



U.S. DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

October 1, 1997, to March 31, 1998

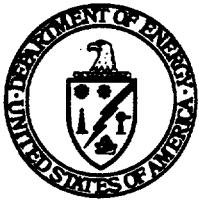
April 1998

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Department of Energy

Washington, DC 20585

April 30, 1998

The Honorable Federico Peña
Secretary
U.S. Department of Energy
Washington, D.C. 20585

Dear Secretary Peña:

This Semiannual Report to Congress for the first half of Fiscal Year (FY) 1998 is submitted by the Office of Inspector General for transmittal to the Congress, pursuant to the provisions of the Inspector General Act of 1978.

During this reporting period, the Office of Inspector General continued to advise Headquarters and field managers of opportunities to improve the efficiency and effectiveness of the Department's management controls, with particular emphasis on coverage of issues addressed in the Department's Strategic Plan. We also have supported the Department's streamlining initiatives by evaluating the cost effectiveness and overall efficiency of Department programs and operations, placing special emphasis on key issue areas which have historically benefited from Office of Inspector General attention. For example, in this and prior periods, we have concentrated on reviewing performance-based contracts, performance outcomes, cost reduction incentive programs, and performance information systems. We view these efforts as assisting the Department in implementing the *Government Performance and Results Act* (the Results Act), which requires the Department to establish strategic planning and performance measurement.

For the remainder of the fiscal year and in FY 1999, we plan to concentrate our efforts in the following areas: auditing the Department's consolidated financial statements, reviewing the Department's implementation and execution of the Results Act, reviewing Department "high risk" areas such as performance-based contracting, conducting performance reviews at several major Department facilities, and emphasizing complex criminal and civil investigations with the greatest potential for prosecution and/or civil recovery. These efforts are resource-intensive and will be pursued to the extent resources permit. Our overall focus remains on assisting Department management in preventing fraud, waste, and abuse; helping to ensure the quality of Department programs and operations; and keeping you and the Congress fully informed.

Sincerely,


Gregory H. Friedman
Acting Inspector General

Enclosure

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OIG Mission Statement

The Office of Inspector General promotes the effective, efficient, and economical operation of Department of Energy programs through audits, inspections, investigations and other reviews.

OIG Vision Statement

We do quality work that facilitates positive change.

OIG Strategic Goals

- ◆ *Conduct statutorily required audits of the Department, and its four business lines (Energy Resources, National Security, Environmental Quality, and Science and Technology), enabling the public to rely on DOE's financial and management systems.*
- ◆ *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*
- ◆ *Conduct investigations to enhance the credibility of the Department and integrity of its business lines by aggressively pursuing fraud, waste, and abuse, and reporting on those engaged in such practices.*
- ◆ *Conduct inquiries which assist the Department in fostering public confidence in the Department's integrity, commitment to fairness, and willingness to take corrective action.*

DOE's Strategic Goals

- ◆ *The Department of Energy and its partners promote secure, competitive, and environmentally responsible energy systems that serve the needs of the public.*
- ◆ *Support national security, promote international nuclear safety, and reduce the global danger from weapons of mass destruction.*
- ◆ *Aggressively clean up the environmental legacy of nuclear weapons and civilian nuclear research and development programs, minimize future waste generation, safely manage nuclear materials, and permanently dispose of the Nation's radioactive wastes.*
- ◆ *Deliver the scientific understanding and technological innovations that are critical to the success of DOE's mission and the Nation's science base.*
- ◆ *The Department of Energy continuously demonstrates organizational excellence in its environment, safety and health practices, communication and trust efforts, and its corporate management systems and approaches.*

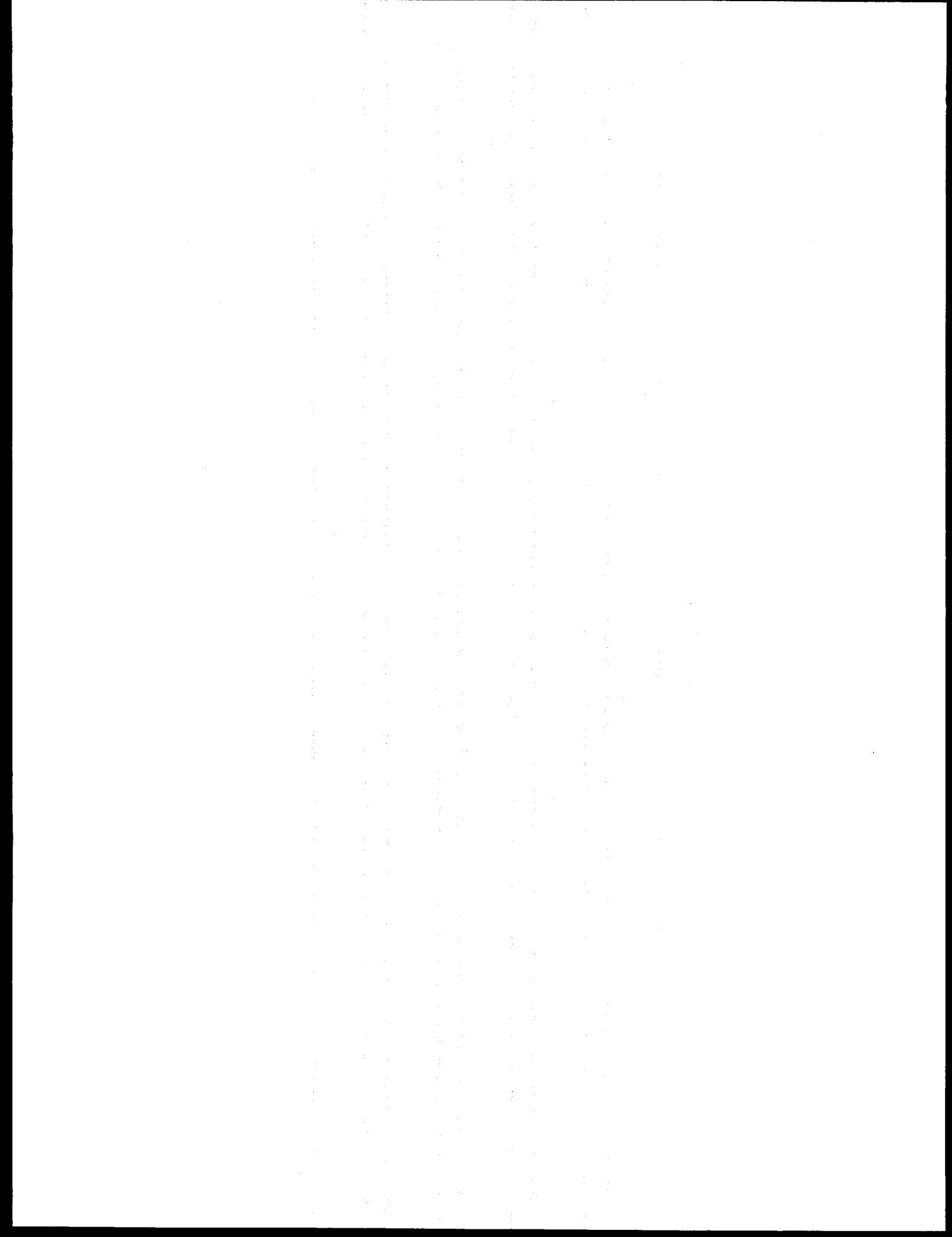
EXECUTIVE SUMMARY

This Office of Inspector General (OIG) Semiannual Report to the Congress covers the period from October 1, 1997, through March 31, 1998. The report summarizes significant audit, inspection, and investigative accomplishments for the reporting period that facilitated Department of Energy (Department) efforts to improve management controls and ensure efficient and effective operation of its programs.

This report highlights OIG accomplishments in support of its Strategic Plan. Narratives of the Office's most significant reports are grouped by the strategic goals against which the OIG measures its performance.

To put the OIG accomplishments for this reporting period in context, the following statistical information is provided:

- ◆ Audit and Inspection reports issued: **47**
- ◆ Recommendations that funds be put to better use: **\$356,257,856**
- ◆ Management commitment to taking corrective actions: **\$289,106,445**
- ◆ Criminal indictments/convictions: **8**
- ◆ Fines and recoveries: **\$1,612,932**
- ◆ Investigative reports to management recommending positive change: **21**



SOME SIGNIFICANT ACTIONS

This section highlights some significant OIG accomplishments during this reporting period.

Divestiture of Elk Hills Naval Petroleum Reserve (NPR) to Private Owners

The OIG assisted the Department in the largest divestiture of Federal property in the history of the U.S. Government. The Department and Occidental Petroleum Corporation concluded the divestiture of Federal property in February 1998. Occidental paid \$3.65 billion for the Government's interest in the NPR. This valuable oil field property had been owned by the Federal Government since President Taft created the reserve in 1912. This transfer completed a privatization process that began in 1995 when the Administration proposed selling the Elk Hills reserve which is near Bakersfield, California.

At the request of the Department's investment banker, the OIG audited the financial statements prepared by the Department to support the sale. The OIG concluded that management's representation of the financial position of the NPR for periods leading up to the final sale was presented fairly, in all material respects, and that the results of its position and cash flows for the period preceding the sale were in conformity with the applicable accounting policies. The OIG was informed that its report was an integral part of the documentation supporting the sale. (WR-FC-98-02)

Department Acts to Reduce Unnecessary Costs Incurred in Disposing of Contaminated Waste

During this reporting period, the Department established a Center for Excellence for low-level and mixed low-level waste. The Center will function as a "clearinghouse" for information and provide

a single point of contact for Department field offices.

This action was based, in part, on an OIG review which disclosed that the Department's contractors did not always use the most favorable rates available for disposing of waste at a private sector treatment facility. The Department disposes of some of its contaminated waste at a commercial treatment and disposal facility in Clive, Utah. Although contracts with discounted prices were available, two of the Department's contractors awarded subcontracts to the commercial facility with rates that were higher than available Departmentwide rates. This occurred because the Department did not require contractors to use the most favorable, volume-discounted rates available. As a result, the Department incurred unnecessary costs to dispose of contaminated waste.

During the audit, one of the contractors reopened negotiations with the commercial facility and obtained a lower rate, which will save the Department about \$3.2 million over the next 3 years. (ER-B-98-05)

Department Acts to Improve Occupational Injuries and Illnesses Recordkeeping

An audit of occupational injuries and illnesses recordkeeping resulted in Departmental action to implement a system to better identify organizations with reporting problems. As a result of that report, but during this reporting period, the Assistant Secretary for Environment, Safety and Health required each field element manager to: (1) review occupational recordkeeping and reporting processes to validate compliance with Departmental requirements and

SOME SIGNIFICANT ACTIONS

report back with the results by January 1998; and (2) establish quality assurance systems to identify potential underreporting of occupational injuries and illnesses and identify areas for improvement. Additionally, a workshop was held in Aiken, South Carolina, on recordkeeping and reporting requirements. (IG-0404)

Consultant Convicted of Tax Evasion

A consultant to a Department contractor was convicted of tax evasion. A joint investigation by the OIG and the U. S. Internal Revenue Service (IRS) revealed that the consultant provided a false tax identification number to avoid paying taxes on substantial sums earned through consultant work for the Department.

The U.S. Attorney's Office, District of Maryland, accepted the case for prosecution. The consultant pleaded guilty to tax evasion and was sentenced to 8 months confinement, 2 years supervised probation, and 200 hours community service; and was ordered to pay a \$15,000 fine. The consultant filed amended tax returns for the years 1990, 1991, 1993, and 1994 and paid \$494,250 in additional taxes and interest. The IRS has assessed the consultant \$238,632 in fraud penalties.

As a result of OIG Administrative Reports to Management, the Department debarred the consultant and the company from Government contracts and subcontracts for 3 years. (I93OR023)

A Private Physician's Office Manager is Convicted for Filing False Healthcare Insurance Claims

An OIG investigation confirmed an allegation that an office manager for a private physician had submitted 66 false claims worth \$69,066 to employee healthcare insurance providers for the Department's Sandia National Laboratory (SNL). The office manager submitted the claims for costs associated with services she claimed she and her husband received. Her husband is a retired SNL employee. The physician advised, however, that he never treated the office manager's husband and that he never charged the office manager for treatment.

The investigation disclosed that the office manager had a criminal history for health care fraud. The office manager confessed to submitting the false claims and subsequently using the money for personal items. As a result, the office manager pleaded guilty to a felony for filing false, fictitious, and fraudulent claims against the United States. She was sentenced to 12 months and 1 day in prison and ordered to pay over \$69,000 in restitution. (I95AL033)

The Department Needs to Improve Integration of Research and Development Projects

The Congress, independent task forces and advisory groups have pointed out the need for the Department to improve its integration of research and development (R&D) projects. In the past, R&D management was carried out by different program offices with the research being performed both internally and externally to the Department.

In its review of the R&D process, the OIG found that the Department did not

SOME SIGNIFICANT ACTIONS

have a systematic process to ensure that R&D projects were jointly planned, budgeted, and managed. Further, the Department had developed a 5-year plan for improving the integration of basic energy research with other energy programs, but never implemented the plan. This occurred because the Department had not clearly established organizational responsibility or authority for integrating research across programs. Independent of the OIG review, the Secretary had reached similar conclusions about the need for greater integration of the Department's R&D programs. Consequently, the Under Secretary has instituted a number of actions for improving the integration of R&D projects.

To facilitate the Under Secretary's efforts, the OIG recommended that organizational authority and responsibility be designed to integrate R&D projects.

Department management concurred with the recommendation and initiated corrective action. (IG-0417)

Grant Awardees Not Meeting Reporting Requirements

The Department awards grants to colleges and universities, state and local governments, individuals, small businesses, and non-profit corporations. As of July 15, 1996, the Department administered over 7,400 grants valued at about \$8 billion with purposes ranging from basic research to weatherization projects.

An OIG audit identified many grantees who did not provide final technical and/or financial reports. For example, at the five procurement offices audited, the OIG projected that the Department had not received final deliverables on 718 inactive grants valued at about \$232 million. In other cases, officials inappropriately ex-

tended performance periods so that the grant instrument would continue to be classified as active. The Department did not effectively implement existing procedures or establish other monitoring procedures that ensured grantees fulfilled their grant obligations.

The OIG recommended that the Department take several actions to ensure proper accounting for grant activities, such as awarding additional grants only when grantees have met the terms and conditions of prior awards.

