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Annual Report

Office of the Inspector General

March 1980

U. S. Department of Energy
Office of the Inspector General

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Annual Report Office of the Inspector General

MARCH 1980

Submitted by:

J.K. Mansfield, Inspector General

Pursuant to Section 208(c) of Public Law 95-91

**U.S. Department of Energy
Office of the Inspector General
Washington, D.C. 20585**

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INTRODUCTION

Public Law 95-91, the Department of Energy Organization Act, established within the Department of Energy (DOE) an Office of Inspector General (IG). The Office has statutory responsibilities for the promotion of efficiency and economy and the prevention or detection of fraud and abuse in the programs and operations of the Department. Section 208(c) of P. L. 95-91 requires the Inspector General to submit, not later than March 31 of each year, a report to the Secretary of Energy, to the Federal Energy Regulatory Commission, and to the Congress summarizing the activities of the office during the preceding calendar year. The law says that such a report shall include, but need not be limited to:

"(1) an identification and description of significant problems, abuses, and deficiencies relating to the administration of programs and operations of the Department disclosed by such activities;

(2) a description of recommendations for corrective action made by the Office with respect to significant problems, abuses, or deficiencies identified and described under paragraph (1);

(3) an evaluation of progress made in implementing recommendations described in the report or, where appropriate, in previous reports; and

(4) a summary of matters referred to prosecutive authorities and the extent to which prosecution and convictions have resulted."

This report, covering the activities of our office during the period January 1, 1979 through December 31, 1979, is being submitted to the President of the Senate, the Speaker of the House of Representatives, the Secretary of the Department of Energy, and the Federal Energy Regulatory Commission.

The report opens with an overview of the progress and problems encountered by our office during the last calendar year. Next, the report discusses certain matters of concern relating to the independence of our office and our ability to work effectively. This is followed by a section discussing progress being made and problems being met in our forward planning.

The subsequent section describes our existing office organizational and staffing patterns. The next section deals with weaknesses of the existing DOE overall audit system. The three sections that follow talk about work done by our IG audit,

inspection, and investigative staffs during 1979. These sections include summaries of significant IG findings and recommendations, and of departmental responses thereto.

The last two sections of the report have to do with follow-through activities and also describe certain developments during 1979 that were of importance to our office.

A YEAR OF PROGRESS AND OF PROBLEMS

Last year saw our office make progress on a number of fronts:

- Acting on its own initiative, Congress took steps aimed at requiring the Department to restore the drastic staff ceiling cuts DOE had imposed on our office in 1978. The Congress voted monies for a 155-person IG office, and we were building toward that level at year's end.

Corrective actions taken in 1979 by DOE in response to IG audit and inspection findings and recommendations were resulting in increasingly large benefits to taxpayers. To cite some examples:

- DOE now estimates that there may be an additional \$80 million dollars of cost disallowance actions taken against oil companies because of steps taken by DOE in 1979 in response to earlier IG recommendations relating to maximum allowable prices at which companies can transfer oil from producing to refining affiliates.
- We anticipate that oil companies will in the future pay many millions of dollars they would not have otherwise paid in settling oil pricing violation.

cases as a result of DOE acceptance of an IG recommendation that the interest charges assessed in these cases be geared to the prime interest rate rather than the significantly lower rates that have been used in recent years.

- An IG examination of a biomass contract DOE was about to sign caused the Department to take a fresh look at the merits of the project. DOE then decided the project should not be funded. Well over \$900,000 was thereby saved.
- In keeping with an IG recommendation, DOE is about to demand that an iridium reprocessing contractor either return to DOE about \$600,000 worth of iridium it owes the Department or else pay DOE a dollar amount equivalent to the current market value of the iridium.
- Vigorous corrective action taken in 1979 following an IG examination of headquarters accounts receivable resulted in the collection of about \$5 million in overdue monies owed the Department.
- IG found that one top executive of a consulting firm was charging DOE on the basis of an annual salary of \$92,700 after having received salary increases of

more than 100 percent over the previous three years. Similarly, another top executive at another such firm was charging DOE on the basis of an annual salary of \$75,000 after he had received pay increases totaling 70 percent over the same period. Our report played a part in initiating the determined efforts the Chief Financial Officer is now making to improve management controls over consulting contracts.

- A wide-ranging IG review of the adequacy of management controls at the DOE-funded and rapidly growing Solar Energy Research Institute (SERI) in such areas as contracting and procurement, budgeting and cost estimating, and accounting and auditing systems contributed to decisions taken by SERI to strengthen controls over expenditures. Since SERI's FY 81 budget is over \$80 million, we expect that the savings in the future will be sizeable.
- IG findings played a role in a general tightening of management controls at the H-Coal project, which has experienced major cost overruns. These improved controls should reduce the likelihood of a continuation of cost escalations that have increased the cost of the project from an originally estimated \$178 million to a presently estimated \$300 million.

- IG reviewed an \$8 million contract for marine terminal services for the Strategic Petroleum Reserve Program and concluded that DOE no longer had any real need for most of the services available to it under the contract. DOE accepted an IG recommendation that the bulk of the contract be terminated. However, the Department's failure to terminate the contract when IG first recommended this be done cost DOE more than \$1 million in additional payments for services that were not in fact needed or used.
- Depending on future oil availabilities for the Strategic Petroleum Reserve Program, savings of up to \$1.2 million, or possibly considerably more, may accrue as a result of acceptance of IG recommendations that two other marine terminal services contracts be amended to reflect payments made by DOE for services never received.
- Useful remedial steps were taken following an IG survey of internal mail distribution at DOE Headquarters which showed it was statistically probable that Headquarters was losing each year at least 126,000 pieces of internal mail. This would be a stack of mail 1,270 feet high, or more than twice the height of the Washington Monument.

- IG made a comprehensive review of the adequacy of controls to prevent loss or theft or abuse of about \$350 million of government-owned property in the hands of DOE offsite contractors. We found discrepancies of \$55 million between the amounts of property shown on DOE books and contractor books. DOE moved speedily to correct the control weaknesses that could have allowed large scale thefts or loss of property without the government's knowledge.

Last year also saw our investigative office doing a better job than in 1978:

- There was a sharp increase in the percentage of investigative cases opened that dealt with possible criminality, as contrasted with such matters as personnel grievances.
- The referral rate of IG cases to other investigative agencies and to prosecutive authorities was almost three times higher than in the year before.
- The number of administrative actions taken against DOE and contractor employees as a result of IG investigations--terminations, reprimands, and the like--was twice as great as in 1978.

The year 1979 also saw improvements in our IG management capabilities:

- Our forward planning improved. In the fall of 1979, we developed our first year-long work plans for our audit and inspection units.
- We also did a better job than before of checking on what the Department does in response to our reports. In November, we established a formal review process for monitoring corrective actions taken in response to IG findings and recommendations.
- We attracted outstanding new recruits to our office, including a larger percentage than before of minority and women staff members.
- We enlarged both our formal and on-the-job training efforts for the IG staff members, with our investigative unit doing an especially good job in this regard.

Finally, we encountered during the course of the year growing and greatly appreciated cooperation with our work from our Departmental colleagues at both management and staff levels.

