



U.S. Department of Energy
Office of Inspector General
Office of Audits and Inspections

AUDIT REPORT

The Department of Energy's Audit Resolution
and Followup Process

DOE-OIG-16-08

March 2016



Department of Energy
Washington, DC 20585

March 1, 2016

MEMORANDUM FOR THE SECRETARY

A handwritten signature in black ink, appearing to read "Rickey R. Hass".

FROM: Rickey R. Hass
Acting Inspector General

SUBJECT: INFORMATION: Audit Report on "The Department of Energy's
Audit Resolution and Followup Process"

BACKGROUND

Audit resolution and followup is an essential step in the audit process. It ensures that management has taken timely and complete actions in response to audit findings and recommendations. The Department of Energy's audit resolution and followup process is a key element of senior management's responsibilities and provides an important mechanism for management to improve the performance of the Department and its programs.

From fiscal years 2011 through 2014, the Office of Inspector General issued 372 reports, most of which included recommendations for corrective actions or improvements in programs, operations, and management functions. Accordingly, Department Order 224.3, *Audit Resolution and Followup Program*, requires that audit reports and all associated recommendations should generally be closed within 1 year. It also requires that management officials certify that corrective actions have been completed and are effective prior to closure.

In February 2004, May 2007, and September 2010, we issued audit reports that identified issues related to the audit resolution and followup process. Specifically, we noted that the Department, in some cases, closed agreed-upon recommendations despite the fact that corrective actions were not always complete or effective. The audits further determined that the Department was not always meeting its established target milestones for audit report closure. We initiated this audit to determine whether the Department had corrected previous problems with the audit resolution and followup process and whether related issues identified through recent audits had been resolved.

RESULTS OF AUDIT

While the Department made improvements to the audit resolution and followup process, weaknesses continued to exist. Our review of closed recommendations in four OIG audit reports found that in three of the four reports, the recommendations had been closed even though corrective actions taken by the Department's program offices and National Nuclear Security Administration were incomplete or ineffective. Audit reports and related recommendations are

considered closed when management certifies that all necessary corrective actions have been completed. However, management closed recommendations related to the three audit reports even though the following conditions continued to exist:

- The Oak Ridge National Laboratory and the Y-12 National Security Complex had not fully used the setback capability of the heating, ventilation, and air conditioning systems in 8 of 14 and 10 of 15 previously identified buildings, respectively;
- The Department had not developed guidance specific to *Intergovernmental Personnel Act* assignments between the Department's laboratory contractor employees and other Federal Agencies; and
- The Department continued to reimburse its contractors for costs associated with legal settlement agreements without documented evidence of settlement reviews to determine the allowability of costs.

In addition, the Department often did not meet its established target milestones for implementing corrective actions and closing audit reports. Specifically, 88 percent of the 48 OIG reports closed in fiscal years 2011 through 2014 had not met the 1-year target date. In fact, 24 reports took more than 2 years to close, with 5 reports exceeding 5 years. Further, 292 of 458 recommendations closed and certified in the Departmental Audit Report Tracking System (DARTS) during the 4-year period were closed after the target closure date, and 27 of the 100 open recommendations in DARTS as of September 30, 2014, already exceeded the target closure date. We recognize that some of the audit recommendations involved complex issues, requiring significant resource investments, regulation changes, and coordination with external entities. Furthermore, we observed that in many cases, management had provided a written justification for extending the audit report closure beyond 1 year, as required by Department Order 224.3.

Corrective actions taken by the Department were sometimes incomplete, ineffective, or untimely, in part, because of insufficient guidance and/or inadequate monitoring and oversight of the audit resolution and followup process. Additionally, program offices continued to submit assurance certifications and close recommendations without always performing formal followup procedures to assess the effectiveness of actions taken. Similar to what we identified in our September 2010 audit report, audit resolution and followup guidance lacked specificity regarding the criteria, timing, or process to be followed in performing and documenting audit followup assessments. Furthermore, the guidance lacked meaningful, realistic performance measures to provide accountability and a sense of urgency for timely, effective implementation of corrective actions. Although the Office of the Chief Financial Officer (OCFO) agreed that revisions to Department Order 224.3 were needed, final issuance of the revised Order had not yet occurred.

Consequently, weaknesses in the audit resolution and followup process increase the risk that the Department will be unable to take full advantage of opportunities to realize cost savings and operational efficiencies. For example, the Department may have missed opportunities to fully realize annual cost savings of \$11.5 million a year related to heating, ventilation, and air conditioning system setbacks because corrective actions to implement audit recommendations to enforce setback requirements were ineffective. Additionally, the Department continued to incur

excessive costs of almost \$6 million in just 1 year alone at two laboratories, as a result of incomplete corrective actions to address OIG recommendations for improving guidance for contractor *Intergovernmental Personnel Act* assignments.

We noted that the Department had taken certain actions to improve the audit resolution and followup process. According to the OCFO, upgrades to the DARTS user interface component and improved features for uploading and archiving audit-related documents increased the functionality and usefulness of the system. In addition, the OCFO developed a procedures and best practices document for responding to audit reports and, according to OCFO officials, instituted a lessons learned program to share findings and corrective action plans across program and field offices. While these improvements are noteworthy, we made several recommendations to further improve the Department's management of the audit resolution and followup process.