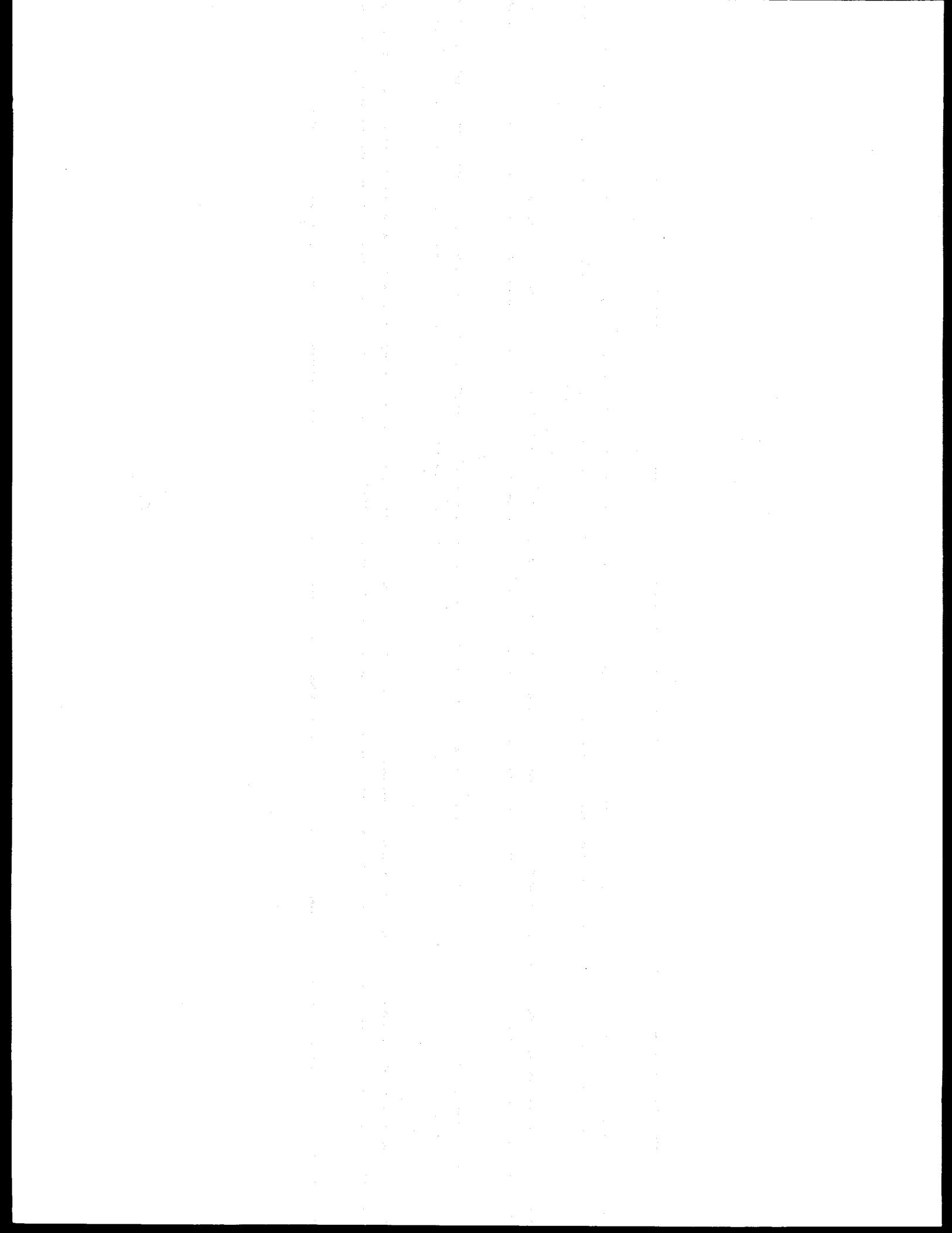
Department management concurred with the recommendations. (IG-0415)

Contractor is Rewarded for Performance That Could Not be Validated

An OIG audit disclosed that the performance measures included in the Bechtel Nevada Corporation's (Bechtel) contract did not conform to the Department's requirements for performance-based contracting. The Nevada Operations Office (Nevada) established performance milestones after Bechtel had actually completed the work. Further, many of the performance measures did not clearly state the required results. Thus, Nevada rewarded performance that could not be objectively validated. Ultimately, the problems placed at risk the success of performance-based contracting at Nevada.

The audit report recommended that Department management establish clearly-stated and results-oriented performance measures before the work is performed and validate the results before disbursing incentive fees.

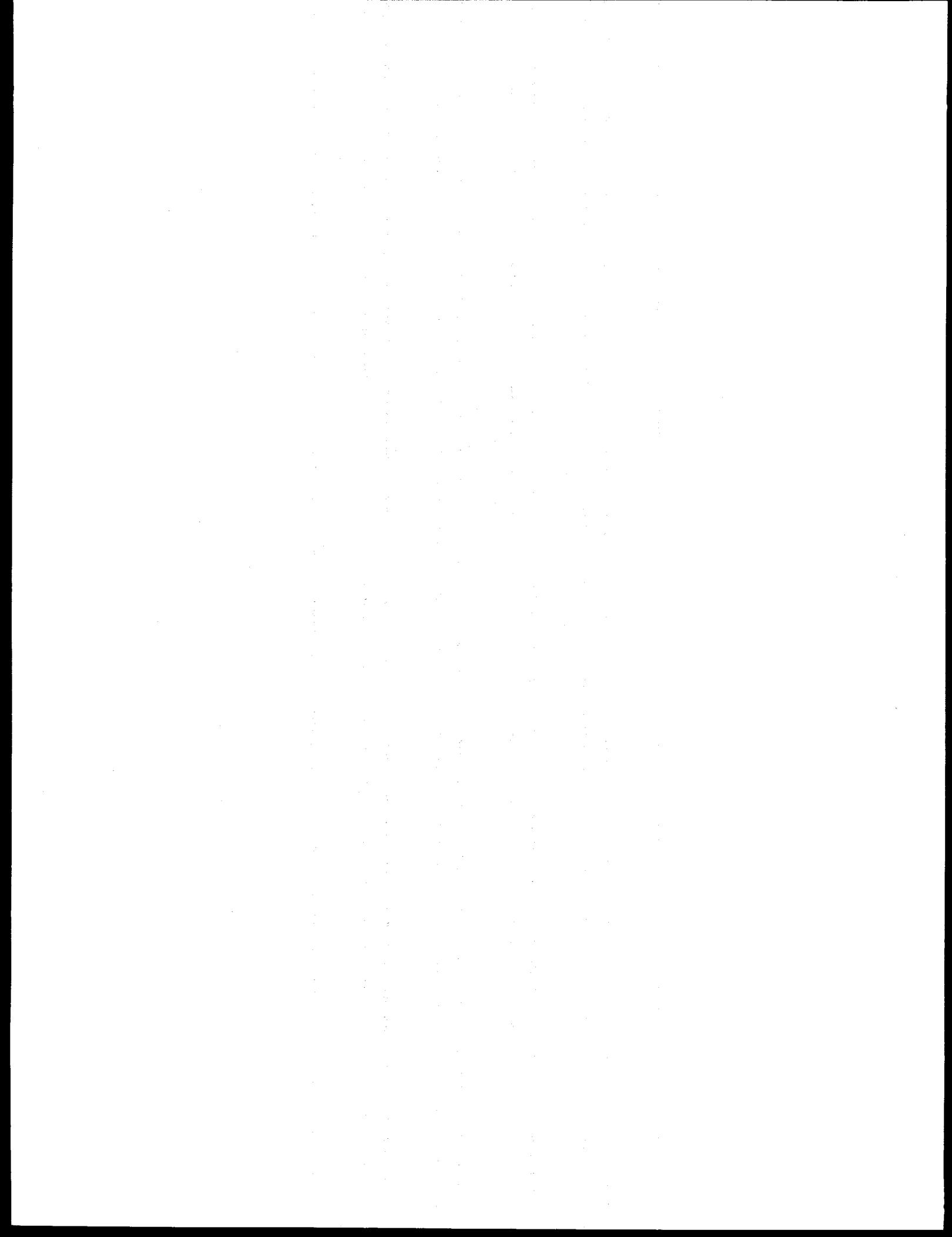
Department management concurred with the recommendation. (IG-0412)



SECTION I

OIG STRATEGIC GOALS AND RELEVANT WORK EFFORTS

Significant OIG work is presented in this section under performance goals against which the OIG measures its performance.



OIG STRATEGIC GOAL NO. 1: *Conduct statutorily required audits of the Department, which has four business lines (Energy Resources, National Security, Environmental Quality, and Science and Technology), enabling the public to rely on the Department of Energy's financial and management systems.*

In fulfilling the requirements of the Government Management Reform Act, and the OIG 5-year Strategic Plan, the OIG completed the audit of the Department's Fiscal Year 1997 Consolidated Financial Statements.

Consolidated Financial Statements Audit

On February 26, 1998, the OIG issued its report on the "Audit of the U.S. Department of Energy's Consolidated Financial Statements for Fiscal Year 1997." The report included the OIG's opinion that the Department's financial statements presented fairly, in all material respects, the financial position of the Department as of September 30, 1997, and the results of its operations for the year then ended. The OIG also reported on the Department's system of internal controls and on its compliance with laws and regulations applicable to financial statement audits. The Department's Financial Statements reported net assets of \$97 billion, total liabilities of \$222 billion, including environmental liabilities of \$179 billion, and total revenues and financing sources of \$25 billion. The Department's expenses of \$19 billion were significantly impacted by a reduction in the Department's unfunded environmental liability.

The OIG report on the system of internal controls identified problems in two areas that were considered reportable internal control deficiencies. First, the OIG reported that a systematic process needed to be developed and implemented to improve the method of estimating the environmental liability. Second, the OIG re-

ported that controls over performance measure information presented in the overview to the consolidated financial statements need to be strengthened to ensure that information is adequately supported and properly presented.

Additionally, the OIG reported a number of other conditions relating to the Department's system of internal controls. The recommendations made in these reports were designed to strengthen internal controls or improve operating efficiencies.

As described in the audit opinion, the Department is faced with a number of uncertainties. The most significant of these is the environmental liability estimate. In addition to the uncertainty inherent in any long-term estimate, uncertainties also exist with regard to the realization of Departmental plans regarding funding, facility end-states, anticipated regulatory approvals, and projected savings from productivity and efficiency improvements. Similar concerns exist with regard to the resolution of various administrative and legal proceedings to which the Department is a party, including issues involving the Nuclear Waste Fund.

The OIG, along with the Offices of the Chief Financial Officer and the Assistant Secretary for Environmental Management, had to contend with an evolving estimate of the Department's environmental liabilities. The enormity and com-

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plexity of the liability represented a significant audit obstacle. Despite the complexity, the OIG completed the audit of the statements within the statutory reporting date of March 1, 1998, established by the Government Management Reform Act.

For the upcoming year, the OIG will be faced with increasing the scope of its work to focus on how the Department is implementing new accounting standards and OMB Form and Content Guidance. This increased workload and associated resource demand continue to be of special concern to the OIG given the limited resources available to meet statutory requirements for financial and performance audits. (IG-FS-98-01)

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

During this reporting period, the OIG completed the following audit and inspection reviews to conform to the goals, objectives, and performance measures outlined in the OIG's 5-year Strategic Plan:

Contractor is Rewarded for Performance That Could Not Be Validated

As part of its contract reform initiatives, the Department has adopted performance-based contracting for managing and operating its major facilities. Under this approach, the Department evaluates a contractor's performance against performance measures that are clearly stated, results-oriented, and established prior to performance. The performance measures, which reflect the Department's expectations of the contractor, are the basis for rewarding superior contractor performance through the use of incentive fees.

An OIG audit disclosed that the performance measures included in the Bechtel Nevada Corporation's (Bechtel) contract did not conform to the Department's requirements for performance-based contracting. The Nevada Operations Office (Nevada) established performance milestones after Bechtel had actually completed the work. Further, many of the performance measures did not clearly state the required results. Thus, Nevada rewarded performance that could not be objectively validated. Ultimately, the problems placed at risk the success of performance-based contracting at Nevada.

The audit report recommended that Department management establish clearly-stated and results-oriented performance measures before the work is performed and validate the results before disbursing incentive fees. The report also recommended that Nevada review all performance measure incentive fees paid and seek recovery where the work was accom-

plished prior to setting the measure, where the performance measure was not met, or where the savings cannot be demonstrated.

Department management concurred with both recommendations. (IG-0412)

The Department Needs to Recover \$46.3 Million in Fuel Costs From NASA Space Mission

The Department's Advanced Radioisotope Power Systems Program maintains the sole national capability and facilities to produce radioisotope power systems for the National Aeronautics and Space Administration (NASA), the Department of Defense, and other Federal agencies. Projects are conducted with these agencies in accordance with written agreements and are dependent on cost sharing by the user agencies. NASA is one of the Department's primary customers for the power systems. For the past 7 years, the program emphasis has been on providing these systems for NASA's Cassini mission to Saturn, which was launched in early October 1997.

Departmental policy requires full cost reimbursement for fuel used in NASA's radioisotope power systems. An OIG audit determined, however, that the Department has not recovered any fuel costs for the Cassini mission. The OIG estimated that the Department should have collected about \$46.3 million from NASA for fuel used in Cassini radioisotope power systems. The reimbursement from NASA for the Cassini mission was to be handled in accordance with two interagency

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

agreements. The first agreement set up the reimbursement requirements for all Cassini radioisotope power systems costs except fuel costs. A second agreement would cover reimbursements for fuel costs for the Cassini mission and other future NASA missions. Although the Department and NASA completed and implemented the Cassini agreement, they did not complete a fuel agreement.

The Office of Nuclear Energy, Science and Technology (Office of Nuclear Energy) asked the Controller to waive the full cost reimbursement policy for fuel provided for NASA's space missions. The Controller denied the request and later stated that any fuel reimbursement agreement with NASA should state that the final price will be the actual, fully-allocated cost determined at the time of production. Because the Office of Nuclear Energy never reached any agreement with NASA, the Department did not recover the fuel costs from NASA for the Cassini mission.

The audit report recommended that the Director, Office of Nuclear Energy, establish an interagency agreement with NASA and recover the total cost of fuel provided for the Cassini systems.

Department management concurred with the findings and recommendations, stating that negotiations with NASA would be revitalized. (IG-0413)

Management Controls Over Field Contractor Employees Need Strengthening

An audit report found that the Department had not fully resolved previously reported OIG concerns regarding contractor employees working at Headquarters. The Department did not effectively man-

age the use of field contractor employees assigned to Headquarters and other Federal agencies. Specifically, the Department was unable to identify all contractor employees assigned to the Washington, DC area or determine the total cost of maintaining them. Some employees were providing routine support and administrative services rather than unique program expertise, and several of the Department's contractors had assigned their employees to work in other agencies without receiving full reimbursement for their services. After performing a reconciliation of data, over 850 field contractor employees were identified in the Washington, DC area.

In addition, the Department did not fully implement the corrective actions it agreed to in the prior audit report. A July 1996 OIG report identified weaknesses in the Department's monitoring of the use of contractor employees in Headquarters. In response to the report, the Deputy Secretary issued a memorandum reiterating the Secretary's concerns and requested a thorough review to ensure that contractor employees at Headquarters were not being used inappropriately.

