



Inspector General

S E M I A N N U A L
R E P O R T T O C O N G R E S S

APRIL 1, 2008 - SEPTEMBER 30, 2008



DEPARTMENT OF ENERGY HEADQUARTERS (FORRESTAL BUILDING)
WASHINGTON, D.C.



Department of Energy

Washington, DC 20585

October 30, 2008

The Honorable Samuel W. Bodman
Secretary
U.S. Department of Energy
Washington, DC 20585

Dear Secretary Bodman:

I am pleased to submit the Office of Inspector General's (OIG) *Semiannual Report to Congress*. This report summarizes significant OIG activities and accomplishments during the six month period ending September 30, 2008. This report reflects our continuing commitment to focus OIG efforts on the issues and concerns most critical to you, the Administration, the Congress, and the taxpayer.

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

Sincerely,

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

Gregory H. Friedman
Inspector General

Enclosure



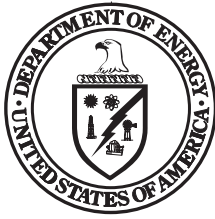


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Message from the Inspector General



On behalf of the Department of Energy's Office of Inspector General, I am pleased to submit our *Semiannual Report to Congress* for the period ending September 30, 2008. The Report highlights key accomplishments of the Office of Inspector General, particularly pertaining to our efforts to ensure the economy, efficiency, and effectiveness of Department of Energy operations. Summaries of some of our most significant reviews and projects are presented in the Report.

On a personal note, for the past four years, in addition to serving as the Inspector General (IG) of the Department of Energy, I have had the distinct honor of serving as Vice Chair of the President's Council on Integrity and Efficiency. The Council was created as a forum for presidentially appointed, Senate-confirmed IG's to work together and coordinate professional activities.

On October 14, 2008, the President signed the *Inspector General Reform Act of 2008*. Under the provisions of the new Act, the IG community will soon embark on new challenges, which include standing up a new, unified council to replace the separate President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency.

During my tenure as Vice Chair, I have received exceptional support from the IG community at large. I thank my colleagues in the IG community for their cooperation. I would also like to thank Clay Johnson, Chair of the President's Council on Integrity and Efficiency, for his efforts on behalf of the Council. Most importantly, I am deeply indebted to my colleagues at the Department of Energy who provided an extraordinary level of support and assistance during my tenure. Without their tireless efforts, I simply would not have been able to serve the needs of the Council and the Inspector General community. I am extremely proud to be part of the Federal Inspector General community, whose 12,000 members protect the interests of the citizens of this Nation with distinction.



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

A handwritten signature in black ink, reading "Greg Friedman". The signature is written in a cursive style with a large initial "G".

Gregory H. Friedman
Inspector General

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Significant Audits, Inspections, and Other Reviews

The Department's Unclassified Cyber Security Program

As required by the Federal Information Security Management Act (FISMA), the Office of Inspector General (OIG) conducted its annual independent evaluation to determine whether the Department of Energy's (Department) unclassified cyber security program adequately protected data and information systems. We found that while the Department continues to make incremental improvements in its unclassified cyber security program by strengthening configuration management of networks and systems and updating local policies and procedures related to laptop computers and incident reporting, certain problems persisted. Consequently, the risk of compromise to the Department's information and systems remains higher than necessary. Additional action was needed to reduce this risk. Management concurred with the report's findings and recommendations and indicated that it would take corrective actions on specific findings. (DOE/IG-0801)

Nuclear Weapons Safety Program Needs Improvements at Sandia National Laboratories

The Department's National Nuclear Security Administration (NNSA) requires that design features minimizing the possibility of accidental or inadvertent nuclear detonation be incorporated in all nuclear weapons. Because of the importance of nuclear weapons safety to national security, we performed an audit to determine whether nuclear weapons safety issues, identified by Sandia National Laboratories (Sandia) Safety Assessment organization, were being addressed in a timely manner.

We found that Sandia could not provide formal documentation explaining the risks posed by safety issues and the basis for accepting those risks. We further addressed concerns that NNSA had not provided effective oversight of outstanding safety issues and found that NNSA has not specified through guidance or requirements what safety information it needed from Sandia regarding safety concerns or plans for resolution.

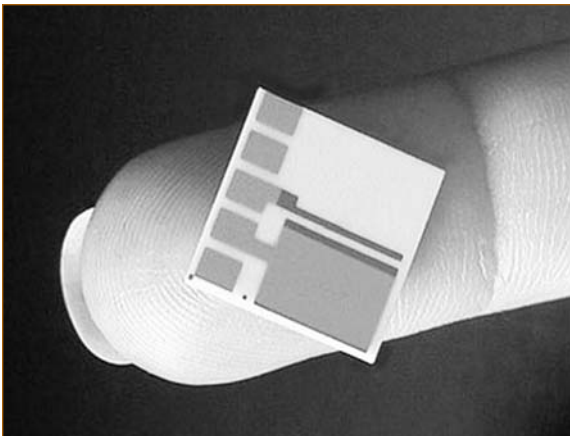
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Although Sandia reported that nuclear weapons systems are safe, we believe it is important that senior officials at the Department have all of the information regarding nuclear weapons safety concerns. Accordingly, our recommendations addressed improving the transparency of safety issues for decision makers. (DOE/IG-0799)

