theft of Government Property	<a href="#">39</a>
American Recovery and Reinvestment Act Weatherization Assistance Program Sub-grantee and Official Debarred	<a href="#">39</a>
Guilty Plea in Embezzlement of Recovery Act Funds	<a href="#">40</a>



<b>Outcome</b>	<b>Page</b>
Guilty Verdict in Y-12 Destruction	<a href="#">40</a>
Settlement in Misuse of Federal Funds Investigation	<a href="#">40</a>
Administrative Action Taken in Recovery Act Weatherization Fraud Investigation	<a href="#">40</a>
Two Former Contractor Employees Debarred	<a href="#">40</a>
Former Hanford Site Contractor Sentenced in Purchase Card Investigation	<a href="#">41</a>
Small Business Innovation and Research Grantee Suspended	<a href="#">41</a>
Conviction in Child Pornography Investigation	<a href="#">41</a>
Reimbursement to Government for Science Misconduct	<a href="#">41</a>
Settlement Agreement with Department Vendor	<a href="#">42</a>
Community Based Organization Suspended in Recovery Act Weatherization Fraud Investigation	<a href="#">42</a>
Subcontractor Enters into a Voluntary Exclusion Agreement with the Department	<a href="#">42</a>
Sentencing in Recovery Act Grant Investigation	<a href="#">42</a>
Former Western Area Power Administration Employee Sentenced	<a href="#">43</a>
Settlement Agreement with Energy Efficiency and Conservation Block Grant Recipient	<a href="#">43</a>

## Audits

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Apr 2, 2013	Assessment of Audit Coverage of Cost Allowability for Honeywell Federal Manufacturing & Technologies, LLC for the period October 1, 2008 thru September 30, 2011 under Department of Energy Contract Nos. DE-AC04-01AL66850 and DE-NA0000622 (OAS-V-13-09)		\$25,056,536		Summary Not Publically Available – Official Use Only
Apr 2, 2013	Assessment of Audit Coverage of Cost Allowability for Washington TRU Solutions, LLC during Fiscal Years 2008 through 2011 under Department of Energy Contract No. DE-AC29-01AL66444 (OAS-V-13-10)		\$11,899		Summary Not Publically Available – Official Use Only
Apr 9, 2013	<a href="#">The Department of Energy's Use of the Environmental Management Waste Management Facility at the Oak Ridge Reservation (DOE/IG-0883)</a>	\$14,400,000			<a href="#">44</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Apr 11, 2013	<a href="#">Allocation of Direct and Indirect Costs – Cost Accounting Standard 418 – at Lawrence Livermore National Laboratory</a> (OAS-L-13-07)				<a href="#">44</a>
Apr 12, 2013	<a href="#">Management of Naval Reactors' Cyber Security Program</a> (DOE/IG-0884)				<a href="#">45</a>
Apr 17, 2013	<a href="#">Management and Operating Contractors' Subcontract Audit Coverage</a> (DOE/IG-0885)				<a href="#">46</a>
Apr 19, 2013	<a href="#">Home Office Expenses Submitted by Fluor Federal Services, Inc., on Savannah River Nuclear Solutions, LLC's U.S. Department of Energy Management &amp; Operating (M&amp;O) Contract No. DE-AC09-08SR22470</a> (OAS-L-13-08)		\$1,293,244		<a href="#">46</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
May 15, 2013	<a href="#">The Use of Staff Augmentation Subcontracts at the National Nuclear Security Administration's Mixed Oxide Fuel Fabrication Facility (OIG/IG-0887)</a>		\$3,700,000		<a href="#">47</a>
May 28, 2013	<a href="#">The Office of Environmental Management's Disposition of Transuranic Waste (OAS-L-13-09)</a>				<a href="#">48</a>
Jun 4, 2013	Assessment of Audit Coverage of Cost Allowability for UT-Battelle, LLC under Department of Energy Contract No. DE-AC05-00OR22725 during Fiscal Year 2010 (OAS-V-13-11)		\$66,305,886		Summary Not Publically Available – Official Use Only
Jun 24, 2013	<a href="#">Mitigation of Natural Disasters at Los Alamos National Laboratory (OAS-M-13-04)</a>				<a href="#">48</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Jun 24, 2013	<a href="#">Fiscal Year 2011 Audit of the Work Performed Under the Work for Others Program at the Lawrence Berkeley National Laboratory</a> (OAS-L-13-10)	\$400,000			<a href="#">49</a>
Jul 2, 2013	<a href="#">Follow-up Audit on Term Assignments of Contractor Employees</a> (DOE/IG-0890)	\$500,000			<a href="#">49</a>
Jul 8, 2013	Assessment of Audit Coverage of Cost Allowability for Oak Ridge Associated Universities, Inc. under Department of Energy Contract No. DE-AC05-06OR23100 for Fiscal Years 2007-2011 (OAS-V-13-12)		\$10,062,720		Summary Not Publically Available – Official Use Only
Jul 10, 2013	<a href="#">Safety Aspects of Wet Storage of Spent Nuclear Fuel</a> (OAS-L-13-11)				<a href="#">50</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Jul 31, 2013	Assessment of Audit Coverage of Cost Allowability for SLAC National Accelerator Laboratory for the period October 1, 2007 thru September 30, 2011 under Department of Energy Contract No. DE-AC02-76-SF00515 (OAS-V-13-13)		\$4,842,208		Summary Not Publically Available – Official Use Only
Aug 1, 2013	<a href="#">The Kansas City Responsive Infrastructure Manufacturing and Sourcing Program</a> (OAS-L-13-12)				<a href="#">51</a>
Aug 8, 2013	<a href="#">Cost Transfers at the Department's Sodium Bearing Waste Treatment Facility Construction Project</a> (OAS-M-13-03)		\$7,900,000		<a href="#">51</a>
Aug 8, 2013	<a href="#">Lawrence Livermore National Laboratory's Use of Time and Materials Subcontracts</a> (OAS-M-13-06)	\$924,162			<a href="#">52</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Aug 12, 2013	<a href="#">Southwestern Federal Power System's Fiscal Year 2012 Financial Statement Audit</a> (OAS-FS-13-13)				<a href="#">53</a>
Aug 16, 2013	<a href="#">The Department of Energy's Appliance and Equipment Standards Program</a> (OAS-M-13-05)				<a href="#">53</a>
Aug 26, 2013	<a href="#">The Department of Energy's Administration of Energy Savings Performance Contract Biomass Projects</a> (DOE/IG-0892)	\$67,400,000			<a href="#">54</a>
Sep 4, 2013	<a href="#">The Department of Energy's Management of Contractor Responsibility Determinations</a> (OAS-M-13-07)				<a href="#">54</a>
Sep 5, 2013	<a href="#">Sandia National Laboratories' Readiness in Technical Base and Facilities Program</a> (OAS-L-13-13)				<a href="#">55</a>

Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Sep 5, 2013	Assessment of Audit Coverage of Cost Allowability for UT-Battelle, LLC under Department of Energy Contract No. DE-AC05-00OR22725 during Fiscal Year 2011 (OAS-V-13-14)		\$135,478,752		Summary Not Publically Available – Official Use Only
Sep 9, 2013	<a href="#">Follow-up Audit of the Department of Energy’s Financial Assistance for Integrated Biorefinery Projects (DOE/IG-0893)</a>		\$12,000		<a href="#">56</a>
Sep 25, 2013	<a href="#">Fiscal Year 2011 Work Performed Under the Work for Others Program at Sandia National Laboratories (OAS-L-13-14)</a>	\$2,300,000			<a href="#">56</a>
Sep 26, 2013	<a href="#">The Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory (OAS-L-13-15)</a>				<a href="#">57</a>
Sep 30, 2013	<a href="#">The Department of Energy’s Energy Innovation Hubs (OAS-M-13-08)</a>		\$261,463		<a href="#">57</a>



Date Issued	Audit Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Sep 30, 2013	<a href="#">The Resumption of Criticality Experiments Facility Operations at the Nevada National Security Site</a> (OAS-M-13-09)				<a href="#">58</a>
Sep 30, 2013	<a href="#">Department of Energy Quality Assurance: Design Control for the Waste Treatment and Immobilization Plant at the Hanford Site</a> (DOE/IG-0894)				<a href="#">58</a>

## Inspections

Date Issued	Inspection Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Apr 15, 2013	<a href="#">Alleged Mismanagement of the Department of Energy's Executive Protection Operations (INS-SR-13-02)</a>				<a href="#">60</a>
Apr 19, 2013	<a href="#">Alleged Improprieties Regarding the Canine Program at the Department of Energy's Y-12 Site (DOE/IG-0886)</a>				<a href="#">60</a>
Jun 6, 2013	<a href="#">Alleged Nepotism and Wasteful Spending in the Office of Energy Efficiency and Renewable Energy (DOE/IG-0888)</a>				<a href="#">61</a>
Jun 7, 2013	<a href="#">Concerns with Consulting Contract Administration at Various Department Sites (DOE/IG-0889)</a>		\$462,203		<a href="#">62</a>
Jul 9, 2013	<a href="#">Follow-up Inspection on Characterization Wells at Los Alamos National Laboratory (INS-L-13-05)</a>				<a href="#">62</a>

Date Issued	Inspection Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Jul 18, 2013	<a href="#">Follow-up Inspection on Material Control and Accountability at Los Alamos National Laboratory</a> (INS-O-13-04)				<a href="#">63</a>
Jul 16, 2013	<a href="#">Management Alert-Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration</a> (DOE/IG-0891)				<a href="#">63</a>
Aug 21, 2013	<a href="#">Allegations of Irregular Hiring Practices and Preferential Treatment in the Loan Programs Office</a> (INS-L-13-06)				<a href="#">64</a>
Sep 16, 2013	<a href="#">Unclassified Foreign National Visits and Assignments at Oak Ridge National Laboratory</a> (INS-O-13-05)				<a href="#">65</a>

Date Issued	Inspection Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Sep 30, 2013	<a href="#">Accountability and Control of Explosives at Lawrence Livermore National Laboratory's High Explosives Applications Facility</a> (INS-O-13-06)				<a href="#">65</a>

## Recovery Act

Date Issued	Recovery Act Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
May 13, 2013	<a href="#">Cost Incentives for the Department's Cleanup Contract in Idaho</a> (OAS-RA-13-20)				<a href="#">66</a>
Jun 6, 2013	<a href="#">The Hydrogen Energy California Project</a> (OAS-RA-13-22)				<a href="#">66</a>
Jun 19, 2013	<a href="#">Department of Energy's Interconnection Transmission Planning Program Funded through the American Recovery and Reinvestment Act of 2009</a> (OAS-RA-13-26)		\$86,000		<a href="#">67</a>
Jul 9, 2013	<a href="#">Modular Office Facilities for Recovery Act Program Activities at the Hanford Site</a> (OAS-RA-L-13-04)		\$2,068,000		<a href="#">68</a>
Jul 25, 2013	<a href="#">The Department of Energy Vehicle Technologies Program's \$135 Million in Funding to Ecotality, Inc.</a> (OAS-RA-13-29)				<a href="#">68</a>
Sep 27, 2013	<a href="#">The Department of Energy's Hydrogen and Fuel Cells Program</a> (OAS-RA-13-31)		\$6,588,849	\$49,560	<a href="#">69</a>

Date Issued	Recovery Act Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
<b>Energy Efficiency and Conservation Block Grant Program Reports</b>					
May 14, 2013	<a href="#">South Carolina Energy Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009 (OAS-RA-13-21)</a>				<a href="#">70</a>
Jul 15, 2013	<a href="#">Commonwealth of Puerto Rico Energy Affairs Administration – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009 (OAS-RA-13-27)</a>				<a href="#">70</a>
Jul 18, 2013	<a href="#">Costs Incurred by Selected Tribal Energy Efficiency and Conservation Block Grant Recipients (OAS-RA-13-28)</a>		\$518,994		<a href="#">71</a>

Date Issued	Recovery Act Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
<b>Weatherization Assistance Program Reports</b>					
Apr 18, 2013	<a href="#">Travis County Health &amp; Human Services and Veterans Services Weatherization Assistance Program Funds Provided by the ARRA of 2009 (OAS-RA-13-18)</a>				<a href="#">72</a>
Jun 18, 2013	<a href="#">Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009 (OAS-RA-13-23)</a>				<a href="#">72</a>
Jun 18, 2013	<a href="#">Southwest Michigan Community Action Agency – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009 (OAS-RA-13-24)</a>		\$1,633		<a href="#">73</a>

Date Issued	Recovery Act Reports	Better Use of Funds	Questioned Costs	Un-Supported Costs	Page
Jun 18, 2013	<a href="#">The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Michigan</a> (OAS-RA-13-25)		\$115,800		<a href="#">73</a>
Sep 19, 2013	<a href="#">Alamo Area Council of Governments – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009</a> (OAS-RA-13-30)		\$168,754		<a href="#">74</a>
<b>State Energy Program Reports</b>					
Apr 30, 2013	<a href="#">Selected Sub-grantees of the Department of Energy's American Recovery and Reinvestment Act of 2009 – Illinois State Energy Program</a> (OAS-RA-13-19)		\$186,000	\$2,000,000	<a href="#">75</a>



# **RESULTS**

## **Congressional Hearings**

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

- Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight on June 27, 2013. The hearing was entitled "Contract Management by DOE".
- House Committee on Energy and Commerce, Subcommittee on Oversight and Investigations on July 24, 2013. The hearing was entitled "DOE Oversight: What is Necessary to Improve Project Management and Mission Performance".
- House Committee on Oversight and Government Reform on August 1, 2013. The hearing was entitled "Management Alert: Prohibited Personnel Practices at Bonneville Power Administration".

## **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 OIG reviewed 28 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 3 audit reports over 6 months old that were issued before the beginning of the reporting period 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 by which a management decision will be made is described in the table below.