The OIG recommended a series of steps designed to strengthen earlier efforts to address this problem. The OIG recommended that program offices develop and maintain a complete inventory of field contractor employees assigned to the Washington, DC area (including other Federal agencies); coordinate with the Office of Procurement and Assistance Management to continuously update and maintain the database of contractor employees; establish a baseline of critical skills needed from the field; discontinue use of contractor employees that do not provide these critical skills; establish policy

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

and procedures that require the Department to evaluate the cost of and the need for field contractor employees before they are assigned to the Washington, DC area; and implement existing policies and procedures requiring approval of contractor employees prior to assignment.

Department management agreed with the findings and generally concurred with the recommendations. Department management stated that it has been working for some time to improve management controls in this area and intends to strengthen this initiative further. (IG-0414)

Grant Awardees Not Meeting Reporting Requirements

To help meet legislatively mandated and programmatic mission requirements, the Department awards grants to colleges and universities, state and local governments, individuals, small businesses, and non-profit corporations. As of July 15, 1996, the Department administered over 7,400 grants with purposes ranging from basic research to weatherizing homes. The Department's share of these grants was about \$8 billion.

The Code of Federal Regulations requires that grants benefit the general public. This is demonstrated through technical and/or financial reports that each grantee is required to deliver. These reports should describe the final results of the grant effort and provide the Department with a basis for evaluating grantee performance.

An OIG audit identified many grantees that did not provide final technical and/or financial reports. For example, at the five procurement offices audited, the

OIG projected that the Department had not received final deliverables on 718 inactive grants valued at about \$232 million. In other cases, officials inappropriately extended performance periods so that the grant instrument would continue to be classified as active. The OIG found this occurred because the Department did not effectively implement existing procedures or establish other monitoring procedures that ensured grantees fulfilled their grant obligations.

To ensure proper accounting for grant activities, the OIG recommended that the Department: (1) retain a portion of the award amount until the grantee meets all the terms and conditions of the grant; (2) discontinue the practice of waiving grant deliverables to accommodate the award close-out process; (3) award additional grants to grantees only when they met the terms and conditions of prior awards; and (4) extend grant performance periods only when appropriate. This recommendation is consistent with the intent of the Government Performance and Results Act of 1993.

Department management concurred with the recommendations. (IG-0415)

Departmental Support Service Acquisition Policy Not Being Followed

Department policy prohibits the use of support service subcontractors hired by management and operating contractors to directly support Headquarters or field office employees. When support is necessary, program offices must use the Headquarters procurement organization, not the management and operating contractors. Since August 1981, Department senior officials have communicated this policy in

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

several memoranda. Despite this policy, however, the OIG has reported several instances of noncompliance with the Department's policy and the extensive use of subcontractor employees by Department program offices.

An OIG audit disclosed that four major program offices used 24 subcontracts awarded by Argonne National Laboratory (Argonne) to acquire support services in FY 1996. The Department reimbursed Argonne about \$2.9 million for the services under 24 subcontracts during FY 1996. These four offices acquired subcontractor services through Argonne because they believed that its procurement organization could provide the services faster than the Headquarters procurement organization. As a result, the Department may have paid more than necessary for the services, while many of the safeguards against noncompliance with laws and regulations that the Department's procurement process normally provides were lost.

The audit recommended that the program offices: (1) direct their program managers to discontinue the practice of acquiring support services from subcontractors hired by Argonne; and (2) establish management controls to ensure that program managers acquire support services through the Department's normal procurement process, and not through management and operating contractors.

The program offices agreed with the finding and recommendations and initiated corrective action. (IG-0416)

The Department Needs to Improve Integration of Research and Development Projects

The Congress, independent task forces, and advisory groups have pointed out the need for the Department to improve its integration of research and development (R&D) projects. In the past, R&D management was carried out by different program offices with the research being performed both internally and externally to the Department. Because program offices were managed independently, there was little effort to coordinate the planning and budgeting of research across program lines. The Department spent about \$6.5 billion on R&D activities during Fiscal Year 1997 and plans to spend about \$6.7 billion in Fiscal Year 1998.

In its review of the R&D process, the OIG found that the Department did not have a systematic process to ensure that R&D projects were jointly planned, budgeted, and managed. Further, the Department had developed a 5-year plan for improving the integration of basic energy research with other energy programs, but never implemented the plan. This occurred because the Department had not clearly established organizational responsibility or authority for integrating research across programs. Therefore, the Department may be missing opportunities to use R&D dollars more effectively. Independent of the OIG review, the Secretary had reached similar conclusions about the need for greater integration of the Department's R&D programs. Consequently, the Under

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

Secretary has instituted a number of actions for improving the integration of R&D projects.

To facilitate the Under Secretary's efforts, the OIG recommended that organizational authority and responsibility be designed to ensure a system is in place to integrate R&D projects.

Department management concurred with the recommendation and initiated corrective action. (IG-0417)

Substantial Annual Savings Could be Achieved by Exploring Alternative Weapons Testing Sites

Since the 1950s, the Department and its predecessor agencies have performed weapons testing at the Tonopah Test Range (Tonopah). Beginning in the early 1990s, the number and types of tests at Tonopah declined coincident with various international events. These events included the signing of treaties such as the Intermediate Range Nuclear Force Treaty, the Strategic Arms Reduction Treaties, and the Comprehensive Test Ban Treaty. In addition, some types of tests were transferred to other ranges. Consequently, Tonopah is left with only a portion of the Department's bomb testing and some work-for-others testing.

During the early 1990's the Department's Albuquerque Operations Office (Albuquerque) and Sandia National Laboratories (Sandia), which operate Tonopah for the Department, explored the alternative of testing elsewhere. Some of the data gathered by Albuquerque and Sandia indicated that testing at another range would be practical and economical.

An OIG audit, which followed up on the Albuquerque/Sandia studies, indi-

cated that testing could be done elsewhere, at a potential cost savings of several million dollars annually. Therefore, the OIG recommended that Albuquerque conduct a comprehensive study of all testing alternatives. In addition, the OIG recommended that, if the study found that it was not feasible or economical to move the testing elsewhere, Albuquerque should reduce the cost of Tonopah to the minimum level necessary to support testing requirements.

Albuquerque agreed to implement the recommendation to conduct the study, but raised technical questions regarding issues such as environmental permits, scheduling flexibility, and cost components. Albuquerque also agreed to reduce the cost of Tonopah to the minimum level necessary and stated that it and Sandia continued to actively pursue cost reductions at Tonopah. (IG-0418)

Controls Over Working Capital Fund Need Strengthening

In July 1996, Congress approved the Department's implementation of the Working Capital Fund (Fund) and directed the OIG to conduct periodic audits of the Fund. Accordingly, the OIG conducted an audit to determine if the Department established an effective system of controls over the Fund.

The audit disclosed that Fund management needs to strengthen controls in the following areas. First, management needs to implement policies and procedures to periodically compare actual costs to estimates used as a basis of customer billings. Second, management needs to establish policies and procedures addressing funding excesses and shortages, and management roles, responsibilities and

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

authorities. Additionally, management needs to simplify the process for allocating the costs of contract audits. Finally, fund managers should provide Departmental decision-makers information on all costs associated with managing the fund.

Management generally concurred with the findings and recommendations and is planning corrective actions. (CR-B-98-01)

Audit Discloses Weaknesses in the Management of Laboratory Directed Research and Development Program

Since their establishment, the Department's national laboratories have been permitted to conduct a limited amount of discretionary research activities. Over the years, these activities have been referred to under various names such as special studies, exploratory studies, discretionary research and development, and currently, Laboratory Directed Research and Development (LDRD). The Department's Defense Programs laboratories, such as the Lawrence Livermore National Laboratory (Livermore), which is operated for the Department under contract with the University of California, fund LDRD programs by charging their total laboratory operating and capital equipment budgets a flat surcharge of up to 6 percent of the congressionally mandated ceiling.

The OIG audited the LDRD program at Livermore to determine whether it was managed in accordance with applicable laws and regulations. The audit disclosed that the Department and Livermore systems to select and manage LDRD projects were in general compliance with re-

quirements specified in Department Orders. However, actions taken in Fiscal Years 1996 and 1997 by the Department and the management and operating contractor had, in effect, increased the funding for discretionary research work conducted at Livermore by \$19 million annually. The Department's research programs absorbed those expenses.

This increased level of discretionary research was primarily obtained at the expense of Department directed research. The audit identified several factors for the increased level of funding for discretionary research. For example, the Department directed that its laboratories not add a charge for general and administrative expenses to Fiscal Year 1997 LDRD projects. The Department also permitted both the requesting and performing laboratory to assess LDRD charges on intra-Departmental requisition projects. This, in effect, doubled the LDRD assessment on these efforts. In addition, the Department allowed the contractor to fund a supplementary discretionary research program at Livermore. Finally, Congress enacted legislation that permitted the laboratories to use a portion of license and royalty fees for discretionary research.

The OIG recommended that Department management analyze the impact of the actions discussed in the OIG report and determine if the level of discretionary research at Livermore and other Defense Programs laboratories is appropriate and permits the Department to accomplish its congressionally-mandated mission.

Department management concurred with the audit recommendation. (CR-B-98-02)

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

The Department Needs to Establish an Effective Plan for Disposing of Surplus Contaminated Facilities

In 1988, the Department changed the mission at the Savannah River Site (Site) from producing nuclear materials to managing the waste products generated. As a result, many site facilities became surplus to the Department's needs. Westinghouse Savannah River Company (Westinghouse) manages the Department's operations at the Site. In Fiscal Year 1996, the Site had 162 surplus facilities and anticipated that 118 more would become surplus within the next 5 years. The OIG conducted an audit to determine whether the Savannah River Operations Office (Operations Office) and Westinghouse had economically and promptly deactivated, decontaminated, and disposed of surplus facilities. Until facilities are disposed of, they require surveillance and maintenance to manage safety and health risks.

Westinghouse had disposed of only one facility and did not completely deactivate or decontaminate any of the 162 facilities identified as surplus at the Site in FY 1996. This occurred because the Operations Office did not compile a Site-wide list to identify the activities which were necessary prior to the disposal of surplus facilities, establish priorities, or provide sufficient funding for the deactivation, decontamination, and disposal of surplus facilities. As a result, the Department incurred unnecessary costs for the surveillance and maintenance of surplus facilities. The Department could have avoided annual surveillance and maintenance costs of about \$1.3 million by spending \$1.2 million to deactivate the P-Reactor process-

water storage tanks. The Operations Office could have funded the project out of its unobligated FY 1996 operating funds that were returned to Headquarters at the end of the fiscal year.

The OIG recommended that Department management: (1) compile and maintain a list of all deactivation and decontamination activities which are necessary prior to the disposal of surplus facilities at the Site; (2) establish Site-wide priorities for the deactivation, decontamination, and disposal of surplus facilities at the Site in accordance with Departmental Order 5820.2A; and (3) annually request from the Department sufficient funding to implement an effective deactivation, decontamination and disposal plan.

Department management concurred with the finding and recommendation and initiated corrective action. (ER-B-98-01)

Audit Finds Construction of New Laboratories May Not be Needed

The Department's Environmental Monitoring and Health Physics Laboratories at the Savannah River Site (Site) are over 40 years old and are approaching the end of their useful lives. The management and operating contractor, Westinghouse Savannah River Company (Westinghouse), and the Savannah River Operations Office (Operations Office) proposed to build two new facilities to replace them.

Department and Federal regulations require that the Department examine all options before acquiring new facilities to ensure that funds and existing facilities are used effectively. An OIG audit determined that alternatives to on-site construction were not fully evaluated before Westinghouse proposed and the Opera-

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

tions Office approved construction of new environmental monitoring and physics laboratories. Specifically, Westinghouse did not perform life-cycle cost analyses or periodically reassess construction projects to determine the most cost-effective alternative, as required by Department and Federal regulations. Despite these requirements, the Operations Office approved plans to construct these laboratories without ensuring that Westinghouse had properly performed the required analyses. As a result, the Department planned to spend at least \$30 million to build laboratories that may not be needed. Based on current cost and pricing data, the OIG determined that the Department could save \$25 million over the life of the project by contracting the environmental monitoring activities to outside vendors.

The OIG recommended that the Department: (1) direct Westinghouse to perform cost and benefit analyses to determine whether constructing the new environmental monitoring and health physics laboratories is more beneficial than contracting out those activities; and (2) develop procedures to ensure that future validation of construction projects at the Savannah River Site include a thorough evaluation of all viable alternatives.

Management did not concur with Recommendation 1, but did concur with Recommendation 2. Management is reconsidering its position on Recommendation 1 and a decision is pending. (ER-B-98-02)

Audit Finds Acquisition of New Facility to be Unnecessary and Not Cost Effective

In 1991, Lockheed Martin Energy Systems (Energy Systems) identified the need for new bioassay and environmental sampling laboratories to meet increasing workload and staffing requirements. Energy Systems proposed, and the Department approved, a solicitation for a private company to construct a facility, Union Valley Sample Preparation Facility (UVSPF), which Energy Systems would lease back on behalf of the Department.

The OIG audited the cost effectiveness and necessity of acquiring the facility. The audit disclosed that Energy Systems did not base the UVSPF acquisition on valid mission requirements. Energy Systems did not follow Departmental procedures in planning and developing the lease, and the Department approved the lease without adequate justification. As a result, the Department planned to spend between \$4 million and \$18.9 million to lease a facility that was not necessary. Contrary to Federal regulations, Energy Systems restricted the facility's location to an approximate 16-square-mile area without establishing a programmatic need for the restriction. This restriction gave an Energy Systems' subcontractor a competitive advantage over other potential bidders and may have caused the Department to pay more than necessary for the facility.

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

The OIG recommended that Department management: (1) direct Energy Systems to follow Department policies and procedures and base acquisitions of property on valid mission requirements and an analysis of all viable alternatives; (2) direct project managers to follow Department orders and require approvals of construction projects and property leases to include (a) verification that the projects are essential to meet mission requirements and (b) an analysis of all viable alternatives; (3) direct Energy Systems to give the required 365-day notice and discontinue the lease; and (4) direct Energy Systems to discontinue the practice of restricting the location of facilities acquired or leased on the Department's behalf unless the restrictions are justified to meet mission requirements.

Department management did not concur with the recommendation to direct Energy Systems to discontinue the lease, but concurred with the other recommendations. The OIG has asked management to reconsider its position and a decision is pending. (ER-B-98-03)

Audit Discloses Violations in the Use of Government-Funded Agreements

The Defense Contract Audit Agency advised the OIG that several Princeton employees, including two principal investigators, also worked for a commercial business. These two principal investigators were responsible for 28 Government-funded agreements at Princeton between October 1, 1986, and December 31, 1996. Consequently, the OIG initiated an audit of the allowability of \$19 million in costs claimed for 20 of the 28 cost reimbursement agreements assigned to the two principal investigators.