Internal Controls Over Sensitive Compartmented Information Access for Selected Field Intelligence Elements

The Department's Office of Intelligence and Counterintelligence is responsible for granting sensitive compartmented information (SCI) access authorization to Department-affiliated personnel who need access to intelligence information. To complement a recent OIG inspection of internal controls associated with individuals on a Headquarters SCI access roster, we initiated an inspection to determine the adequacy of internal controls over access to intelligence information at two Field Intelligence Elements, Los Alamos National Laboratory (Los Alamos) and Sandia. Our inspection found that the Office of Intelligence and Counterintelligence and its subordinate Field Intelligence Elements at Los Alamos and Sandia did not have adequate administrative internal controls over their databases used to track SCI access authorizations. This report contained several

recommendations aimed at improving the Department's internal controls over SCI access authorizations. (DOE/IG-0796)



Example of a computer chip that secures our internal controls and systems.

Federal Energy Regulatory Commission's Unclassified Cyber Security Program

As required by FISMA, we conducted an annual independent evaluation to determine whether the Federal Energy Regulatory Commission's (FERC) unclassified cyber security program adequately protects its information systems and data.

Specifically, we found that systems were authorized to operate without sufficient testing of mandatory cyber security controls. Also, cyber security incidents were not always handled and reported in accordance with Federal requirements. In addition, we identified weaknesses in the areas of access controls, segregation of duties, and configuration management. FERC had

taken action to improve cyber security practices and maintained strong network defenses against malicious intruders and other external threats. However, additional actions were needed to further reduce the risk of compromise to business information systems and data. Management concurred with our recommendations and plans corrective actions to enhance FERC's cyber security posture. **(DOE/IG-0802)**

Improvements Needed in Departmental System Certification and Accreditation

The Department has adopted a certification and accreditation process to ensure lifecycle security for the numerous national security information systems that process and store classified data. Despite departmental efforts to improve security over its national security information systems, we determined that program offices and field sites had not yet fully developed and implemented adequate cyber security policies to ensure that national security information systems were adequately protected, thus increasing the risk of compromise to these systems. Management agreed with the report and concurred with the recommendations. **(DOE/IG-0800)**

Significant Improvement Needed with Office of Science Laboratory Sponsored Conferences

We conducted a review of selected Office of Science sponsored or co-sponsored conferences managed by three of its laboratories to determine whether the conference costs were managed effectively and consistent with applicable policies and regulations. At Oak Ridge National Laboratory (ORNL), we found certain actions that were contrary to Federal and Department requirements. Specifically, ORNL incurred "unreasonable" costs associated with conference-provided meals; used registration fees from non-Department sources to pay for alcohol, entertainment, and gifts; had not requested or obtained Department approvals prior to holding a number of conferences; and, had not provided conference information for inclusion in the Department's Conference Management System database. Management agreed with our recommendations, which were aimed at improving the Department's management of conferences, and identified corrective actions taken, initiated, or planned. **(DOE/IG-0794)**

Concerns Over Yucca Mountain Contract Award Process

In September 2007, the Department awarded a legal services contract to the law firm of Morgan, Lewis, and Bockius, LLP (Morgan Lewis). Subsequent to this award, the State of Nevada's congressional delegation requested that the OIG review potential conflicts of interest related to the contract with Morgan Lewis. Our audit examined the Department's award and administration of the 2007 contract in support of the Yucca Mountain license application and found that:

- Although Morgan Lewis represented utilities in the spent nuclear fuel litigation against the Government, the firm implemented a mitigation plan in accordance with contract requirements; and,
- The Department's approach in awarding the Morgan Lewis contract was not consistent with the approach employed in awarding a prior legal contract for the same type of services.

We also found that a fully written record memorializing the key decision points underlying its 2007 procurement strategy and selection process had not been developed. In our opinion, the public interest would have been better served had the Department done more to document the key decision points related to the selection process. (DOE/IG-0792)



Exploratory tunnel dug at Yucca Mountain.

Approval Suspension for Yucca Mountain License Documents

During preparation to obtain a license from the Nuclear Regulatory Commission to construct a permanent repository of high-level radioactive waste and spent nuclear fuel at Yucca Mountain, the Department's Office of Civilian Radioactive Waste Management (OCRWM) identified process inadequacies and suspended approval of new documents subject to quality assurance procedures. This suspension was lifted in October 2006; however, the OIG subsequently received allegations concerning the effectiveness of the suspension. We conducted an audit to determine whether documents were issued or reclassified during the suspension so that they would not be subject to the quality assurance process.