As against the foregoing, 1979 was not without its problems, for our office:

- Starting late in the year, there were a number of Departmental actions which gave grounds for concern in regard to the independence of our office.
- Also beginning late in the year, there were Departmental actions giving ground for concern in terms of our ability to do our job effectively, including our ability to do forward planning.
- The remaining major problem we encountered in 1979 is one we expect to be with us as far ahead as we can see. This is the problem of maintaining an office whose professionalism is fully equal to the challenge of our job. When we measure IG performance in 1979 against how we did in 1978, we see cause for satisfaction. But when we measure our performance in terms of the expectations the Congress and the President have for our office, every one in IG sees a continuing need to sharpen our skills, to broaden our perspectives and to deepen our insights.

SOME MATTERS OF CONCERN

When the Congress created the statutory IG offices, it tried to ensure that the offices would be able to discharge their responsibilities in an independent manner, and that the Inspectors General would have direct and ready access to the heads of their Departments when necessary.

That portion of the DOE Organization Act (P. L. 95-91) relating to our IG office includes the following language.

Section 208(a)(1). "The Inspector General shall report to, and be under the general supervision of, the Secretary or, to the extent such authority is delegated, the Deputy Secretary, but shall not be under the control of, or subject to supervision by, any other officer of the Department." (underlining supplied)

Section 208(g). "In addition to the authority otherwise provided by this section, the Inspector General, in carrying out the provisions of this section, is authorized...(3) to have direct and prompt access to the Secretary when necessary for any purpose pertaining to the performance of functions under this section."

The legislative history of the statutes creating the IG offices also makes plain the desire of the Congress that the offices have the organizational and staff resources they need to discharge their statutory responsibilities.

Starting in the closing months of 1979, certain events took place which give grounds for concern in terms of the independence of our office and our ability to do our job effectively.

These events partly relate to the office of the Chief Financial Officer of the Department. This is a new DOE position that was created administratively last September. The 1200 plus DOE headquarters employees who now report to the Chief Financial Officer include the Director of Administration, the Director of Procurement and Contracts Management, the Controller, and the respective staffs of these senior officials.

The events in question include the following:

- We were requested to route action memoranda being sent from our office to the Secretary through the Chief Financial Officer. Under the proposed procedure, we would have been the only Departmental office reporting to the Secretary that could not in this regard communicate directly with him.

The proposal appeared to us obviously illegal since it would have allowed the Chief Financial Officer to exercise control over IG by giving him the ability to decide when and if the Secretary would see reports of our office, including reports concerned with deficiencies in his organization. We therefore said we could not comply with this request.

- The Special Assistant to the Secretary suggested to us in a memorandum that it would be useful for us to coordinate with the Chief Financial Officer outlines of matters we wish to talk about whenever we request to see the Secretary about specific subjects. If such coordination allowed the Chief Financial Officer to influence what we could discuss with the Secretary, and when, the process would obviously contravene Section 208 of P. L. 95-91. Also, the nature of our work is such that occasions arise when it would be highly inappropriate and improper for us to let other DOE officials know of subjects we wished to bring to the attention of the Secretary. We therefore decided not to comply with this suggestion of the Special Assistant.

- The Chief Financial Officer levied upon our office a work assignment that we said we could not accept, since the power to make work assignments is the power to control. He later tasked us with another work assignment which we also declined on the same ground. On both occasions, however, we made plain our desire to be as helpful as we lawfully can to our DOE colleagues when we receive proper requests from senior Departmental officials for assistance. Our ability to be of help in such instances of course depends on the availability of our resources and competing work priorities.

Other matters that concern us include the failure of the Department to have taken timely action on two audit reorganization plans recommended by IG. This failure has hampered our work in general, and has particularly impaired our ability to do forward planning.

The first IG reorganization plan on which the Department has not taken timely action had to do with an internal reorganization of our IG Office of Audits. The plan called for establishing within this office a small automatic data processing (ADP) unit. The plan also proposed the establishment of a field IG audit division and a reorganization and modest enlargement of our existing field IG audit structure. The proposed reorganization could have been accomplished within our existing staff ceiling.

We submitted this plan to the Director of Administration on August 3, 1979, and it was apparently forwarded to the Chief Financial Officer for review some time last October. Starting in October and continuing through February of this year, we made nine separate mentions of this reorganization plan in reports to the Secretary in unsuccessful efforts to get the Department to act upon it. The proposal was talked about in our Weekly Activities Reports to the Secretary of October 18, November 1, November 8, November 15, November 29, December 6, and December 20, 1979, January 31, and February 13, 1980.

Having been unable to get DOE to act on the reorganization plan, we indicated late this past January that we intended to put the plan into effect on our own authority. However, the Special Assistant to the Secretary took the position that we should await further review of the plan by the Chief Financial Officer. Also, when we tried to secure from the staff of the Director of Administration assistance that we would have needed to go forward with the plan on our own, we were advised to bring this matter to the attention of the Deputy Secretary. Accordingly, on February 13, 1980, we submitted an appropriate action memorandum to the Deputy Secretary.

On February 21 of this year we said that DOE's failure to act on our plan was regretfully leaving us with no lawful alternative

but to bring this problem to the attention of the Congress pursuant to Section 208(d) of P. L. 95-91. ^{1/} On February 29, the Department approved that portion of our plan concerning the ADP unit but not that portion concerning the IG field division and field structure reorganization. No explanation was given for the delay or for why our field audit portions of the plan were not acted upon.

We therefore lost seven months in starting planning for an ADP capability, and we do not yet know when or if we will win DOE approval of that part of our plan dealing with our IG field auditors. Examples of how this delay has hurt our forward planning appear in the next section of the report.

The second of our plans had to do with the Department's overall audit system. DOE has a decentralized audit system in which most of the auditors on the DOE payroll report not to IG but to the heads of DOE Operations Offices throughout the country. As against the 42 auditors who now work for IG, 125 DOE auditors do not work for IG.

^{1/}Section 208(d) states that "[t]he Inspector General shall report immediately to the Secretary, to the Federal Energy Regulatory Commission as appropriate, and within thirty days thereafter, to the appropriate committees or subcommittees of the Congress whenever the Office becomes aware of particularly serious or flagrant problems, abuses or deficiencies relating to the administration of programs and operations of the Department."

On October 31, 1979, we recommended in a memorandum to the Secretary that a centralized audit system be adopted under which the auditors who now report to the Operations Office heads would report to IG instead. At the same time, we requested a meeting with the Secretary to discuss the proposal after he had the chance to reflect on it. Shortly thereafter, we were told that our proposal had been sent to the Chief Financial Officer for coordination.

Approval of our recommendation would have conformed the DOE audit structure with those of the thirteen other departments and agencies with statutory IG offices. All of them have centralized audit systems.

Five months have now elapsed, and we have not yet obtained a dispositive response by the Department to this recommendation. The next report section talks about how this second delay in a decision on one of our reorganization proposals has also hurt our ability to plan ahead.