MANAGEMENT RESPONSE

Management concurred with our findings and recommendations and indicated that corrective actions had been initiated or planned to address our recommendations. Management also provided technical comments, and we modified the report, where appropriate. We consider management's comments and planned corrective actions to be responsive to our findings and recommendations.

Management's comments are included in Appendix 4.

cc: Deputy Secretary
Administrator for the National Nuclear Security Administration
Under Secretary for Science and Energy
Deputy Under Secretary for Management and Performance
Chief of Staff

THE DEPARTMENT OF ENERGY’S AUDIT RESOLUTION AND FOLLOWUP PROCESS

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THE DEPARTMENT OF ENERGY'S AUDIT RESOLUTION AND FOLLOWUP PROCESS

DETAILS OF FINDING

The Department of Energy (Department) made several improvements to the audit resolution and followup process since our 2010 audit report. According to the Office of the Chief Financial Officer (OCFO), major upgrades to the Departmental Audit Report Tracking System (DARTS) user interface component and improved features for uploading and archiving audit-related documents increased the functionality and usefulness of the system. In addition, the OCFO developed a procedures and best practices document for responding to audit reports, and according to OCFO officials, instituted a lessons learned program for sharing findings and corrective action plans across program and field offices.

Despite these improvements, weaknesses within the audit resolution and followup process continued to exist. For example, in three of the four reports we reviewed, recommendations were closed, but corrective actions to address the recommendations were not always complete or effective. In addition, the Department frequently missed the 1-year target milestone for closing audit reports, and in many cases, planned corrective actions were significantly overdue.

Status of Corrective Actions

Based on our review of closed recommendations in four previously issued Office of Inspector General (OIG) audit reports, we determined that weaknesses continued to exist in the audit resolution and followup process. Specifically, recommendations in three of the four reports had been closed even though corrective actions taken by program offices and the National Nuclear Security Administration (NNSA) had not been completed or the issues had not been effectively resolved. Specifically, despite closure of the audit recommendations, problems related to the use of energy setbacks, *Intergovernmental Personnel Act* (IPA) assignments, and contractor legal settlements had not been corrected. Our review found that recommendations in the fourth report on *The Department's Management of the ENERGY STAR Program* (DOE/IG-0827, October 2009) had been effectively addressed in a timely manner, as required.

Use of Setbacks in Facilities

The Department's Office of Science (Science) and NNSA had not fully implemented corrective actions to address recommendations included in our prior audit report on *The Department of Energy's Opportunity for Energy Savings Through the Use of Setbacks in its Facilities* (DOE/IG-0817, July 2009). This audit disclosed that the Department had not ensured that energy setback capabilities were fully utilized at its facilities, despite the requirements established in 41 Code of Federal Regulations (CFR) 102-74.185, *What Heating and Cooling Policy Must Federal Agencies Follow in Federal Facilities?* These requirements mandate that Federal agencies that occupy Government-owned and leased buildings must operate heating, ventilation, and air conditioning (HVAC) systems in the most energy-efficient and economical manner. Specifically, agencies are required to reduce heating temperatures to no higher than 55 degrees Fahrenheit during nonworking hours and eliminate air conditioning during nonworking hours except, as necessary, to return temperatures to a suitable level for the beginning of working hours.

Department management agreed to take needed corrective actions, including emphasizing the importance of using setbacks as an energy conservation measure to its programs and sites. In particular, NNSA agreed to take actions to validate the use of setbacks, require contractors to develop and implement policies and procedures requiring the use of setbacks, incorporate setback clauses in future lease agreements, perform energy awareness training, and continue to consider HVAC system maintenance as part of its overall priority system.

However, our followup test work at the Oak Ridge National Laboratory (ORNL) and the Y-12 National Security Complex (Y-12) disclosed that even though progress had been made, there were still significant opportunities for site officials to incorporate additional setbacks at both facilities. Specifically, we found that:

- Of the 29 previously identified buildings at ORNL and Y-12 that had setback capability, this function had been implemented only at 11. Moreover, a recent energy audit performed by a Department consultant at ORNL determined that, among other items, the facility could save as much as 1.3 million kilowatt-hours and as much as \$82,000 per year through the correct use of setbacks in just one building complex.
- HVAC setback clauses had not been incorporated into all ORNL and Y-12 building lease agreements.
- Required maintenance on HVAC systems in ORNL and Y-12 buildings that could be capable of utilizing setback functions had not been performed.

With regard to performing required maintenance, Y-12 officials stated that some facilities do not have working controls and other repairs are needed to make some facilities setback capable. The officials stated that these repairs will be made as funding becomes available.