Though we identified several questionable documents issued during the suspension period, we determined that the documents had no material affect on quality because they were revised after the suspension, reviewed under the new quality assurance requirements, or not affected by any requirement changes. The OIG recommended that OCRWM conduct follow-up reviews to ensure that required corrective actions are effectively implemented. Management concurred with the OIG recommendations and had already initiated recommended actions prior to final report issuance.
(OAS-M-08-07)

Special Report: Petroleum-Based Fuels Use

The Department's mission requires that it assume a leadership role in energy conservation. Based on long-standing mandates to reduce fuel usage and the realities of the current energy situation, we conducted a review to determine whether the Department and its contractors are reducing their use of petroleum-based fuels. The Department consumed over 7 million gallons of petroleum-based fuel in its operation of a fleet of more than 14,000 vehicles. Our review disclosed that the Department was aggressively pursuing a strategy to reduce its use of petroleum-based fuels. Further, it exceeded Federal requirements by achieving an almost 10 percent reduction in fuel usage since Fiscal Year (FY) 2005 and was on track to achieve a 45 percent reduction by FY 2012. While these accomplishments are notable, we identified actions to further assist the Department in reducing fuel use and to better prepare it to adjust to budget and mission impacts associated with volatile fuel prices. (OAS-L-08-17)

Isotopes Derived from Uranium-233 Needed to Meet Medical and Research Needs

Recent studies have concluded that the Department and the National Institutes of Health need to focus research on the development of new radionuclide production facilities and technologies as well as the development and use of targeted radionuclide therapeutics that will allow cancer treatments to be tailored for individual patients. The Department has, however, determined that existing inventories of uranium-233 are no longer needed to meet agency mission requirements despite it being the only domestic producer of progeny isotopes from that material. Our review concluded that current disposal plans for uranium-233 provide no assurance that sufficient quantities of this resource and its valuable progeny isotopes will be available to support U.S. medical and scientific research needs.

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Production is currently insufficient to meet research demands, and no viable alternative methods have yet been demonstrated or proven. We made several recommendations, including that a cost/benefit analysis be conducted of the usage and disposal of uranium-233. (DOE/IG-0795)

Routine Evaluations Needed for Bonneville Power Administration's Aviation Management Program

The Bonneville Power Administration (Bonneville) owns and operates six aircraft: four helicopters and two fixed-wing aircraft. Our review disclosed that Bonneville had not recently conducted a review to assess the continuing need for all of its aircraft or reported on the cost effectiveness of its aircraft operations. We recommended that Bonneville routinely evaluate the accuracy and reliability of passenger flight cost comparison data and assumptions; periodically review aircraft operations to determine the continuing need for all aircraft; and, prepare and submit an annual Capital Asset Plan to the Office of Aviation Management by the end of FY 2008. (OAS-L-08-14)



Classroom instruction for security personnel.

Improvement Needed Over Defense-Related High Risk Property

The Department's Los Alamos and Sandia National Laboratories maintain and utilize firearms, firearm components, weapons, and protective force equipment. Departmental contractors are required to manage, control, and protect these items, also referred to as high risk property, against misuse, theft, and misappropriation over their lifecycle. We initiated an audit to determine whether both laboratories were effectively managing this property and found effective administrative controls in place over the accountability of firearms. However, physical controls over other defense-related high risk property, such as firearm barrels, body armor, and gas masks, were not sufficient, resulting in increased risk of theft. Management generally concurred with our recommendations to improve controls over this equipment. (OAS-M-08-06)

Joint Appointment Improvements Are Encouraged

The Department's Office of Science laboratories utilize joint appointments with institutions of higher education and other scientific institutions to supplement their staffing and create research opportunities. In FY 2007, Argonne National Laboratory and ORNL had, respectively, 75 and 58 active joint appointments. Our audit found that financial controls over joint appointment activities were generally in place and functioning at the laboratories we visited. However, we noted that neither laboratory recovered the full costs of joint appointees from their partners, and followed prompt billing practices. We suggested that the Office of Science direct the site offices to ensure that the laboratories are in compliance with the full cost recovery and prompt billing requirements of the Department's orders. (OAS-L-08-10)

Delays in Meeting Los Alamos National Laboratory Consent Order Milestones

We initiated an audit to evaluate the Department's progress in meeting Los Alamos' Consent Order milestones related to the remediation of hazardous waste contamination. The audit disclosed that the Department is not likely to complete certain long-term remediation activities at Los Alamos in accordance with existing requirements. The Department's ability to meet Consent Order milestones was adversely impacted due to the lack of prioritization and sufficient funding. We made recommendations to improve the management of available funds and the schedule for meeting Consent Order milestones. (DOE/IG-0793)

Small Business Opportunity Expansion Needed at Oak Ridge National Laboratory

In support of the President's Small Business Agenda, the Department established a policy for small businesses to receive the maximum practicable opportunity to participate as subcontractors. An audit found that despite the fact that ORNL has 58 percent of its procurement dollars going to small businesses, there remained many other functions that could be subcontracted to small businesses.