Date Issued	Report Title	Status of Management Decision	Estimated Date for Management Decision
Apr 10, 2012	<a href="#">Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site</a> (DOE/IG-0862)	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.	Mar 31, 2014
May 22, 2012	<a href="#">The Department of Energy's Clean Cities Alternative Fuel Vehicle Grant Program Funded under the American Recovery and Reinvestment Act</a> (OAS-RA-12-12)	The finalization of the management decision on this report is awaiting review and concurrence by the necessary Department elements.	Oct 31, 2013
May 25, 2012	<a href="#">Efforts by the Department of Energy to Ensure Energy-Efficient Management of its Data Centers</a> (DOE/IG-0865)	The Office of the Chief Information Officer has developed a proposed corrective action plan to address the OIG recommendations, which is under review by Departmental management.	Oct 25, 2013

## Prior Significant Recommendations Not Implemented

The Department closed 159 recommendations in the past 6 months. However, as of September 30, 2013, 102 recommendations associated with 40 OIG reports had not been fully implemented within 12 months from the date of the report issuance. Although the management decision and corrective action process are under the purview of the Department, the OIG is committed to working with management to facilitate closure of these recommendations. We also recognize that certain initiatives will require long-term, sustained, and concerted efforts. The table below identifies the 40 audit and inspection reports with recommendations that have not been fully implemented within 12 months from the date of report issuance.

The Department records OIG recommendations in its system by program office. Therefore, a single recommendation made by the OIG could result in multiple recommendations in the system.

Date Issued	Report Title	# of Open Recommendations
Mar 12, 2002	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Cost Claimed by and Reimbursed to TRW Environmental Safety Systems, Inc. Under Department of Energy Contracts No. DE-AC01-91RW00134 and No. DE-AC08-RW00134 (WR-V-02-03) <i>Summary Not Publically Available – Official Use Only</i>	2
Dec 20, 2005	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation Under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-06-06) <i>Summary Not Publically Available – Official Use Only</i>	1
Jan 16, 2007	Assessment of Changes to the Internal Control Structure and their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-07-05) <i>Summary Not Publically Available – Official Use Only</i>	1

Date Issued	Report Title	# of Open Recommendations
Sep 28, 2007	Sandia National Laboratory's Safety Practices (INS-L-07-11) <i>Summary Not Publically Available – Official Use Only</i>	1
Dec 17, 2007	<a href="#">Beryllium Surface Contamination at the Y-12 National Security Complex</a> (DOE/IG-0783)	1
Apr 11, 2008	<a href="#">The Department's Progress in Meeting Los Alamos National Laboratory Consent Order Milestones</a> (DOE/IG-0793)	1
May 07, 2008	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Sandia Corporation, under the Department of Energy Contract, DE-AC04-94AL85000 for Fiscal Year 2006 (OAS-V-08-09) <i>Summary Not Publically Available – Official Use Only</i>	1
Jul 14, 2008	<a href="#">Management Controls over Monitoring and Closeout of Small Business Innovation Research Phase II Grants</a> (OAS-M-08-09)	1
Aug 24, 2009	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Los Alamos National Laboratory under Department of Energy Contract No. DE-AC52-06NA25396 from June 1, 2006 to September 30, 2007 (OAS-V-09-10) <i>Summary Not Publically Available – Official Use Only</i>	2
Nov 13, 2009	<a href="#">Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program</a> (OAS-M-10-01)	2
Dec 22, 2009	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2009</a> (OAS-FS-10-03)	1
Jul 29, 2010	<a href="#">Severance Repayments at the Savannah River Site</a> (INS-O-10-02)	1

Date Issued	Report Title	# of Open Recommendations
Jul 29, 2010	Audit Coverage of Cost Allowability for Bechtel SAIC Company, LLC during Fiscal Years 2004 through 2009 Under Contract No. DE-AC28-01RW12101 (OAS-V-10-15) <i>Summary Not Publically Available – Official Use Only</i>	2
Sep 03, 2010	<a href="#">Follow-up Audit on Retention and Management of the Department of Energy's Electronic Records</a> (DOE/IG-0838)	2
Sep 23, 2010	<a href="#">The Department of Energy's Audit Resolution and Follow-up Process</a> (DOE/IG-0840)	2
Oct 05, 2010	Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Years 2007 AND 2008 under Department of Energy Contract NO. DE-AC04-94AL85000 (OAS-V-11-01) <i>Summary Not Publically Available – Official Use Only</i>	1
Oct 22, 2010	<a href="#">The Department's Unclassified Cyber Security Program – 2010</a> (DOE/IG-0843)	1
Dec 20, 2010	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2010</a> (OAS-FS-11-05)	2
Dec 21, 2010	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2010 (OAS-FS-11-04) <i>Summary Not Publically Available – Official Use Only</i>	2
Mar 03, 2011	<a href="#">The Department of Energy's Loan Guarantee Program for Clean Energy Technologies</a> (DOE/IG-0849)	1
Apr 15, 2011	<a href="#">Security Planning for National Security Information Systems at Lawrence Livermore National Laboratory</a> (OAS-M-11-03)	1
Jun 14, 2011	<a href="#">Management Letter- Uranium Enrichment Decontamination and Decommissioning Fund's Fiscal Year 2010 Financial Statement Audit</a> (OAS-FS-11-07)	1

Date Issued	Report Title	# of Open Recommendations
Jul 13, 2011	<a href="#">Organizational Conflicts of Interest Program at Sandia National Laboratories</a> (DOE/IG-0853)	1
Sep 19, 2011	<a href="#">The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee</a> (OAS-RA-11-17)	1
Oct 20, 2011	<a href="#">The Department Unclassified Cyber Security Program-2011</a> (DOE/IG-0856)	3
Dec 21, 2011	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Balance Sheet for Fiscal Year 2011 (OAS-FS-12-04) <i>Summary Not Publically Available – Official Use Only</i>	10
Jan 20, 2012	Audit Coverage of Cost Allowability for Savannah River Nuclear Solutions, LLC under Department of Energy Contract No. DE-AC09-08SR22470 during Fiscal Year 2009 (OAS-V-12-03) <i>Summary Not Publically Available – Official Use Only</i>	1
Feb 06, 2012	<a href="#">Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2011</a> (OAS-FS-12-05)	21
Feb 23, 2012	<a href="#">The Department's Configuration Management of Non-Financial Systems</a> (OAS-M-12-02)	1
Mar 08, 2012	<a href="#">Southwestern Federal Power System's Fiscal Year 2006, 2007, 2008 and 2009 Financial Statement Audits</a> (OAS-FS-12-06)	1
Mar 26, 2012	<a href="#">Management of Bonneville Power Administration's Information Technology Program</a> (DOE/IG-0861)	2
Mar 28, 2012	<a href="#">Department of Energy's Isotope Development and Production for Research and Applications Program's Fiscal Year 2009 Balance Sheet Audit</a> (OAS-FS-12-08)	2

Date Issued	Report Title	# of Open Recommendations
Apr 03, 2012	Audit Coverage of Cost Allowability for Los Alamos National Laboratory During Fiscal Years 2008 and 2009 under Department of Energy's Contract No.DE-AC52-06NA25396 (OAS-V-12-05) <i>Summary Not Publically Available – Official Use Only</i>	3
Apr 25, 2012	<a href="#">The Department of Energy's \$12.2 Billion Waste Treatment and Immobilization Plant-Quality Assurance of Black Cells Vessels</a> (DOE/IG-0863)	2
May 31, 2012	<a href="#">Integrated Safety Management at Sandia National Laboratories</a> (DOE/IG-0866)	5
Jun 18, 2012	<a href="#">The National Nuclear Security Administration (NNSA) Contractors' Disability Compensation and Return-to-Work Programs</a> (DOE/IG-0867)	6
Jun 29, 2012	<a href="#">Office of Secure Transportation Capabilities</a> (OAS-M-12-05)	4
Aug 01, 2012	Audit Coverage of Cost Allowability for Battelle Energy Alliance, LLC under Department of Energy Contract No. DE-AC07-05ID14517 during Fiscal Year 2010 (OAS-V-12-09) <i>Summary Not Publically Available – Official Use Only</i>	1
Aug 29, 2012	<a href="#">Special Report on Inquiry into the Security Breach at the National Nuclear Security Administration's Y-12 National Security Complex</a> (DOE/IG-0868)	4
Aug 31, 2012	<a href="#">Opportunities for Energy Savings at Department of Energy Facilities</a> (DOE/IG-0869)	4

Total Open Recommendations

102

## Audit and Inspection Reports with Recommendations for Better Use of Funds April 1 – September 30, 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 <sup>1</sup>	\$538,795,437
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):	6	\$85,924,162
Subtotals (A + B)	19	\$624,719,599
C. Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period:	2 <sup>2</sup>	\$88,759,344
(i) Agreed to by management:		\$1,922,491
(ii) Not agreed by management:		\$86,836,853
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:	17	\$535,960,255
<b>Better Use of Funds:</b> <i>Funds that could be used more efficiently by implementing recommended actions.</i>		
<b>Management decision:</b> <i>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.</i>		

<sup>1</sup>Includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

<sup>2</sup>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 April 1 – September 30, 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:	33 <sup>1</sup>	\$1,140,951,336	\$15,687,500	\$1,156,638,836
B. Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	20	\$265,120,941	\$2,049,560	\$267,170,501
Subtotals (A + B)	53	\$1,406,072,277	\$17,737,060	\$1,423,809,337
C. Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period:	5 <sup>2</sup>	\$216,178	\$0	\$216,178
(i) Value of disallowed costs:		\$9,449	\$0	\$9,449
(ii) Value of costs not disallowed:		\$206,729	\$0	\$206,729
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:	48	\$1,405,856,099 <sup>3</sup>	\$17,737,060	\$1,423,593,159

**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.

<sup>1</sup>Includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

<sup>2</sup>Does not include reports for which the Department has made decisions on some aspects of the report but not all.

<sup>3</sup>Includes \$3.45M from report DOE/IG-0882 that was inadvertently omitted from the previous report.

## Investigative Activity April 1 – September 30, 2013

### CASE ACTIVITY

Cases open as of April 1, 2013	248 <sup>1</sup>
<i>Cases opened during period</i>	52
<i>Cases closed during period</i>	64
Multi-Agency Task Force Cases Opened	20
Qui Tam <sup>2</sup> investigations opened during period	3
<i>Total Open Qui Tam investigations as of September 30, 2013</i>	14
Cases currently open as of September 30, 2013	236

### IMPACT OF INVESTIGATIONS

Administrative discipline and other management actions	23
Recommendations to management for positive change and other actions	43
Suspensions/Debarments	29
Accepted for prosecution <sup>3</sup>	16
Indictments	15
Criminal convictions	12
Pre-trial diversions	0
Civil actions	2
<b>Total Dollar Impact<sup>4</sup> (Fines, Settlements, Recoveries)</b>	<b>\$7,820,662</b>

<sup>1</sup> Two cases were incorrectly reported as open in the last reporting period. As a result, the previous report incorrectly indicated 250, rather than 248, open cases.

<sup>2</sup> For more information on *Qui Tams*, go to: [http://www.justice.gov/usao/eousa/foia\\_reading\\_room/usam/title9/crm00932.htm](http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm00932.htm)

<sup>3</sup> Some of the investigations accepted during the 6-month period were referred for prosecution during a previous reporting period.

<sup>4</sup> Some of the money collected was the result of investigations involving multiple agencies.

**Hotline Activity**  
**April 1 – September 30, 2013**

<b>Total Hotline Contacts</b>	3,338
Hotline contacts resolved immediately/redirected/no further action	3,153
Hotline contacts predicated for evaluation	185
<b>Total Hotline Predications Processed this Reporting Period</b>	202
Hotline predications transferred to OIG Program Office	21
Hotline predications referred to Department management or other entity for information/action	89
Hotline predications closed based upon preliminary OIG activity and review	86
Hotline predications awaiting referral (as of 9/30/13)	0
Hotline predications open at the end of the reporting period	6

## Whistleblower Retaliation Complaints April 1 – September 30, 2013

Recovery Act Whistleblower Retaliation Complaints received	1
Accepted complaints carried over from prior period(s)	1
<b>Disposition of Whistleblower Retaliation Complaints</b>	
Reports Issued	0
<b>Complaints Dismissed</b>	0
Elected another forum	0
Complaints withdrawn	0
Upon receipt of Complaint, determined not related to covered funds at the outset	0
After investigation, determined not related to covered funds after investigation	0
Recovery Act Complaints that received extensions	0

**Peer Reviews Conducted by OIG  
April 1 – September 30, 2013**

<b>Type of Review</b>	<b>Date of Peer Review</b>	<b>OIG Reviewed</b>	<b>Outstanding Recommendations</b>
Audits	<i>None this reporting period</i>		
Investigations	<i>None this reporting period</i>		

**Peer Reviews Conducted of OIG  
April 1 – September 30, 2013**

<b>Type of Review</b>	<b>Date of Peer Review</b>	<b>Reviewing OIG</b>	<b>Frequency Requirement</b>	<b>Outstanding Recommendations</b>
Audits	<i>None this reporting period</i>			
Investigations	<i>None this reporting period</i>			

# ***SUMMARIES***

## **Investigative Outcomes**

### **Sentencing in Access Device Fraud Investigation**

A former Department subcontractor employee was sentenced to 10 years incarceration, 5 years probation, and 1 year parole, after pleading guilty to multiple counts of fraud and conspiracy. The investigation determined the subcontractor employee provided thousands of serial numbers for Department-owned computers to another individual not affiliated with the Department. The serial numbers were then used by the second individual to fraudulently obtain computer parts valued at approximately \$1.6 million through manufacturer warranty replacement parts that were later sold for personal gain.

### **Actions in California Weatherization Fraud and Bribery Investigation**

A former California non-profit agency fiscal officer submitted a plea agreement to 117 counts of corporate fraud and 75 counts of submitting false claims on weatherization contract work. Additionally, a former California non-profit agency manager submitted a plea agreement for two counts of submitting false claims on weatherization contract work. As previously reported, the investigation determined the fiscal officer, weatherization manager, and former president of the non-profit agency solicited and accepted bribes from a subcontractor totaling approximately \$1.2 million. Additionally, they submitted inflated claims to the State of California, resulting in overbilling to the Department and U.S. Department of Health and Human Services weatherization programs by approximately \$440,000. This is a joint investigation with the Federal Bureau of Investigation. The investigation is ongoing.

### **Recovery of Funds from American Recovery and Reinvestment Act Sub-grantee**

A recipient of the Recovery Act grant funds completed a voluntary restitution payment totaling \$2,232,000. The investigation determined the sub-grantee falsified checks for the purchase of biomass equipment, which it never acquired, in order to collect grant funds. The owner of the sub-grantee company used the funds for personal expenses that included payments on a penthouse condominium as well as a suite at a National Football League stadium.