Contractor Intergovernmental Personnel Assignments

A March 2007 report on *The Department of Energy's Management of Contractor Intergovernmental Personnel and Change of Station (COS) Assignments* (DOE/IG-0761), recommended that NNSA develop guidance for contractor use of IPA/COS assignments to be presented for consideration to the Field Managers' Council for adoption throughout the Department. According to a status of corrective actions entry in DARTS, the Department issued an Acquisition Letter in 2012 that provided guidance on the Department's policy governing reimbursement of costs associated with contractor domestic extended personnel assignments and mistakenly determined that Manual 321.1-1, *Intergovernmental Personnel Act Assignments*, applied to all IPA assignments throughout the Department. As a result of that determination, NNSA closed the recommendation in DARTS, pending an assurance certification. However, an OIG audit report on *Followup Audit of Contractor Intergovernmental Personnel Act Assignments* (DOE/IG-0928) issued in November 2014 found that the Acquisition Letter specifically excluded IPA assignments. In addition, even though the Department had taken certain actions in response to recommendations made in the prior report, it had not revised Manual 321.1-1 to add guidance

specific to IPA assignments between the Department's laboratory contractor employees and other Federal agencies. As a result, the Department continued to incur excessive costs for IPA assignments.

Contractor Fines, Penalties, and Legal Costs

In a September 2009 report on *The Department of Energy's Management of Contractor Fines, Penalties and Legal Costs* (DOE/IG-0825), we recommended that the Department's Office of General Counsel and the NNSA Office of General Counsel determine the need to revise regulations to require that Legal Management Plans define the types of settlements that would require the contractor to obtain the Department's approval. According to the status of corrective actions entries in DARTS, on December 28, 2011, the Notice of Proposed Rulemaking (NPR) on 10 CFR 719, *Contractor Legal Management Requirements*, was published in the Federal Register, and the Final Rule was published on May 3, 2013. As a result, the Department and NNSA closed the recommendation in DARTS, pending an assurance certification. However, a February 2016 report titled *Followup Audit of the Department of Energy's Management of Contractor Fines, Penalties, and Legal Costs* (DOE-OIG-16-06) found the Department had not fully addressed all of the issues detailed in our previous audit. The Department was still reimbursing its contractors for costs associated with legal settlement agreements without documented evidence of settlement reviews to determine the allowability of costs. The audit's detailed review of 46 settlement agreements at 6 site contractors revealed the following:

- The Department reimbursed contractors for settlement costs for seven cases involving allegations of discrimination by the contractor, even though the Department had not conducted a documented settlement review. Discrimination is a violation of Federal and State law, Department policy, as well as the terms of the contractor's contract.
- Similarly, contractors were reimbursed for settlement costs for three cases involving whistleblower complaints against the contractor, without the required Department review being documented. Department regulations require the Department to determine the allowability of defense, settlement, and award costs for each whistleblower case.
- Settlement and outside legal costs for 26 other settlements amounting to almost \$59 million were reimbursed without settlement reviews. While the Department required contractors to seek permission to settle when costs were projected to exceed \$25,000, it had not developed guidance for determining when it would be appropriate to perform a settlement review in these matters.

Audit Report Milestones

We also found that the Department did not meet its established target milestones for implementing corrective actions and closing audit reports. Department Order 224.3, *Audit Resolution and Followup Program*, states that closure of audit reports should generally take no longer than 1 year after issuance of the final report. Program offices and NNSA established milestones for the completion of the corrective actions and tracked their progress in DARTS.

We found that 88 percent of the 48 OIG reports closed in fiscal years 2011 through 2014 had not met the Department's target closure milestone. Specifically, our analysis showed that (see Appendix 2):

- 24 of 48 reports took more than 2 years to close, including 5 reports that exceeded 5 years.
- 292 of 458 recommendations closed and certified in DARTS during the 4-year period were closed after the target closure date.
- 27 of the 100 open recommendations in DARTS as of September 30, 2014, already exceeded the target closure date.

We recognize that some recommendations may involve corrective actions of a complex or technical nature that require more than 1 year to bring to a close. We also observed that many of the status updates in DARTS demonstrated that incremental progress was being made toward completion of these corrective actions. However, some program offices significantly exceeded their original estimates for completing corrective actions without providing assurance certifications or closing the reports in accordance with Department Order 224.3, as illustrated by the following examples:

- Our December 2007 report on *Beryllium Surface Contamination at the Y-12 National Security Complex* (DOE/IG-0783) noted that the Department and Y-12 may not be minimizing the risk of worker exposure to beryllium and recommended that the Department issue revised regulations to include posting when beryllium surface contamination occurs in nonoperational areas. Status updates in DARTS show that Y-12 had established procedural requirements for the site process to identify and post when elevated surface contamination results are found and the Department had made some progress in issuing the revised regulation. According to Department officials, the Office of Environment, Health, Safety, and Security submitted a NOPR and an Economic Assessment to the Office of Management and Budget (OMB) and received all interagency comments by October 2015. The Office of Environment, Health, Safety, and Security addressed the comments and resubmitted the NOPR and the Economic Assessment to OMB for their review on November 12, 2015. The Department plans to have this process finalized by September 2016, almost 9 years after the report was issued.
- Our July 2010 report on *The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting* (DOE/IG-0835) noted that the seven sites reviewed had not always taken advantage of lighting technology opportunities to reduce energy consumption and save taxpayer dollars. The report recommended the Department develop a process to track and reinvest energy savings as required in Department Order 430.2B, *Departmental Energy, Renewable Energy, and Transportation Management*. Status updates in DARTS show that the Department's sites currently track energy savings, as required, and the OCFO approved a final policy on the reinvestment of sustainability proceeds across the Department in March 2015, almost 5 years after the report was issued.