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The Department's Oak Ridge Office did not require the ORNL to consider further small business outsourcing opportunities because the ORNL had achieved most of the goals set by the Department. We estimated that expanding small business opportunities at ORNL could potentially save about \$2 million per year for custodial, landscaping, and industrial hygiene services. Management concurred with our recommendations to expand ORNL's small business opportunities. (OAS-M-08-08)

Greater Management Controls Needed Over Changes to the Idaho Cleanup Project Contract Baseline

The Department awarded a Cost-Plus-Incentive-Fee contract for the purpose of treating and disposing of radioactive waste at the Idaho National Laboratory. The contract was further negotiated with the contractor to adjust the Statement of Work through a contract modification. Our audit objective was to determine if changes to the Idaho Cleanup Project contract cost baseline were appropriate. We determined that the Department properly negotiated a majority of baseline changes, which reflected fair and reasonable cost adjustments. However, for one significant activity, three changes were made that were not reasonable.

After consultation with management officials, we concluded, and the contractor acknowledged, that certain costs were reduced without required cost/price or technical analysis, resulting in an overstatement of the cost baseline by as much as \$12.1 million. The Department, thus, is also potentially liable for the payment of unnecessary fees to the contractor totaling as much as \$4.3 million. In addition to our recommendations to strengthen internal controls, management proposed additional corrective actions and pledged to implement controls that would prevent recurrence of the problems identified. (OAS-M-08-10)

Improvements Needed Over Management Controls for Monitoring and Closeout of Small Business Innovation Research Phase II Grants

The Small Business Innovation Development Act of 1982 established the Small Business Innovation Research (SBIR) Program to assist small businesses in developing new ideas and technology. We conducted an audit to determine whether weaknesses with the administration by the Office of Science of the SBIR II grant program had been corrected.

Our review disclosed that the Office of Science's Chicago Office (Chicago) had not corrected all previously reported weaknesses in monitoring and administering the SBIR II grants program. Action had not been completed to resolve 50 percent of approximately \$2.4 million of questioned costs identified in our previous audit report, *Administration of Small Business Innovation Research Phase II Grants*, (DOE/IG-0521, August 2001); and, Chicago was not reviewing subsequent grant costs or closing out completed awards in a timely manner. We made recommendations addressing timeliness and efficiency issues in the process. (OAS-M-08-09)



Department of Energy Germantown Building
Germantown, Maryland

Departmental Leased Space in the National Capital Area

The Department manages approximately 10 million square feet of owned and leased real property at a cost of nearly \$168 million. In our reports on the *Department of Energy's Warehouse Space* (CR-B-97-01, January 1997) and *Management of the Department of Energy's Leased Administrative Facilities* (DOE/IG-0402, April 1997), we noted problems with the Department's business practices to manage its leased administrative and storage facilities. We initiated this review to determine if the Department was effectively managing its leased facilities in the Washington, DC, metropolitan area.

Our review of these facilities disclosed that no substantial vacant space was evident at any of the 15 locations we visited and the facilities appeared to be efficiently utilized. The Department also adopted the use of 10-year development plans that serve to identify under-utilized and excess property and provide specific disposal arrangements. (OAS-L-08-09)

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Alternatives Explored to Secure Heavy Water Inventory

The Department's inventory of heavy water, used to make lithium deuteride weapons parts, is a vital national security asset. After the dismantling of a reactor at the Department's Savannah River facility in 1996, there has been no capability to produce heavy water in the United States. Due to the significance of heavy water inventories to the nuclear weapons program, our audit was initiated to determine whether the Department's inventory will be sufficient to meet national security requirements.

We found that NNSA had not established a path forward to secure new sources of heavy water and although NNSA has identified several alternatives to meet future requirements, each alternative requires significant lead-time. While the Department's heavy water inventory is adequate to meet near-term requirements, NNSA is likely to fully deplete the existing inventory by 2019, absent new sources of the material. Management concurred with our recommendations to address concerns on future inventories. (DOE/IG-0798)

Resolution of Personal Safety Issues at the Department

We conducted an audit to determine whether Department field sites are taking corrective actions to resolve safety issues arising under the Corrective Action Management Program (CAMP), a systematic process for developing, tracking, reporting, and implementing corrective actions to resolve safety findings. Though we noted some minor concerns, nothing came to our attention to indicate that safety issues identified by the Department's Office of Health, Safety and Security were not being resolved. While no formal recommendations were issued, we made several suggestions to field managers to help meet requirements and improve oversight. (OAS-L-08-15)

Implementation of Integrated Safety Management (ISM) at Lawrence Livermore National Laboratory

Our review found that the Lawrence Livermore National Laboratory (Livermore) had not fully implemented an ISM system to improve its safe conduct of work. More specifically, Livermore had not always:

- developed and implemented controls to eliminate hazards;
- performed work within defined controls; and,
- provided feedback to managers about identified hazards or aggressively pursued continuous improvement in safety.

Our recommendations to Livermore Site Office management included improving safety tracking capability and performing appropriate analyses to identify systemic safety issues and their causes. We further recommended adjusting safety performance measures to demonstrate continuous improvement and performance fees to reflect safety contractual requirements. (DOE/IG-0797)

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Significant Investigative Activities

Settlement Agreement with Department Contractors

As previously reported, a joint investigation with various law enforcement agencies determined that Government information technology contractors received or provided questionable benefits such as fees and discounts as a result of improper “alliance agreements” with other companies. This resulted in false claims, false statements, and kickbacks on Federal government contracts. Two companies settled with the Government for approximately \$5.27 million to resolve false claims violations. During this reporting period, another company agreed to a settlement amount of \$1,370,000. This matter remains ongoing.