## **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 five individuals. These actions included: a plea agreement, sentencing, court ordered restitution, and debarments. To date, the per diem investigations have resulted in over \$2.3 million in recoveries.

## **National Energy Technology Laboratory Takes Actions in Response to Investigative Report to Management**

The National Energy Technology Laboratory (NETL) responded to an Investigative Report to Management that addressed the management of the annual Science Bowl, which was sponsored by NETL. The investigation identified weak internal controls relating to NETL employees' management of funds procured to support the Science Bowl. In response to the report, NETL implemented new management controls to improve oversight of the administration of educational activities. Additionally, NETL provided training to employees who support educational activities such as the Science Bowl.

## **The Office of Energy Efficiency and Renewable Energy Takes Action in Response to Investigative Report to Management**

The Office of Energy Efficiency and Renewable Energy responded to an Investigative Report to Management that addressed OIG concerns regarding a State of Michigan subgrantee's procedures for determining Weatherization Assistance Program (Weatherization Program) eligibility. The investigation found that the subgrantee failed to properly determine eligibility requirements for some Weatherization Program applications. In response to the report, the subgrantee has since implemented a statewide web-based system for Weatherization Program application and eligibility processing, improved the monthly billing review process, and incorporated trend analysis into their technical monitoring to improve its administration of Department grant funds.

## **Former Department Manager Sentenced**

A former Department manager was sentenced to 1 year probation and was ordered to pay fines and restitution and to perform 100 hours of community service after pleading guilty to one count of theft of government funds. The investigation determined that the former manager falsified a travel voucher and hotel receipts following official travel and received a travel reimbursement for which he was not entitled.

## **Settlement in Misuse of Federal Funds Investigation**

An investigation was conducted on allegations that a corporation violated the *False Claims Act* by using Federal funds for lobbying purposes. The investigation found that the corporation used Department funds to lobby Congress and other Federal officials to increase funding for a hazardous materials and emergency response training facility. The corporation agreed to pay \$1.1 million to settle the allegations.

## **Sentencing in Western Area Power Administration Theft**

An individual with no Department affiliation was sentenced in the United States District Court for the District of Colorado for theft of Government property and destruction of an energy facility. The individual was sentenced to serve 36 months incarceration, 3 years of supervised release, and was ordered to pay the Western Area Power Administration \$19,722 in restitution. The investigation determined the individual burglarized a substation in Sterling, Colorado, and stole several items, including a vehicle. The OIG recovered the majority of the property, valued at approximately \$100,000.

## **Portsmouth Prime Contractor and Subcontractor Employees Terminated**

Seven prime contractor employees and five subcontractor employees were terminated at the Department's Portsmouth site. The investigation determined that subcontracted radiological control technicians, at the direction of their contractor managers, altered testing records of portable radiation detection devices so they appeared to be calibrated when, in fact, they were not.

## **Former American Recovery and Reinvestment Act Contractor Debarred**

The Department's Office of Procurement and Assistance Management debarred the owner of a weatherization contracting company for a period of 3 years. The company was contracted by the State of Kansas to provide weatherization services under the Recovery Act. As previously reported, the investigation determined that the owner falsely certified the company's employees working on weatherization projects as being paid in accordance with minimum wage requirements on its payroll reports. The owner entered into a pretrial diversion agreement for submitting the falsified payroll reports.

## **Indictment in Computer Conversion/Resale Investigation**

An individual with no Department affiliation was indicted by a Federal grand jury for wire fraud, mail fraud, and aggravated identity theft. The investigation uncovered 13 allegedly fraudulent non-profit entities established by the individual to obtain free computers and related equipment



the Government donates through the General Services Administration's Computers for Learning Program. After receiving the items, the individual sold them for profit on eBay and other online sites. During the last 5 years, the fraudulent entities received computers and related equipment with original acquisition values exceeding \$25 million, including \$7.5 million from the Department sites.

### **Former Subcontractor Employee Debarred**

In response to an Investigative Report to Management, a former subcontractor employee at the Y-12 National Nuclear Security Complex was debarred for a period of 3 years. As previously reported, the former subcontractor employee pled guilty to theft of Government property, and was sentenced to 30 months probation and ordered to pay restitution and fines. The investigation determined the employee stole approximately 1,400 pounds of copper wire from the Y-12 Site.

### **Former University of Kentucky Professor Indicted**

A former University of Kentucky Professor was indicted by a Federal Grand Jury on one count of theft of Government property. The investigation determined the professor cannibalized, destroyed, and failed to return certain Government-owned scientific equipment, books, and supplies valued at \$506,657.62. All of the known missing equipment has been recovered by the OIG.

### **Former Subcontractor Employee Debarred for Theft of Government Property**

In response to an Investigative Report to Management, a former subcontractor employee was debarred from doing business with the Federal Government for a period of 3 years. As previously reported, the former employee was convicted of the theft of approximately \$21,000 of Government-owned electronics equipment.

### **American Recovery and Reinvestment Act Weatherization Assistance Program Sub-grantee and Official Debarred**

In response to an Investigative Report to Management, a Washington, DC, a Recovery Act sub-grantee and one of its executive officials were debarred from doing Government work for a period of 3 years. As previously reported, the investigation determined the sub-grantee misused \$551,712 in Recovery Act funds to make up for budget shortfalls associated with unrelated operational expenses.

## **Guilty Plea in Embezzlement of American Recovery and Reinvestment Act Funds**

A former Finance Director for the Louisiana Association of Community Action Partners, Inc., pled guilty to embezzling \$50,858 in Recovery Act funds in the Middle District of Louisiana. The investigation determined that from September 2011 through November 2011, the former Finance Director used her position to embezzle funds from these programs for personal use.

## **Guilty Verdict in Y-12 Destruction**

Three individuals were found guilty of Destruction of National Defense Materials, Premises, or Utilities and Damage to Government Property by a jury in the U.S. District Court for the Eastern District of Tennessee. The investigation determined the individuals illegally entered the Y-12 National Security Complex in Oak Ridge, Tennessee, cut through fences, and caused damage to the Highly Enriched Uranium Materials Facility.

## **Settlement in Misuse of Federal Funds Investigation**

An investigation was conducted into allegations that a corporation violated the *False Claims Act* by using Federal funds for lobbying purposes. The investigation found that the corporation used Department funds to lobby Congress and other Federal officials to increase funding for a hazardous materials and emergency response training facility. The corporation agreed to pay \$1.1 million to settle the allegations.

## **Administrative Action Taken in American Recovery and Reinvestment Act Weatherization Fraud Investigation**

As a result of a joint investigation with the U.S. Department of Health and Human Services OIG, and the State of Michigan's Department of Human Services, a corrective action plan was issued, which demanded the return of \$186,934.99 in Department Recovery Act funds from a Community Action Agency sub-recipient. The investigation determined that the Community Action Agency improperly awarded a sole-source consultant contract and paid unauthorized employee bonuses.

## **Two Former Contractor Employees Debarred**

As a result of an Investigative Report to Management, the Department debarred two former Department contractor employees for a period of 3 years. The investigation determined the individuals possessed trailers, a large welder, and various power tools that had been stolen from the Department's Paducah Site.

## **Former Hanford Site Contractor Sentenced in Purchase Card Investigation**

The U.S. District Court for the Eastern District of Washington sentenced a former Department contractor employee to 3 years supervised probation and 100 hours of community service after the former contractor employee pled guilty to violating the Anti-Kickback Act. The investigation determined the contractor employee offered and provided kickbacks to at least 14 Material Coordinators. The kickbacks included cash, tickets to sporting events, and gift cards.

## **Small Business Innovation and Research Grantee Suspended**

A Small Business Innovation and Research (SBIR) grant recipient company and a Principal Investigator were suspended indefinitely from contracting with the U.S. Government. The investigation's interim findings revealed the principal investigator made materially false and fraudulent statements in SBIR grant applications that were submitted to the Department and other agencies. Criminal prosecution of the principal investigator is pending with the U.S. Attorney's Office for the Southern District of Texas. This is an ongoing joint investigation with the National Science Foundation OIG, the Defense Criminal Investigative Service, and the NASA OIG.

## **Conviction in Child Pornography Investigation**

A former Department employee was convicted in the U.S. District Court for the Northern District of California following a trial for possession of child pornography. The investigation determined the former Department employee viewed and downloaded numerous images of child pornography onto his Department-issued computer. A search warrant for his residence resulted in the discovery of a larger child pornography collection. Sentencing is scheduled for December 2013. This conviction carries a 10-year minimum sentence.

## **Reimbursement to Government for Science Misconduct**

A Department contractor issued a \$756,533 reimbursement to the Government for science misconduct by a former Principal Investigator (PI). The OIG investigated allegations that the PI fabricated data and falsely claimed project milestones were being met when, in fact, they were not. During the investigation, the PI admitted to falsifying progress reports and misrepresenting claims regarding construction of the project deliverable, a superconducting quantum interface device. This investigation is ongoing.

## **Settlement Agreement with Department Vendor**

An investigation was conducted on allegations that a Department vendor submitted false claims for payment, and engaged in improper product substitution involving parts such as o-rings, gaskets, and mechanical seals. The investigation identified overbilling, product substitution, and falsification of batch number/cure dates. The Department vendor and its four principals agreed to pay \$750,000 to the United States to settle the allegations. This was a joint investigation with the Tennessee Valley Authority OIG, U.S. Air Force Office of Special Investigations, and Defense Criminal Investigative Service.

## **Community Based Organization Suspended in American Recovery and Reinvestment Act Weatherization Fraud Investigation**

In response to an Investigative Report to Management, a community organization and two of its officers were suspended by the Department pending the outcome of the ongoing investigation. As previously reported, the investigation determined that two officers of the community organization converted approximately \$150,000 of Recovery Act weatherization grant monies for their personal use.

## **Subcontractor Enters into a Voluntary Exclusion Agreement with the Department**

In response to an Investigative Report to Management, a former weatherization subcontractor agreed to a voluntary exclusion agreement with the Department. As previously reported, the investigation determined that the subcontractor misappropriated approximately \$30,000 in weatherization rebate funds. The exclusion agreement was accepted after consultation between the Department, the Assistant United States Attorney, and the subcontractor's counsel.

## **Sentencing in American Recovery and Reinvestment Act Grant Investigation**

The owner of a Department subcontractor company was sentenced by a Travis County, Texas District Court Judge to 15 years incarceration and ordered to pay \$1.8 million in restitution. As previously reported, the investigation determined the owner and a former State of Texas employee conspired to submit fraudulent documents and false claims relating to wind energy systems to the Department to obtain approximately \$2 million in Recovery Act funds.

## **Former Western Area Power Administration Employee Sentenced**

A former Western Area Power Administration employee was sentenced in U.S. District Court, District of Montana, to 4 years probation, and ordered to pay a \$3,000 fine and restitution to the Department in the amount of \$83,700. As previously reported, the OIG investigation determined that from 2001 to 2012, the individual defrauded the U.S. Department of Labor's Office of Workers Compensation Program by not reporting his self-employment income, resulting in long-term disability overpayments of approximately \$275,000. This was a joint investigation with Department of Labor OIG.

## **Settlement Agreement with Energy Efficiency and Conservation Block Grant Recipient**

In response to an Investigative Report to Management, the Department accepted a \$31,783 settlement agreement with an Energy Efficiency and Conservation Block Grant (EECBG) recipient. The OIG investigation determined the EECBG recipient hired consultants to assist in awarding of an EECBG project. The project was subsequently awarded to another company employing the same consultants. These actions violated a grant provision concerning conflicts of interest.

## Audit Reports

### **The Department of Energy's Use of the Environmental Management Waste Management Facility at the Oak Ridge Reservation**

The Environmental Management Waste Management Facility (EMWMF) is an above-ground waste disposal facility designed to meet the requirements of the Comprehensive Environmental Response, Compensation and Liability Act of 1980. The Oak Ridge Office of Environmental Management (OREM) manages the Department's contract with URS | CH2M Oak Ridge, LLC, which has operated EMWMF since August 2011. We found that OREM had not maximized its use of available capacity at EMWMF, and as a consequence, may incur more than \$14 million in unnecessary disposal costs. Specifically, OREM permitted its contractors to send minimally contaminated waste to EMWMF that may have otherwise been acceptable for disposal in the sanitary landfill at a much lower cost per unit. For example, contractor officials told us that from FYs 2002 through 2011, they had disposed of 140,000 cubic yards of material (minimally contaminated waste plus required fill) at EMWMF that likely could have been disposed of in the sanitary landfill at a much lower cost per unit. The Department had not established site-specific surface authorized limits for determining when certain types of minimally contaminated waste could be disposed of in sanitary landfills rather than in EMWMF. In the absence of such site-specific authorized limits, certain surface-contaminated wastes have been disposed of at EMWMF that potentially could have been safely disposed at sanitary landfills. Maintaining this approach could ultimately and unnecessarily utilize 11 percent of EMWMF's waste disposal capacity. During the course of our audit, URS | CH2M Oak Ridge, LLC recognized the issues we discovered and implemented procedures compliant with Department and landfill permit requirements to allow more waste to be disposed in the sanitary landfill; however, we believe that additional action is necessary to improve efficiency of waste disposal operations and conserve EMWMF capacity. The Office of Environmental Management generally concurred with the report and its comments were responsive to our recommendations. (OAS/IG-0883)

### **Allocation of Direct and Indirect Costs – Cost Accounting Standard 418 – at Lawrence Livermore National Laboratory**

We contracted with an independent certified public accounting firm, KPMG, to determine if Lawrence Livermore National Laboratory's (Livermore) policies, procedures, and practices used to estimate, accumulate, and report costs on Government contracts and subcontracts complied with the requirements of Cost Accounting Standard (CAS) 418 for FY 2012. CAS 418 requires contractors to be consistent in the way they classify costs as direct or indirect and to maintain a written statement of accounting policies and practices for classifying direct and indirect costs, establishes criteria for accumulating indirect costs in homogeneous indirect cost pools, and provides guidance on allocating indirect cost pools to cost objectives in reasonable proportion to the beneficial or causal relationships of the pooled costs to cost objectives. Livermore's written policies and procedures relevant to CAS 418 compliance include cost accounting changes, determining direct versus indirect costs, monitoring and processing cost transfers, time and effort

reporting, monitoring and liquidating indirect variances, and policies and procedures relating to the composition of each indirect cost pool. KPMG found that Livermore's policies and procedures were complete with regard to the areas required to support compliance with CAS 418. KPMG tested Livermore's current use of its policies and procedures governing cost accounting changes, monitoring and liquidating indirect rate variances, monitoring and processing cost transfers, and the composition of homogeneous cost of select indirect cost pools. KPMG did not identify any findings as a result of the work performed; therefore, no recommendations were made in the report. (OAS-L-13-07)

## **Management of Naval Reactors' Cyber Security Program**

The Naval Reactors Program (Naval Reactors), an organization within the National Nuclear Security Administration, provides the military with safe and reliable nuclear propulsion plants to power warships and submarines. Naval Reactors maintains responsibility for activities supporting the United States Naval fleet nuclear propulsion systems, including research and design, operations and maintenance and the ultimate disposition of the nuclear propulsion plants. Both the Department and the Department of Navy fund Naval Reactors. To fulfill its mission, Naval Reactors utilizes numerous information systems that reside on both classified and unclassified networks. Previous OIG reviews of Naval Reactors related to our Federal Information Security Management Act of 2002 evaluations identified certain security weaknesses related to access controls and contingency planning.