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- Our report on *The Department's Unclassified Cybersecurity Program – 2011* (DOE/IG-0856, October 2011) recommended that the Department ensure that effective performance monitoring practices are implemented to assess overall performance for protecting information technology resources. In December 2011, Science developed an approach to ensure that effective performance monitoring practices were implemented and estimated the work would be completed in January 2013. Science indicated that as a result of modifications to Department Order 205.1b, *Department of Energy Cybersecurity Program*, in 2013, additional time was needed to incorporate the additional scope into its Program Cybersecurity Plan. However, we found that the Office of Legacy Management, the Office of Environmental Management, and NNSA completed corrective actions related to this recommendation by December 2012, while Science completed its corrective actions in September 2014, almost 2 years past the original estimated completion date.
 - Our report on *The Department of Energy's Audit Resolution and Followup Process* (DOE/IG-0840) was issued in September 2010. The report recommended that the OCFO develop specific guidance to address the criteria, timing, and process to be followed in performing and documenting formal audit followup assessments and to revise policy and guidance, as appropriate, to ensure it is realistic and in line with effective audit resolution and followup objectives. In December 2010, a revised Department Order on audit resolution was with a working group for preliminary review prior to submission to the Department's directive review process. However, the effort had been put on hold pending the resolution of key issues until recently when a working group met to discuss needed policy updates and provide comments on the draft version of the revised Department Order. The new proposed closure date is March 2016, almost 5 years beyond the original estimated completion date.

Management Guidance and Monitoring

Corrective actions taken by the Department were sometimes incomplete, ineffective, or untimely, in part, because of insufficient guidance and inadequate monitoring and oversight of the audit resolution and followup process. As noted in our September 2010 report, existing guidance issued by the OCFO lacked specificity regarding the criteria, timing, or process to be followed in performing and documenting formal audit followup assessments. Furthermore, Department guidance lacked meaningful, realistic performance measures to provide accountability and create a sense of urgency for the timely, effective implementation of corrective actions. Although the OCFO had begun efforts to improve existing guidance, final issuance of a revised Department Order is not expected until March 2016.

In addition, program offices continued to submit assurance certifications and close recommendations without always performing formal followup procedures to assess the effectiveness of actions taken. The current Department Order requires the head of each program office to develop and manage effective audit resolution and followup programs and to ensure that effective corrective actions have been implemented and have addressed audit report recommendations. Officials from NNSA and Science indicated that they believe the policy did not allow sufficient time to perform an assessment and also meet the 1-year audit closure

requirement, because a thorough effectiveness review should occur after the corrective actions have had time to take effect. These officials also expressed concern that there was no clear guidance or standards for performing an effectiveness review or what the review should include. As a result, programs often closed audit reports in DARTS by certifying that corrective actions were completed but did not always attest to the effectiveness of the actions.

Opportunities to Realize Savings and Efficiencies

Without improvements to the Department's audit resolution and followup process, the Department may be unable to take full advantage of opportunities to realize savings and operational inefficiencies will continue to exist. Additionally, issues identified in audit reports may not be fully resolved or may be resolved in an untimely manner. For example, we found that incomplete or ineffective corrective actions on three of the four reports included in our review may result in the Department missing opportunities to:

- Reduce energy consumption and fully realize potential savings of over \$11.5 million a year. In one example, a recent energy audit performed at one of the sites included in our 2009 review determined that, among other items, the facility could save as much as 1.3 million kilowatt-hours and as much as \$82,000 per year through the correct use of energy setbacks in just one building complex.
- Curtail excessive costs associated with IPA assignments, as shown by the almost \$6 million in excessive costs we identified at two laboratories included in our review of FY 2012 IPA assignments at selected sites.
- Reduce or eliminate reimbursements to contractors for unallowable settlement and legal costs, as evidenced by the more than \$1 million in settlement costs that the Department avoided paying in the 10 cases we reviewed where a documented settlement review was performed.

In addition, failure to implement corrective actions in a timely manner leaves the Department at risk of being unable to correct critical safety hazards or prevent unnecessary expenses. For example, as a result of its failure to implement recommendations from our December 2007 report on *Beryllium Surface Contamination at the Y-12 National Security Complex*, the Department may not be minimizing the risk of worker exposure to beryllium. Specifically, our report recommended that the Department issue revised regulations to include posting when beryllium surface contamination occurs in nonoperational areas. Although specific actions have been implemented at the Y-12 Site regarding this recommendation, final regulations have not yet been issued.

Further, the Department took almost 5 years to implement a recommendation in our report on *The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting* (DOE/IG-0835, July 2010). For every year the implementation was delayed, the Department potentially forfeited savings of more than \$2.2 million in annual electric utility operating costs by exploiting readily available efficient lighting and lighting system

opportunities and reinvesting the energy savings in energy conservation projects and activities. The Department's policy on the tracking and reinvestment of energy savings was finally approved in March 2015, and Science notified their sites of the new policy in April 2015.