The OIG identified the following conditions that called into question the amount of labor effort and expenditures incurred on the 20 Princeton agreements:

- The OIG could not distinguish between work performed by Princeton employees and work performed by the commercial business. Both Princeton and the commercial business had some agreements, in the same specialized field, funded by the same Federal agencies and procurement offices. The distinction between work at Princeton and the commercial business was further obscured because one individual worked on the research effort and supervised staff at both Princeton and the commercial business.
- Extensive violations of Princeton's policy on outside paid professional activities had occurred. At various times during the audited agreements, the principal investigators and 14 other Princeton professional employees assigned to the agreements worked for a commercial business.
- Princeton's policy on nepotism had been violated. Princeton's policy prohibited employees from initiating or participating in decisions that resulted in a direct benefit to those related by blood or marriage. Princeton claimed salary and wage costs of \$16,960 for an hourly employee who was also a member of the principal investigator's immediate family.
- Princeton's support for direct labor effort was not adequate because Prin-

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ceton did not always have timely after-the-fact activity reports.

The OIG recommended that Department management furnish the audit results to the contracting officers responsible for the agreements audited and ensure that Princeton implements corrective actions to address the conditions identified in the audit. The OIG also recommended that the contracting officers recover costs that they determine to be unallowable. Additionally, the OIG recommended that Department management alert procurement offices responsible for the agreements audited that some individuals were being funded on a full-time or nearly full-time basis at more than one entity.

Department management agreed to ensure that Princeton University implements corrective actions to address the conditions identified in this report. In addition, Department management agreed to alert the responsible procurement offices. (ER-B-98-04)

Department Incurs Unnecessary Costs in Disposing of Contaminated Waste

The Department is responsible for protecting human health and the environment by providing an effective and efficient system that treats, stores, and disposes of contaminated waste at Department sites across the nation. The Department disposes of some of its contaminated waste at Envirocare of Utah, Inc. (Envirocare), a commercial treatment and disposal facility in Clive, Utah. The OIG performed an audit to determine whether the Department and its contractors were using the most favorable rates available for disposing of waste at Envirocare.

The Department's contractors did not always use the most favorable rates available. Although volume discounts were available under Departmentwide contracts, two of the Department's contractors awarded subcontracts to Envirocare with rates that were higher than the Departmentwide rates. This occurred because the Department did not require contractors to use the most favorable rates available. As a result, the Department incurred unnecessary costs to dispose of contaminated waste. During the audit, one of the contractors reopened negotiations with Envirocare and obtained a lower rate, thereby saving the Department about \$3.2 million over the next 3 years.

During the audit, several legal issues arose involving the owner of Envirocare and a former state official in the Utah Department of Environmental Quality, Division of Radiation Control. In response to these issues, the Department and Envirocare signed an agreement whereby the owner of Envirocare resigned and will have no role in the management and control of the company until the legal issues are resolved.

The OIG recommended that the Deputy Assistant Secretary for Environmental Restoration distribute a list of available Departmentwide contracts and rates and direct field activities to require all contractors to use the most favorable rates available to the Department for treating and disposing of waste.

Department management concurred with the finding and recommendation and initiated appropriate corrective action. Such action included establishing a Center for Excellence for low-level and mixed low-level waste, which will function as a "clearinghouse" for information and

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provide a single point of contact for Department field offices. (ER-B-98-05)

Alternative Radioactive Liquid Waste Treatment Operations Could Result in Substantial Savings

The University of California operates the Los Alamos National Laboratory (Los Alamos) for the Department. An OIG audit disclosed that Los Alamos' costs to treat radioactive liquid wastes were significantly higher than similar private sector costs. This situation occurred because Los Alamos did not perform a complete analysis of privatization or prepare a "make-or-buy" plan for its treatment operations, although a "make-or-buy" plan requirement was incorporated into the contract in 1996. As a result, Los Alamos may be spending \$2.15 million more than necessary each year and could needlessly spend \$10.75 million over the next 5 years to treat its radioactive liquid waste. Additionally, Los Alamos proposed to spend an estimated \$13 million to construct a new processing facility, replacing the 30-plus-year-old treatment facility.

The OIG recommended that Department management: (1) require Los Alamos to prepare a "make or buy" plan for its radioactive liquid waste treatment operations; (2) review the plan for approval; and (3) direct Los Alamos to select the most cost effective method of operations while also considering other factors such as mission support, reliability, and long-term program needs.

Department management concurred with the recommendations and agreed to take corrective actions to improve the cost effectiveness of the treat-

ment of radioactive liquid waste. (WR-B-98-01)

Deficiencies in Unsolicited Proposal Review Process

The OIG received an allegation that actions by a senior Department official may have compromised the Department's unsolicited proposal review process. Allegedly, these actions occurred during the review of an unsolicited proposal from Chevron for the management and operation of the Department's Elk Hills Naval Petroleum Reserve (Elk Hills).

The OIG initiated a review to determine whether the Department handled the review of the Chevron unsolicited proposal according to the requirements of DOE Order 4210.9A, "UNSOLICITED PROPOSALS." The inspection found that the Department's review of the Chevron unsolicited proposal proceeded according to the requirements of the Order. However, the inspection found administrative deficiencies in the processing of required documents during the review process. Specifically, none of the officials involved in the proposal process executed a required conflict of interest form. Additionally, two senior Department officials involved in the review process did not execute the required procurement integrity form. Further, the inspection disclosed that timely written approval from the Director, Office of Clearance and Support, was not obtained once the proposal was held beyond the 6-month time frame specified in the Order. As a result, Department negotiators requested retroactive approval to hold the unsolicited proposal for an extended period.

OIG STRATEGIC GOAL NO. 2: *Conduct performance reviews which promote the efficient and effective operation of the Department's business lines.*

The OIG recommended that the Department take the following action: (1) revise DOE Order 4210.9A, to include an example of a Conflict of Interest form, and take appropriate actions to ensure that this form and the Procurement Integrity Certification form are completed at the appropriate times during future unsolicited proposal reviews; (2) revise DOE Order 4210.9A to require written approval by the Director of the Office of Clearance and Support to stop an unsolicited proposal evaluation and to begin direct negotiations with the submitter of the proposal;

and (3) ensure that advanced written approval, as specified in DOE Order 4210.9A, is provided by the Director of the Office of Clearance and Support, should the need arise to hold future unsolicited proposals beyond the allowed 6-month time frame.

Department management concurred with the OIG recommendations and took corrective actions to improve the unsolicited proposal review process. (INS-O-98-01)

OIG STRATEGIC GOAL NO. 3: *Conduct investigations to enhance the credibility of the Department and integrity of its business lines by aggressively pursuing fraud, waste, and abuse, and reporting on those engaged in such practices.*

During this reporting period, the OIG completed the following investigative cases to conform to the goals, objectives, and performance measures outlined in the OIG's 5-year Strategic Plan.

Investigation Leads to Conviction of Subcontractor Employees and Identifies Deficiencies in Property Accountability System

While reviewing invoices at a scrap dealer, OIG agents discovered that two supervisory employees of an Oak Ridge Operations Office subcontractor, performing a demolition project at the Department's K-25 facility in Oak Ridge, had stolen 10 and one-half tons of copper.

The investigation determined that the employees sold one load of copper to a metals dealer for over \$25,000 in cash and attempted to sell a second load of copper valued at \$19,755. OIG agents intervened, and recovered stolen copper valued at over \$44,000, along with the \$25,000 in cash that the metals dealer paid for the first load of stolen copper.

As a result of the investigation, the U.S. Attorney's Office, Eastern District of Tennessee, accepted the case for prosecution. Both employees pleaded guilty to one count of conspiracy. One employee was sentenced to 8 months incarceration and 3 years supervised probation, and was ordered to pay \$1,181 in restitution. The second employee was sentenced to 3 years supervised probation and ordered to pay \$4,591 in restitution.

The investigation also identified deficiencies in the Department's contractor safeguards and property accountability system that contributed to the theft. As a result of OIG Administrative Reports to Management, the Department took several corrective actions for positive change. The contractor's management

reviewed existing material control procedures and implemented procedures to prevent further thefts. The subcontractor paid the Department \$19,000 in costs incurred as a result of the thefts. The subcontractor dismissed both employees. The Department debarred the two employees from Government contracting for 3 years. (I95OR029)

A Department Contractor Employee at the Los Alamos National Laboratory Submits False Small Purchase Reimbursement Claims

The OIG received an allegation from a Department contractor that a Los Alamos National Laboratory (LANL) contractor employee submitted fraudulent Small Purchase Reimbursement (SPR) claims to LANL. The SPR program allows LANL employees to use personal funds to purchase work-related materials costing \$500 or less. Employees may submit a SPR claim with the purchase receipt and receive prompt reimbursement from LANL.

The contractor's Internal Evaluation Branch assisted the OIG during the investigation. The investigation determined that the employee submitted 69 false SPR claims to LANL and received full reimbursement. The employee had fabricated the invoices and submitted them to LANL. In addition to the false invoices, the employee submitted one false travel voucher to LANL. The OIG referred the investigation to the U.S. Attorney's Office, District of New Mexico, where it was accepted for prosecution.

OIG STRATEGIC GOAL NO. 3: *Conduct investigations to enhance the credibility of the Department and integrity of its business lines by aggressively pursuing fraud, waste, and abuse, and reporting on those engaged in such practices.*

Following a guilty plea of two counts of submitting false claims, the employee was sentenced to 5 years probation and 6 months electronic monitoring, and ordered to pay \$34,342 in restitution.

As a result of an OIG Administrative Report to Management, the Department's contractor dismissed the employee. (I96AL010)

Department Contractor Employee Gains Personal Financial Benefit and Accepts Gratuities

Following a referral from Department management, an OIG investigation disclosed that a contractor employee at the Brookhaven National Laboratory: (1) used images taken with Government-owned high tech photography equipment for personal benefit; (2) failed to report outside business activities; and (3) accepted gratuities from laboratory vendors.

The investigation determined that the employee used these images for personal financial gain by submitting them to a photo stockhouse which maintains an image bank for magazines. The employee received a commission whenever a photo was used. He also entered and won photography competitions using the images. The investigation also determined that the employee had not reported any of his outside business activities as required by the contractor's internal policy. The investigation further determined that he had accepted gifts with nominal value from two vendors doing business with the laboratory. The investigation did not disclose favoritism by the employee towards these vendors.

In response to an OIG Administrative Report to Management, contractor

management took the following actions: (1) the employee received a written letter of reprimand in which the contractor required the employee to reimburse the laboratory \$7,500 and attend special ethics training; and (2) the contractor identified a need to strengthen the laboratory's ethics program. (I97PT004)

Los Alamos National Laboratory Exports Software to Russia and China Without Required Export Licenses

The U.S. Department of Commerce, Office of Export Enforcement, informed the OIG that the Department's Los Alamos National Laboratory (LANL) violated regulations by exporting software to Russia and China without obtaining the proper export licenses from the U.S. Department of Commerce.

Working jointly with the Office of Export Enforcement, the OIG determined that LANL signed a noncommercial research software agreement with four different research institutes in Russia and China. Subsequent to signing the agreement, the software was electronically transmitted to each institution via the Internet.

According to the Office of Export Enforcement, regardless of the circumstances, U.S. Export Administration Regulations and licensing requirements must be followed when sending sensitive software to certain countries. LANL did have a general license that allowed it to export the software to certain approved countries, but not to Russia and China. The investigation showed that required licenses had not been obtained prior to the software transfer.

OIG STRATEGIC GOAL NO. 3: *Conduct investigations to enhance the credibility of the Department and integrity of its business lines by aggressively pursuing fraud, waste, and abuse, and reporting on those engaged in such practices.*

An OIG Administrative Report to Management recommended that the Manager, Albuquerque Operations Office, take appropriate action regarding the improper export of the software. The OIG also recommended that Department management implement procedures to prevent future irregular exports.

The Department's Albuquerque Operations Office manager took corrective action. LANL implemented formalized export procedures for software. The Director, LANL, issued a policy statement to all employees reaffirming the contractor's commitment to strict adherence with all U.S. export control laws and regulations. (I98AL001)

Government-Owned Computers Being Used to Search for Pornography (Including Child Pornography) on the Internet

As a result of referrals from Department and contractor management, the OIG completed four investigations, with the assistance of the Department and contractor computer security staff, which substantiated that three Department employees and one contractor employee used Government-owned computers to access and view pornographic images on the Internet.

One investigation determined that a Department employee at the Albuquerque Operations Office accessed multiple Internet sites containing sexually explicit images. As a result of an OIG Administrative Report to Management, the Department took action to suspend the employee.

A second investigation determined that a Department employee at the Los

Alamos Area Office intentionally accessed Internet sites containing pornographic material. As a result of an OIG Administrative Report to Management, the Department took action to suspend the employee.

A third investigation determined that a Department employee at the Rocky Flats Environmental Technology Site misused a Government-owned computer by accessing pornographic websites and downloading files to his Government computer. As a result of an OIG Administrative Report to Management, the Department took corrective action. The employee was suspended.

A fourth investigation involved a contractor employee at the Department's Sandia National Laboratory. The employee admitted that he intentionally accessed pornographic sites on the Internet using his Government-assigned computer. The employee also admitted that he searched for pornographic images of pre-teens, which he defined as ages 11-13. As a result of an OIG Administrative Report to Management, Department contractor management took corrective action and terminated the employee. (I98AL004, I98AL002, I98DN002, I97AL010)

Department Employee Falsifies Information on a Bid Quotation Sheet

An OIG investigation revealed that a Department employee falsified a "Credit Card Telephone Quotation Worksheet" to procure \$20,000 in training services. The worksheet outlines assorted administrative data about a credit card purchase, including appropriation and

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funding codes, a description of services, and vendor quotations.

The investigation disclosed that the employee provided false information to the person who handled the administrative requirements associated with using the credit card. Specifically, the employee reported having obtained quotes from two companies to provide training services to the Department. Two quotes are required under procurement regulations. The investigation disclosed, however, that one company had not provided a bid as the employee claimed. The employee obtained a quote from only one company and subsequently signed the inaccurate quotation worksheet.

This matter was declined for criminal prosecution in favor of administrative remedies. In response to an OIG Administrative Report to Management, Department management removed the employee as an approving employee for credit card purchases. (I96HQ012)

A Private Physician's Office Manager is Convicted of Submitting False Health Care Claims

The OIG received an allegation from a Department contractor that false claims were submitted to employee health care insurance providers for the Department's Sandia National Laboratory (SNL). The OIG initiated an investigation and substantiated the allegation. The office manager for a private physician submitted 66 false claims worth \$69,066 to two insurance companies for costs associated with services she claimed she and her husband received. Her husband is a retired SNL employee.

The physician advised that he never treated the office manager's husband and that he never charged the office manager for treatment. A review of the claims showed that the insurance payments were mailed directly to the patients -- the office manager and her husband -- since costs for the services were claimed to have been already paid by the patients. The investigation disclosed that the office manager had a criminal history for related health care fraud. The office manager confessed to submitting the false claims and subsequently using the money for personal items. She informed investigators that her husband was not aware she submitted the claims.