We found that Naval Reactors' vulnerability management controls and processes were not fully effective in applying security patches for all desktop and network applications. For example, although the program had taken action to correct the vast majority of vulnerabilities identified during scans performed in July 2011, our current review disclosed 335 high and medium risk vulnerabilities. Naval Reactors officials were unable to provide us with information regarding the age of the identified weaknesses due to the lack of an adequate corrective action tracking mechanism. Naval Reactors had made a number of enhancements to its cyber security program over the past several years, however, we identified weaknesses related to vulnerability management, access controls, incident response and security awareness training that could negatively affect its security posture. For instance, controls over access to information and systems at Naval Reactors were not always operating effectively. The weaknesses identified occurred, in part, because Naval Reactors had not ensured that necessary cyber security controls were fully implemented. Specifically, officials had not fully developed and/or implemented policies and procedures related to vulnerability management, access controls, incident response and cyber security training. In addition, Naval Reactors had not always effectively utilized Plans of Action and Milestones to track, prioritize and remediate cyber security weaknesses. In response, management generally concurred with the report's recommendations and indicated that corrective actions had been taken or were planned to address the weaknesses identified. (DOE/IG-0884)



## **Management and Operating Contractors' Subcontract Audit Coverage**

The Department employs 28 Management and Operating (M&O) contractors that perform essential mission work under cost reimbursable contracts. To achieve the Department's mission, M&O contractors often utilize the services of subcontractors, which are also funded by the Department. When these subcontracts are structured as cost-type, including time and materials, and cost reimbursable subcontracts, M&O contractors are contractually required to ensure that associated costs incurred are audited to provide assurance that the costs are allowable. The M&O contractors may use their internal audit staff, engage contract auditors, or use the services of the Defense Contract Audit Agency to audit the subcontractors. Internally performed audits must, at a minimum, meet professional standards prescribed by the Institute of Internal Auditors. M&O contractors presumably rely on audits of subcontractors when completing required annual certifications that all of their incurred costs are allowable. We identified contract management as a management challenge in our report on "Management Challenges at the Department of Energy" (DOE/IG-0874, October 2012). The Department has committed to improving contract management and we recognize that such a significant issue requires a concerted effort over time.

The objective of this report was to highlight the issues we identified in previous reports and stress the need for a top-down emphasis to ensure that all M&O contractors develop robust procedures for subcontract audits. Between FY 2010 and 2012, we reported subcontract audit weaknesses with nine M&O contractors. Subcontracts valued in excess of \$906 million had not been audited or were reviewed in a manner that did not meet audit standards. The subcontract costs were not audited because the Department did not ensure that its M&O contractors developed and implemented procedures to meet their contractual requirements. For example, although the M&O contractors are contractually required to conduct or arrange for audits of their cost-type subcontracts, Los Alamos National Laboratory's approved audit strategy only required audits of subcontracts with annual incurred costs that exceeded \$15 million. Under this threshold, only 2 of 1,404 subcontracts were required to be audited. We noted that while some sites have taken action in response to our reports, we believe that a greater Department-wide emphasis on auditing cost-type subcontracts is needed. In response to our report, management concurred with the findings and recommendations and agreed to take corrective actions. (DOE/IG-0885)

## **Home Office Expenses Submitted by Fluor Federal Services, Inc., on Savannah River Nuclear Solutions, LLC's U.S. Department of Energy Management & Operating (M&O) Contract No. DE-AC09-08SR22470**

The Department awarded Management and Operating Contract No. DE-AC09-08SR22470 to Savannah River Nuclear Solutions, LLC (SRNS), a for-profit joint venture, established between Fluor Federal Services, Inc. (Fluor), Newport News Nuclear, Inc., and Honeywell International. SRNS commenced performance on the M&O contract on August 1, 2008. Fluor has a majority share in the joint venture.



We contracted with an independent certified public accounting firm to assess the accuracy and completeness of the results and conclusions reported by SRNS Internal Audit on its *Corporate Reachback Floor Check Review* of invoices for loaned employees from Fluor. Additional testing was performed on an invoiced Fluor "loaned employee" to determine whether home office expenses were included in the invoiced costs, and if so, quantify the amount of questioned costs. The SRNS contract, Clause H-20, entitled *Home Office Expenses*, states "Home office expenses, whether direct or indirect, relating to activities of the Contractor are unallowable, except as otherwise specifically provided in the Contract or specifically agreed to in writing by the Contracting Officer consistent with DEAR 970.3102-3-70."

The firm concluded that the results and conclusions reported by SRNS Internal Audit on its *Corporate Reachback Floor Check Review* of invoices for loaned employees from Fluor was accurate and complete as they related to their audit objectives. The results disclosed that SRNS' costs incurred for contract DE-AC09-08SR22470, for the period August 1, 2008 through August 21, 2012, included home office expenses of \$1,256,481 and \$36,763 in Facilities Capital Cost of Money resulting from its use of Fluor loaned employees. Subsequent to the completion of audit field work, the Savannah River Operations Office Contracting Officer initiated action to disallow the \$1,256,481 in home office expenses. Therefore, no recommendations were made in this report. (OAS-L-13-08)

### **The Use of Staff Augmentation Subcontracts at the National Nuclear Security Administration's Mixed Oxide Fuel Fabrication Facility**

Shaw AREVA MOX Services, LLC (MOX Services) is responsible for the design and construction of the National Nuclear Security Administration's (NNSA) nearly \$5 billion Mixed Oxide Fuel Fabrication Facility (MOX Project) at the Savannah River Site near Aiken, South Carolina. The facility will remove impurities from surplus weapons-grade plutonium and mix it with depleted uranium oxide to form fuel pellets for commercial nuclear power reactors.

MOX Services used staff augmentation subcontracts to fill professional, technical and administrative support service positions on an as-needed basis on the MOX Project. According to MOX Services officials, a shortage of qualified personnel in the local area necessitated the use of "temporary" subcontract employees. We received a complaint alleging a variety of problems involving temporary living expenses, overtime hours, as well as the appropriateness of staff augmentation labor rates.

We substantiated the allegation that MOX Services billed and NNSA reimbursed payments to subcontractors for excessive temporary living expenses. Specifically, since January 2007, MOX Services was reimbursed about \$3.7 million for inappropriate temporary living expenses for staff augmentation employment. Additionally, we did not substantiate the allegations concerning the pricing and payment of regular and overtime hours for staff augmentation subcontracts from FYs 2007 through 2011.

These excessive and unnecessary costs occurred, at least in part, because MOX Services eliminated the portion of its policy that limited the cost and duration of staff augmentation

subcontract employee temporary living expenses. This was compounded by the fact that NNSA had not effectively monitored MOX Services' management of the staff augmentation subcontracts. In response, NNSA management concurred with the report's recommendations and identified actions it had taken or planned to improve management of the temporary living expense component of staff augmentation subcontracts at the MOX Project. (OIG/IG-0887)

## **The Office of Environmental Management's Disposition of Transuranic Waste**

The Waste Isolation Pilot Plant is the Department's underground repository for contact-handled and remote-handled transuranic waste. The Waste Isolation Pilot Plant Land Withdrawal Act limits its total capacity for transuranic waste to 175,600 cubic meters (m<sup>3</sup>), of which no more than 7,080 m<sup>3</sup> can be remote-handled waste. In October 1999, the New Mexico Environment Department granted a Hazardous Waste Facility Permit to the Department to begin storage and disposal of TRU waste, although remote-handled disposal did not commence until 2007.

In FY 2011, the Office of Environmental Management (EM) established a strategic goal, in addition to operational goals, to complete disposition of 90 percent of the Department's legacy transuranic waste by the end of FY 2015. While EM is also responsible for the transuranic waste that the Department continues to generate, newly generated waste is not specifically included in the strategic goal. To achieve the 90 percent goal, EM needed to dispose of approximately 40,000 m<sup>3</sup> of waste, or an average of 8,000 m<sup>3</sup> per year. The planned annual metric was reduced to 6,000 m<sup>3</sup> for FY 2012 and 4,500 m<sup>3</sup> for FY 2013 because of funding limitations.

We found that while EM had made progress in meeting its operational disposal goals, it was not on track to meet its goal to dispose of 90 percent of the Department's legacy transuranic waste by the end of FY 2015. In particular, EM faces a number of challenges in meeting its planned 90 percent waste disposal goal by 2015. Additionally, without further modifications to the repository or existing waste disposal practices, the Waste Isolation Pilot Plant may not have capacity for disposal of the current remote-handled inventory. EM has identified alternative actions to alleviate the challenges facing the transuranic waste disposition program.

(OAS-L-13-09)

## **Mitigation of Natural Disasters at Los Alamos National Laboratory**

Los Alamos National Laboratory (Los Alamos) is at some risk of seismic events and susceptible to forest fires, including those started by lightning. Since 2000, there have been two major forest fires that threatened Los Alamos.

Although Los Alamos had made progress in upgrading existing nuclear facilities, concerns remained regarding the mitigation of risks related to natural disasters. Specifically, we found seismic issues affecting the Plutonium Facility that remain to be addressed. Additionally, we found that fire protection and prevention vulnerabilities in Area G Waste Storage and Disposal Facility (Area G) continue to exist. Further, we found that several known risks exist with

compensatory measures implemented in Area G that may lessen their efficacy in mitigating natural disasters. Los Alamos' processes and procedures have not always been fully effective in ensuring that hazards, including natural disasters, are fully analyzed and effectively mitigated. National Nuclear Security Administration officials responsible for overseeing Los Alamos pointed out that decisions to budget and schedule mitigation measures are based on factors including the probability of an event occurring, such as a seismic event, and whether a structure is considered to be a permanent or limited life facility. While a number of compensatory and corrective actions have been completed, in our view, further actions are needed to mitigate existing vulnerabilities. Management concurred with the report's recommendations and indicated that corrective actions have been or would be initiated to mitigate potential risks. (OAS-M-13-04)

### **Fiscal Year 2011 Audit of the Work Performed Under the Work for Others Program at the Lawrence Berkeley National Laboratory**

The OIG contracted with an independent certified public accounting firm, KPMG, LLC (KPMG) to determine whether Lawrence Berkeley National Laboratory (Berkeley) met the internal control and compliance requirements established by the Department to achieve the current goals and objectives of the Work for Others (WFO) Program.

KPMG concluded that, except for the finding detailed in the attached report, Berkeley implemented internal controls and compliance procedures in FY 2011 that met the Department's WFO Program requirements, as stated in Department regulations, guidance, and applicable contract provisions. Specifically, KPMG found that costs relating to Berkeley's WFO support organization, the Office of Sponsored Projects and Industry Partnerships, were included in the general and administration cost pool that is allocated to both WFO projects and other Department projects on an organization-wide basis, rather than using an allocation base that bears a more direct causal beneficial relationship to the support organization's costs. KPMG estimated that if the Department implemented a separate indirect rate for this support organization, the annual savings would be approximately \$400,000. Further, KPMG noted that corrective action from a September 2010 Berkeley Internal Audit Division Time and Effort Reporting audit related to the accuracy of labor distribution to WFO and the Department's non-WFO projects had not been implemented as of October 31, 2012.

The Berkeley Site Office did not agree with the finding and recommendation made in the report, and believes that the current allocation method complies with Cost Accounting Standards. (OAS-L-13-10)

### **Follow-up Audit on Term Assignments of Contractor Employees**

The Department frequently assigns facility contractor personnel to the Washington, DC, area on a temporary basis when program officials consider it necessary to obtain technical expertise not available locally. Commonly referred to as term assignments, the estimated cost of all such assignments for FY 2012 was over \$37 million, all of which was reimbursed by the Department.

Federal officials authorizing such assignments are required to ensure that costs for assignees are reasonable when compared to other means of acquiring the necessary knowledge and experience.

The Department's management of term assignments had improved since the 2005 report. However, additional opportunities exist to enhance the effectiveness and reduce the cost of the program. Specifically, some allowances appeared excessive, and some varied significantly between the facility contractors providing term assignees. Further, a cost analysis had not been conducted to determine whether cost effective alternatives to term assignments were available, although specifically required by existing Department policy.

The issues we discovered occurred, in part, because of inadequate controls and management oversight. As a result of these lapses, the Department lacked assurance that the cost of technical and program support provided by the facility contractor personnel assigned to Washington was both reasonable and necessary and that this approach was the most efficient, least expensive means of obtaining needed skills. Furthermore, inconsistencies in the dislocation allowances authorized by site contractors likely resulted in unreasonable and unnecessary costs to the Department.

Management concurred with the report's recommendations and identified actions it had taken or planned to address our recommendations and to improve management of term assignments to the Washington, DC, area. (DOE/IG-0890)

### **Safety Aspects of Wet Storage of Spent Nuclear Fuel**

The Department is responsible for managing and storing spent nuclear fuel (SNF) generated by weapons and research programs and recovered through nonproliferation programs. The SNF consists of irradiated reactor fuel and cut up assemblies containing uranium, thorium and/or plutonium. The Department stores 34 metric tons of heavy metal SNF primarily in two wet storage basins located at the Savannah River Site and the Idaho National Laboratory.