RECOMMENDATIONS

To improve program effectiveness by ensuring that corrective actions to address audit report recommendations are implemented in a timely and effective manner, we recommend that the Chief Financial Officer, in coordination with the Administrator for the National Nuclear Security Administration, the Under Secretary for Science and Energy, and the Deputy Under Secretary for Management and Performance:

1. Review and revise policy and guidance, as necessary, to ensure it is in line with effective audit resolution and followup objectives, including establishing meaningful, realistic target milestones to provide accountability and create a sense of urgency for the timely completion and effective implementation of corrective actions; and
2. Review and revise policy and guidance, as necessary, to more clearly address the criteria, timing, and process to be followed in performing and documenting the audit followup assessments of the effectiveness of corrective actions taken.

In addition, to ensure the adequacy of corrective actions taken to address the recommendations, we recommend that the Administrator for the National Nuclear Security Administration, the Under Secretary for Science and Energy, and the Deputy Under Secretary for Management and Performance:

3. Ensure that formal audit followup assessments are performed in accordance with departmental policy and guidance.

MANAGEMENT RESPONSE

Management concurred with each of the report's recommendations and indicated that corrective actions were planned or underway to address the issues identified. Specifically, the Department is updating the directive that establishes Department policy on audit resolution and followup. The proposed directive defines the criteria for an effective corrective action plan and clarifies requirements for audit closeout. Additionally, the proposed directive requires a timeline for completion for each corrective action plan and emphasizes the prompt completion of corrective actions.

AUDITOR COMMENTS

Management's comments and planned corrective actions were responsive to our recommendations. Management also provided technical comments to our report. As such, we made changes to the report to address the technical comments, where appropriate. Management's official comments are included in Appendix 4.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of this audit was to determine whether the Department of Energy (Department) had corrected previous problems with the audit resolution and followup process and whether related issues identified through recent audits had been resolved.

Scope

The audit was conducted between December 2013 and March 2016 at Department Headquarters in Washington, DC, and Germantown, Maryland, and the Oak Ridge National Laboratory and Y-12 National Security Complex in Oak Ridge, Tennessee. The audit reviewed Office of Inspector General (OIG) audit reports closed in the Departmental Audit Report Tracking System between October 2010 and September 2014. The audit was conducted under OIG project number A14GT010.

Methodology

To accomplish the audit objective, we:

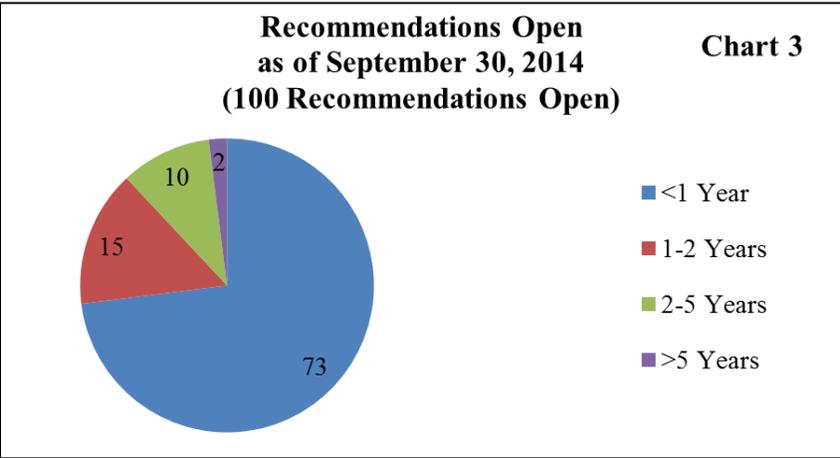
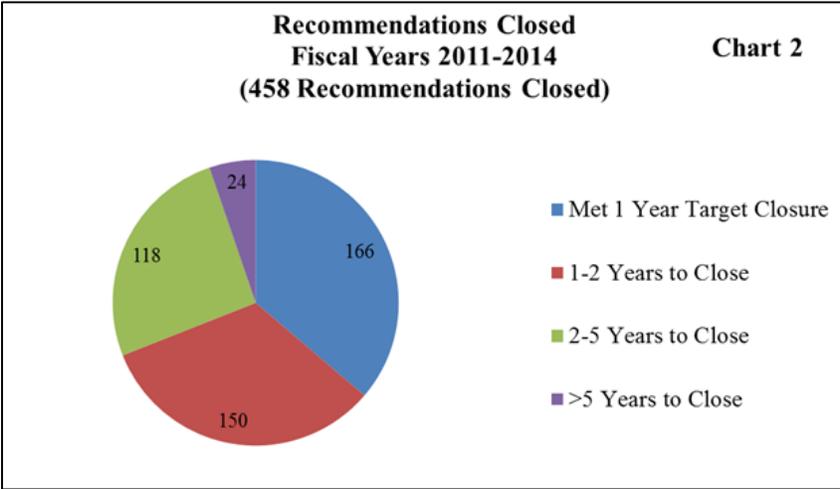
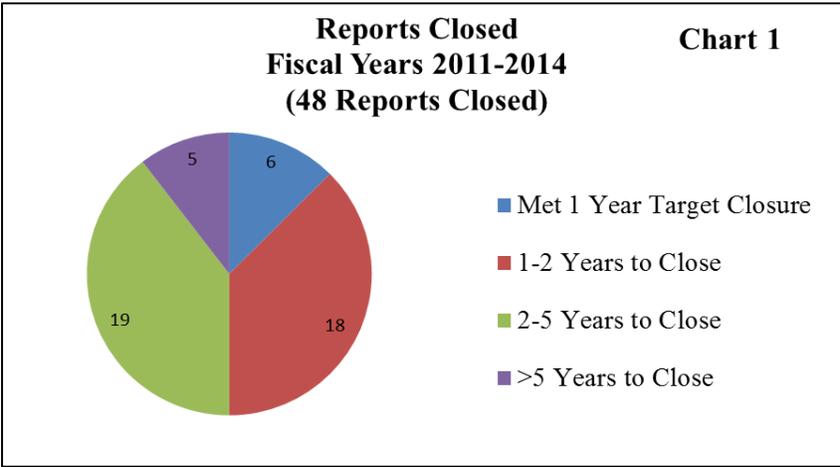
- Reviewed Department orders, policies, and procedures related to audit resolution and followup.
- Held discussions with Headquarters program officials regarding the audit resolution and followup process.
- Judgmentally selected 4 OIG audit reports with recommendations that were closed between October 2010 and September 2014 from a universe of 48 to determine whether corrective actions taken had addressed reported issues and followup effectiveness reviews were performed. Because a judgmental sample of audit reports was used, the results were limited to the audit reports selected.
- Held discussions with officials from the Energy Efficiency and Renewable Energy Program Office and reviewed documentation related to the implementation of corrective actions for the ENERGY STAR Program.
- Held discussions with officials at Y-12 National Security Complex and Oak Ridge National Laboratory and reviewed documentation related to the implementation of corrective actions for energy setbacks.
- Reviewed information related to an OIG followup audit of contractor *Intergovernmental Personnel Act* assignments and an OIG followup audit of contractor fines, penalties, and legal costs.