The OIG referred the investigation to the U.S. Attorney's Office, District of Nevada, where it was accepted for prosecution. The office manager pleaded guilty to a felony for filing false, fictitious, and fraudulent claims against the United States. She was sentenced to 12 months and 1 day in prison; ordered to pay \$69,066 in restitution; and, upon completion of her prison term, undergo 3 years of supervised release. (I95AL033)

Consultant is Convicted of Tax Evasion

The OIG received information from the Oak Ridge Operations Office that a consultant to a Department contractor may have falsely billed the contractor. The investigation revealed that the consultant provided a false tax identification number to avoid paying taxes on substantial sums earned through consultant work for the Department.

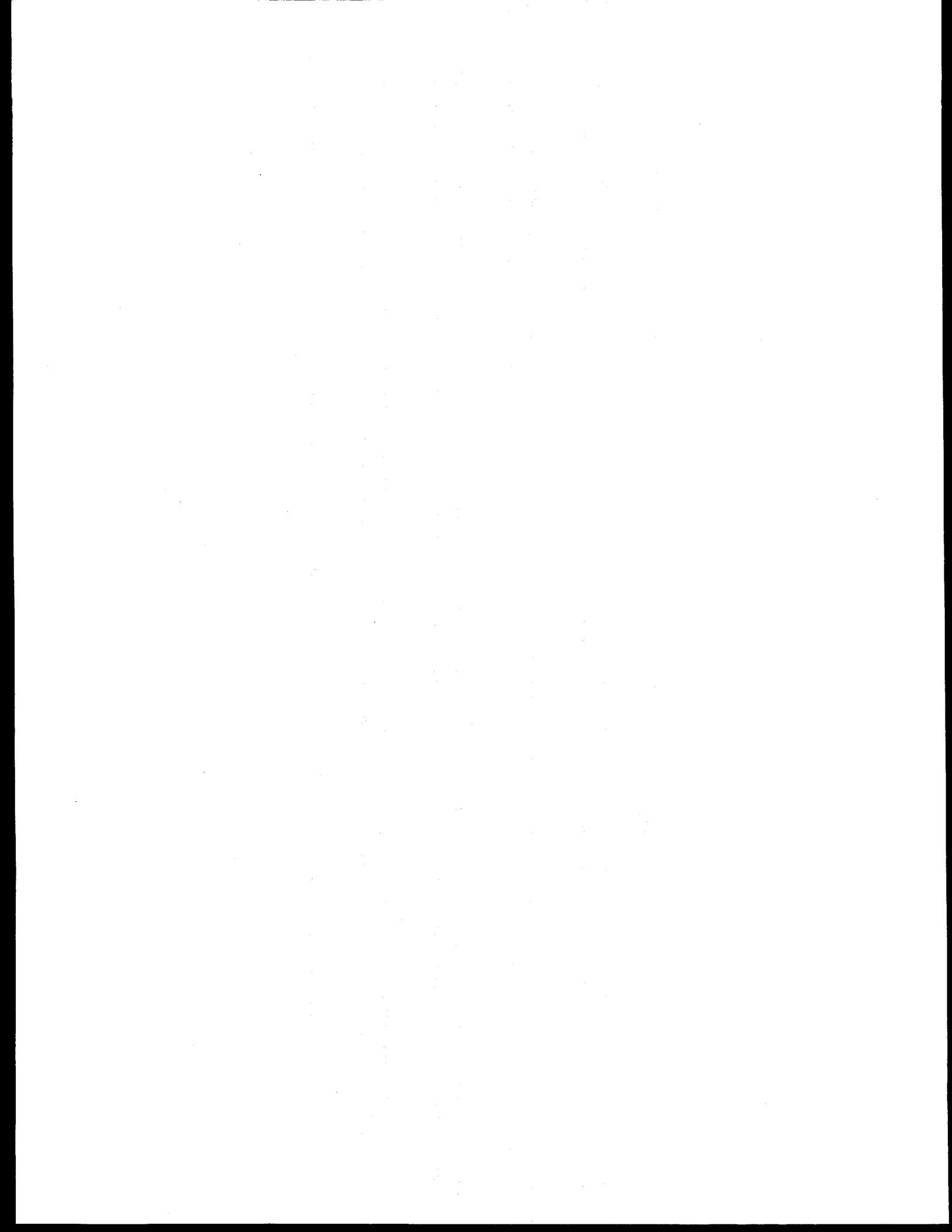
The OIG contacted the IRS and, as a result of a joint OIG and IRS investi-

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gation, the U.S. Attorney's Office, District of Maryland, accepted the case for prosecution. The consultant pleaded guilty to tax evasion and was sentenced to 8 months confinement, 2 years supervised probation, and 200 hours of community service; and was ordered to pay a \$15,000 fine. The consultant filed

amended tax returns for the years 1990, 1991, 1993, and 1994 and paid \$494,250 in additional taxes and interest. The IRS has assessed the consultant \$238,632 in fraud penalties.

As a result of OIG Administrative Reports to Management, the Department debarred the consultant and the company from Government contracts and subcontracts for 3 years, and agreed to review the actions of the consultant to determine the consultant's eligibility or continued eligibility for a Department security clearance. (I93OR023)



OIG STRATEGIC GOAL NO. 4: *Conduct inquiries which assist the Department in fostering public confidence in the Department's integrity, commitment to fairness, and willingness to take corrective action.*

OIG complaints referred to DOE management and other Government agencies, and the review of existing and proposed Department legislation and regulations conform to the goals, objectives, and performance measures outlined in the OIG 5-Year Strategic Plan.

Management Referral System

The Office of Inspections manages and operates the OIG Management Referral System. Under this system, selected matters received through the OIG Hotline or other sources are referred to the appropriate Department manager or other Government agency for review and appropriate action. The OIG referred 121 complaints to Department management and other Government agencies during the reporting period. The OIG asked Department management to respond concerning the actions taken on 46 of these complaints. Complaints referred to Department management may include such matters as time and attendance abuse, misuse of Government vehicles and equipment, violations of established policy, and standards of conduct violations. The following are examples of the results of referrals to Department management during this reporting period.

- An allegation about a possible theft of the proceeds from three sales of scrap metal removed from a DOE site raised concerns about possible systemic problems with site scrap disposal. A management inquiry determined that the theft did not occur; however, shortcomings in site policies and procedures and their dissemination were identified, and corrective actions were taken.
- A DOE employee was counseled as a result of inappropriate use of a Government computer.

- Management at a DOE site took action to improve purchase card policies and procedures as a result of weaknesses identified by an inquiry into alleged misuse of the cards.
- Management advised that a contractor employee's comments about the management of high-level waste at a DOE site will be considered as part of the development of an environmental impact statement.

Contractor Employee Reprisal Complaints

The Office of Inspections conducted a number of inquiries into contractor employee complaints filed pursuant to 10 C.F.R. Part 708. These complaints concerned allegations that employees disclosed fraud, waste, abuse, mismanagement, or health and safety issue information or engaged in other activity protected by Part 708 and that the disclosure(s) contributed to adverse action by contractor management against the employees. Inquiries were also conducted into allegations that the Department's personnel security program was used to retaliate against employees. Fourteen cases were completed either through dismissal, settlement by the parties, or issuance of Reports of Inquiry. In addition, as a streamlining initiative, the Office offered the parties to twelve Part 708 complaints an opportunity to by-pass the inquiry process

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and go directly to a hearing before the Department's Office of Hearings and Appeals. The parties in two of these complaints availed themselves of the opportunity to go directly to a hearing.

The following is an example of the results of the Office's reprisal inquiries:

A complaint was received from a contractor employee who alleged that he made disclosures regarding improper storage of excess property to his management and the OIG. The complainant alleged that as a result of making these disclosures, he was reassigned to a less desirable job and subsequently terminated. The contractor asserted that the employee was reassigned due to organizational requirements, and terminated because he had falsified timecard information and subsequently lied to management. The OIG inquiry concluded that the employee had not made a disclosure nor engaged in activities protected by Part 708, and that the

contractor was able to show by clear and convincing evidence that it would have taken the actions against the complainant regardless of whether there had been a protected disclosure. The report recommended that the employee's request for relief pursuant to Part 708 be denied.

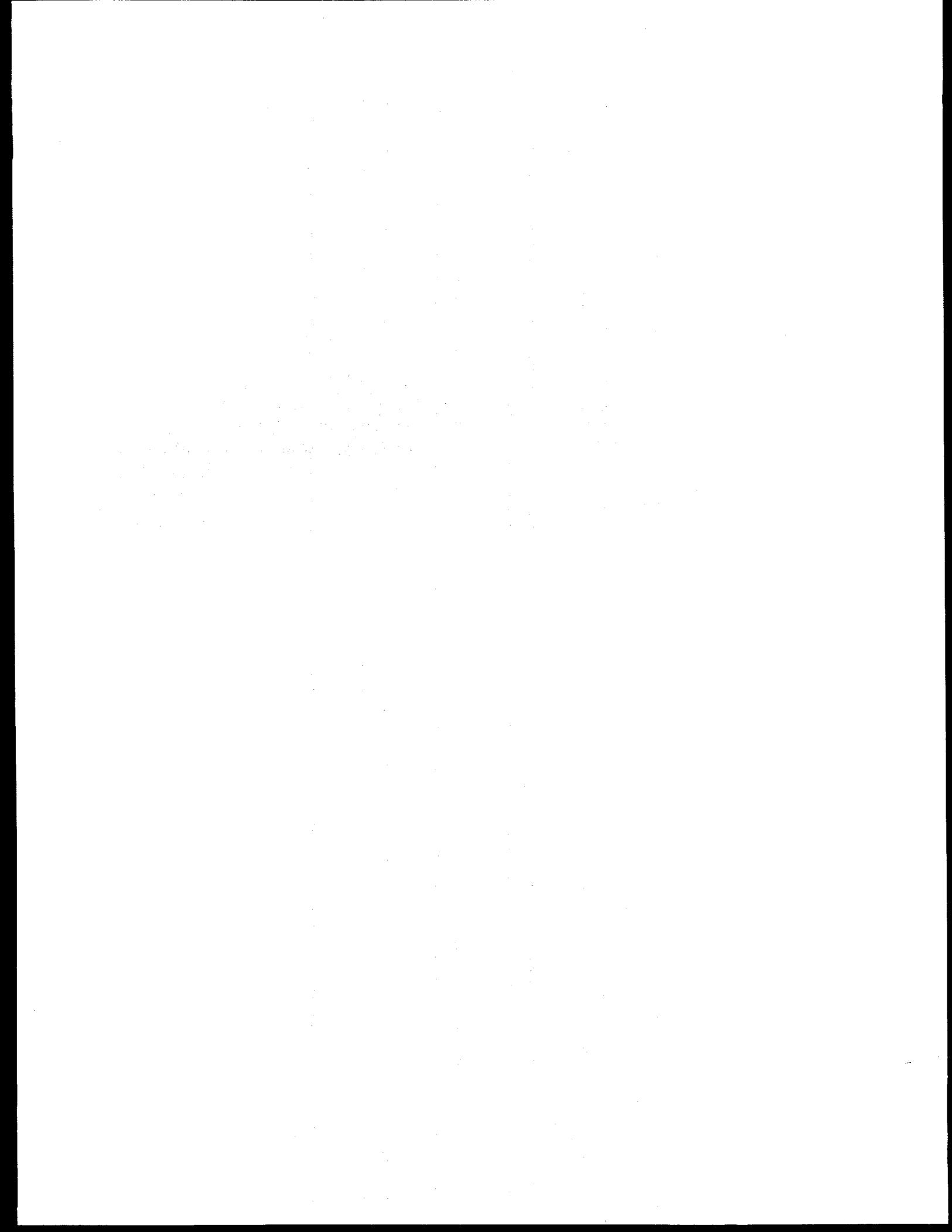
Legislative Review

In accordance with the Inspector General Act of 1978, the OIG is required to review existing and proposed legislation and regulations relating to Department programs and operations, and to comment on the impact which they may have on economical and efficient operations of the Department. During this reporting period, the OIG coordinated and reviewed 13 legislative and regulatory items. The OIG also participated with the IG community in commenting on draft legislation to protect intelligence agency employees who report concerns involving classified information.

SECTION II

PROGRESS IN ACCOMPLISHING OIG STRATEGIC GOALS

This section describes the 6-month OIG progress in accomplishing goals and objectives outlined in the OIG 5-year Strategic Plan..



SUMMARY OF PROGRESS IN ACCOMPLISHING OIG STRATEGIC GOALS

OIG Strategic Planning Accomplishments

The planning of OIG work supports the goals, objectives, and strategies outlined in the OIG's 5-year Strategic Plan. The OIG organizes and prioritizes its workload to ensure that audits, inspections, and investigations help the Department in enhancing the overall performance of its core business lines (Energy Resources, National Security, Environmental Quality, and Science and Technology). Several key external factors affect the OIG's achievement of its goals and objectives. These factors have significant impact on assigning workload, formulating budgets, assessing organizational structure, evaluating procedures and establishing priorities. These factors include numerous mandatory, statutory, and regulatory requirements, and taskings from external sources.

During this Semiannual reporting period, the OIG worked diligently toward achieving its strategic goals and objectives. A summary of the OIG's progress in accomplishing its strategic goals follows.

The Office of Audit Services (OAS) set a goal to conduct statutorily required audits of the Department to enable the public to rely on DOE's financial and management systems. The objectives in meeting that goal are: (1) to complete audits required by the Chief Financial Officers (CFO) Act and the Government Management Reform Act (GMRA), and other audits by established due dates to enable the Department to improve its fiscal integrity; and (2) to identify and report significant systems' deficiencies, enabling the Department to take corrective action and

demonstrate improved stewardship of public resources.

The performance measures defining the achievement of the objectives are: (1) to complete required financial statement audits by due dates designated in law; (2) to opine annually on the Department's consolidated financial statements, system of internal controls, and compliance with laws and regulations; (3) to coordinate with Department management and other interested parties to identify and prioritize audit opportunities each fiscal year; (4) to complete at least 60 percent of audits planned for the year and replace those audits not started with more significant audits which identify time-sensitive issues needing review; (5) to achieve an 85 percent acceptance rate on recommendations made in audit reports, thereby allowing DOE managers to take corrective, cost saving, or recoupment action(s); and (6) to devote at least 10 percent of available resources to subsequent reviews of areas to determine if the Department's commitment to the acceptance of previous recommendations has resulted in implementation of corrective actions.

OAS set another goal of conducting performance reviews which promote the efficient and effective operation of the Department's business lines. The objective was to focus performance reviews on those issues and programs having the greatest potential for the protection or recovery of public resources.