There is in our minds a real question as to whether the role played by the Chief Financial Officer in regard to these delays in acting upon our reorganization plans may not constitute the kind of control over our operation that is prohibited by Section 208(a)(1) of P. L. 95-91. In addition,

the Chief Financial Officer's role in influencing approval of our reorganization plans may have the practical effect of keeping us from carrying out our statutory responsibilities "to supervise, coordinate, and provide direction for auditing...activities relating to the promotion of economy and efficiency in the administration of...programs and operations of the Department."

It is, of course, possible that the foregoing events stem from unfamiliarity of the Chief Financial Officer and others with our statute.

We would like to note that many of our audits and inspections have to do with activities for which the Chief Financial Officer is responsible. Of our 1979 audit and inspection reports, about 40 percent contained findings relating to his operation. Thus, one result of the Department's failure to have taken timely action on our reorganization plans has been a diminished ability on our part to review activities that come under the responsibility of the Chief Financial Officer.

Although we believe it is important to set forth in this report these matters of concern, we would be remiss if we did not also state that for the most part the Department's management and staff have been fully cooperative with us in responding to requests from IG for interviews and access to documentary information. Officials at the Assistant Secretary and equivalent

level have been particularly helpful in providing guidance to their staffs about the importance of cooperation with our office.

We believe that a policy statement issued by former Secretary Schlesinger on March 30, 1979, played an important role in encouraging such ready cooperation. (See Appendix A.) The statement represents wholehearted support for an unfettered IG operation. Secretary Duncan has personally told us of his desire to continue the policy approved by Secretary Schlesinger, and we have requested him to issue another statement that reaffirms the policy set forth in the March 30, 1979 document.

FORWARD PLANNING

In our Annual Report of a year ago, we said "It is of course important that IG do the best possible job of forward planning, so that we are not needlessly caught off guard by problems, and so that our staff resources can be deployed with forethought and care."

Throughout 1978 and most of 1979, the critical staffing shortages from which we were then suffering limited our ability to plan ahead. It was necessary to concentrate our limited resources on priority audit, inspection and investigation projects, most of which had short deadlines and many of which had been undertaken in response to Congressional requests or concerns. In the situation prevailing, we were not able to divert from priority reviews the people needed to do the kind of time-consuming data gathering, surveying and analysis required for comprehensive and detailed long-term work planning.

However, there were marked improvements in our planning between the beginning and the end of 1979. A year ago January, we made our first quarterly work plans for our audit and inspection staffs. In June, we developed work plans for these units that looked ahead for six months. Then, in September, we made our first work plans that extended a full year into the future.

(These year-long work plans were finished shortly after the time that the GAO was completing its field work in a review of certain aspects of our activities, including our forward planning.)

We are now finishing a revised and updated work plan for our audit and inspection units that constitutes a considerable advance in specificity and detail over the annual work plans we developed last September. We anticipate that the periodic changes we will make in these plans (our annual work plans will henceforth be updated on a quarterly basis) will produce planning documents that become progressively more useful management tools.

In this regard, however, the seven-month delay of the Department in acting upon our IG Office of Audits reorganization proposal, and then only approving a part of it, has hurt our planning.

Last summer, we saw an urgent need to develop work plans for IG activities in the critically important ADP area. The reorganization plan we submitted at the beginning of last August is designed to give us the capability of doing such ADP planning and carrying out appropriate ADP audits. The Department's delay in approving an ADP unit for our office has therefore set back our ADP planning by more than a half year.

We also saw last summer a pressing need to make plans that would permit our IG field audit staff to participate in the most effective way possible in reviews of the schools and hospitals program--a major DOE program that we believe will be unusually susceptible to waste, fraud and abuse. Our reorganization plan of August 3, 1979 would have given us the resources we need to do good forward planning in this area and in other grant programs

and DOE field activities. But since the Department has not yet acted upon the field audit portions of our internal reorganization plan, our capabilities to plan ahead in this area are now being impaired.

The Department's five-month delay in acting on our other proposal to make the 125 auditors who now report to the DOE Operations Offices a part of IG has also hampered our planning. We now cite only one of many ways in which this is so--the adverse effect of the delay on our staff recruiting and planning for training.

Today, 75 percent of the Department's auditors do not work for IG. In terms of the kind of people IG should be planning to recruit in the months ahead, and in terms also of planning training programs for our office, the question of whether the Department is to continue its decentralized audit system or to centralize its auditing under IG is obviously of major import for IG recruiting and training plans.

If we were to continue to have on our staff only one-quarter of the Department's auditors, we will want to emphasize the acquisition and development of one mix of skills in our recruiting and training. If, on the other hand, the Department is to have a centralized audit system under which the IG audit staff would become four times larger than is now the case we would want to

emphasize a quite different mix of skills in our recruiting and training. For example, we would need significantly greater numbers of people with supervisory and program coordination skills than we would in an office of our present size. Thus, the Department's failure to act upon this reorganization proposal is impairing our planning for recruiting and training.

IG ORGANIZATION AND STAFFING

1. Organizational Matters: The basic organizational structure for the DOE Inspector General's Office was created in the summer of 1978. It has proved workable and it underwent no significant change during 1979. It consists of the following elements:

<u>Organizational Unit</u>	<u>Number of Employees as of March 21, 1980</u>
Immediate Office of Inspector General and Deputy Inspector General	7
Office of Assistant Inspector General for Audits	48
Office of Assistant Inspector General for Investigations	30
Office of Assistant Inspector General for Inspections	23
Executive Director	<u>22</u>
TOTAL	130

One hundred and nine members of our total staff are professionals, and the remaining 21 are secretarial and support. Twenty staff members--12 auditors and 8 investigators--work in field locations, and the remainder of our people are stationed in Washington.

The Office of Audits performs audits concerned with financial and compliance matters, efficiency and economy questions, and program results issues.

The Office of Investigations concerns itself with problems relating to fraud and abuse and other types of illegal conduct.

The Office of Inspections examines programs with heavy technological content and also reviews programs from the perspective of the adequacy of their management controls.

The Executive Office provides across-the-board administrative support for IG. Its responsibilities were enlarged last year when former Secretary Schlesinger delegated to our office certain authorities concerned with personnel matters and contracting.

The Executive Office now has within it a small special projects staff made up of people of varying professional backgrounds who are doing very useful work on a number of cross-cutting reviews that do not fit neatly into traditional-type organizational units for IG offices. We plan shortly to make this staff a part of our Office of Investigations. The move should benefit both parties to the merger.

2. Staffing

Our Annual Report of a year ago was dominated by matters relating to the drastic staff ceiling cuts the Department had imposed upon

our office during 1978. Between the spring and the end of that year, our staff ceiling was reduced from 120 to 100 people. This represented a decrease of 17 percent. In the spring of 1978, the Department authorized our office to inform the Congress, and we did so, that when the then existing 120-person ceiling was reached, we would be allowed to take on an additional 35 persons, or a total of 155 people. The 1978 year-end ceiling of 100 therefore represented a decrease of 35 percent from the 155-person figure given the Congress in March 1978.

In last year's report to the Congress, we said we lacked the minimum critical mass of people we needed to discharge our statutory responsibilities. We also provided details about the way in which these staffing cuts were hampering our operations across-the-board, including our ability to do comprehensive planning.