Civil Judgment Entered Against a Department Subcontractor

A joint investigation with the U.S. Department of Agriculture (USDA) OIG, determined that a subcontractor submitted 48 invoices containing false statements regarding labor hours to the Department’s Argonne National Laboratory. The USDA funded a Department Work-for-Others Program in which the subcontractor conducted environmental cleanup and ground water testing. As a result of the investigation, the U.S. District Court for the Northern District of Illinois ordered a civil judgment against the subcontractor in the amount of \$625,000.

Civil Settlement Agreement with Contractor

An OIG investigation determined that a construction contractor installed defective anchor bolts at the National Renewable Energy Laboratory’s Dynamometer Spin Test Facility. It was also determined that the defective bolts were installed incorrectly. The bolts were used to anchor items to the concrete floor. As a result of the investigation, the contractor’s insurance company agreed to a civil settlement with the Department in the amount of \$139,634.

Contractor Reimbursed the Department for Unallowable Payments

An investigation determined that a Department contractor employee had inappropriately initiated and approved payments to a subcontractor, bypassing procedures and using incorrect program funding. As a result of the investigation, the Department contractor reimbursed the Department \$100,000 for unallowable payments to a subcontractor.

Four Individuals Plead Guilty to Burglaries

An OIG investigation determined that an organized group of four individuals committed several burglaries and thefts of recyclable metals at Bonneville and Flathead Electric Cooperative substations in Montana, resulting in approximately \$87,000 in losses and damages. The four subjects of this investigation entered into plea agreements in the U.S. District Court for the District of Montana. Each subject pled guilty to one felony count. Sentencing is pending.

Individual Pleads Guilty in Compensation Fraud Investigation

An OIG investigation determined that the son of a deceased Department employee forged his mother's signature on three Energy Employees' Occupational Illness Compensation Program Act claim forms in an attempt to obtain \$275,000 in benefits to which he was not entitled. The son pled guilty in U.S. District Court to one felony count of False Statements.

Pantex Plant Employee Pleads Guilty to Theft of Government Property

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



Example of containers used to store Transuranic Waste.

Idaho National Laboratory Contractor Employee Removed Filters to Hazardous Waste Drums

An OIG investigation determined that a contractor employee at the Idaho National Laboratory intentionally removed filters from eight waste drums that contained mixed hazardous and radioactive substances such as transuranic waste. The individual's employment was terminated. He was later arrested and charged by the Butte County Prosecutor's office with eight felony counts of Malicious Injury to Property. The loss associated with this incident was approximately \$16,579. The contractor employee pled guilty to one count of malicious injury to property in Idaho State Court and was sentenced to 100 days incarceration and 1 year probation, and ordered to pay \$13,525 in fines and restitution.

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Positive Results

Highlights Based on Office of Inspector General Work

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

- The Department's Oak Ridge Office completed a review of five facilities that have either sponsored or co-sponsored conferences during the period October 1, 2004, through Spring 2008 and recovered approximately \$330,000 in unallowable conference costs. The Oak Ridge Office is now ensuring that appropriate approvals are provided for conferences and included in the Department's Conference Management System. In addition, the Office of Science and NNSA recouped funds from inappropriate travel voucher claims, and both issued additional guidance on this subject. **(DOE/IG-0794)**
- The Department announced plans to fine Bechtel National, Inc., \$41,250 for laying off an employee who raised safety concerns at Hanford's Waste Treatment Plant. **(DOE/IG-0764)**
- The Sandia Site Office determined that \$24,595 in charges made by employees using the procurement card program managed by Sandia National Laboratory-California were for unallowable purchases or lacked the documentation necessary to determine their business necessity. As a result, these funds were recovered from the Sandia Corporation and returned to NNSA. NNSA also revised and issued a new written policy regarding the reimbursement of business meals and refreshments. **(OIG/IG-0754)**
- Los Alamos completed a 100 percent inventory of all defense-related high risk property. Both Los Alamos and Sandia National Laboratories are in the process of obtaining and implementing IT systems to track such property. **(OAS-M-08-06)**
- The Department's Office of Intelligence and Counterintelligence developed a process and criteria for nomination of individuals to the national Consolidated Terrorism Watchlist. **(DOE/IG-0778)**