The performance measures defining the achievement of the objective are: (1) to complete reviews of key programs, identifying areas with weaknesses or problems where resources are at risk; (2) to recommend actions for the Department to diminish or alleviate the risks identified

SUMMARY OF PROGRESS IN ACCOMPLISHING OIG STRATEGIC GOALS

in these reviews; and (3) to achieve an 85 percent acceptance rate on recommendations made in performance review reports, thereby allowing Department managers to take corrective, cost saving, recoupment or disciplinary action(s).

During the first half of the year, OAS completed the audit of the consolidated statements of the Department on time, and rendered an opinion on the financial statements, the system of internal controls, and compliance with laws and regulations. With half of the year gone, OAS is meeting its objectives in audit reports issued and in recommendations accepted.

The Office of Investigations set a goal to conduct investigations to enhance the credibility of the Department and the integrity of its business lines by aggressively pursuing fraud, waste, and abuse, and reporting on those engaged in such practices. The objectives in meeting that goal were: (1) to focus investigations on allegations of serious violations of Federal law to permit successful prosecutions that maximize the recovery of public resources and the deterrence of future wrongdoing; and (2) to increase inter-agency cooperative efforts to combat fraud, waste, and abuse.

The performance measures defining the achievement of the objectives were: (1) to gain acceptance of 75 percent of cases presented for prosecution, thus permitting prosecutors to pursue maximum monetary recovery from, and punishment of, wrongdoers; and (2) to increase joint agency/task force activity by 10 percent, affording the opportunity to protect and deter criminal activity while maximizing resource use efficiency.

The Office of Investigations is well on its way to achieving its goal and objectives. During this reporting period, 73 percent of cases presented for prosecution were accepted, and 24 percent of the cases opened were joint agency/task force investigations, as compared to last year's 19 percent.

The Office of Investigations made a personnel resource commitment with regard to increased work with the Department of Justice (DOJ). For example, the Office of Investigations is currently working with DOJ on 18 qui tam cases. Additionally, the Office of Investigations successfully increased its efforts and resources applied toward the Affirmative Civil Enforcement Program, which is designed as a highly efficient vehicle for IGs and U.S. Attorneys to work together to combat fraud against the Government. The U.S. Attorney, District of New Mexico, recently commended the Office of Investigations for its "willingness to work closely with the civil division of the U.S. Attorney's Office" and for its "overall grasp of the potential of civil fraud actions in addition to criminal actions."

The Office of Inspections established a goal to conduct performance reviews which promote the efficient and effective operation of the Department's business lines. One objective under this goal is to prevent violations of public trust by conducting oversight of DOE's intelligence programs. A performance measure for this objective is to provide the Intelligence Oversight Board (IOB) with required quarterly reports of OIG intelligence oversight activity to increase confidence that Departmental intelligence activities are conducted appropriately. An-

SUMMARY OF PROGRESS IN ACCOMPLISHING OIG STRATEGIC GOALS

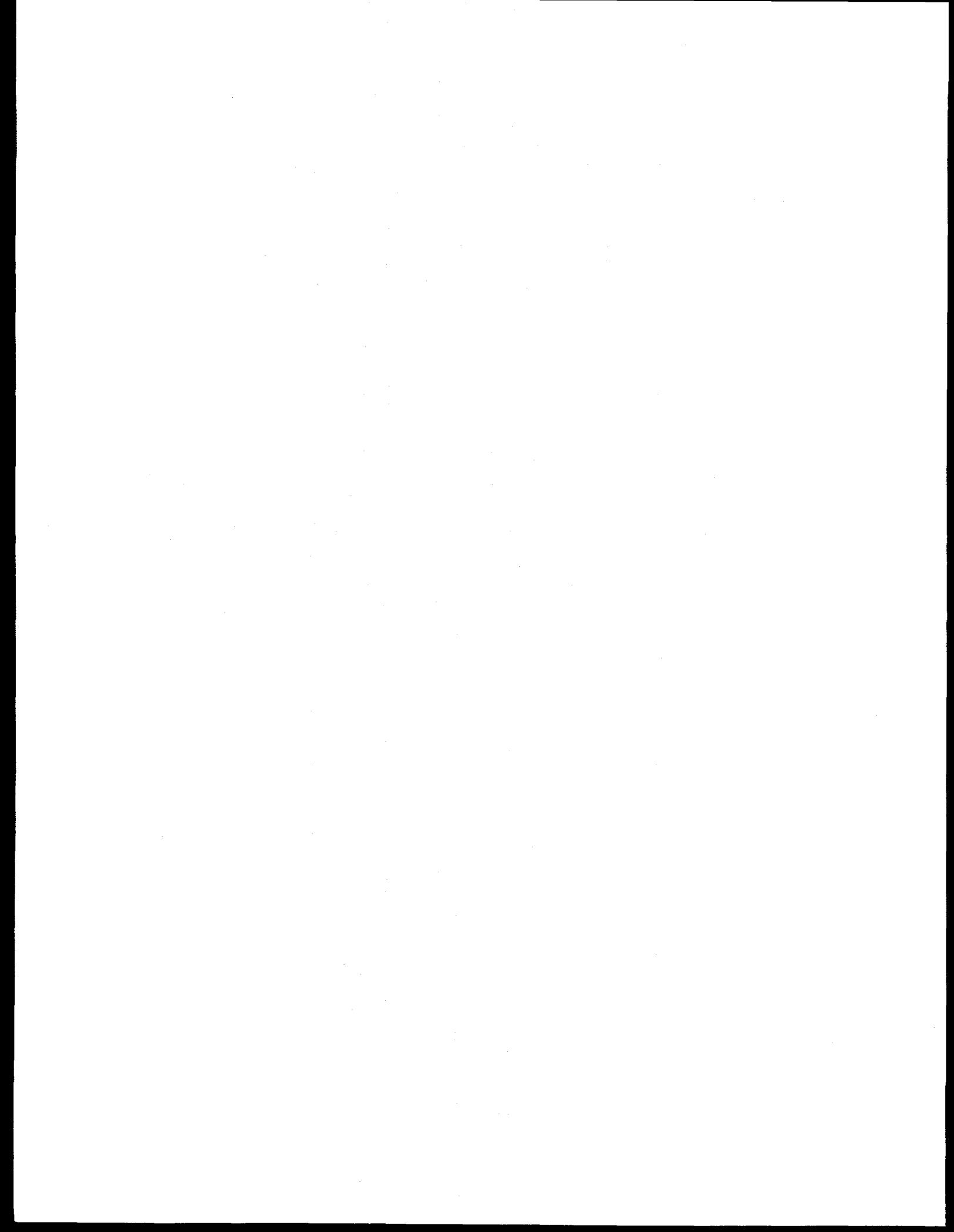
other objective under this goal is to focus performance reviews on those issues and programs having the greatest potential for the protection or recovery of public resources. A performance measure for this objective is to achieve an 85 percent acceptance rate on recommendations.

The Office of Inspections also established a goal to conduct inquiries which assist the Department in fostering public confidence in the Department's integrity, commitment to fairness, and willingness to take corrective action. One objective under this goal is to conduct inquiries into contractor employee whistleblower reprisal allegations to enhance public trust by fostering an open, non-retaliatory environment throughout the Department. The performance measure for this objective is to decrease the average number of days to process whistleblower reprisal cases by 5 percent.

During the first half of the year, the Office of Inspections issued three quarterly intelligence reports and briefed the Coun-

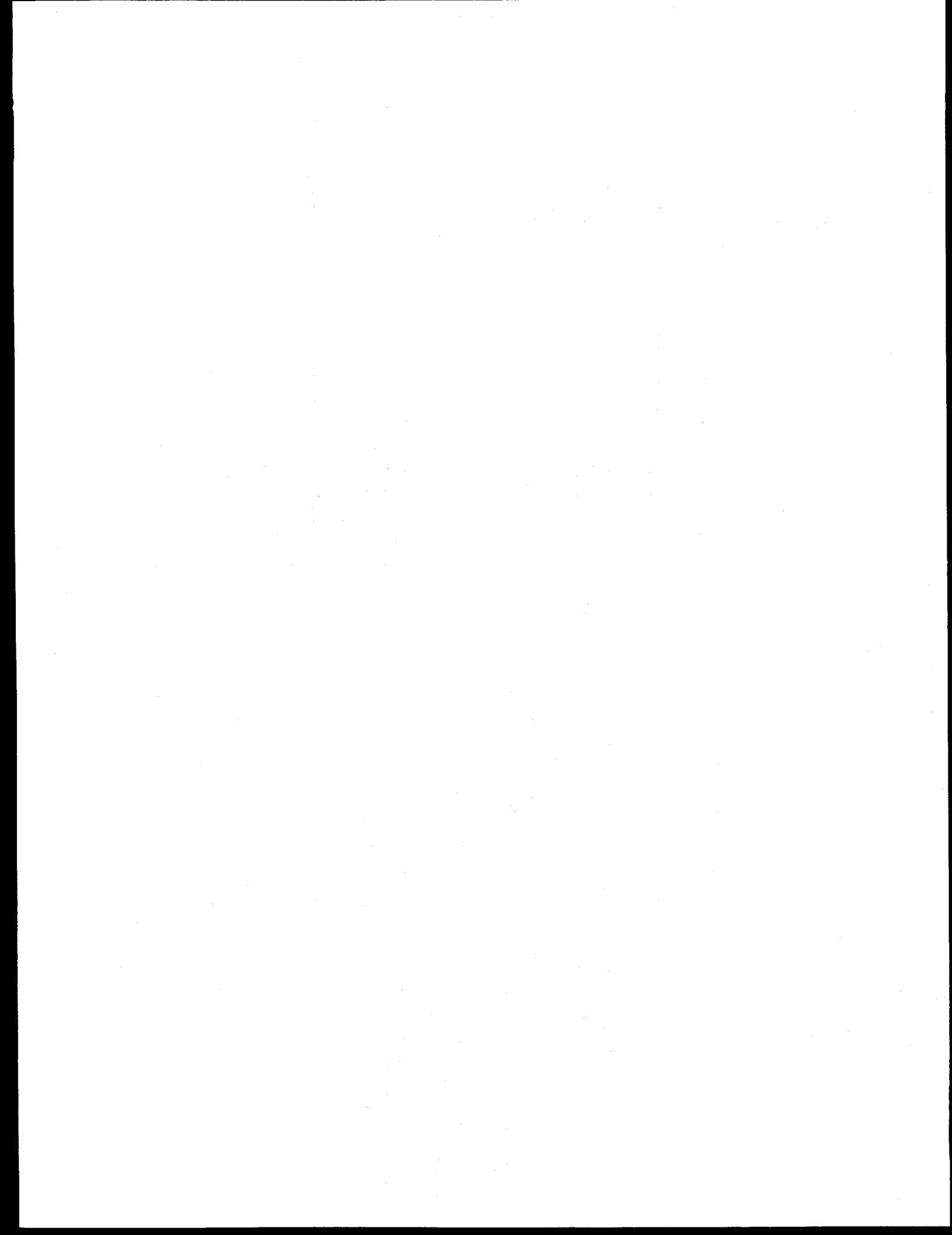
sel to the IOB on the intelligence oversight activities of the OIG. The Office also achieved a 100 percent acceptance rate on recommendations made in performance reviews and has initiated additional reviews that are expected to have significant recommendations about, among other things, Departmental contracting and worker safety.

The Office of Inspections is also taking action to reduce the number of days to process reprisal complaints by focusing resources on investigating whistleblower allegations. It should be noted that the Department published a "Notice of Proposed Rule Making" that proposed amendments to Part 708, Title 10, Code of Federal Regulations, *DOE Contractor Employee Protection Program*. The Department is currently evaluating comments on the proposed notice. The final notice is expected to significantly impact the Part 708 process and may impact the related objective and performance measure.



OIG MISSION AND ADMINISTRATION

This section describes the mission, staffing and organization of the Office of Inspector General.



OIG MISSION AND ADMINISTRATION

Mission

The Office of Inspector General (OIG) operates under the *Inspector General Act of 1978*, as amended, with the following responsibilities:

- ◆ To provide policy direction for, and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Department.
- ◆ To review existing and proposed legislation and regulations relating to programs and operations of the Department, and to make recommendations in the semiannual reports required by the *Inspector General Act of 1978* concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Department, or on the prevention and detection of fraud and abuse in such programs and operations.
- ◆ To recommend policies for, and to conduct, supervise, or coordinate other activities carried out or financed by the Department for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations.
- ◆ To recommend policies for, and to conduct, supervise, or coordinate relationships between the Department and other Federal agencies, state, and local government agencies, and nongovernmental entities with respect to:
 - ◊ All matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Department.
 - ◊ The identification and prosecution of participants in such fraud or abuse.
 - ◆ To keep the Secretary of the Department of Energy and the Congress fully and currently informed, by means of the reports required by the *Inspector General Act of 1978*, concerning fraud and other serious problems, abuses and deficiencies relating to the administration of programs and operations administered or financed by the Department of Energy, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.
 - ◆ To provide a status of the number of unreasonable refusals by management to provide data to the OIG. There were no such instances this reporting period.

Organization and Staffing

The activities of the OIG are performed by four offices.

The Office of Audit Services provides policy direction and supervises, conducts, and coordinates all internal and contracted audit activities for Department programs and operations. Audits are planned annually through a prioritized work planning strategy that is driven by several factors, including the flow of funds to Departmental programs and functions, strategic planning advice, statutory requirements, and expressed needs. The Office of Audit Services has been organized

OIG MISSION AND ADMINISTRATION

into three regional offices, each with field offices located at major Department sites: Capital Regional Audit Office, with field offices located in Washington, DC, Germantown, and Pittsburgh; Eastern Regional Audit Office, with field offices located in Cincinnati, Chicago, Oak Ridge, Princeton, and Savannah River; and Western Regional Audit Office, with field offices located in Albuquerque, Denver, Idaho Falls, Las Vegas, Livermore, Los Alamos, and Richland.

The Office of Investigations performs the statutory investigative duties which relate to the promotion of economy and efficiency in the administration of, or the prevention or detection of fraud or abuse in, programs and operations of the Department. Priority is given to investigations of apparent or suspected violations of statutes with criminal or civil penalties, including investigations of contract and grant fraud, environmental violations, and matters which reflect on the integrity and suitability of Department officials. Suspected criminal violations are promptly reported to the Department of Justice for prosecutive consideration. The Office is organized into four regions with field and satellite offices within each region. The four regions and corresponding offices are: Northeast Regional Field Office in Washington, DC, with satellite offices in Pittsburgh and Cincinnati; Southeast Regional Field Office in Oak Ridge, with a satellite office in Savannah River; Northwest Regional Field Office in Denver, with satellite offices in Richland, Idaho Falls, and Chicago; and the Southwest Regional Field Office in Albuquerque, with a satellite office in Livermore. The Office of Investigations also operates the Inspector General Hotline.