Last spring and summer witnessed numerous expressions of Congressional concern over these staff ceiling reductions. In September, acting on its own initiative, the Congress voted monies that allowed us to have the 155-person IG office to which the Department had agreed a year and a half previously.

In December 1979, we gained the Department's assent to the 155-person staff ceiling authorized by the Congress, and in the same month the Office of Management and Budget also

approved an IG operation of this size. We are now building up to our approved staffing ceiling although, of course, our efforts in this regard may be delayed or retarded by the recently announced hiring freeze.

At our approved staffing level, our office will still be relatively small when compared with other statutory Inspector General offices. For instance, the President's FY 81 budget provides 553 positions for the Housing and Urban Development IG office, 484 positions for the IG staff of the Department of Labor, and 488 positions for Transportation's IG Office. Similarly, the IG operation of the Veterans Administration has been given a 362-person ceiling for FY 81, and the General Services Administration's IG office has been authorized 613 positions. However, we were heartened to learn that the OMB has recently asked the Department to accord our IG activities the same importance the President places on them.

WEAKNESSES IN THE OVERALL DOE AUDIT SYSTEM

The Department's existing decentralized audit system closely resembles the system that was created more than 30 years ago in the formative years of the Atomic Energy Commission (AEC) and that was later continued when the AEC was abolished and the Energy Research and Development Administration (ERDA) was created in its place.

Under this system, the bulk of the auditors on DOE's payroll work not for the Office of Inspector General but for the managers of the various DOE Operations Offices throughout the country--e.g. Albuquerque, Oak Ridge, Chicago, San Francisco, and the like. The audit staffs that report to the heads of these Operations Offices total about 125 auditors. In contrast, 42 auditors work for the Department's Office of Inspector General. All the other departments and agencies with statutory IG offices have audit activities centralized under their IG offices.

DOE auditors have a long tradition of great professionalism. However, in terms of its auditing priorities and the way in which it works, the audit system now in place is in many ways better designed to meet the audit needs of the AEC in 1950 rather than the audit needs of DOE in 1980.

The weaknesses of the audit system now in place include the following:

- The existing practice of having the Operations Office audit staffs report to the heads of these Offices does not assure maximum auditing independence. In Congressional and General Accounting Office quarters, and in the Executive Branch also, there is growing recognition of the importance of creating organizational and reporting relationships that increase the likelihood that auditors' findings and recommendations will be totally objective in nature and uncolored by considerations relating to possible management-inspired fear or favor. Indeed, the quest for auditing independence played a major role in the Congressional drive for the creation of the statutory IG offices.

An axiom about auditing independence is that auditors ought not report to the people who are responsible for overseeing the programs that auditors are examining.

In this respect, the existing reporting relationships between Operations Office auditors and Operations Office managers are inconsistent with what most students of auditing now regard as sound organizational and reporting practice.

- DOE audit coverage is now unbalanced in terms of the Department's overall audit needs. The ongoing auditing effort has paid too little attention to programs with non-AEC origins. The DOE Operations Offices were originally established by the AEC in the 1940's and 1950's. Today, it continues to be the case that the programs the Operations Offices are overseeing are in large measure nuclear or nuclear-related. It follows that most of the time of the Operations Office auditors has been spent looking at programs that, broadly speaking, go back to the AEC.

For the most part, it is the relatively small audit staff of the IG on which the Department has had to rely for audits of programs with non-AEC origins.

- Generally speaking, the DOE programs that need the most audit attention have been getting the least attention.

The fact that DOE's audit effort in the Operations Offices has been paying more attention to older AEC-related programs than it does to newer non-AEC-related programs means many program areas that may be potentially the most vulnerable to waste, fraud, and error have been getting the smallest amount of audit coverage.

The Strategic Petroleum Reserve, the weatherization program, and certain regulatory programs provide

examples of newer programs with a high propensity for trouble. The ranks of high vulnerability programs of this kind are now being joined by the schools and hospitals program. These programs have been principally audited only by the relatively small IG staff.

- Too small a proportion of the DOE audit effort has been devoted to audits focused on efficiency, economy, and program results, and fraud and abuse matters. Throughout almost the entire life of the AEC, its Headquarters audit staff reported to the Controller, and the audit staffs of the Operations Offices normally reported to a financial officer. In these circumstances, the auditing programs were understandably heavily weighted toward matters of interest to controllers and financial officers.

This tradition has continued under DOE for the field audit staffs although IG audits have been reoriented to focus more on economy and efficiency issues. In our view a disproportionately small percentage of the overall DOE audit effort consists of audits relating to economy, efficiency, program results, and possible fraud and abuse.

The foregoing observation has to do with questions of audit balance and is in no sense intended to downgrade the importance of financial and compliance auditing. In absolute terms, DOE is not doing nearly enough of auditing of this kind either.

- Not enough has been done to use auditing techniques to help prevent or detect possible fraud and abuse in DOE programs. Since wrongdoing generally concerns the misuse of money, auditing techniques--the examination of financial records and so on--can be very valuable investigative tools. However, the Department's audit effort as a whole had not paid enough attention to fraud and abuse matters. Also, some types of specialized auditing skills needed to help combat certain kinds of wrongdoing--computer fraud, for example--are now in short supply within the Department.

- DOE has lacked effective ways of ensuring that the work programs of the Operations Office audit staffs are consonant with the priority auditing needs of the Department as a whole. It might be that cyclical audits repeated over many years have failed to bring to light any major deficiencies in some long-standing research project monitored by a particular Operations Office. In the geographical vicinity of this same Office, however, there might be some DOE Headquarters-run program known to have serious problems. Under these circumstances, a good argument could be made for scaling down the amount of resources devoted to the relatively trouble-free project, and for using the resources thus released to increase audits of the trouble-ridden program.

However, the Department now lacks workable mechanisms for ensuring that audit resources are used in a way that contributes the most to the Department's overall audit needs.

- The Department needs more auditors than it now has.

Even if the Department were getting more auditing mileage out of existing audit resources, the Department would still need more auditors than it currently has.

The crux of the problem is twofold: first, when DOE was created, it inherited from predecessor agencies a number of major programs without inheriting at the same time resources for auditing these programs. The FEA-created Strategic Petroleum Reserve Program is a prime example. Second, while leaving these inherited auditing deficiencies essentially uncorrected, DOE launched major new program initiatives without at the same time budgeting for the yet additional audit capabilities needed for checking on these new programs. The conservation grant programs are good cases in point.

As has already been stated, we recommended adoption of a centralized audit system on October 31, 1979. The General Accounting Office has also recommended that DOE adopt such a system. The GAO has also said the Department needs more auditors.

IG AUDIT ACTIVITIES

The 48-person Office of Audits (42 auditors plus 6 support personnel) consists of a 36-person Headquarters staff and a 12-person field staff stationed at eight different locations throughout the country.

In mid-1978, the IG senior management staff concluded that, although the reports then being produced by our audit staff were of consistently high quality, not enough of the reports dealt with the kinds of efficiency and economy and fraud and abuse matters for which our office has statutory auditing responsibilities. We also concluded that too much of the audit work we had been doing consisted of audits that had to do with relatively small problems. Accordingly, the cost/benefit ratio of many of our audits seemed unlikely to be large in terms of saving money or contributing to significant program improvements.