- The Department's Office of Health, Safety and Security revised DOE O 142.3, "Unclassified Foreign Visits and Assignments Program," to better address the Department's process for reviewing access requests for nationals of state sponsors of terrorism. **(DOE/IG-0791)**
- The Department Headquarters and field sites took corrective action to evaluate publicly accessible websites and consolidate them where appropriate. The Department also took action to actively control publicly accessible website development and postings at field locations. **(DOE/IG-0789)**
- Los Alamos National Laboratory's Field Intelligence Element improved security operations by: (1) ensuring staff received refresher training regarding security incident reporting; and, (2) establishing communication with other Laboratory organizations to ensure notification when employees terminate from the Laboratory. These actions should help reduce the opportunity for improper access to sensitive information and improve reporting of security incidents. **(DOE/IG-0796)**
- The Chief Information Officer established the Enterprise Incident Capability that consolidated the Department's and NNSA's two major incident reporting organizations and more fully integrated the various small scale incident management capabilities within the program offices and field sites. **(DOE/IG-0787)**
- The Department's Idaho Operations Office's Chief Financial Officer revamped the procedures for managing changes to Cost-Plus-Incentive-Fee contracts that improves assurance that all changes to the scope of work are fairly represented in the target cost baseline. **(OAS-M-08-10)**
- The Material Control and Accountability program at Los Alamos has increased emphasis on standardized lot identification formulation and improved labeling methodologies that assist in differentiating material samples. This should facilitate the tracking and inventorying of accountable nuclear material. **(DOE/IG-0774)**
- Portsmouth and Paducah Gaseous Diffusion Plants implemented random drug testing for all armed personnel. **(INS-L-07-01)**
- The Department has begun the process of developing a strategic plan for addressing heavy water needs. It is expected to be completed in June 2009. **(DOE/IG-0798)**

- The Department committed to continually monitor the forecasts of low-level and mixed low-level radioactive waste from generators at Hanford and other Department sites and further adjust the Integrated Disposal Facility plans as appropriate. The Department will also re-evaluate the 2017 start date for the facility in light of the Hanford Tank Closure and Waste Management Environmental Impact Statement and Record of Decision, expected to be completed in 2009. **(OAS-M-08-04)**
- Livermore began to develop and implement a project plan designed to improve safety tracking capability. Officials have also established causal analysis training. **(DOE/IG-0797)**
- The Office of Nuclear Physics and the Office of Nuclear Energy organized the workshop, "The Nation's Needs for Isotopes, Present and Future," which was held August 5–7, 2008. The issues presented from the *Special Report: Meeting Medical and Research Needs for Isotopes Derived from Uranium-233* (DOE/IG-0795, May 29, 2008) were prominently discussed by the Department's Isotope Program, stakeholders, and isotope customers. This workshop was the first step toward resolving the challenges facing the Department as it addresses complex issues and challenges to continue to supply these isotopes. **(DOE/IG-0795)**

Congressional Responses

During this reporting period, the OIG provided information at the request of Congress in 24 instances and briefed congressional staff on 9 occasions. In addition, the OIG testified at one congressional hearing:

On September 25, 2008, before the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce, entitled "A Review of Continuing Security Concerns at DOE's National Labs."

Hotline System

The OIG operates a Hotline System to facilitate the reporting of allegations involving the programs and activities under the auspices of the Department. During this reporting period, the Hotline received 1,306 contacts, of which 509 warranted further processing as complaints. The OIG Hotline System can be reached by calling **1-800-541-1625** or **1-202-586-4073**.

Management Referral System

The OIG referred 88 complaints to Department management and other Government agencies during this reporting period and specifically requested Department management to respond concerning the actions taken on 36 of these complaints. Otherwise, Department management was asked to respond only if it developed information or took action that it believed should be reported. The following referrals demonstrate management's use of OIG-provided information to stimulate positive change or to take decisive action:

- In response to a complaint raising quality and public safety concerns regarding construction workmanship at a Department facility, the program office obtained documentation of non-compliant construction, including photographic proof, and conducted a comprehensive review of all the issues and concerns. The construction contractor developed a plan to correct all of the issues, which was to be implemented with program office verification.
- In response to a complaint that a contractor safety inspector had not conducted required safety inspections of hoisting equipment, the program office required the contractor to bring current maintenance and care requirements into compliance with those of the Department's Office of Safety and Health. The contractor also trained additional persons to do safety inspections to avoid future recurrences of this problem.

Qui Tams

Since 1996, the OIG has been instrumental in working with the Department of Justice in *Qui Tam* cases. The OIG is currently working on 14 *Qui Tam* lawsuits involving alleged fraud against the Government in the amount of approximately \$142.5 million. These cases are highly resource intensive, requiring the active participation of OIG investigative and audit assets. However, they have proven to result in a high return on our investment of resources.

Intelligence Activities

During this period, the OIG issued two quarterly reports pursuant to Executive Order 12863, “President’s Foreign Intelligence Advisory Board.” The Order required the Inspectors General of the Intelligence Community to report to the Intelligence Oversight Board concerning intelligence activities the Inspectors General had reason to believe may be unlawful or contrary to Executive order or Presidential directive. No intelligence activities contrary to Executive order or Presidential directive were reported during this period. We also issued an intelligence-related report entitled *Internal Controls Over Sensitive Compartmented Information Access for Selected Field Intelligence Elements*. (DOE/IG-0796)

Legislative and Regulatory Reviews

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on departmental economy and efficiency. The OIG coordinated and reviewed 35 items during the reporting period.