- Analyzed 113 blue cover OIG audit reports and associated recommendations from October 2010 through September 2014 to determine if target closure dates were established and met.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Accordingly, we assessed significant internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. In particular, we assessed compliance with the *GPRA Modernization Act of 2010*. We found that performance measures for tracking target completion dates for each open audit recommendation had been established; however, no performance measures to track audit report closure or the effectiveness of corrective actions had been developed. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We relied on computerized data to a limited extent to perform our fieldwork. We assessed the reliability of the computer-processed data by comparing it to source documents and other supporting information and found the data to be reliable for the purposes of this audit.

An exit conference was held with management on January 14, 2016.

STATUS OF AUDIT REPORTS AND RECOMMENDATIONS



PRIOR REPORTS

- Audit Report on [*Followup Audit of the Department of Energy's Management of Contractor Fines, Penalties, and Legal Costs*](#) (DOE-OIG-16-06, February 2016). We found that although the Department of Energy's (Department) management of contractor fines, penalties, and legal costs had improved since our 2009 report, problems with the management of these costs continue to exist. Specifically, our testing revealed that the Department was still authorizing settlement payments without documented evidence of settlement reviews to determine the allowability of costs. Furthermore, the Department had not always determined when postsettlement reviews were warranted. Our detailed review of 46 settlement agreements at 6 site contractors found 36 settlements (78 percent) valued at more than \$62 million in which there was no documented evidence a settlement review had been performed.
- Audit Report on [*Followup Audit of Contractor Intergovernmental Personnel Act Assignments*](#) (DOE/IG-0928, November 2014). We found that although the Department of Energy (Department) had improved its management of contractor *Intergovernmental Personnel Act* (IPA) assignments, particularly with respect to the collection of shared costs, opportunities for improvement remain. Notably, the Department did not follow through on several previous audit recommendations and, as a consequence, incurred approximately \$6 million in excess allowances or inequitably shared costs during 2012. The Department had not updated policies to add guidance specific to laboratory contractor employees on IPA assignments to other Federal agencies. Absent specific guidance, we benchmarked our findings against policies applicable to Federal employees on IPA assignments. Similar to our previous audit, we found that contractor employees on assignment received allowances and relocation payments that exceeded those provided to Federal employees in similar situations. In addition, we observed continuing cost-sharing issues, assignments that appeared to be excessive in length and assignee hiring issues.
- Evaluation Report on [*The Department's Unclassified Cybersecurity Program – 2011*](#) (DOE/IG-0856, October 2011). The Department had taken steps over the past year to address previously identified cybersecurity weaknesses and enhance its unclassified cybersecurity program. While these were positive steps, additional action is needed to further strengthen the Department's unclassified cybersecurity program and help address threats to its information and systems. For example, our fiscal year 2011 evaluation disclosed that corrective actions had been completed for only 11 of the 35 cybersecurity weaknesses identified in our fiscal year 2010 review. In addition, we identified numerous weaknesses in the areas of access controls, vulnerability management, web application integrity, contingency planning, change control management, and cybersecurity training.
- Audit Report on [*The Department of Energy's Audit Resolution and Followup Process*](#) (DOE/IG-0840, September 2010). The Department's audit followup process had been improved. Yet, we found that additional efforts are needed to ensure that prompt and effective corrective actions are taken to resolve weaknesses identified by Office of