We therefore undertook a major reorientation of our IG audit effort aimed at decreasing the number, while increasing the significance, of the audits we would henceforth conduct. The year 1979 saw us making good progress in this regard.

The remainder of this section contains summaries of what we regard as some of our more significant audit findings and recommendations. Where enough time elapsed for corrective

actions to be instituted in response to our reports, and for us to arrive at judgments concerning the adequacy of these actions, we also make summary comments on these latter matters.

Possible Oil Price Overcharges

The oil transfer pricing program provides for regulating the prices at which international oil companies transfer crude oil from foreign producing affiliates to domestic refining affiliates in the United States. When transfer prices exceed maximum allowable prices, DOE initiates cost disallowance actions.

IG learned that DOE had published maximum allowable prices only for the period October 1973 through May 1975. This meant that the Department had no way of determining overcharges which may have occurred since May 1975. IG therefore recommended in the fall of 1978 that DOE update and publish maximum allowable prices.

It is currently estimated by DOE that actions taken to date by the Department in response to this IG recommendation may result in additional cost disallowance actions of as much as \$80 million.

Management of Government-Owned Property

Held by DOE Offsite Contractors

We reviewed the effectiveness of DOE management controls over an estimated \$350 million worth of government-owned property in

the hands of DOE offsite contractors. Our aim was to see whether the controls were adequate to prevent possible theft, loss or misuse of such property.

Our most disturbing finding was about discrepancies between Departmental records and contractor records covering about \$55 million worth of this property. Of this \$55 million difference, \$47 million represented government-owned property that appeared on the records of offsite contractors but not on the records of DOE. The remaining \$8 million of discrepancies represented property that appeared on the Department's records as being in the hands of offsite contractors but that did not appear on the contractors' records.

Since accurate recordkeeping represents the very essence of any system for preventing fraud and waste in the use of government-owned property, these discrepancies are very disquieting.

Responsible DOE officials had been aware of weaknesses in the DOE property control systems and had tried to correct them. However, the pace of remedial action, mainly because of staffing shortages, had not in our opinion been fast enough. We were heartened by the determined additional corrective actions taken following our review.

Compensation Paid to Consultant Firms Under
Selected Support Service Contracts

DOE makes extensive use of consulting firms that furnish the Department with a wide variety of support services--data gathering, economic analysis, and the like. IG made a test-bore examination of compensation paid by the Department to two relatively small consulting firms that do about 90 percent of their business with the Federal Government, with about half of their work being done for DOE.

We concluded that the rates of compensation to these firms were excessively high. As examples, the top executive of firm A was charging DOE on the basis of an annual salary of \$92,700, and he had received salary increases of more than 100 percent over the previous three years. The top executive of company B was charging DOE on the basis of an annual salary of \$75,000, and he had received increases totaling 70 percent over the same time period.

The firms were also paying consultants they hired to work on DOE contracts much more than the maximum \$182 per day rate of pay then allowed consultants working directly for the Federal Government. This practice is legal, but in some instances it seems to have been abused. For instance, one consultant was employed at a rate of \$320 a day. Working less than four months, he earned more than \$32,000.

We were not satisfied with the Department's initial response to our recommendations for improving controls on the rates of compensation paid to the staff and consultants employed by consulting firms, but the Chief Financial Officer has recently taken action that encourages us. In the months ahead, we plan to make additional reviews of payments being made to firms doing consulting business with DOE.

Questionable Projects Funded by DOE at FERMI

National Accelerator Laboratory (Fermilab)

A report issued in 1978 by the audit group that works for the DOE Chicago Operations Office cited examples of projects undertaken by the DOE-funded Fermilab model shop that were unrelated to the Laboratory's mission. These included the design and manufacture of stained plastic elevator ceilings costing almost \$12,000, a conference table costing almost \$10,000, and a dining table costing more than \$7,000.

We found that very little had been done to eliminate the spending control deficiencies set forth in the audit group report, and we recommended further remedial actions. The Department in due course took additional corrective steps, including placing a spending limit on so-called amenity-type projects and also requiring that such projects be approved by the laboratory director.

In our opinion, however, it is fundamentally wrong for DOE to fund amenity-type projects of the kind described above, and we regret that the Department has not yet accepted our recommendation that it stop funding projects of this nature.

Slow Payment of Contractor Invoices

Organizations doing business with the Federal Government frequently complain of delays in getting paid for services rendered or goods provided. On occasion, these firms may raise the price of their products to offset possible money losses incurred while they are waiting for their bills to be paid.

IG examined DOE performance in this regard and found it disappointing. Treasury Department regulations require that payments to vendors be made as close as possible to the payment date on the invoices, or, if no date is specified, within 30 days of receipt. We aged 2,738 invoices totaling \$120 million and found unpaid invoices aggregating nearly \$59 million that were 30 or more days old, including about \$16 million of invoices that were at least 90 days old. Furthermore, the DOE payments unit had a 30-day processing backlog of approved invoices.

The Controller has taken a series of corrective actions that offer promise of speeding invoice payments.

Potentially Hazardous Insulation

During a review of the Weatherization Program in Region III, IG found that about 75 homes in Montgomery County, Maryland had been insulated with material which could be a fire hazard. We recommended that the insulation be removed.

The Department said it agreed with our recommendation. Last December 5, 1979, however, the DOE Office of General Counsel advised us that for a variety of reasons, the state and county were opposed to replacing the unsafe insulation with safe insulation.

We have recommended that the Department continue to urge removal of this insulation in the strongest possible terms.

Interest Rates Charged in Settling Pricing Violations

DOE develops and enforces price regulations that determine the price companies can charge customers for certain products including gasoline. Companies that violate these regulations are assessed a violation amount which includes the amount of overcharges plus interest on the overcharges.

Recently this interest rate has been significantly lower than the prime interest rate charged by banks to their customers with the highest credit rating.

The Department has adopted an IG recommendation that the interest rates used in price violation cases should be geared to the prime interest rate rather than the lower rates that have been used in recent years. IG is not able at this time to calculate the potential dollar value of this change to consumers, but the figure should run to many millions of dollars because of the large amounts of money often involved in pricing violation cases.

Marine Terminal Services Contract with Sunoco Terminal Services, Inc.

This is one of the three contracts that DOE entered into to provide so-called throughput services for crude oil that DOE buys abroad for the Strategic Petroleum Reserve Program. The oil is discharged from tankers at contractor-owned docks. It then flows to DOE storage caverns in Louisiana and Texas.

IG reviewed the Department's contract with Sunoco and found it to be highly advantageous to the company. It permitted Sunoco to recover 100 percent of the \$23 million it had paid to secure terminal facilities for handling SPR oil over a two-year contractual period. This is at sharp variance with normal accounting practices, under which only a pro rata share of the twenty-year useful life of the facility could have been charged to the contract.

The contract price of the oil handled by Sunoco during the time period in question was 59 cents per barrel. If normal accounting practices had been followed in setting the terms of the contract, we estimate that this cost would have been reduced by about 43 cents a barrel, or a total of about \$23 million.

The Cost Accounting Standards of the Federal Procurement Regulations do not normally permit cost recoveries of the kind enjoyed by Sunoco.