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Statistical Information

Audit Reports Issued

April 1, 2008 – September 30, 2008

Report Number	Title	Date Issued	Savings	Questioned Costs
IG-0792	<i>Review of Alleged Conflicts of Interest Involving a Legal Services Contractor for the Yucca Mountain Project License Application</i>	04-02-08		
IG-0793	<i>The Department's Progress in Meeting Los Alamos National Laboratory Consent Order Milestones</i>	04-11-08		
IG-0795	<i>Meeting Medical and Research Needs for Isotopes Derived from Uranium-233</i>	05-29-08		
IG-0797	<i>Implementation of Integrated Safety Management at Lawrence Livermore National Laboratory</i>	07-02-08		
IG-0798	<i>Nuclear Weapons Programs Heavy Water Inventory</i>	07-15-08		
IG-0799	<i>Sandia National Laboratories Nuclear Weapons Safety Program (U)</i>	07-31-08		
IG-0800	<i>Certification and Accreditation of the Department's National Security Information Systems</i>	08-11-08		
IG-0801	<i>The Department's Unclassified Cyber Security Program – 2008</i>	09-16-08		
IG-0802	<i>The Federal Energy Regulatory Commission's Unclassified Cyber Security Program – 2008</i>	09-17-08		
OAS-M-08-06	<i>Management Controls over Defense Related High Risk Property</i>	04-24-08		
OAS-M-08-07	<i>Yucca Mountain Project Document Suspension</i>	04-28-08		
OAS-M-08-08	<i>Management Controls over Small Business Opportunities at Oak Ridge National Laboratory</i>	07-02-08	\$2,025,000	

Audit Reports Issued

April 1, 2008 – September 30, 2008

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-M-08-09	<i>Management Controls over Monitoring and Closeout of Small Business Innovation Research Phase II Grants</i>	07-14-08		\$2,002,593
OAS-M-08-10	<i>Management Controls over Changes to the Idaho Cleanup Project Contract Baseline</i>	07-30-08	\$4,300,000	
OAS-L-08-09	<i>The Department's Control over Leased Space in the National Capital Area</i>	04-17-08		
OAS-L-08-10	<i>Joint Appointments at Office of Science Laboratories</i>	05-20-08	\$52,000	
OAS-L-08-11	<i>Certification and Accreditation of the Office of Science's National Security Systems</i>	06-03-08		
OAS-L-08-12	<i>Certification and Accreditation of the National Nuclear Security Administration's National Security Systems</i>	06-03-08		
OAS-L-08-13	<i>Certification and Accreditation of the Under Secretary of Energy's National Security Systems</i>	06-03-08		
OAS-L-08-14	<i>Bonneville Power Administration's Aviation Management Program</i>	06-24-08		
OAS-L-08-15	<i>Resolution of Personal Safety Issues at the Department of Energy</i>	08-07-08		
OAS-L-08-16	<i>Agreed-Upon Procedures for Federal Payroll</i>	08-18-08		
OAS-L-08-17	<i>Petroleum-Based Fuels Use</i>	09-30-08		
OAS-V-08-08	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Midwest Research Institute Under Department of Energy Contract No. DE-AC36-99GO10337 During Fiscal Years 2004, 2005, and 2006</i>	04-08-08		

Audit Reports Issued

April 1, 2008 – September 30, 2008

Report Number	Title	Date Issued	Savings	Questioned Costs
OAS-V-08-09	<i>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 During Fiscal Year 2006</i>	05-07-08		\$3,393,317
OAS-V-08-10	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Argonne National Laboratory During Fiscal Year 2007</i>	09-09-08		
OAS-V-08-11	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Battelle – Pacific Northwest National Laboratory During Fiscal Years 2005 Through 2006</i>	09-30-08		
OAS-V-08-12	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Washington TRU Solutions, LLC During Fiscal Years 2004 Through 2007</i>	09-30-08		
OAS-V-08-13	<i>Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by Brookhaven National Laboratory During Fiscal Years 2004 Through 2007</i>	09-30-08		
OAS-FS-08-05	<i>Southeastern Power Administration Fiscal Year 2007 and 2006 Financial Statement Audit</i>	09-04-08		

Inspection Reports Issued*

April 1, 2008 – September 30, 2008

Report Number	Title	Date Issued
IG-0794	<i>Office of Science Laboratory Conferences</i>	05-22-08
IG-0796	<i>Internal Controls Over Sensitive Compartmented Information Access for Selected Field Intelligence Elements</i>	07-01-08
INS-L-08-06	<i>Sandia National Laboratory-New Mexico Student Intern Safety Training</i>	09-05-08
S07IS023	<i>Interagency Review of Prior Inspector General Recommendations Related to U.S. Export Controls, Volumes I, II, and III</i>	09-30-08

**Does not include non-public report*

OIG Issued Audit Reports with Recommendations for Better Use of Funds

April 1, 2008 – September 30, 2008
(Dollars in Thousands)

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

	Total Number	One Time Savings	Recurring Savings	Total Savings
A. Those issued before the reporting period for which no management decision has been made:*	5	\$898,034,859	\$6,000,000	\$904,034,859
B. Those issued during the reporting period:	28	\$6,377,000	\$0	\$6,377,000
Subtotals (A + B)	33	\$904,411,859	6,000,000	\$910,411,859
C. Those for which a management decision was made during the reporting period:*	13	\$197,976,597	\$6,000,000	\$203,976,597
(i) Agreed to by management:		\$180,151,597	\$0	\$180,151,597
(ii) Not agreed by management:		\$15,800,000	\$6,000,000	\$21,800,000
D. Those for which a management decision is not required:	14	\$52,000	\$0	\$52,000
E. Those for which no management decision has been made at the end of the reporting period:*	6	\$708,460,262	\$0	\$708,460,262