Wet storage requires operational vigilance and reliance on mechanical systems to ensure the safety of workers, the public and the environment. The risk associated with long-term wet storage of SNF is well-demonstrated by the recent disaster in Japan. While not subject to damage from tsunamis, environmental or mechanical issues are within the realm of possible damage scenarios faced by the Department's SNF storage facilities.

Because it lacks a clear disposition path, the Department had not developed definitive plans to dispose of its SNF. In FY2010, the Department withdrew its intent to develop a geological repository at Yucca Mountain, Nevada to dispose of SNF and high-level waste. Then in 2011, the Department deferred processing aluminum-clad SNF, some of which is in wet storage, until recommendations of the Blue Ribbon Commission on America's Nuclear Future were issued and evaluated. As a consequence, the Department determined it must maintain interim SNF wet storage facilities longer than planned and until disposition options become available.

Given the lack of disposition paths, the Department is taking steps to manage the safety of its SNF wet storage basins, namely L-Basin and CPP-666. Our review revealed that, as required by both Federal and Department regulations, program officials had analyzed the risks related to storage, documented these analyses, and concluded that the continued use of the wet storage facilities was appropriate. While the Savannah River Site has initiated activities designed to support the prolonged storage of SNF in L-Basin, completion of these activities is being deferred due to funding constraints. (OAS-L-13-11)

### **The Kansas City Responsive Infrastructure Manufacturing and Sourcing Program**

The Kansas City Plant, managed and operated by Honeywell Federal Manufacturing & Technologies, LLC (Honeywell), is the Department's National Nuclear Security Administration's (NNSA) primary production site for non-nuclear weapon products. As part of the Kansas City Responsive Infrastructure Manufacturing and Sourcing (KCRIMS) Program, Honeywell is in the process of relocating the Plant operations at the Bannister Federal Complex in Kansas City, Missouri to the newly constructed National Security Campus. During and after the Plant relocation, production shutdowns are required. Additionally, some manufacturing processes and parts will have to be requalified at the Campus before the Plant can use the parts or deliver the parts to other NNSA sites.

Our review indicated that Plant officials have established plans to ensure that non-nuclear components needed to support the stockpile are available throughout the relocation and requalification periods. Specifically, the Plant outsourced selected technologies and developed plans to build-ahead non-nuclear components to meet projected demands. Our review established that the Plant had started planning for requalification of manufacturing processes to be used and parts to be manufactured at the Campus. We observed, however, that some of the Engineering Evaluation Plans used to evaluate processes or parts for requalification were missing information and will need to be updated on a schedule that meets production requirements. Because the Requalification Readiness Assessments are currently underway, we did not make any formal recommendations regarding the requalification of parts and processes. However, we made suggestions to ensure that parts produced by the Plant after relocation will meet the Design Agencies' requirements. (OAS-L-13-12)

### **Cost Transfers at the Department's Sodium Bearing Waste Treatment Facility Construction Project**

In 2005, the Department awarded the Idaho Cleanup Project contract to CH2M ♦ WG Idaho, LLC (CWI) to remediate the Idaho National Laboratory, which included the Sodium Bearing Waste Treatment Facility construction project. The primary mission of this facility was to treat approximately 900,000 gallons of radioactive sodium bearing liquid waste at a Federal baseline construction cost of \$461 million, which was approved in December 2006. Due to significant



cost escalation, the Department approved a revised Federal project baseline in January 2009, to a cost of \$571 million and a completion date of August 2011.

Between April and November 2010, CWI made seven funding determinations, transferring \$13.1 million to other non-project operational accounts from the \$571 million approved project cost. In January 2011, the Department approved a revision to the project baseline that delayed project completion to December 2011, but did not change the project's estimated costs. The Department requested that the Office of Inspector General determine whether the transferred costs were direct project costs that should have remained with the project.

We found that three of the seven cost transfers totaling \$7.9 million represented direct costs of the project, specifically, \$3.8 million for a waste transfer line and tie-in, \$4 million for mineralization testing, and \$107,000 for portable bathrooms. As such, we found that these costs were not appropriately charged to the project because CWI did not consider all pertinent facts, and we concluded that the costs should not have been transferred. Additionally, we found that four of the seven cost transfers, valued at \$5.2 million, were for activities that were not direct project costs or had been appropriately shared pro rata with other projects in accordance with Department and CWI accounting and project management principles. Management concurred with the report's recommendations and identified actions it had taken to address the issues we reported. (OAS-M-13-03)

## **Lawrence Livermore National Laboratory's Use of Time and Materials Subcontracts**

The mission of Lawrence Livermore National Laboratory (Livermore) is to strengthen the United States' security through development and application of science and technology to enhance the Nation's defense, reduce the global threat from terrorism and weapons of mass destruction, and respond to scientific issues of national importance. Livermore is operated by Lawrence Livermore National Security, LLC, for the Department's National Nuclear Security Administration (NNSA). In accomplishing its mission, Livermore uses a variety of subcontracting types, including time and materials subcontracts.

We found that Livermore had not always procured services through time and materials subcontracts in the most effective and efficient manner. Our testing revealed that some sole source justifications were not fully supported as required by Federal regulations and internal policies and procedures. Specifically, we found that Livermore had not fully justified sole source selection for 6 of 7 subcontracts included in our judgmental sample of 12 time and materials subcontracts. We also found that in two of the sole source subcontracts, Livermore did not perform an adequate price analysis. For instance, we determined that if Livermore had hired a Chief of Staff at a rate similar to the highest rate of another Livermore Chief of Staff, it could have saved about \$533,423. Further, we estimated that had Livermore performed a more thorough price analysis and reached an agreement for the lower rates at the beginning of the most recent construction subcontract, it could have saved about \$390,739. As a consequence, we could not determine and Livermore did not demonstrate that the decision to award these particular time and materials subcontracts was in the best interest of NNSA.

This report is one in a series of reports that the OIG has issued highlighting concerns with subcontracting by the Department's management and operating contractors. Management concurred with the report's recommendations and proposed corrective actions that were responsive to our recommendations. (OAS-M-13-06)

## **Southwestern Federal Power System's Fiscal Year 2012 Financial Statement Audit**

We contracted with the independent public accounting firm of KPMG LLP to conduct the audit the Southwestern Federal Power System's (SWFPS) financial statements and reporting on applicable internal controls and compliance with laws and regulations. KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Southwestern Federal Power System's as of September 30, 2012 and 2011, and the results of its operations and its cash flow for the years then ended, in conformity with U.S. generally accepted accounting principles.

The audit identified an internal control deficiency over Accounting for Utility Plant in which depreciation for additions and betterments to existing plant in service was not recorded in accordance with accounting policies. Additionally, an internal control deficiency over Accounting Policies and Procedures was identified in which appropriate procedures to properly accrue for accounts payable at year end were not in place. U.S. Army Corps of Engineers management agreed with the findings and recommendations and agreed to take the necessary corrective actions by June 30, 2014. (OAS-FS-13-13)

## **The Department of Energy's Appliance and Equipment Standards Program**

The *Energy Policy and Conservation Act of 1975* established a national-level energy conservation program for major appliances and called for setting efficiency targets. The Department's Appliance and Equipment Standards Program (Standards Program) is tasked with administering these statutory requirements. Since 2010, the Office of Enforcement, within the Office of General Counsel, has collected \$5.6 million in penalties from manufacturers for noncompliance with minimum standards and certification requirements.

Our audit found opportunities for improvement in the administration of the Standards Program. Specifically, we found the Department had not always ensured that manufacturers certified products to meet the minimum standards as required by Federal regulations, and annually re-certified products as required by Federal regulations. Additionally, the Department could not demonstrate that it had provided adequate oversight of the Manufacturer Impact Analysis, a key work-product used by program officials to develop and set minimum standards. We also noted that the Department had not met many of its legislative deadlines for the establishment of test procedures and minimum standards.

We made recommendations to improve the Standards Program and address the identified issues. As a result of our audit, the Department initiated actions to address the 23 uncertified products

and 6 products that had not been re-certified by either establishing a new enforcement case or addressing the uncertified products through existing enforcement cases. As of January 2013, the Department had completed enforcement actions on three of the products we referred to it for enforcement and assessed penalties totaling \$24,000. (OAS-M-13-05)

### **The Department of Energy's Administration of Energy Savings Performance Contract Biomass Projects**

In 2012, to help achieve renewable energy goals and realize energy cost savings, the Department began operating two new biomass facilities located at its Oak Ridge National Laboratory (Oak Ridge) and the Savannah River Site.

Our review of the Biomass Projects, financed by Energy Savings Performance Contracts (ESPCs), at Oak Ridge and the Savannah River Site disclosed that the Savannah River Site had generally developed and administered its Biomass Facility in an effective manner. However, we found planning and operational issues with the Oak Ridge Biomass Plant could cause the Department to incur over \$67 million more than necessary over the life of the project. Specifically, we noted that the Oak Ridge Site Office had not always planned and operated its Biomass Plant to minimize the Government's risk. For instance, it had not mitigated the risk of biomass fuel shortages and cost fluctuations, which could result in fuel costs exceeding original plans/projections by more than \$23 million over the life of the project.

These problems were due in part to inadequate guidance and oversight. The Department had not required major ESPC construction projects to adhere to critical elements of its existing capital project management and acquisition directive, and had not developed a process to identify, document and disseminate lessons learned from ESPC projects across the complex. We made several recommendations designed to assist the Department with ongoing biomass projects, and with planning, designing and operating future ESPCs and biomass facilities. Management generally concurred with our recommendations and identified actions taken and planned to address our recommendations. (DOE/IG-0892)

### **The Department of Energy's Management of Contractor Responsibility Determinations**

From January 2010 to January 2012, the Department's Office of Headquarters Procurement Services (Headquarters Procurement) and the National Nuclear Security Administration's Office of Acquisition Management in the Albuquerque Complex (Albuquerque Procurement) awarded contracts totaling approximately \$6 billion to 1,315 contractors included in our review.

We determined that Headquarters Procurement and Albuquerque Procurement did have processes and procedures in place to restrict contracts awards to entities with tax delinquencies and those deemed non-responsible. However, we identified opportunities in which these processes and procedures could be improved. For example, we identified instances in which



required offeror representations and certifications were either not completed or were not up-to-date at the time of contract award. Additionally, important procurement documentation used in determining a bidder's responsibility was not always included in the official contract files, as required by Department policies and procedures.

The problems we identified occurred, in part, because Headquarters Procurement and Albuquerque Procurement management did not ensure that procurement personnel consistently implemented controls designed to determine whether a contractor was responsible. In addition, management did not always ensure that the official contract files were properly maintained. We provided a recommendation. Department and NNSA management concurred with our recommendations to address the weaknesses we observed in the contractor self-certification process. Management's corrective actions, taken and planned, are responsive to our recommendations. (OAS-M-13-07)

### **Sandia National Laboratories' Readiness in Technical Base and Facilities Program**

Through the National Nuclear Security Administration's (NNSA) Readiness in Technical Base and Facilities (RTBF) Program, Sandia National Laboratories (Sandia) maintains facilities and infrastructure equipped with advanced scientific and technical tools to support NNSA's operational and mission requirements.

A key aspect of Sandia's RTBF is the Operations of Facilities Subprogram (Subprogram), which provides support to 31 of Sandia's 41 mission critical facilities. Funding for the Subprogram, which totaled \$139.3 million of Sandia's \$165.5 million Fiscal Year 2013 RTBF budget, is intended to sustain specific nuclear weapons' Mission Critical Capabilities essential to performing national security missions in a readiness state to execute missions, such as the nuclear weapons Life Extension Programs. The Subprogram budget also supports nuclear weapons programmatic infrastructure requirements such as general plant projects and capital equipment.

Nothing came to our attention to indicate that Sandia's RTBF Subprogram was not effectively supporting Life Extension Programs mission needs. Specifically, our review disclosed that Sandia met or exceeded its RTBF program goals for FY 2012. In addition, we noted that Subprogram officials implemented performance monitoring controls. Subprogram and Mission Critical Capabilities management also prioritized capital investments and management plans to mitigate risks, such as the needed recapitalization of aging and unsupported tools. We did not propose any recommendations because we did not identify concerns with NNSA's and Sandia's management of the Subprogram. (OAS-L-13-13)

## [Follow-up Audit of the Department of Energy's Financial Assistance for Integrated Biorefinery Projects](#)

The Department's Bioenergy Technologies Office (Program) supports the development of biomass resources into commercially viable biofuels, bioproducts and biopower. The Program provides financial assistance for integrated biorefinery projects to assist in building and operating facilities at each scale of development: pilot, demonstration and commercial. Despite over 7 years of effort and the expenditure of about \$603 million, the Department had not yet achieved its biorefinery development and production goals. Specifically, the *Energy Policy Act of 2005* mandate to demonstrate the commercial application of integrated biorefineries had not been met and the Department was not on target to meet its biofuels production capacity goal.

We found that the Department had not successfully achieved commercial-scale operations even though the Funding Opportunity Announcements issued in 2006 and 2007 indicated that the proposed projects should be operational at the commercial scale within 3 to 4 years. Further, the 2009 Funding Opportunity Announcements indicated proposed demonstration projects would be operational as soon as possible after award and proceed rapidly to commercial-scale operations. Additionally, we found that the Department was not on target for achieving its 2014 production capacity goal of 100 million gallons of advanced biofuels. Program management concurred with the recommendations and initiated corrective actions that are generally responsive to our recommendations. (DOE/IG-0893)

## [Fiscal Year 2011 Work Performed Under the Work for Others Program at Sandia National Laboratories](#)

The Department and its semi-autonomous provide research and technical assistance to other Federal agencies on a reimbursable, full cost recovery basis through the Work For Others (WFO) Program. WFO agreements are also used as a mechanism through which industry can utilize expertise and facilities at Sandia National Laboratories (Sandia), a Federally Funded Research and Development Center.