Inspector General audits. During our review of closed recommendations, we found that corrective actions had either not been completed or had not resolved all of the significant issues outlined in four of the five previously issued audit reports that were included in our examination. We also observed that in many cases the Department had not met its established target milestones for audit report closure. Notably, more than half of the 32 audit reports issued between May 2007 and August 2009 had not met or will not meet the Department's 1-year target closure date.

- Audit Report on [*The Department of Energy's Opportunity for Energy Savings Through Improved Management of Facility Lighting*](#) (DOE/IG-0835, July 2010). The seven sites included in our review had not always taken advantage of lighting technology opportunities to reduce energy consumption and save taxpayer dollars. While sites had, to varying degrees, begun to update lighting, significant opportunities for conservation remain. Specifically, we noted that the sites had not always used the most efficient lighting. In fact, each of the sites used outdated fluorescent lights when more energy and cost efficient alternatives were available. The sites had not implemented to the extent practical, energy efficient lighting technologies, such as spectrally enhanced lighting and solid state lighting, whose research and development had actually been funded by the Department and maximized the energy savings associated with installing automated lighting control system.
- Audit Report on [*The Department's Management of the ENERGY STAR Program*](#) (DOE/IG-0827, October 2009). The Department had not implemented planned improvements in the ENERGY STAR program. Our audit revealed that officials had not developed a formal quality assurance program to help ensure that product specifications where adhere to, effectively monitored the use of the ENERGY STAR label to ensure that only qualifying products were labeled as compliant and formalized procedures for establishing and revising product specifications and for documenting decisions regarding those specifications. In our judgment, the delay in the Department's planned improvements in its management of the ENERGY STAR program could reduce consumer confidence in the integrity of ENERGY STAR label. Such loss of credibility could reduce energy savings, increase risk, and diminish the value of the recent infusion of \$300 million for ENERGY STAR rebates under the *American Recovery and Reinvestment Act of 2009*.
- Audit Report on [*The Department of Energy's Management of Contractor Fines, Penalties and Legal Costs*](#) (DOE/IG-0825, September 2009). Our audit testing revealed that the Department did not fully implement processes for managing the cost of legal services and settlements. We identified instances where payments were made for costs that in certain cases were potentially unallowable. Specifically, two of the four facility contractors we reviewed were permitted to claim almost \$300,000 in legal costs directly associated with unallowable fines and penalties. We also identified other instances where facility contractors incurred questionable costs paid to outside legal firms. For example, some contractors paid law firms for expenses that had not been reviewed and approved as required, including first class airfare, travel expenses where no receipts were provided, and other costs normally treated as unallowable. The Department also allowed payment

to contractors for a number of unauthorized settlements and for settlements that were made without a review of the facts and circumstances surrounding alleged contractor “managerial personnel” misconduct.

- Audit Report on [*The Department of Energy’s Opportunity for Energy Savings Through the Use of Setbacks in its Facilities*](#) (DOE/IG-0817, July 2009). Our review revealed that the Department had not ensured that energy setback capabilities were fully utilized at its facilities. This despite the requirements established in 41 Code of Federal Regulations 102-74.185, *What Heating and Cooling Policy Must Federal Agencies Follow in Federal Facilities?*, which mandates Federal agencies that occupy Government-owned and leased buildings to operate heating, ventilation, and air conditioning systems in the most energy efficient and economical manner. Agencies must reduce heating temperatures to no higher than 55 degrees Fahrenheit during nonworking hours and eliminate air conditioning during nonworking hours, except as necessary to return temperatures to a suitable level for the beginning of working hours.
- Audit Report on [*Beryllium Surface Contamination at the Y-12 National Security Complex*](#) (DOE/IG-0783, December 2007). We found that the Y-12 National Security Complex (Y-12) had not consistently implemented key controls in nonberyllium operations areas, as required by its prevention program. Specifically, when surface contamination was found outside beryllium operational areas, Y-12 had not always posted signs alerting workers of the potential for beryllium surface contamination, and performed or documented hazard assessments for beryllium contamination. Y-12’s implementation of its prevention program was hampered because the contractor did not track recommendations made by its industrial hygienists to post contaminated areas and did not have a single repository of beryllium information that could be used by management and workers to identify contaminated locations. As a result of these control weaknesses, the Department and Y-12 may not be doing all that is possible to minimize the risk of worker exposure to beryllium in nonberyllium operations areas.
- Audit Report on [*The Department of Energy’s Management of Contractor Intergovernmental Personnel and Change of Station Assignments*](#) (DOE/IG-0761, March 2007). We found that the Department did not have a system to determine the number and propriety of IPA and Change of Station (COS) assignments. Relying purely on data provided by contractors managing the 6 laboratories, we identified 250 active IPA/COS assignments. We performed a detailed review of 77 such assignments and found that the Department was not actively ensuring that the IPA and COS assignments were cost effective, operated in accordance with existing procedures or good business practice, or that taxpayer-provided funds supporting IPA/COS assignments were put to the best possible use. We found that 31 of the 77 IPA/COS assignments had questionable components and that the Los Alamos National Laboratory had not collected funds due to the Department under cost-shared agreements for IPA assignments. As of September 27, 2006, we identified \$891,000 that had not been collected.