Definition of Terms Used in the Table

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

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

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

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

OIG Issued Audit Reports with Questioned Costs

April 1, 2008 – September 30, 2008

(Dollars in Thousands)

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

	Total Number	Questioned Costs	Unsupported Costs
A. Those issued before the reporting period for which no management decision has been made:*	0	\$6,317,564	\$24,000
B. Those issued during the reporting period:	2	\$4,523,161	\$872,749
Subtotals (A + B)	2	\$10,840,725	\$896,749
C. Those for which a management decision was made during the reporting period:*	2	\$4,955,814	\$896,749
(i) Value of disallowed costs:	0	\$462,671	\$14,502
(ii) Value of costs not disallowed:	0	\$188,874	\$9,498
D. Those for which a management decision is not required:	0	\$0	\$0
E. Those for which no management decision has been made at the end of the reporting period:*	0	\$10,189,180	\$872,749

Definition of Terms Used in the Table

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

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

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

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

Reports Lacking Management Decision

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

Management Audits

IG-0669: *Use and Management of Mobile Communications Services, December 14, 2004* – The management decision has been reviewed and signed by the Chief Information Officer and has been concurred with by the necessary departmental elements. Finalization should occur by December 31, 2008.

IG-0753: *Recovery Costs for the Proprietary Use of the Advanced Photon Source, January 11, 2007* - The finalization of the management decision is awaiting the resolution of a policy issue related to full cost recovery. A final management decision is expected by December 31, 2008.

IG-0788: *Nanoscale Materials Safety at the Department's Laboratories, February 28, 2008* - The Chief Health, Safety and Security Officer submitted a proposed management decision to the Chief Financial Officer (CFO) on April 29, 2008. As a result, the Office of Health, Safety and Security (HSS) has completed a Special Review of the use of Nano Materials and published the results of its review. A path forward to address the recommendations in the Special Review is actively being developed in cooperation with the Office of the Under Secretary of Energy, the Office of the Under Secretary for Nuclear Security, the Office of the Under Secretary for Science, and the laboratory directors. HSS has indicated that it will work with the CFO to prepare a final management decision document reflecting completion of action by December 31, 2008.

Prior Significant Recommendations Not Implemented

As of September 2008, closure actions on recommendations in 43 OIG reports had not been fully implemented within 12 months from the date of report issuance. The OIG is committed to working with management to expeditiously address the management decision and corrective action process, recognizing that certain initiatives will require long-term, sustained, and concerted efforts. The Department has closed 153 recommendations in the last 6 months. Management updates the Departmental Audit Report Tracking System on a quarterly basis, most recently in September 2008. Information on the status of any report recommendation can be obtained through the OIG's Office of Audit Services and Office of Inspections and Special Inquiries.

Summary of Inspections/Special Inquiries Activities

April 1, 2008 – September 30, 2008

Inspections/Special Inquiries open as of April 1, 2008	43
Inspections/Special Inquiries opened during this reporting period	7
Inspections/Special Inquiries closed during this reporting period	16
Inspections open as of September 30, 2008	34
Reports issued (includes non-public reports)	6
Report Recommendations:	
Issued this reporting period	13
Accepted by management this reporting period	13
Implemented by management this reporting period	33
Funds recovered	\$354,596
Complaints:	
Referred to Department management/others	88
Referred to Department management requesting a response for OIG Evaluation	36
HOTLINE ACTIVITY	
Hotline calls, emails, letters, and other complaints*	509
Hotline calls, emails, letters, and other complaints predicated	182
Unresolved Hotline predications from previous reporting period	15
Total Hotline predications	197
Hotline predications transferred to the Management Referral System	114
Hotline predications closed based upon preliminary OIG activity	81
Hotline predications pending disposition	2
Total Hotline predications	197

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

Summary of Investigative Activities

April 1, 2008 – September 30, 2008

Cases open as of April 1, 2008	211
Cases opened during period	59
Cases closed during period	48
Multi-Agency Task Force Cases Opened	24
<i>Qui Tam</i> investigations opened	0
<i>Total Open Qui Tam investigations as of September 30, 2008</i>	14
Cases currently open as of September 30, 2008	222
IMPACT OF INVESTIGATIONS:	
Administrative discipline and other management actions	43
Recommendations to management for positive change and other actions	43
Suspensions/Debarments	23
Accepted for prosecution*	24
Indictments	12
Criminal convictions	13
Pretrial diversions	1
Civil actions	11
TOTAL DOLLAR IMPACT** (Fines, settlements, recoveries)	\$1,357,765

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

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

Feedback Sheet

The contents of the September 2008 Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. If you have any suggestions for making the report more responsive, please complete this feedback sheet and return it to:

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

ATTN: Felicia Jones

Name: _____

Daytime Telephone Number: _____

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

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

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Office of Inspector General

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