IG argued that the Department erred in not securing Secretarial approval of the decision not to apply the Cost Accounting Standards to the Sunoco contract; and we recommended that Departmental officials adhere strictly to Federal Procurement Regulations in negotiating future contracts, including that portion of the regulations relating to Secretarial approval of waivers of Cost Accounting Standards when needed.

The Department did not agree with IG that it should have secured a Secretarial waiver for the Sunoco contract.

IG also found that, because of a combination of a curtailment of foreign oil supplies for the SPR program and a minimum payment provision in its contract with Sunoco, the Department had paid Sunoco over \$22 million for terminal services it had not been

able to use. It appeared unlikely that these services would be used before the contract expiration date. We accordingly recommended that DOE try to amend the contract to reflect the payments made for services that had not been utilized. An amendment was then agreed to under which DOE could secure future terminal services at a rate well below prevailing prices. Depending on future oil availability for the SPR program, significant, although not presently calculable, savings could be produced by this adjustment in the contract.

Marine Terminal Services Contract with Seaway Pipeline, Inc.

In a situation similar to the one that developed in the above contract with Sunoco, the Department also made substantial payments to Seaway for services not actually utilized. IG recommended that the contract be amended to reflect these past payments for services not utilized. This was done. Depending on future oil availability for the SPR program, DOE may save as much as \$1.2 million as a result of this amendment.

Marine Terminal Services Contract with Koch, Inc.

This is another DOE marine terminal services contract for the Strategic Petroleum Reserve Program.

IG reviewed the \$8 million contract and concluded that, because of a combination of sharp curtailments of foreign oil purchases

for SPR and the construction of a DOE-owned terminal facility adjacent to the Koch site, the Department no longer had any real need for most of the services Koch had made available to DOE.

IG therefore recommended that DOE terminate the bulk of the Koch contract as quickly as possible. The Department at first disagreed with this recommendation, but later accepted it. We estimate that the Department's failure to undertake such termination action when IG first recommended it cost DOE more than \$1 million in additional payments for services that were not in fact needed or used.

IG Survey of the Department of Energy Headquarters

Internal Mail Distribution System

Test mailings conducted by IG showed it was statistically probable that DOE headquarters was losing at least 126,000 pieces of internal mail each year. This would be a stack of mail more than twice the height of the Washington Monument. The mailings also showed it was taking an average of two and a quarter workdays for pieces of internal mail to reach their destination.

Most of our suggestions for improving mail distribution were adopted. According to an IG follow-up review, it appears there have been marked decreases in the loss rate and marked speedups in delivery times.

Unallowable Overtime Payments by DOE Employees

We examined overtime payment practices at DOE headquarters and found that in 1978 seventy-five employees in grades GS-13 through GS-15 had been compensated for overtime work in violation of DOE policies and regulations.

We also discovered that some employees had received overtime pay and compensatory time off in amounts exceeding the limits allowed by Departmental regulations.

Also, we found a good deal of misunderstanding and misinformation concerning the administration of overtime compensation.

The Department is in substantial agreement with our recommendations for corrective action, and remedial steps have already been taken.

Inaccurate Accounting for Oil Stored by the Strategic Petroleum Reserve

We made a review of the accuracy of the instruments used to measure the quantity of oil stored in caverns in Texas and Louisiana for possible use in the event of emergencies, such as a foreign oil embargo. This oil is off-loaded from ships at marine terminals on the Gulf coast and then transported by pipeline to storage caverns. Meters measure the amount of oil leaving the terminals and entering the storage sites.

We found that, apparently because of inaccuracies in the metering systems at the storage sites, there were frequently marked differences between the amounts of oil the meters showed as leaving the terminals and as entering the caverns. On one day, for instance, there was a difference of 14,000 barrels between the amount of oil that supposedly left the marine terminal at Nederland, Texas, and the amount that supposedly went into the storage caverns at the West Hackberry storage site. This represents a difference of more than 10 percent between the amount of oil supposedly dispatched and the amount supposedly received. Such discrepancies give cause for much concern, since the loss or theft of as little as one percent of the oil purchased to date by the Strategic Petroleum Reserve would amount to a loss of more than \$10 million to taxpayers.

In response to our report, DOE requested the Department of Defense to review DOE oil flow measuring techniques.

Wasteful Iridium Procurement by the DOE

Iridium is a rare metal used by DOE for encapsulating nuclear power supplies for space vehicles. At the request of the Department's Iridium Coordinator, IG made a review of the circumstances that caused the Department of Energy to spend about \$600,000 to buy iridium that it need not have purchased if a reprocessing contractor had made timely deliveries to the Department of the iridium it owed DOE.

We recommended that DOE take a series of actions to remedy the problems arising from the reprocessing company's failure to perform under its contract with the Department. We also recommended that administrative steps be taken to prevent a repetition of what we thought were major weaknesses in the Department's management of the contract. These included disagreements about who within the Department was responsible for checking on contractor performance.

The Department is moving to demand that the reprocessing contractor either return to the Department the iridium that is owed or else reimburse the Department a dollar amount equal to the current market value of the iridium.

Audit Work in Progress at the End of 1979

IG audit activities underway at the close of last year included a comprehensive series of test-bore examinations of the adequacy of controls for preventing waste, fraud and abuse in the weatherization conservation grant program for low-income families. IG did on-the-spot checks in 34 different locations in various parts of the country.

IG INVESTIGATION ACTIVITIES

Most of the present members of the IG investigative staff had worked at ERDA or FEA before coming to our Inspector General's Office. The traditions of those two agencies emphasized investigations relating to various types of personnel grievance cases and possible standard of conduct violations. Only a relatively small fraction of the agencies' investigative resources were devoted to problems where there was reason to suspect that the element of criminality might be present.

These traditions were reflected in very low referral rates of cases to investigative or prosecutive authorities by the two agencies. Also, in ERDA and FEA, and likewise in DOE during the first year of its existence, referrals were made by the General Counsel offices, and not by investigative or IG staff.

When those of us making up the existing IG management team joined our office in mid- and late 1978, we instituted a series of changes in investigative policies and procedures. In broad, we tried to spend less time on such matters as personnel grievances and to spend more time on matters involving possible fraud and other types of outright wrongdoing. In parallel, we began making direct referrals of cases from IG to other investigative organizations and to prosecutive authorities.

These changed emphases and procedures have been mirrored in our case referral statistics. In the first half of 1978, there were two such referrals. In the second half of 1978, there were 14 referrals. In 1979, there were 45 referrals, and the referral rate at the time this is being written is running at a yet higher annual rate.

It is our understanding that a number of our cases that are now in the hands of United States Attorneys are being readied for possible presentation to grand juries. We have found that considerable periods of time often elapse between referrals of cases to prosecutive authorities and the possible return of indictments. For example, one of our cases that was referred to a United States Attorney in the summer of 1978 is just now nearing the point where a decision will be made whether to seek an indictment. The stepped-up referral rate of recent months is therefore not yet reflected in indictment and conviction statistics. We expect to see changes in this regard in the indictment and conviction statistics of future Annual Reports of our office.