The Office of Inspections performs inspections and analyses, including reviews based on administrative allegations. In addition, the Office investigates contractor employee allegations of employer retaliation, pursuant to *Department of Energy Contractor Employee Protection Program* (10 C.F.R. Part 708) or Section 6006 of the *Federal Acquisition Streamlining Act of 1994*. The Office also processes referrals of administrative allegations to Department management. The Office of Inspections includes two regional offices. The Eastern Regional Office is located in Oak Ridge, with a field office in Savannah River. The Western Regional Office is located in Albuquerque, with a field office in Livermore.

The Office of Resource Management directs the development, coordination, and execution of overall OIG management and administrative policy and planning. This responsibility includes directing the OIG's strategic planning, financial management, personnel management, procurement, and information resources programs. In addition, staff members from this Office represent the Inspector General at budget hearings, negotiations, and conferences on financial, managerial, and other resource matters. The Office also coordinates activities of the President's Council on Integrity and Efficiency. The Office is organized into three offices: Financial Resources, Human Resources, and Information Resources, all located in Washington, DC.

OIG MISSION AND ADMINISTRATION

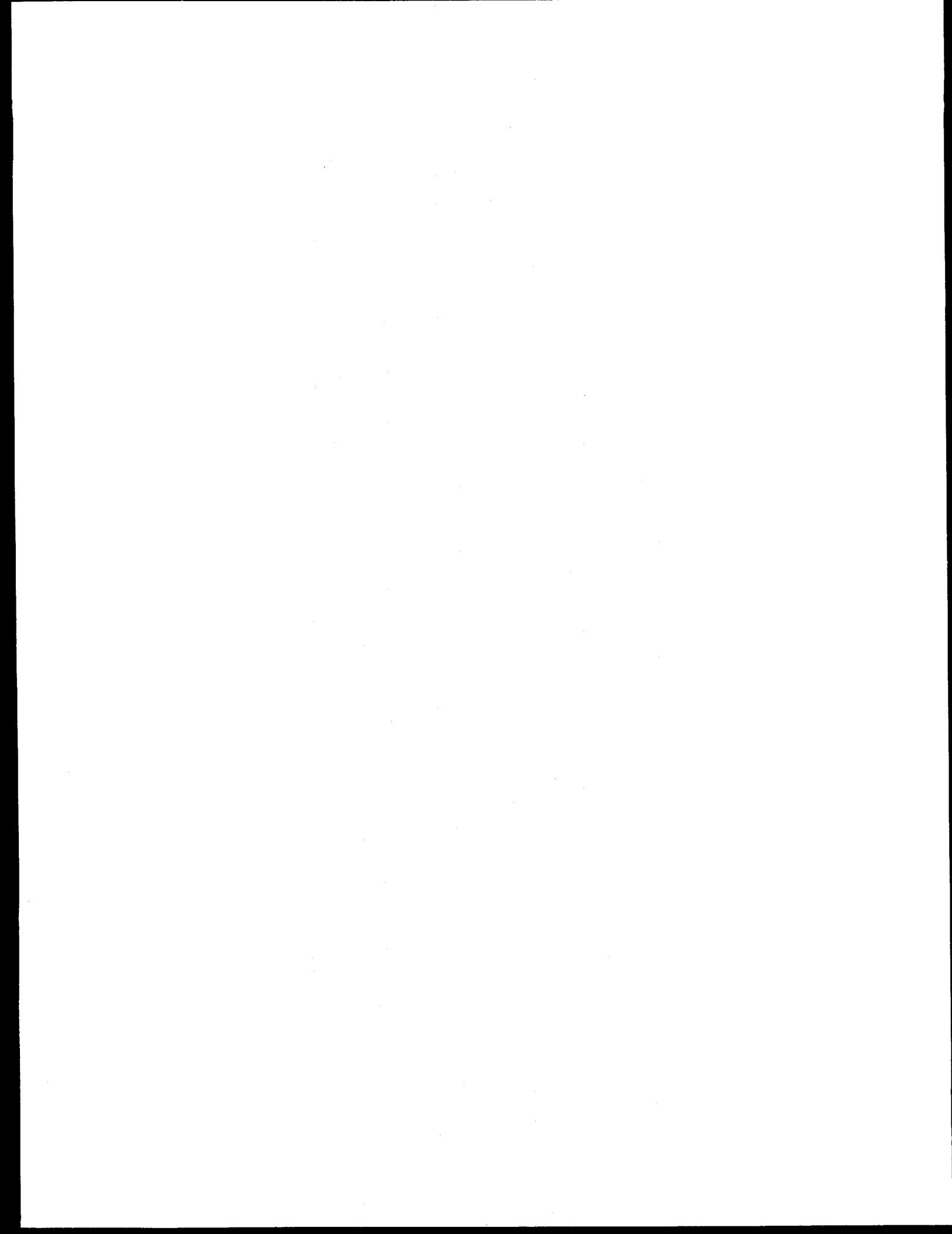
Inspector General Priorities

The OIG takes a realistic view of its available resources and uses them as efficiently and effectively as possible. Areas where we are focusing these resources include:

- ◆ Audit of the Department's consolidated financial statements as required by the Government Management Reform Act of 1994.
- ◆ Review of the Department's implementation and execution of the requirements of the Government Performance and Results Act of 1993.
- ◆ Review of Department "high risk" areas, such as laboratory management, contract management (specifically, performance-based contracting), national security, safety and health, work force restructuring, economic development, and environmental remediation.
- ◆ Conduct of performance reviews at several major Department facilities, such as Lawrence Livermore and Lawrence Berkeley National Laboratories, with annual obligations of about \$1.4 billion.
- ◆ Emphasis on complex criminal and civil investigations, targeting those matters with the greatest potential for prosecution and/or civil recovery, such as contract and grant fraud, and environmental violations.
- ◆ Assistance to Departmental effort to ensure that the mission critical computer systems of the Department and its contractors are Year 2000 compliant.

Congressional Requests

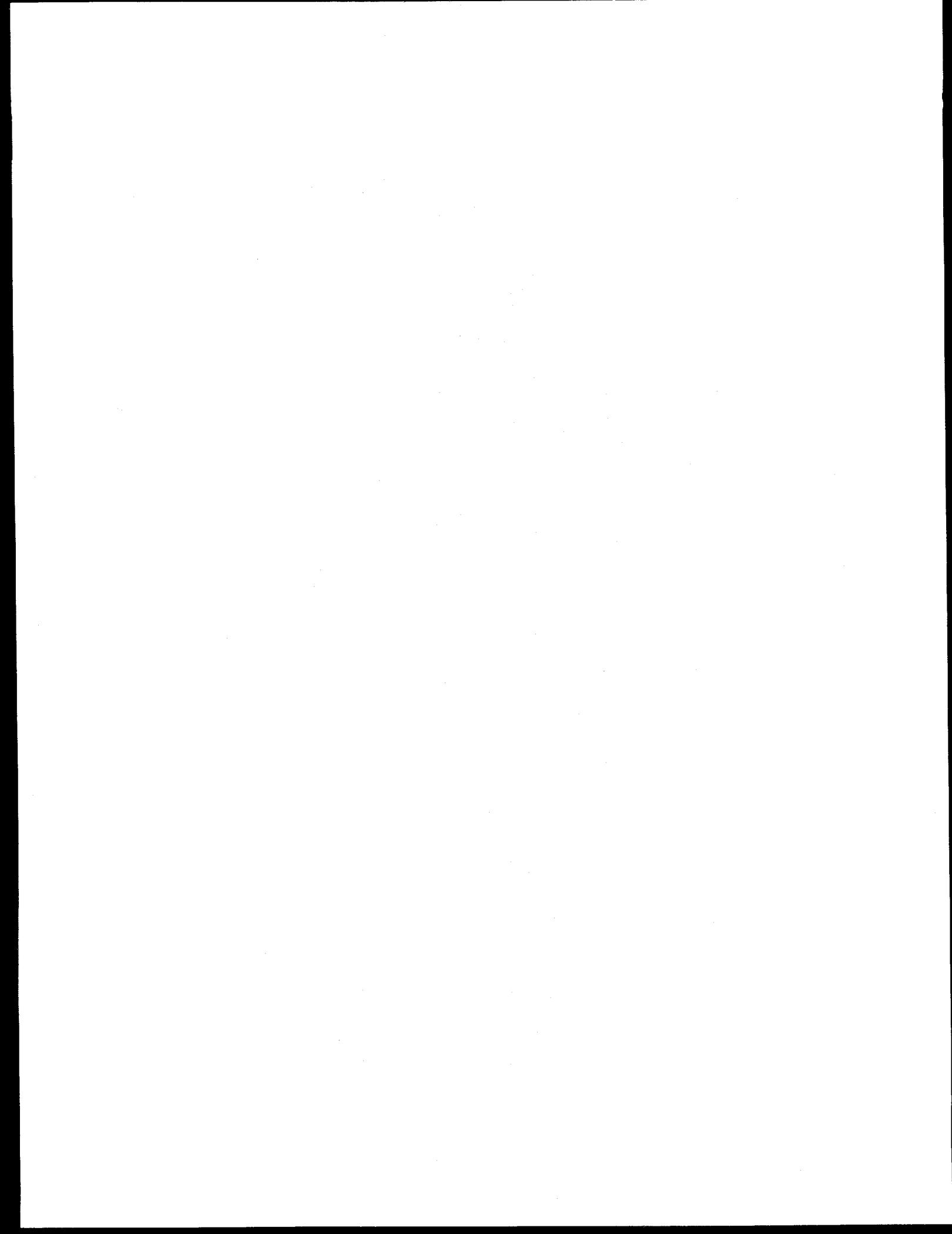
During the reporting period, the OIG received 47 requests for data from the Congress, all which were responded to in a timely manner. The Office testified at two Congressional hearings before the Oversight and Investigations Subcommittee of the House Energy Committee. The Inspector General testified on these occasions on two extremely significant matters, Department laboratory management and performance-based contracting. Additionally, OIG staff provided briefings to Committee staff on four occasions and data or reports were provided to the Congress in 63 instances.



SECTION IV

REPORTS

The 47 Office of Inspector General reports issued during this semiannual reporting period are listed in four categories: contract, operational, and financial audit reports, and inspection public reports. Significant financial results associated with each report are also presented when applicable.



REPORTS ISSUED

AUDIT REPORTS

CONTRACT AUDIT REPORTS

ER-C-98-01 Final Audit of Princeton University's Costs Claimed for Sub-contractor XR-11265-1 Under National Renewable Energy Laboratory's Department of Energy Contract DE-AC02-83CH10093, November 3, 1997

OPERATIONAL AUDIT REPORTS

CR-B-98-01 Audit of the Internal Control Structure of the Department of Energy Working Capital Fund, October 8, 1997

CR-B-98-02 Audit of Management of the Laboratory Directed Research and Development Program at the Lawrence Livermore National Laboratory, November 14, 1997

CR-L-98-01 Survey of the Department's Energy Conservation Program, February 10, 1998

CR-L-98-02 Federal Managers' Financial Integrity Audit Report, December 18, 1997

ER-B-98-01 Audit of the Deactivation, Decontamination, and Disposal of Surplus Facilities at the Savannah River Site, October 23, 1997
Savings: \$5,200,000

ER-B-98-02 Audit of Environmental Monitoring and Health Physics Laboratories at the Savannah River Site, November 3, 1997
Savings: \$30,000,000

ER-B-98-03 Audit of the Union Valley Sample Preparation Facility at Oak Ridge, November 7, 1997
Questioned Costs: \$4,000,000

ER-B-98-04 Audit of Selected Government-funded Grants and Contracts at Princeton University, December 2, 1997

REPORTS ISSUED

ER-B-98-05 Audit of the Department of Energy's Contracts With Envirocare of Utah, Inc., December 10, 1997
Savings: \$3,180,000

WR-B-98-01 Audit of the Radioactive Liquid Waste Treatment Facility Operations at the Los Alamos National Laboratory, November 19, 1997
Questioned Costs: \$2,150,000 Unsupported Costs: \$8,600,000

WR-L-98-01 Audit of Equipment Use at Battelle-Pacific Northwest National Laboratory, November 14, 1997

IG-0412 Audit of the Contractor Incentive Program at the Nevada Operations Office, October 20, 1997
Unsupported Costs: \$1,420,100

IG-0413 Audit of Funding for Advanced Radioisotope Power Systems, October 17, 1997
Questioned Costs: \$46,300,000

IG-0414 Audit of the Department of Energy's Management of Field Contractor Employees Assigned to Headquarters and Other Federal Agencies, December 5, 1997

IG-0415 Audit of Departmental Receipt of Final Deliverables for Grant Awards, December 4, 1997
Savings: \$232,856,519

IG-0416 Audit of Support Services Subcontracts at Argonne National Laboratory, December 23, 1997

IG-0417 Audit of the Department of Energy's Management of Research and Development Integration, March 13, 1998

IG-0418 Audit of Alternatives to Testing at the Tonopah Test Range, March 13, 1998
Savings: \$22,304,600

FINANCIAL AUDIT REPORTS

CR-FC-98-01 Federal Energy Regulatory Commission's Fiscal Year 1997 Financial Statement Audit, February 24, 1998

REPORTS ISSUED

CR-FS-98-02	Management Report on the Audit of the U.S. Department of Energy's Consolidated Financial Statements for Fiscal Year 1997, March 26, 1998
CR-FS-L-98-01	Audit of the ADP General Controls at Idaho National Engineering and Environmental Laboratory, February 27, 1998
CR-FS-L-98-02	Audit of the ADP General Controls at Oak Ridge Complex, February 27, 1998
CR-FS-L-98-03	Report on Results of Audit Procedures Performed at the Pittsburgh Naval Reactors Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, March 6, 1998
ER-FC-98-01	Southeastern Federal Power Program Fiscal Year 1996 Financial Statement Audit, December 9, 1997
ER-FC-98-02	Alaska Power Administration's Fiscal Year 1997 Financial Statement Audit, March 25, 1998
ER-FC-98-03	Isotope Production and Distribution Program's Fiscal Year 1997 Financial Statement Audit, March 27, 1998
ER-FS-98-01	Results of Audit Procedures Performed at the Chicago Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, March 27, 1998
ER-FS-98-02	Results of Audit Procedures Performed at the Savannah River Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, March 27, 1998
ER-FS-98-03	Matters Identified at the Oak Ridge Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, March 30, 1998
ER-FS-98-04	Matters Identified at the Strategic Petroleum Reserve During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements, March 31, 1998

REPORTS ISSUED

ER-V-98-01 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Associated Universities, Inc. Brookhaven National Laboratory Under Department of Energy Contract DE-AC02-76CH016, October 3, 1997

ER-V-98-02 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Savannah River Company Under Department of Energy Contract No. DE-AC09-89SR18035, October 15, 1997

ER-V-98-03 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Specialty Components, Inc., Under Department of Energy Contract No. DE-AC04-92AL73000, October 28, 1997
Questioned Costs: \$178,399

ER-V-98-04 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Mound Applied Technologies, Inc., Under Department of Energy Contract No. DE-AC24-88DP43495, February 24, 1998

WR-FC-98-01 Southwestern Federal Power System Fiscal Year 1996 Financial Statement Audit, December 4, 1997

WR-FC-98-02 U.S. Department of Energy Naval Petroleum Reserve Number 1, Fiscal Year 1997 Financial Statement Audit, February 12, 1998

WR-FC-98-03 Western Area Power Administration's Fiscal Year 1997 Financial Statement Audit, February 26, 1998

WR-FC-98-04 Western Area Power Administration's Parker-Davis Power System Fiscal Year 1997 Financial Statement Audit, March 18, 1998

REPORTS ISSUED

WR-V-98-01	Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lockheed Martin Idaho Technologies Under Department of Energy Contracts No. DE-AC07-94ID13223 and No. DE-AC07-94ID13299, November 13, 1997 Questioned Costs: \$68,238
WR-V-98-02	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, November 10, 1997
WR-V-98-03	Assessment of Statement of Costs Incurred and Claimed by Reynolds Electrical and Engineering Company, Inc. Under Department of Energy Contract No. DE-AC08-94NV11432, December 29, 1997
WR-V-98-04	Assessment of Statement of Costs Incurred and Claimed by EG&G Energy Measurements Under Department of Energy Contract No. DE-AC08-93NV11265, December 31, 1997
WR-V-98-05	Assessment of Statement of Costs Incurred and Claimed by Raytheon Services Nevada Under Department of Energy Contract No. DE-AC08-91NV10833, January 2, 1998
IG-FS-98-01	The U.S. Department of Energy's Consolidated Financial Statements for Fiscal Year 1997, February 26, 1998

INSPECTIONS REPORTS

INS-O-98-01	Report on "Inspection of Concerns Regarding DOE's Evaluation of Chevron U.S.A.'s Unsolicited Proposal for the Elk Hills Naval Petroleum Reserve," November 17, 1997
INS-L-98-01	Report on "Inspection of the Department of Energy's New Iberia Ethanol Plant," February 9, 1998

REPORTS ISSUED

INSPECTOR GENERAL REPORTS AVAILABILITY

On the Internet

Office of Inspector General reports are available electronically through the internet at the following address: <http://www.hr.doe.gov/ig/>.