The Office of Inspector General contracted with KPMG, LLP (KPMG), to assess the internal control structure at Sandia and determine whether it is effective in achieving the current goals and objectives of the WFO Program. KPMG identified several opportunities to strengthen controls cover WFO costs. For instance, KPMG found that costs relating to Sandia's WFO support organizations were included in the general and administrative cost pool that was allocated to both WFO projects and other Department projects on an organization-wide basis, rather than using an allocation base that bears a more direct causal beneficial relationship to the support organizations' costs. KPMG estimated that the Department would have an annual savings of approximately \$2.3 million by implementing a separate indirect rate for these support organizations. KPMG recommended that Sandia consider removing the WFO support organization costs from the general and administrative indirect cost pool, and establish a separate indirect cost pool for allocating these costs to WFO projects. The National Nuclear Security

Administration generally concurred with the findings and recommendations and proposed corrective actions that are responsive to our recommendations. (OAS-L-13-14)

### **The Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory**

Los Alamos National Laboratory's (Los Alamos) primary responsibility is to ensure the safety, security and reliability of the nation's nuclear stockpile. To meet its mission, Los Alamos stores, treats and disposes of low-level waste and transuranic liquid waste (TRU) at the Radioactive Liquid Waste Treatment Facility (RLWTF). The National Nuclear Security Administration (NNSA) and Los Alamos have been planning a replacement project for the RLWTF since 2004, have made multiple changes in the design of the facility with plans to construct two facilities in 2005, one facility in 2006, and then returning to the two facilities approach in 2011. The current two facility design has a total estimated project cost as much as \$214 million and respective completion dates of 2017 and 2020.

While NNSA has recently taken action to address RLWTF replacement project issues, we observed that the NNSA and Los Alamos had not effectively managed the project over most of its lifecycle. Despite more than 7 years of effort, and the expenditure of \$56 million, design work for the TRU facility has not been completed and the project's completion date is 11 years behind schedule. Furthermore, the total estimated cost for the replacement project has increased from \$86 million to as much as \$214 million, a 149 percent increase. Additionally, independent peer and internal control reviews have noted that NNSA and Los Alamos had not developed reliable life cycle cost estimates, used a Risk Management Plan, and applied Value Engineering principles to optimize the design of the facility. NNSA and Los Alamos have made improvements in the project management of the RLWTF; however, we made suggestions for further improvement. (OAS-L-13-15)

### **The Department of Energy's Energy Innovation Hubs**

The Department's Energy Innovation Hubs (Hubs) initiative addresses research challenges with potentially high impact on our national energy security that have proved the most resistant to solution by conventional research and development management structures.

We found that the Hubs initiative was generally satisfying the specific Federal, Department and programmatic requirements that we evaluated during our review. Although our review did not identify material concerns regarding Hub operations, we identified several areas warranting management attention by the Department. Specifically, the Department had not effectively managed conference and meeting costs and had not always ensured conflict of interest certifications were obtained and/or retained for all external merit reviewers and Federal employees participating in the Hub selection process.

Excessive conference and meeting costs occurred because the Department had not provided sufficient oversight over these costs. The missing conflict of interest certifications were due to

poor recordkeeping practices. Management concurred with our recommendations and indicated that it had completed or initiated corrective actions designed to address our concerns. Management's reported corrective actions were responsive to our recommendations. (OAS-M-13-08)

### **The Resumption of Criticality Experiments Facility Operations at the Nevada National Security Site**

Citing safety and security concerns, in 2004 the National Nuclear Security Administration (NNSA) halted criticality experiments at Los Alamos National Laboratory and authorized a capital project to transfer this capability to the Device Assembly Facility at the Nevada National Security Site (Nevada). The project remodeled a portion of the Device Assembly Facility to form the National Criticality Experiments Research Center (NCERC).

We found that NNSA restored many of the former capabilities of the Criticality Experiments Facility at the NCERC in Nevada. We noted, however, that several problems with start-up activities resulted in delays in restoring the full array of experimental capabilities included in the project. Specifically, NNSA was unable to authorize the start-up of NCERC operations until May 2011. The program experienced further delays in the start-up activities of each criticality machine. Further, NCERC has been unable to restore its full capability to perform plutonium-based criticality experiments.

The delays in restoring capabilities occurred because NNSA had not ensured that contractors had developed adequate procedures for correcting concerns identified during the process to authorize the start-up of NCERC, the safety basis documentation matched facility conditions, and procured safety equipment met cited standards. Additionally, NNSA had not ensured effective management of the multiple contractors involved in developing and amending the safety basis documentation. Finally, NNSA has struggled to successfully integrate and resolve issues between the multiple contractors involved in NCERC facility operations. Management concurred with our recommendations and proposed corrective actions that are responsive to our recommendations. (OAS-M-13-09)

### **Department of Energy Quality Assurance: Design Control for the Waste Treatment and Immobilization Plant at the Hanford Site**

The Department is constructing the \$12.2 billion Waste Treatment and Immobilization Plant (WTP) to vitrify approximately 56 million gallons of radioactive and chemically hazardous waste stored at the Hanford Site. To ensure the vitrification process is safe for workers, the public and the environment, the Department required the contractor for the WTP, Bechtel National Inc. (Bechtel), to develop and follow a quality assurance program based on the American Society of Mechanical Engineer's *Quality Assurance Requirements for Nuclear Facility Applications* (NQA-1) Standard.

The Office of Inspector General received an allegation that Bechtel was missing design control documentation for the WTP and as such, could not demonstrate that equipment was appropriately manufactured.

We substantiated the allegation. Our review revealed significant shortcomings in the Department's process for managing the design and fabrication changes of waste processing equipment procured for the WTP. The Department had not ensured that Bechtel subjected design changes requested by suppliers to the required review and approval by Bechtel's Environmental & Nuclear Safety Group. Further, the Department had not ensured that Bechtel properly verified that deviations from design requirements that could affect nuclear safety were implemented. Management concurred with our recommendations and provided corrective actions taken and planned to address specific weaknesses identified in our report. We consider management's comments and planned corrective actions responsive to our findings and recommendations. (DOE/IG-0894)

## Inspection Reports

### [Alleged Mismanagement of the Department of Energy's Executive Protection Operations](#)

The Office of Special Operations (Special Operations) has primary responsibility for the protection and evacuation of the Secretary of Energy and other executive personnel as designated by the Secretary. Special Operations, a part of the Office of Health, Safety and Security, employs special agents charged with managing executive protection operations. These special agents apply tactics, techniques and procedures designed to protect an individual from physical assault or harm. Special Operations agents are augmented by Office of Secure Transportation agents while the Secretary is on travel status, and in coordination with Office of Health, Safety and Security Headquarters Security Police Officers when in the Headquarters building.

We received allegations of mismanagement of the Department's Executive Protection forces. The complaints varied, but generally fell into categories such as inadequate training; mismanagement of resources, such as failure to provide appropriate body armor; and lack of implementation of recommendations for improvement. While certain aspects of the allegations were substantiated, the evidence did not support a number of concerns that had been raised. However, perhaps of greatest importance, the Special Operations agents generally described their work environment as one permeated by low morale. We noted, for instance, that certain operational training had not been completed and individual purchases of body armor were not made between 2007 and 2012. We did not substantiate a number of other specific allegations involving issues such as failure to complete recommended actions. In response to the findings, management concurred with the recommendations and agreed to take corrective action to address the concerns raised by Special Operations agents and to ensure that the executive protection function is operating as effectively as possible.

(INS-SR-13-02)

### [Alleged Improprieties Regarding the Canine Program at the Department of Energy's Y-12 Site](#)

The Department's Canine Program is an essential component of its efforts to identify and deter potential threats to infrastructure and personnel. At the Y-12 National Security Complex (Y-12) and other nuclear material hosting sites in the Department, canines are used to detect explosives, narcotics, concealed humans and also track human presence at facilities that store, handle and maintain special nuclear material. As outlined in Department directives and adopted as best practices by law enforcement and security professionals, the performance of canine teams depends on continual reinforcement of skills through realistic performance testing, proficiency training and annual certifications. As required by their contract with the Department, canine services contractors are required to develop and implement a canine training and certification program that embodies these principles. Canine services at Y-12 were obtained through a 5-year contract that is valued at almost \$15 million. Subsequently, in 2012, we received allegations that the Department's Y-12 site: (1) possibly "rigged" testing for canine teams, and (2) worked



canines beyond their physical capability to perform effectively. Because of conflicting testimony and a lack of supporting documentation, we could not conclusively determine whether there were instances of "rigged" testing. However, our inspection identified a number of issues that led us to question the efficacy of the processes used to test, train and certify canines at Y-12. For instance, performance testing, training and annual certifications of canine teams were not properly conducted and/or documented. We did substantiate the allegation that handlers had worked canines beyond their physical capability to perform assigned duties. Deficiencies associated with the management of a multi-layered contract structure for furnishing canine services at the Y-12 site contributed to the problems we observed. Finally, Federal officials and various contractor officials acknowledged that they had not reviewed the training and certification records for the canine teams because the Canine Program was not identified as a high-risk security area based on the Department's graded approach for risk determination. Management concurred with the recommendations in the report and agreed to develop and implement standardized policies and guidelines for all National Nuclear Security Administration sites utilizing canine detection services. (DOE/IG-0886)

### **Alleged Nepotism and Wasteful Spending in the Office of Energy Efficiency and Renewable Energy**

The Department administers various hiring programs designed to generate a pipeline of talent to replenish its workforce and to maintain overall workforce vitality. One of those programs is the Student Temporary Employment Program (STEP), which provides opportunities for students to gain work experience, while enhancing their awareness of the Department's mission and functions. STEP appointments are exempted from the usual competitive selection examining procedures; however, this does not negate the responsibility for ensuring a fair and open competitive process during the selection of STEP participants. While the Office of the Chief Human Capital Officer provides various hiring related services to a number of program offices, selection authority is vested in individual program offices.

Recently, we received allegations that a senior Office of Energy Efficiency and Renewable Energy official had violated these regulations by: (1) engaging in nepotism by advocating for his three children to obtain STEP employment at the Department; and (2) wasting funds by enrolling two of the three children in costly training courses unrelated to their duties as STEP interns.

Our inspection substantiated the allegation that the senior Office of Energy Efficiency and Renewable Energy official was actively involved in securing STEP intern appointments at the Department for his three college-aged children. The allegation related to enrolling his children in inappropriate training was not substantiated. Nepotism or even its appearance can have a decidedly negative impact on morale within an organization. As is readily apparent, providing inappropriate advantages for relatives of Federal employees damages the integrity of the competitive process and erodes public trust in the Federal hiring process. Management concurred with the recommendations in the report to strengthen internal controls over hiring processes within the Department. (DOE/IG-0888)

## Concerns with Consulting Contract Administration at Various Department Sites

The National Nuclear Security Administration requested that we conduct a review to determine whether a consulting agreement awarded to Heather Wilson and Company, LLC (HWC), by Los Alamos National Laboratory was appropriately administered and managed. Specifically, we were asked to determine whether: (1) work products were produced in return for monthly payments to HWC of \$10,000; (2) invoices included itemized charges, as required by the agreement; (3) there was overlap between the services provided and work products produced by HWC on consulting agreements awarded by Sandia National Laboratories, Los Alamos, Oak Ridge National Laboratory and the Nevada National Security Site; and (4) an NNSA Contracting Officer was subjected to "pressure" when Los Alamos National Security, LLC, the Management and Operating contractor for Los Alamos, requested authorization to enter into an agreement with HWC.

Our inspection identified serious concerns with the administration and management of agreements with HWC for advice and consultation provided to senior managers at four Department contractor-operated sites. Specifically, our testing revealed that the four facility contractors paid approximately \$450,000 to HWC even though they did not receive evidence that work performed under the agreements had been completed. These payments were fully reimbursed by the Government.

The issues identified in this report occurred because contractor officials responsible for crafting and administering the consulting agreements either did not incorporate, or failed to enforce, the requirements of the Federal Acquisition Regulation into the agreements with HWC. Management generally agreed with our findings and recommendations and indicated it was in the process of implementing or completing corrective actions. Management indicated that the Department has already recovered \$442,877 from its contractors of the approximately \$464,203 paid to HWC, and is reviewing the allowability of the additional amounts. (OIG/IG-0889)

## Follow-up Inspection on Characterization Wells at Los Alamos National Laboratory

Since the early 1940's, the Los Alamos National Laboratory (Los Alamos) has conducted experimental research on the development of nuclear weapons and explosive materials. These activities have resulted in the generation and disposal of a variety of hazardous, radioactive, and solid wastes. In 1998, Los Alamos developed a workplan that established the basis for characterizing the hydrogeologic system beneath the facility. Implementation of the workplan required the installation of 32 regional aquifer wells, commonly referred to as characterization wells.

In our September 2005 report on *Characterization Wells at Los Alamos National Laboratory*, (DOE/IG-0703), we noted that the use of mud rotary drilling methods during well construction was contrary to specific constraints established in Resource Conservation and Recovery Act



guidance. We also noted that muds and other drilling fluids that remained in certain wells after construction created a chemical environment that could mask the presence of radionuclide contamination and compromise the reliability of groundwater contamination data. Our follow-up inspection found that Los Alamos had taken action designed to improve the management of its characterization well program. Specifically, we noted that Los Alamos no longer uses mud rotary drilling methods during well construction, and appropriate steps have been taken to ensure data derived from monitoring wells is reliable. Additionally, we found that responsibility for the monitoring well program had been transferred to the New Mexico Environmental Department. (INS-O-13-05)

### **Follow-up Inspection on Material Control and Accountability at Los Alamos National Laboratory**

The Department's Los Alamos National Laboratory (Los Alamos) is managed and operated under contract by Los Alamos National Security, LLC, for the National Nuclear Security Administration (NNSA). Los Alamos tracks, manages and controls nuclear materials in 64 Material Balance Areas (MBAs). Our September 2007 report on *Material Control and Accountability at Los Alamos National Laboratory*, (DOE/IG-0774) identified weaknesses regarding the control and accountability of nuclear materials. Management committed to implementing the report recommendations and to taking appropriate corrective actions. We initiated this inspection to determine if Los Alamos implemented the planned corrective actions intended to improve the policies and procedures for inventory, transfers, characteristics and locations of nuclear materials related to the MC&A Program.