There follows a tabular summary of our 1979 investigative work. Many of our referrals go to United States Attorneys in various jurisdictions throughout the country. These referrals are in the figures of the Department of Justice.

SUMMARY OF INVESTIGATIVE ACTIVITIES

CALENDAR YEAR 1979

Case Backlog on December 31, 1978	66
Case Backlog on December 31, 1979	120
Pending.....	77
*Pending Inactive.....	20
Control Files.....	5
Cases Closed in Calendar Year 1979.....	70
Cases Worked Jointly With Other Investigation Agencies	10
FBI	9
Defense Investigative Service	1
Cases Accepted by DOJ for Planned Presentation to Grand Juries	13
Hotline Complaint Referrals (established April 5, 1979)	
Complaints Received	60
Cases Opened Upon Complaints	8
Complaints Closed	40
Complaints Pending	20
GAO Hotline Complaint Referrals (First Complaint Received June 18, 1979)	
Complaints Received	37
Cases Opened Upon Complaints	9
Complaints Closed	16
Complaints Pending	21
Cases Referred to Prosecutive and other Investigative Bodies	45
DOJ (Criminal Division ..	37
DOJ (Civil Divison)	1
FBI	7

* Pending inactive cases are cases where our investigation has been completed but where we are awaiting actions from others before closing the case. Investigations that may lead to disciplinary actions against DOE or contractor employees fall into this category.

Cases Referred to Prosecutive and Other Investigative
Bodies (continued)

Prosecutions Declined ...	23
Cases Awaiting Prosecutive Opinion	20
Convictions	1
Indictments and Awaiting Trial	0
Investigators' Testimony Given to Grand Jury ...	3
Cases Resulting in Correction of Program Deficiencies	11
Cases Resulting in Disciplinary Action	19
DOE Employees	15
DOE Contractor Employees	4
Number of Investigative Reports Issued	41

Special Investigations

During the course of the year we conducted the following investigations that differed from our typical investigative cases.

"Intelligence Gathering" at the DOE by the American
Petroleum Institute (API)

Our office conducted an extensive review of alleged leaks of information by DOE staff members to Mr. John Iannone, an employee of the American Petroleum Institute, an oil industry trade association.

Our findings indicated that during the time of the events in question the Department maintained a double standard of access to information that favored API over members of the public who relied on DOE's formal procedures. Through Mr. Iannone and other API employees, the Institute enjoyed advance access to numerous internal DOE documents. These documents frequently included drafts of proposed rulemakings that would directly affect the financial interests of API's member oil companies.

IG proposed a series of remedial steps. These related to such matters as changing procedures for requesting and securing DOE documents, making available to the public logs of all such requests, accelerated issuance of regulations on acceptance of gratuities by DOE employees, maintaining formal records of DOE meetings with private parties to discuss proposed Departmental regulations and so on.

DOE's responses to our recommendations have been mixed, and have not gone as far as we would have wished.

Testimony Regarding Alleged Diversion of Weapons Grade Enriched Uranium From the Nuclear Materials and Equipment Corporation (NUMEC)

NUMEC was an Atomic Energy Commission contractor that processed uranium for the AEC. An AEC inventory revealed that a quantity of enriched uranium sufficient to produce a nuclear weapon could not be accounted for at the NUMEC plant. Some feared that the unaccounted for uranium may have been diverted or stolen for use in an atomic bomb.

IG was asked to try to determine whether certain witnesses may have intentionally given the House Subcommittee on Energy and Power inaccurate information on the NUMEC-related

matters. We concluded that a senior official of the former Energy Research and Development Administration may have made intentionally inaccurate statements during an August 8, 1977 Subcommittee hearing. IG's investigative report was referred to the Department of Justice, which concluded that the matter lacked prosecutive merit.

Investigation of the Thermonetics Biomass Proposal

This review began as an investigation of allegations of possible misconduct by a senior DOE official in connection with an unsolicited proposal from Thermonetics, Inc., a corporation in the energy conversion business. DOE was on the verge of accepting the proposal when IG started its inquiry. The proposed project, whose estimated cost to the DOE would have been well over \$900,000, related to a process for producing low BTU gas from either urban waste, or cattle manure.

The IG review disclosed no evidence of improper conduct by the Departmental official in question. However, we found there had been strong doubts about the value of the proposed project among those who had reviewed it from a technical

standpoint. IG therefore recommended that the Department take a fresh look at the merits of the project. This was done, and it was decided that the project would not be funded. DOE saved well over \$900,000 as a result.

Alleged Cover-ups of Leaks of Radioactive Materials at Hanford

IG investigated charges made by Mr. Stephen Stalos, a former DOE contractor employee, relating to what he believed to be a policy of covering up leaks of radioactive materials from storage tanks at the Department's Hanford site.

We were unable to arrive at a judgment as to whether Mr. Stalos could reasonably have concluded on the basis of statements made to him by DOE and contractor employees that there existed such a cover-up policy. However, our inability to reach a conclusion in this regard was not as important as it may have first appeared. As we wrote in our report:

"The word 'cover-up' evokes pictures of people devising strategies and tactics aimed at concealing things which ought not to be concealed. But in the case of Hanford, had there been any officials desiring to minimize publicity about tank leaks, they would have no real need to engage in conduct which might be considered questionable. This is because Hanford's existing waste management policies and practices have themselves sufficed to keep publicity about possible tank leaks to a minimum."

We found that certain of Hanford's nuclear waste management policies and practices were in need of wholesale overhaul, and we made appropriate recommendations.

IG INSPECTION ACTIVITIES

Just as our audit and investigations staff have Energy Research and Development Administration (ERDA) and Federal Energy Administration (FEA) ancestries, the antecedents of our inspection staff also trace back to the inspection units of these two organizations. Our Annual Report of a year ago noted the need to refocus the inspection programs inherited from these predecessor agencies to make them more in keeping with our statutory responsibilities.

On the one hand, certain of the reports issued by the two former agencies dealt with broad policy and evaluation questions which, although certainly important, were of more concern to policy and program planners than to an office with our type of legislative charter. On the other hand, some of the inspections conducted by the ERDA and FEA staffs dealt with very detailed administrative and management issues that had greater relevance for project managers than they did for an office with our kind of mandate.

The consequent reorienting of our inspections effort that we launched in the fall of 1978 gained momentum in 1979. We were pleased when we looked back at the end of the year to see the changes that had taken place in our inspection philosophies and priorities.

There follow summaries of significant findings and recommendations contained in reports already issued on 1979 inspections. The status of corrective actions is also indicated where enough time has elapsed to enable us to measure and evaluate the Department's responses to our reports.

H-Coal Pilot Plant Project

This is a DOE-funded coal liquefaction pilot plant being built in Catlettsburg, Kentucky. The project has experienced major cost overruns--its original estimated cost was \$178 million; the latest estimate is approaching \$300 million.

A comprehensive IG review of the project identified major management and contractual weaknesses, many of which the Department had already been aware of.

As an example, even though the plant is scheduled for only two years of operation as a pilot project, DOE paid more than \$1 million for an elaborate brick administration building and a permanent guard building on land leased by and next to a refinery of the Ashland Oil Company, the parent company of the subsidiary that was construction manager of the project until DOE terminated its contract. These buildings were put up

even though DOE had directed that only simple prefabricated buildings be constructed and had objected to the plans for expensive buildings that had been submitted by the Ashland subsidiary.