By U.S. Mail

Persons wishing to request hardcopies of reports to be mailed to them may do so by calling the automated Office of Inspector General Reports Request Line at (202) 586-2744. The caller should leave a name, mailing address, and identification number of the report needed. If the report's identification number is unknown, the caller should leave a short description of the report and a telephone number where the caller may be reached in case further information is needed to fulfill the request.

Requests by Telefax

In addition to using the automated Office of Inspector General Reports Request Line, persons may telefax requests for reports to (202) 586-1660. Telefaxing requests may be especially convenient for people requesting several reports.

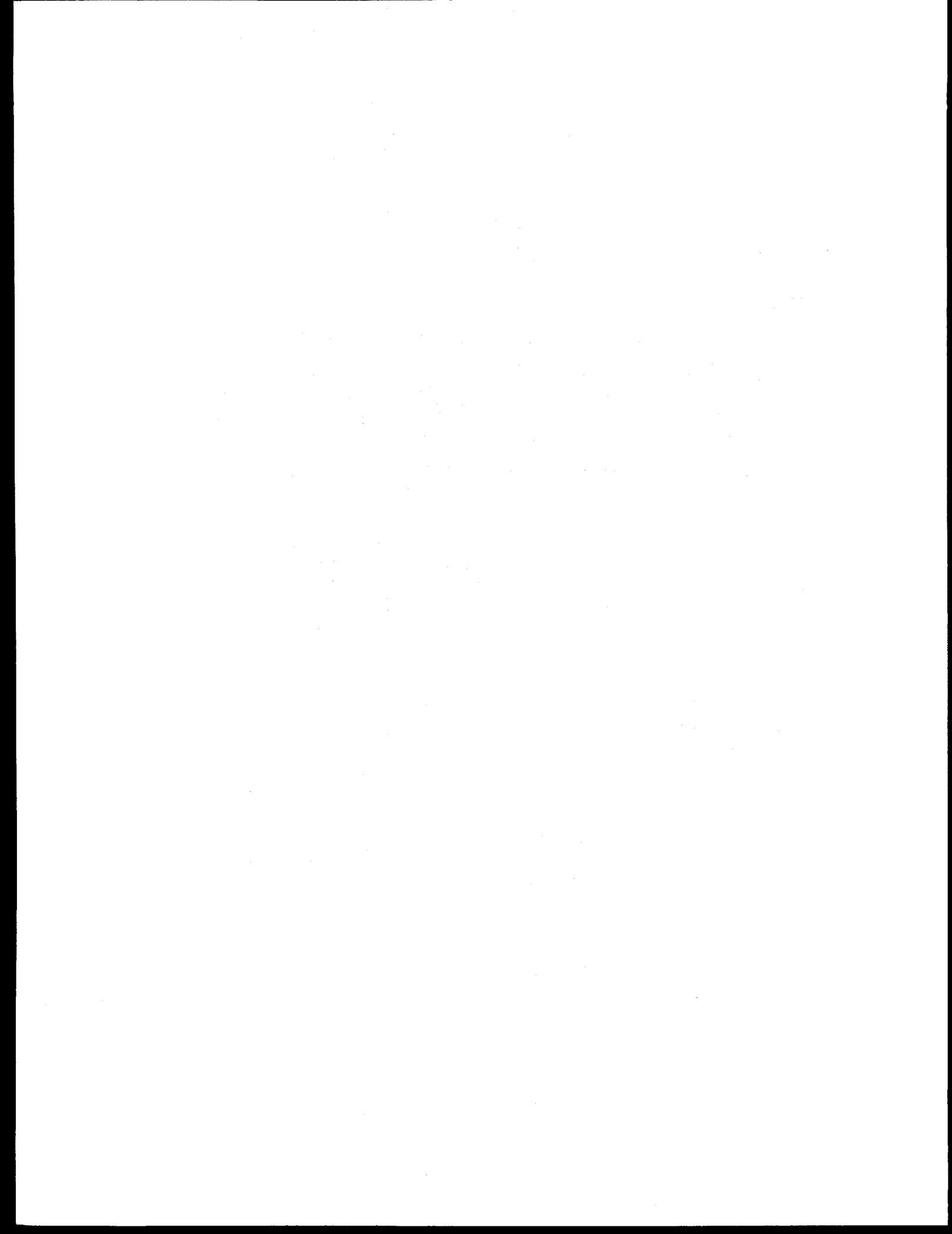
Point of Contact for More Information

Persons with questions concerning the contents, availability, or distribution of any Office of Inspector General report may contact Wilma Slaughter by telephone at (202) 586-1924 or via the Internet at wilmatine.slaughter@hq.doe.gov.

SECTION V

STATISTICS

This section lists audit reports issued before the beginning of the semiannual reporting period for which no management decisions have been made by the end of the reporting period, the reasons management decisions have not been made, and the estimated dates (where available) for achieving management decisions. This section also presents audit statistics on questioned costs, unsupported costs, and dollar value of recommendations resulting from audit reports issued during this reporting period. In addition, this section presents statistics on investigative and inspection results achieved during this semiannual reporting period.



STATISTICS

DEFINITIONS

The following definitions, based on the Inspector General Act of 1978, apply to terms used in this Semiannual Report.

Questioned Cost: A cost which the Inspector General questions because of:

1. An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds;
2. A finding that, at the time of an audit, such cost is not supported by adequate documentation; or
3. A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost: A cost which the Inspector General questions because the Inspector General found that, at the time of an audit, such cost is not supported by adequate documentation.

Disallowed Cost: A questioned cost which Department management, in a management decision, has sustained or agreed should not be charged to the Government.

Recommendation That Funds Be Put to Better Use (“Savings”): An Inspector General recommendation that funds could be used more efficiently if Department management took actions to implement and complete the recommendations, including:

1. Reduction in outlays;
2. Deobligation of funds from programs or operations;
3. Withdrawal of interest subsidy costs on losses or loan guarantees, insurance or bonds;
4. Costs not incurred by implementing recommended improvements related to Department operations, contractors, or grantees;
5. Avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or
6. Any other savings which are specifically identified.

STATISTICS

Management Decision: The evaluation by Department management of the findings and recommendations included in an audit report and the issuance of a final decision by Department management concerning its response to such findings and recommendations, including actions determined to be necessary.

Final Action: The completion of all actions that Department management has determined, in its management decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that Department management concludes no action is necessary, final action occurs when a management decision has been made.

STATISTICS

AUDIT REPORT STATISTICS

October 1, 1997, through March 31, 1998

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

	Total Number	One-Time Savings	Recurring Savings	Total Savings
Those issued before the reporting period for which no management decision has been made:	9	\$64,962,477	\$126,363,760	\$191,326,237
Those issued during the reporting period:	44	\$332,324,256	\$23,933,600	\$356,257,856
Those for which a management decision was made during the reporting period:	26	\$317,069,619	\$43,933,600	\$361,003,219
<i>Agreed to by management:</i>		\$289,106,445	\$0	\$289,106,445
<i>Not agreed to by management:</i>		\$6,894,775	\$16,693,600	\$23,588,375
Those for which a management decision is not required:	18	\$0	\$0	\$0
Those for which no management decision had been made at the end of the reporting period*:	9	\$101,285,513	\$133,603,760	\$234,889,273

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

STATISTICS

AUDIT REPORT STATISTICS

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

	Total Number	Questioned Costs	Unsupported Costs
Those issued before the reporting period for which no management decision has been made:	4	\$6,717,811*	\$84,241
Those issued during the reporting period:	1	\$0	\$0
Those for which a management decision was made during the reporting period:	1	\$139,000	\$0
<i>Value of disallowed costs:</i>		\$98,000	\$0
<i>Value of costs not disallowed:</i>		\$41,000	\$0
Those for which a management decision is not required:	1	\$0	\$0
Those for which no management decision had been made at the end of the reporting period:	3	\$6,578,811	\$84,241

**This figure has been adjusted downward by \$269 to the correct figure shown due to rounding on one monetary impact report submitted to the Office of Inspector General.*

STATISTICS

REPORTS LACKING MANAGEMENT DECISION

The following are audit reports issued before the beginning of the reporting period for which no management decisions had been made by the end of the reporting period, the reasons management decisions had not been made, and the estimated dates (where available) for achieving management decisions. These audit reports are over 6 months old without a management decision.

The Contracting Officers have not yet made decisions on the following contract reports for the following reasons. They include delaying settlement of final costs questioned in audits pending completion of review of work papers and heavy workloads delaying the closing process. The Department has a system in place which tracks audit reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are indeed addressed and effected as efficiently and expeditiously as possible.

ER-CC-93-05	Report Based on the Application of Agreed-Upon Procedures With Respect to Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 20, 1990, Bechtel National, Inc., San Francisco, California, and Bechtel Savannah River, Inc., North Augusta, South Carolina, May 3, 1993 <i>(Estimated date of closure: June 30, 1998)</i>
WR-C-95-01	Report on Independent Final Audit of Contract No. DE-AC34-91RF00025, July 26, 1990, to March 31, 1993, Wackenhut Services, Inc., Golden, Colorado, March 13, 1995 <i>(Estimated date of closure: July 1998)</i>
ER-C-97-01	Report on the Interim Audit of Costs Incurred Under Contract No. DE-AC24-92OR21972 From October 1, 1994, to September 30, 1995, Fernald Environmental Restoration Management Corporation, Fernald, Ohio, December 20, 1996 <i>(Estimated date of closure: October 1998)</i>

STATISTICS

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

CR-B-97-02

Audit of Department of Energy's Contractor Salary Increase Fund, April 4, 1997

The finalization of the management decision on this report is awaiting resolution of one outstanding issue. It is estimated that this will occur by July 31, 1998.

IG-0399

Audit of the U.S. Department of Energy's Identification and Disposal of Nonessential Land, January 8, 1997

The management decision is awaiting the Secretary's approval, which should occur by June 5, 1998

IG-0407

Audit of the U.S. Department of Energy's Science and Technical Information Process, June 17, 1997

The management decision is under Secretarial review. Finalization is expected to occur by June 30, 1998

IG-0411

Audit of Contractors' Incentive Programs at the Rocky Flats Environmental Technology Site, August 13, 1997

The finalization of the management decision on this report is pending the resolution of one outstanding issue. This should occur by June 30, 1998

STATISTICS

INVESTIGATIVE STATISTICS

*The investigative statistics below cover the period from
October 1, 1997, through March 31, 1998*

Investigations open at the start of this reporting period.....	318
Investigations opened during this reporting period.....	58
Investigations closed during this reporting period	74
Investigations open at the end of this reporting period	302
Debarments/suspensions	12
Investigations referred to management for recommended positive action	21
Administrative disciplinary actions taken.....	10
Investigations referred for prosecution.....	22
Accepted♦	16
Declined♦	19
Indictments	5
Convictions.....	3
Pretrial diversions	0
Fines, settlements, and recoveries♦♦	\$1,612,931.60

♦ Some of the investigations accepted or declined during this 6-month period were referred for prosecution during a previous reporting period.

♦♦ Some of the money collected was the result of Task Force Investigations.

Hotline Statistics

Complaints received via the Hotline.....	294
Complaints received via the General Accounting Office	4
Total complaints received	298
Investigations opened on Hotline complaints	13
Complaints resolved or pending resolution.....	101
Complaints that required no investigation by OIG.....	184
Total complaints disposition	298

STATISTICS

INSPECTION STATISTICS

*The inspection statistics below cover the period from
October 1, 1997, through March 31, 1998*

Allegation-Based, Reprisal, and Management System Inspections

Inspections open at the start of this reporting period.....	171
Inspections opened during this reporting period.....	29
Inspections closed during this reporting period.....	35
Inspections open at the end of this reporting period.....	165
Reports issued♦.....	8
Allegation-based inspections closed after preliminary review	4
Reprisal complaint actions during this reporting period.....	16
<i>Reprisal complaints dismissed.....</i>	9
<i>Reports of reprisal inquiry issued</i>	1
<i>Reprisal complaints settled.....</i>	1
<i>Reprisal complaints withdrawn.....</i>	1
<i>Reprisal complaints completed by other means</i>	4
Inspection recommendations	
Accepted this reporting period.....	3
Implemented this reporting period	29
Complaints referred to Department management/others.....	121
Number of these referrals requesting a response for OIG evaluation.....	46
Personnel management actions taken as a result of inspections or complaints referred to management	1

♦ *Reports include non-public reports such as administrative allegations and personnel security reports.*

FEEDBACK SHEET

The contents of the April 1998 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. However, there may be additional data which could be included or changes in format which would be useful to recipients of the Report. If you have suggestions for making the report more responsive to your needs, please complete this feedback sheet and return it to:

Department of Energy
Office of Inspector General (IG-13)
Washington, D.C. 20585

ATTN: Wilma Slaughter

Your name:

Your daytime telephone number:

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

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