MANAGEMENT COMMENTS



Department of Energy
Washington, DC 20585

November 19, 2015

Rickey R. Hass
Acting Inspector General

Dear Mr. Hass:

This is in response to your draft audit report, "The Department of Energy's Audit Resolution and Follow-up Process." The Department remains committed to prompt and effective resolution of audit recommendations and is currently updating the directive that establishes requirements for the Department's audit resolution and follow-up process. The proposed directive seeks to strengthen the audit resolution process and clarifies requirements for closure of audit reports, including an emphasis on the need for effective corrective action plans, prompt completion of those plans, and program office accountability for ensuring the completion of planned corrective actions. Specific responses to the individual report recommendations are contained in the attachment.

The report also contains specific observations regarding follow-up activities for three past Inspector General reports. The Inspector General has issued follow-up reports relating to two of those past reports, and additional corrective actions will be pursued as appropriate in response to those specific follow-up audit reports. The report also discusses specific concerns regarding the use of setbacks in DOE facilities. We have referred this matter to the DOE Sustainability Program Office for consideration, as appropriate, in its review of individual site sustainability plans.

Sincerely,

A handwritten signature in blue ink that reads "Joseph S. Hezir".

Joseph S. Hezir
Chief Financial Officer

Attachment



Printed with soy ink on recycled paper

Attachment

Response to Recommendations for Inspector General Report: *The Department of Energy's Audit Resolution and Follow-up Process*

The Inspector General recommended that the Chief Financial Officer, in coordination with the Administrator for the National Nuclear Security Administration, the Under Secretary for Science and Energy, and the Deputy Under Secretary for Management and Performance:

Recommendation 1: Review and revise policy guidance, as necessary, to ensure it is in line with effective audit resolution and follow-up objectives, including establishing meaningful, realistic target milestones to provide accountability and create a sense of urgency for the timely completion and effective implementation of corrective actions.

Management Response: The Department is updating the directive that establishes Departmental policy on audit resolution and follow-up. The proposed directive eliminates the one-year timeline for completion of corrective actions, recognizing that some audit recommendations are urgent and corrective actions should be taken immediately, while corrective actions for other audit recommendations may take longer than a year to implement. The proposed directive requires a timeline for completion for each corrective action plan and emphasizes the prompt completion of corrective actions. As in the current policy, individual DOE offices will have primary accountability for prompt completion of corrective actions.

We anticipate completion of the updated Departmental directive by February 1, 2016.

Recommendation 2: Review and revise policy and guidance, as necessary, to more clearly address the criteria, timing, and process to be followed in performing and documenting the audit follow-up assessments and the effectiveness of corrective actions taken.

Management Response: The Department is updating the directive that establishes Departmental policy on audit resolution and follow-up. The proposed directive eliminates the requirement for a formal follow-up review after the corrective actions have been completed and instead emphasizes the need to develop effective corrective action plans. The proposed directive also defines the criteria for an effective corrective action plan and clarifies requirements for audit close-out, with emphasis on completion of the corrective action plan. Validating the ongoing effectiveness of corrective actions after closure, however, is the responsibility of each program office and is beyond the scope of audit follow-up requirements in OMB Circular A-50.

We anticipate completion of the updated Departmental directive by February 1, 2016.

The Inspector General recommended that the Administrator for the National Nuclear Security Administration, the Under Secretary for Science and Energy, and the Deputy Under Secretary for Management and Performance:

Recommendation 3. Ensure that formal audit follow-up assessments are performed in accordance with departmental policy and guidance.

Management Response: The Department is updating the directive that establishes Departmental policy on audit resolution and follow-up. The proposed directive clarifies expectations for audit resolution and follow-up, with a focus on the development of effective corrective action plans and the timely completion of those plans. The proposed directive also recognizes that the effectiveness of corrective actions should be considered when developing the corrective action plan, not after the corrective actions have been completed, and thus eliminates the requirement for a follow-up assessment of corrective actions after closure of the recommendation. Validating the ongoing effectiveness of corrective actions after closure, however, is the responsibility of each program office and is beyond the scope of audit follow-up requirements in OMB Circular A-50.

By June 30, 2016, Under Secretarial offices will evaluate the need for post-closure reviews or assessments after considering the final revised audit resolution and follow-up directive, the findings of this report, and other ongoing audit results.

FEEDBACK

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Office of Inspector General (IG-12)
Department of Energy
Washington, DC 20585

If you want to discuss this report or your comments with a member of the Office of Inspector General staff, please contact our office at (202) 253-2162.