While several corrective actions were completed on the recommendations included in our prior report, our inspection revealed that Los Alamos continued to experience problems with the accountability of certain nuclear materials controlled under its MC&A Program. Specifically, our testing of 15 MBAs revealed instances in which nuclear materials were not maintained in the correct location, properly labeled or correctly identified in the Los Alamos MC&A database. The issues we identified occurred, in part, because Los Alamos personnel did not always provide effective oversight to ensure the control and accountability of nuclear materials. Specifically, Los Alamos did not ensure that its accounting record system accurately reflected the identity and location of nuclear materials as required by Department Manual 470.4-6, *Nuclear Material Control and Accountability*. Management generally agreed with our findings and recommendations. (INS-O-13-04)

### **Allegations Regarding Prohibited Personnel Practices at the Bonneville Power Administration**

In June 2012, the OIG received an anonymous complaint alleging prohibited personnel practices at Bonneville Power Administration (Bonneville). Based on our work to date, we have reached a preliminary conclusion that Bonneville engaged in a number of prohibited personnel practices. Notably, Bonneville's hiring practices appeared to have effectively disadvantaged veterans and

other applicants. Such action was inconsistent with concerted efforts by the Federal government to ensure that veterans received appropriate preferential treatment in the hiring process. Equally concerning and the primary reason for the urgency of the management alert, Bonneville has apparently proposed or recently executed a number of personnel actions against certain employees who have cooperated with our review. These actions have a potentially chilling effect on various aspects of our work and, as such, jeopardize our ability to effectively complete our review of the circumstances surrounding inappropriate Bonneville hiring practices. The Department's comments were responsive to our recommendations. Notably, the Department initiated immediate corrective actions. (DOE/IG-0891)

### **Allegations of Irregular Hiring Practices and Preferential Treatment in the Loan Programs Office**

The Department's Loan Programs Office (LPO) grants and monitors loans to private sector entities to develop new clean energy technologies. LPO was authorized by the *Energy Policy Act of 2005* with the goal of creating jobs, reducing dependency on foreign oil, improving the Department's environmental legacy, and enhancing American competitiveness in the global economy of the 21<sup>st</sup> century. As with most Departmental programs, LPO relies on both Federal and contractor employees to carry out its mission. With the support of the Department's human resources officials, LPO recruits and hires Federal employees. Federal regulations prohibit employees from granting any preference or advantage to applicants for Federal employment, unless specifically prescribed by law. Regarding contractor support, with limited exception, Federal employees are prohibited from becoming involved in contractor employee personnel matters.

We received a complaint alleging that a senior LPO official: (1) hired a "friend" for a Federal program position; and (2) directed a contractor to hire six individuals. We initiated this inspection to examine the facts and circumstances surrounding these allegations.

Our inspection identified actions taken by a senior LPO official that could have caused others to perceive a misuse of position. Specifically, we substantiated the allegation that the senior LPO official hired a "friend" for a Federal position. Regarding the second allegation related to directed contractor hiring, we found that the senior LPO official had, in fact, not only referred six individuals, but actually referred a total of 10 individuals with whom the official was affiliated, to a support service contractor for hiring consideration. However, we did not substantiate the allegation that the official actually directed the hiring of the referred individuals. Nonetheless, the actions by the senior LPO official could have created the appearance that the official was inappropriately involved in the contractor's hiring process. (INS-L-13-06)

## **Unclassified Foreign National Visits and Assignments at Oak Ridge National Laboratory**

During calendar year 2012, the Oak Ridge National Laboratory (Oak Ridge), which is managed by UT-Battelle, LLC, hosted approximately 6,400 foreign national visitors and assignees (foreign nationals). Such visits and assignments can be beneficial to the Department but may also create certain security risks.

Our inspection revealed that improvements are needed in the implementation of the Department's Foreign National Visits and Assignments Program at Oak Ridge. We determined that contrary to Host Agreements and individual security plans, hosts did not always maintain accountability of foreign nationals as required. In addition, we found that Oak Ridge Office of Counterintelligence officials did not ensure that required Counterintelligence consultations had been documented and completed in the Department's Foreign Access Central Tracking System (FACTS) for foreign nationals prior to their visits.

Although we did not identify any instances in which export information or other scientific information was inappropriately obtained by a foreign national, the risk that these events could occur is higher than acceptable because of the weaknesses in Oak Ridge's program. We also found that the Oak Ridge Host Audit Program, which provided management oversight of the Foreign National Visits and Assignments program, had also not been effectively implemented.

The Oak Ridge Site Office concurred with the report recommendations and identified actions it had planned or had already taken to address our recommendations. We consider management's comments responsive to our recommendations. (INS-O-13-05)

## **Accountability and Control of Explosives at the Lawrence Livermore National Laboratory's High Explosives Applications Facility**

The High Explosives Applications Facility (HEAF) is a state-of-the-art explosives research facility located on-site at the Lawrence Livermore National Laboratory (Livermore). We received a complaint alleging weaknesses with the controls over physical access to explosive material, as well as weaknesses with explosive inventory control and accountability in the HEAF explosive operations area.

We substantiated the allegations regarding weaknesses with controls over access and inventory of explosive materials at the HEAF. We found that Secret and Top Secret cleared individuals at Livermore had the potential to access the HEAF explosive operations area even though they lacked specific authorization and/or had not received required safety training. Additionally, we found that Livermore's Safety Access Training did not adequately address the requirements for unescorted access to the facility's explosive workrooms. Further, a unified perpetual system of records capable of tracking and accounting for explosives acquired, stored and expended at HEAF did not exist. (INS-O-13-06)

## Recovery Act Reports

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. Our 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.

### Cost Incentives for the Department's Cleanup Contract in Idaho

In FY 2005, the Department awarded a Cost-Plus-Incentive-Fee contract to CH2M | WG Idaho, LLC (CWI) to lead environmental cleanup of its Idaho National Laboratory site. The contract originally ran from May 1, 2005 through September 30, 2012, and has been extended for 3 years to September 30, 2015. The contract had a target cost of \$2.7 billion and a target fee of \$196 million (7.36 percent of target cost). The contract includes an additional incentive if work is completed under target cost. In addition to the target work to be completed within the contract, additional non-target work was allowed under Section B.5 of the contract. The contractor initially anticipated that the amount of additional non-target work would be approximately \$89 million; however, the amount of non-target work completed ultimately increased to about \$510 million, with the largest increase attributable to work funded under the Recovery Act. The Department and CWI are now negotiating to close out the agreed upon scope of work covered by the contract performance period that ended September 30, 2012, and to calculate fee based upon the cost to complete this work. During our review, nothing came to our attention to indicate that General and Administrative (G&A) costs had not been properly allocated to the non-target work. In accordance with its Cost Accounting Disclosure Statement, CWI allocated about \$128 million in G&A expenses to its non-target work, about \$88 million more than originally planned, which reduced the G&A expense allocated to CWI's target work and thereby reducing the total costs of target work. Additionally, the contractor contends the allocation served to reduce the actual cost of target work scope, and as a consequence, it is entitled to earn fee at the target work scope rate on the allocated amount. However, we learned that the Department disagreed with the impact of the G&A allocation on the incentive fee and was in a dispute with CWI regarding its overall fee. Based on the totality of the information we reviewed, we concluded that the contract modifications accepted by CWI disclosed that its fee earning potential in this area was undefinitized. Management concurred with our recommendation and indicated that corrective action has been initiated. (OAS-RA-13-20)

### The Hydrogen Energy California Project

Under the Recovery Act, the Department's Office of Fossil Energy received \$3.4 billion to focus on the research, development and deployment of technologies to use coal more cleanly and efficiently. In September 2009, the Department approved a cooperative agreement award with a Government contribution of \$308 million to Hydrogen Energy California, LLC (HECA) to construct a commercial power plant to demonstrate the capture and underground storage of carbon dioxide. The project was expected to be completed in November 2018, at a total cost of about \$2.8 billion.

In March 2011, after the Department and HECA spent approximately \$75 million, HECA's original recipients notified the Department that they intended to terminate the agreement because the project did not meet their requirements for economic viability. With the Department's assistance, HECA found new owners that believed the project could be economically viable. In September 2011, the Department modified the cooperative agreement and increased total project cost to approximately \$4 billion with a Department cost share of \$408 million. We initiated this audit to determine whether the Department effectively managed the modification of the HECA cooperative agreement and subsequent cost share activities.

Our audit found that the project is progressing; however, in our view, the Department is managing HECA at an increased risk level. We noted that the modified cooperative agreement actually represented a substantial increase in upfront risk to the Department by allowing HECA to substantially decrease its cost share in the early stages of the project. As such, the Department is at risk of expending \$133 million for its share of project costs in the first phase without it being completed if the recipient is unable to obtain funding for the next project phase. To help mitigate the risks identified in the HECA project, we provided suggestions to ensure similar situations do not recur and improve the management of cooperative agreements. (OAS-RA-13-22)

### **Department of Energy's Interconnection Transmission Planning Program Funded through the American Recovery and Reinvestment Act of 2009**

Under the Recovery Act, the Department's Office of Electricity Delivery and Energy Reliability received about \$4.5 billion to modernize the electric grid. About \$80 million of this funding was designated for the Interconnection Transmission Planning Program to facilitate the development or strengthening of capabilities in each interconnection. The transmission infrastructure in the United States is separated into three distinct electrical networks, or interconnections – the Western, Eastern, and Texas interconnections. The Department allocated \$60 million to five organizations under cooperative agreements to perform work for the interconnections and \$20 million to the Department's national laboratories to provide technical support to those organizations. The cooperative agreements covered interconnection-level analysis and planning, and coordination and cooperation among states on electric resource planning and priorities.

We found that the Department had generally established and implemented a system of internal controls for managing the announcement, review and selection of cooperative agreement funding recipients. Also, the recipients had released the required planning studies to the public in 2011. However, we found that the Department had not adequately managed reimbursements to recipients for consultant compensation. As such, we questioned the payment of \$86,000 in payments to consultants. Management partially concurred with our recommendations, but provided corrective actions that we considered to be responsive. This report is the third in a series of reports on the Department's funding to modernize the electric grid. (OAS-RA-13-26)



## **Modular Office Facilities for Recovery Act Program Activities at the Hanford Site**

The Department's Richland Operations Office (Richland) awarded a contract, effective October 1, 2008, to CH2M HILL Plateau Remediation Company (CHPRC) to remediate select portions of the Hanford Site's Central Plateau. As part of the Recovery Act, Richland designated \$1.3 billion of Recovery Act funding to the Plateau Remediation Contract to accelerate CHPRC's work scope from April 2009 through September 2011.

Due to the influx of Recovery Act funding in 2009 and the accelerated schedule, CHPRC hired an additional 1,757 employees, including subcontractors. To provide office space for these temporary employees, CHPRC procured a total of 176 modular facilities consisting of 114 purchased and 62 leased facilities at an approximate total cost of \$29 million.

We received an allegation that a number of the facilities CHPRC purchased with Recovery Act funds were either never used or were underutilized. Our review substantiated the allegation. In particular, we discovered that CHPRC incurred as much as \$1.5 million more than necessary by purchasing unneeded modular facilities and almost \$600,000 in lease costs that could have been avoided by more expediently returning leased facilities that were no longer needed. In fact, we found that 7 of 176 facilities purchased with Recovery Act funds were not utilized through September 30, 2011, the date that most Recovery Act work at Richland ended. We could not determine whether the remaining facilities were underutilized because the contractor's documentation did not adequately justify the need for all of the facilities. Management generally concurred with the suggested actions in our report. (OAS-RA-L-13-04)

## **The Department of Energy Vehicle Technologies Program's \$135 Million in Funding to Ecotality, Inc.**

The Department's Vehicle Technologies Program aims to decrease U.S. oil dependence by developing and deploying advanced transportation technologies. The scope of the Vehicle Technologies Program was significantly increased when it received approximately \$2.8 billion in funds as part of the Recovery Act. Subsidiary companies of Ecotality, Inc. (Ecotality) received about \$35 million from 2005 to 2011, for two multi-year projects to test and evaluate advanced technology vehicles. In 2009, Ecotality was awarded a Recovery Act grant for about \$100 million for electric vehicle demonstration and infrastructure evaluation. For this award, Ecotality planned to install three different types of charging stations for electric vehicles in various geographical regions around the country.

Our review identified opportunities to improve the effectiveness of the Department's administration of its awards to Ecotality. We noted that the Department had not adequately documented its consideration of alternatives before making significant changes to Ecotality's Recovery Act project. Additionally, the Department had not ensured that the selection of commercial charging station locations was based on a process that advanced the goals of the project. Further, the Department had not ensured that Ecotality's awards were finalized in a

timely manner. We did not find that the cost-share concept for this project was prohibited under Federal regulations; however, we concluded that the cost-share arrangement was unusual and provided Ecotality with a very generous cost-share credit.

We made several recommendations to address the issues we observed and to improve the management of this and similar projects. Management concurred with our recommendations and indicated that it had completed or initiated corrective actions that were responsive to our recommendations. (OAS-RA-13-29)

## **The Department of Energy's Hydrogen and Fuel Cells Program**

The Department spent approximately \$1 billion over the last 5 years on Hydrogen and Fuel Cells Program activities implemented through various projects at Federal laboratories, universities, non-profit institutions, Government agencies and industry participants. The Department also provided an additional \$42 million in Recovery Act funding to accelerate the commercialization and deployment of fuel cells.

We found the Department had not always effectively managed the financial aspects of the Hydrogen and Fuel Cells Program. For instance, we found that the Department approved and reimbursed unsupported and/or unallowable costs at 9 of the 10 recipients included in our review. Further, the Department had not ensured that recipient procurement practices were adequate to fully protect the Government's interests and complied with applicable policies, procedures and best practices.

The issues we identified occurred, in part, because program officials had not always provided effective monitoring and oversight and/or adequate guidance to ensure that required financial and accounting policies and procedures had been properly adhered to on a consistent basis. The lack of attention to financial monitoring of recipients increased the risk that questionable and/or unallowable costs would be charged to the Department and reduce the amount of funds available to complete projects. Accordingly, we questioned more than \$6.7 million in reimbursements to Hydrogen and Fuel Cells Program recipients included in our review. Management concurred with our recommendations and indicated that it had initiated and/or taken corrective actions to that are responsive to our recommendations. (OAS-RA-13-31)

## **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.

## **South Carolina Energy Office – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Energy Efficiency and Conservation Block Grant (EECBG) Program received about \$3.2 billion to assist in implementing strategies to reduce fossil fuel emissions, decrease total energy use of local governments, improve energy efficiency and create jobs.

The South Carolina Energy Office (SCEO) is responsible for operating the State of South Carolina's energy efficiency programs and for administering EECBG Program funding. The SCEO received about \$9.6 million that was allocated as block grants to units of local government and competitive grants that support energy efficiency projects.

We contracted with an independent certified public accounting firm to examine SCEO's compliance with Federal and State laws, regulations and program guidelines applicable to the EECBG Program. The examination found that SCEO complied in all material respects with the requirements and guidelines relative to the EECBG Program for the period September 30, 2009 through December 31, 2011. There were no findings and recommendations as a result of this examination. (OAS-RA-13-21)

## **Commonwealth of Puerto Rico Energy Affairs Administration – Energy Efficiency and Conservation Block Grant Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

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. Commonwealth of Puerto Rico Energy Affairs Administration's (Puerto Rico) received a \$9.6 million formula EECBG grant award that was to be expended over a 3-year period from September 21, 2009 through September 20, 2012. Puerto Rico requested and received an extension of its grant to March 31, 2013.

We contracted with an independent certified public accounting firm to express an opinion on Puerto Rico's compliance with Federal and Commonwealth of Puerto Rico laws, regulations and program guidelines applicable to the EECBG Program.

The examination found that except for the significant deficiencies described in its report, Puerto Rico complied in all material respects with the aforementioned requirements and guidelines relative to the EECBG Program for the period September 21, 2009 through December 31, 2011.



For instance, Puerto Rico did not know the status of and had not maintained supporting documentation for four cash advances totaling \$449,000 to ensure funds were used for allowable costs. The Department's comments were responsive to our recommendation. (OAS-RA-13-27)

### **Costs Incurred by Selected Tribal Energy Efficiency and Conservation Block Grant Recipients**

Under the Recovery Act, the Department's Energy Efficiency and Conservation Block Grant (EECBG) Program received \$3.2 billion to improve energy efficiency and reduce energy use and fossil fuel emissions. The Department's Office of Energy Efficiency and Renewable Energy allocated about \$2.7 billion of the funds using a population-driven formula to over 2,000 entities including states and territories, cities and counties, and Native American tribes. The Navajo Tribal Utility Authority (NTUA), the Cherokee Nation, Muscogee Creek Nation, Choctaw Nation of Oklahoma, and Chickasaw Nation received the largest tribal EECBG grants, which totaled \$13.9 million and represented approximately 25 percent of the total EECBG funds awarded to Native American tribes. As of December 31, 2012, approximately \$12 million of these funds had been expended by the five recipients.

Our review identified \$518,994 in questionable costs reimbursed by the Department to two of the five largest tribal recipients of EECBG funds. For instance, NTUA did not follow applicable Federal regulations or have adequate support related to allocability and allowability for \$517,794 in costs reimbursed by the Department for consulting, legal and administrative costs. The majority of questioned costs occurred because NTUA failed to follow its own policies and procedures related to procurement of services, to adequately review legal expenditures charged to the grant prior to seeking reimbursement, and to adhere to Federal regulations requiring the adequate support of allowable administrative charges.

Department officials concurred with the findings and recommendations and had been working with the tribal recipients to ensure all corrective actions were implemented. The Department's corrective actions were responsive to our recommendations. (OAS-RA-13-28)

### **Weatherization Assistance Program**

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

## **Travis County Health & Human Services and Veterans Services Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

As part of the Recovery Act, the Weatherization Assistance Program (Weatherization Program) received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Texas received \$327 million in Weatherization Program Recovery Act grant funding, of which \$8.9 million was allocated to Travis County Health & Human Services and Veterans Services (Travis County) to weatherize approximately 1,060 homes. The State of Texas' Department of Housing and Community Affairs was responsible for administering Weatherization Program grants, including funds provided to Travis County. We contracted with Lani Eko & Company, CPAs, PLLC, to conduct an examination of Travis County's Weatherization Program. The examination found that Travis County had not ensured that homes it weatherized were eligible for those services. Specifically, Travis County did not have procedures in place to ensure compliance with Federal requirements that prohibit use of Federal funds to weatherize dwelling units designated for acquisition or clearance by a Federal, state or local program within 12 months from the date weatherization of the dwelling units would be completed. Further, Travis County had not properly supported 33 of 45 client transactions reviewed. The Department concurred with the report recommendation and will ensure appropriate action is taken by the State of Texas to improve administration of Recovery Act Weatherization Program funds at Travis County Health & Human Services and Veterans Services. (OAS-RA-13-18)

## **Area Community Services Employment and Training Council – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Assistance Program (Weatherization Program) received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Michigan received over \$250 million in Weatherization Program Recovery Act grant funding, of which \$3.58 million was allocated to the Area Community Services Employment and Training Council (ACSET). The State of Michigan's Bureau of Community Action and Economic Opportunity under the Department of Human Services was responsible for administering Weatherization Program grants, including funds provided to ACSET.

We contracted with an independent certified public accounting firm, Lani Eko & Company, CPAs, PLLC, to examine ACSET's compliance with laws, regulations and program guidelines applicable to the Weatherization Program. The examination found that ACSET had not properly verified applicant and unit eligibility. Additionally, ACSET had not ensured initial weatherization services provided, and subsequent re-work performed, met the quality of work standards of the Weatherization Program. Further, ACSET had not maintained proper documentation sufficient to ensure compliance with Weatherization Program requirements as

they specifically apply to final inspections. The Department concurred with our recommendation and will continue to monitor billing, eligibility determinations, and trend analysis as part of its grant oversight responsibility. (OAS-RA-13-23)

### **Southwest Michigan Community Action Agency – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

The Recovery Act was enacted to promote economic prosperity through job creation and encourage investment in the Nation's energy future. As part of the Recovery Act, the Weatherization Assistance Program (Weatherization Program) received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades.

The State of Michigan received over \$250 million in Weatherization Program Recovery Act grant funding, of which \$6.69 million was allocated to the Southwest Michigan Community Action Agency (Southwest). The State of Michigan's Bureau of Community Action and Economic Opportunity under the Department of Human Services was responsible for administering Weatherization Program grants, including funds provided to Southwest.

We contracted with Lani Eko & Company, CPAs, PLLC, to examine Southwest's compliance with laws, regulations and program guidelines applicable to the Weatherization Program. The examination found that Southwest had inaccurately stated "Jobs Created and Retained" hours in its quarterly reporting and had not provided evidence that findings noted by the inspector in the Final Inspection Report had been addressed. The Department concurred with the recommendation and will continue to monitor billing processes, eligibility determinations, and trend analysis as part of its grant oversight responsibilities. (OAS-RA-13-24)

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

Under the Recovery Act, the Department's Weatherization Assistance Program (Weatherization Program) received \$5 billion to improve the energy efficiency of residences owned or occupied by low-income persons. The Department subsequently awarded a Recovery Act Weatherization Program grant of over \$250 million to the State of Michigan, which included an additional Recovery Act award of nearly \$7 million of Sustainable Energy Resources for Consumers funding. This grant provided roughly 10 times the \$26 million in Department funds available to Michigan for weatherization in FY 2009. The Michigan Bureau of Community Action and Economic Opportunity administers these Recovery Act grants through 31 local community action agencies and a limited purpose organization.

We reviewed three of Michigan's local agencies – City of Detroit Department of Human Services, Area Community Services Employment and Training Council (ACSET), and

Southwest Michigan Community Action Agency (Southwest) – to determine if it had effectively managed the Weatherization Program. This report focused on conditions common to the local entities reviewed; however, we have issued separate reports on the Area Community Services Employment and Training Council and Southwest Michigan Community Action Agency under separate covers, for conditions specific to those entities.

We identified opportunities for Michigan and the three local agencies reviewed to improve management of the Weatherization Program. For instance, we found persistent problems with the quality of weatherization work. Also, we found that eligibility for weatherization services had not always been properly verified, and the local agencies had requested reimbursement for weatherization services that had either not been completed or had never been performed. Overall, we questioned \$115,800 for reimbursement of weatherization services that had not been completed or verified as completed or were potentially ineligible. The Department concurred with our recommendations designed to improve the Weatherization Program in the areas of quality of work, financial monitoring and eligibility determination. (OAS-RA-13-25)

### **Alamo Area Council of Governments – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009**

As part of the Recovery Act, the Weatherization Assistance Program (Weatherization Program) received \$5 billion to reduce energy consumption for low-income households through energy efficient upgrades. The State of Texas received \$327 million in Weatherization Program Recovery Act grant funding, of which \$15.5 million was allocated to the Alamo Area Council of Governments (Alamo) to weatherize approximately 3,000 homes. The State of Texas' Department of Housing and Community Affairs was responsible for administering Weatherization Program grants, including funds provided to Alamo. The Office of Inspector General contracted with Lani Eko & Company, CPAs, PLLC (Lani Eko), to express an opinion on Alamo's compliance with applicable Federal and state laws, regulations and program guidelines.

The examination found that Alamo had falsified Weatherization Program records and improperly weatherized multi-family dwellings. Further, Alamo had incurred unallowable costs of \$146,850 for forensic audits and reviews to determine the extent of the program's mismanagement. Specifically Lani Eko noted instances in which a four-unit building and an eight-unit building were weatherized, even though eligibility requirements had not been met for those buildings. Lani Eko questioned the allowability of the \$21,904 in costs incurred for the weatherization of those buildings.

The Department concurred with the recommendation and has been working with the State and Alamo to ensure that all corrective actions are implemented. Its comments were responsive to the recommendation to work with the State to improve administration of Recovery Act Weatherization Program funds at Alamo and resolve the questioned costs.

## State Energy Program

### Selected Sub-grantees of the Department of Energy's American Recovery and Reinvestment Act of 2009 – Illinois State Energy Program

The Department's State Energy Program (SEP) provides grants to states, territories, and the District of Columbia to support energy priorities and fund projects that meet their unique energy needs. The Recovery Act significantly expanded the SEP by providing an additional \$3.1 billion. The Illinois Department of Commerce and Economic Opportunity was allocated \$101.3 million in Recovery Act SEP funds, and allocated the funds to 8 separate programs funding more than 138 projects. We contracted with an independent certified public accountant firm to perform examinations of four selected sub-grantees to test compliance with Federal and State laws, regulations and program guidance.

The examinations found that the Association of Illinois Electric Cooperatives did not adequately monitor member cooperatives to ensure delivery of energy efficiency upgrades or services performed for which rebates were issued. Additionally, Bley, LLC did not comply with Recovery Act requirements to separately track costs and maximize competition in equipment purchases, and Funk Linko, Inc. did not properly account for its cost matching and maximize competition in equipment purchases. Further, Abengoa Bioenergy Operations, LLC could not fully support that it had complied with Recovery Act requirements to separately identify costs, pay prevailing wages in accordance with the Davis-Bacon Act, and ensure competition in awarding subcontracts.

In addition to compliance issues identified, we are concerned about Illinois' practice of providing Recovery Act funds to projects that had already been completed. Although not expressly prohibited, we questioned whether providing funds for completed projects met the intent of the Recovery Act to stimulate the economy and create or save jobs. The Department concurred with the recommendations and committed to implementing corrective actions. Regarding Illinois' practice of providing Recovery Act funds to completed projects, the Department responded that the costs were incurred during the allowable timeframe for the grant, and stated that it had been assured by the Illinois Department of Commerce and Economic Opportunity that all other projects were consistent with the intent of the Recovery Act legislation and that the costs were incurred within the Recovery Act timeframe. (OAS-RA-13-19)

## Reporting Requirements Index

The following identifies the sections of this report that address each of the reporting requirements prescribed by the Inspector General Act of 1978, as amended.

Section	Reporting Requirement	Page
4(a)(2)	Review of Legislation and Regulations	<a href="#">23</a>
5(a)(1)	Significant Problems, Abuses, and Deficiencies	<a href="#">36-75</a>
5(a)(2)	Recommendations for Corrective Action to Significant Problems	<a href="#">44-75</a>
5(a)(3)	Previous Reports' Recommendations for Which Corrective Action Has Not Been Completed	<a href="#">25</a>
5(a)(4)	Matters Referred to Prosecutive Authorities	<a href="#">36-43</a>
5(a)(5)	Information Assistance Refused or Not Provided	N/A
5(a)(6)	Audit Reports Issued in This Reporting Period	<a href="#">8-22</a>
5(a)(7)	Summary of Significant Reports	<a href="#">44-75</a>
5(a)(8)	Reports with Questioned Costs	<a href="#">31</a>
5(a)(9)	Reports with Recommendations That Funds Be Put to Better Use	<a href="#">30</a>
5(a)(10)	Previous Audit Reports Issued with No Management Decision Made by End of This Reporting Period	<a href="#">24</a>
5(a)(11)	Significant Revised Management Decisions	N/A
5(a)(12)	Significant Management Decisions with which the OIG is in Disagreement	N/A
5(a)(13)	Federal Financial Management Improvement Act-related Reporting	N/A
5(a)(14–16)	Peer Review Results	<a href="#">35</a>



## ***ABOUT the DEPARTMENT and OIG***

**The U.S. Department of Energy** is headquartered in Washington, DC and currently operates 24 preeminent research laboratories and facilities, four power marketing administrations, a wide variety of field offices, and 8 Program Offices which help manage the Department's mission with more than 15,000 employees. The Department is the Nation's top sponsor of research and development and has won more Nobel Prizes and research and development awards than any other private sector organization and twice as many as all other Federal agencies combined. The mission of the Department is to ensure America's security and prosperity by addressing its energy, environmental and nuclear challenges through transformative science and technology solutions.

**The OIG's** mission is to strengthen the integrity, economy and efficiency of the Department's programs and operations. The OIG has the authority to inquire into all Department programs and activities as well as the related activities of persons or parties associated with Department grants, contracts, or other agreements. As part of its independent status, the OIG provides the Secretary with an impartial set of "eyes and ears" to evaluate management practices. With approximately 290 employees, the organization strives to be a highly effective organization that promotes positive change.

## ***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](mailto:ighotline@hq.doe.gov)
- Physical Address: U.S. Department of Energy  
1000 Independence Ave, SW  
Washington, DC 20585

## ***FEEDBACK***

The contents of the September 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