The contract provisions are such that, at best from the Government's standpoint, Ashland will be allowed if it wishes to obtain these buildings for the price of their depreciated value, rather than their fair market value at the end of the pilot project. The possibility also exists that Ashland will be able to acquire the buildings without paying the Government anything.

The pattern of DOE responses to the eight IG recommendations for corrective action has ranged from excellent to disappointing. However, an IG followup visit to the project found marked improvements in project management that primarily resulted from shifting management responsibilities from DOE Headquarters to the Oak Ridge Operations Office.

Federal Energy Regulatory Commission's Dam Safety Inspection Program

The Federal Energy Regulatory Commission is required by law to make safety inspections of about 600 hydroelectric dams

throughout the United States. At the request of the FERC Chairman, IG reviewed the effectiveness of the Commission's inspection program.

We found much to commend in the program, but we also identified several ways in which we thought it could be strengthened. For the most part, FERC agreed with our suggestions for improvement, and took corrective actions. However, we remain concerned about the Commission's reluctance to perform regular inspections of dams during the winter months, since the safety hazards from dams are great when snows melt in the spring.

Management Controls at the Solar Energy Research Institute

The Solar Energy Research Institute (SERI), located at Golden, Colorado, has statutory responsibilities relating to the national solar energy program. SERI is managed and operated by the Midwest Research Institute under a DOE contract.

IG conducted a wide ranging review of the adequacy of SERI management controls in regard to such matters as contracting and procurement, personnel, budgeting and cost estimating, accounting systems, internal auditing, safety, and DOE project management oversight capabilities.

Full or partial corrective action has now been taken in response to the majority of our recommendations for strengthening management controls.

Certain Unallowable, Unnecessary and Unauthorized Expenditures
at the Solar Energy Research Institute

An IG review examined certain expenditures made at SERI for such purposes as travel, entertainment, publications, publication subscriptions, and honorarium payments. We raised questions about expenditures that appeared to us to be unallowable under the DOE contract, or that had been made without securing seemingly necessary prior approval, or that appeared to constitute simple waste of money.

The Department's response to our findings was constructive. There has been a general tightening of controls, and audit surveillance has been increased.

The Technical Evaluation Process in the Biomass Energy Systems
Program

This was an IG examination of the evaluation procedures employed in selecting for DOE funding a series of research and development projects in the biomass area totaling about \$12 million.

Numerous shortcomings came to light during the review. These included going ahead with projects that had received unfavorable technical reviews, awarding contracts without having made any prior technical or programmatic evaluations, and failing to follow objective procedures in the evaluation process.

As an example, DOE provided over \$1 million for funding a project under which the General Electric Company was to produce gas from kelp (seaweed) grown in the open oceans. The award was made despite a technical review that had urged that the project not be supported since, according to the review, studies of kelp growth could be performed much more cheaply on land based test sites. Of the more than 100 kelp plants that were planted in the open oceans after the contract award, all died in less than two months.

We made a series of recommendations aimed at reducing the likelihood that projects of dubious technical merit will be supported by DOE in the future.

Costly Mistakes in the Printing of the DOE 1980 Gas Mileage Guide

IG investigated the circumstances relating to waste of more than \$500,000 in the printing of the 1980 Gas Mileage Guide.

The Guide, which DOE publishes and distributes to automobile dealers throughout the country, sets forth Environmental Protection Agency fuel economy estimates for different makes and models of vehicles. The Guide comes in two versions: a 49 state version for vehicles operated in all states other than California, and a California version. The mileage estimates in the two versions are markedly different.

Because of errors, the covers for the two versions were switched when the first printing of the 1980 Guide was made last fall. The 49 state cover was put on the California version, and the California cover was put on the 49 state version. Eight million copies of the guide then had to be destroyed.

A second major error occurred when a corrected version of the Guide was printed. This version was supposed to be printed red on white, to distinguish it from the green on white guides with the switched covers. However, by the time IG discovered the mistake and told the Department about it, 3.4 million copies of the corrected version had erroneously been printed the same color as the first version with the wrong cover.

IG's main recommendation for preventing similar mistakes in the future was to propose centralizing responsibilities for printing and publishing actions within the Department.

Inadequate Justifications for Noncompetitive Procurements by
Solar Applications

IG looked at 17 instances of noncompetitive contracts and unsolicited proposals for grants funded by DOE office of Solar Applications. The initial costs of these procurements amounted to almost \$10 million; subsequent modifications and extensions of the contracts raised their total cost to over \$18 million.

We were troubled to find that in some instances the justifications for these noncompetitive procurements were based on misleading information provided by contractors and grantees. For example, we discovered that one grantee had overstated the technical experience of its staff and had incorrectly claimed that it had a unique manufacturing facility capable of building solar heating system prototypes. In another case, a contractor's "exclusive capability" seemed unsupportable since we learned that several other firms were performing essentially the same type of work for the Office of Solar Applications.

These discrepancies in justifications of noncompetitive procurements had been permitted to pass unnoticed in large part because of the inadequate staff and effort that had been allocated by the

Department to verifying such justifications. We also noted that the pattern of deficiencies in Solar Applications' noncompetitive procurements suggests that the lower costs and improved performance that competitive bidding is intended to achieve have been subordinated to the administrative convenience and expediency of noncompetitive contracting.

Followup Reviews in the Strategic Petroleum Reserve Program

An IG followup review of DOE responses to an earlier IG inspection of the SPR drilling program confirmed that new controls and procedures reflecting IG findings had been instituted that should reduce the possibility of a repetition of wasteful practices that had caused the needless spending of over \$2 million. Another IG followup review of actions taken in regard to DOE-funded sales taxes that had been paid to Louisiana and Texas by SPR vendors disclosed that refunds of \$40,000 in taxes had been obtained and that another \$165,000 in refunds had been applied for. Earlier IG recommendations contributed to the decision to seek these refunds.

FOLLOW THROUGH ON DEPARTMENTAL RESPONSES TO IG REPORTS

The past year also saw us do a better job than previously of monitoring corrective actions taken by DOE in response to IG findings and recommendations. In November, we made a comprehensive year-end examination of things done by DOE to correct program and project deficiencies coming to light in IG audit and inspection reports issued in months previous. This review included numerous field trips during which we wanted to acquire firsthand and on-the-spot knowledge of what DOE was doing in response to our reports.

We plan to increase the frequency of such comprehensive follow-through reviews when our resources permit. Also, we will continue our existing practice of making frequent informal checks on the status of corrective actions when this appears desirable.

The follow-through work that IG does should be helped by a Committee--the Department's Audit Review Council (DARC) -- recently created by DOE to provide a Department-wide mechanism for tracking audit findings relating to DOE operations, including findings of GAO and IG. The DARC is chaired by the Chief Financial Officer, and its membership includes the Director of Administration, the Controller, and the Director of Procurement and Contracts Management.

In the version in which it first appeared, the proposed Departmental Order establishing the DARC troubled us on legal grounds, since a number of its provisions struck us as clearly incompatible with Section 208(a)(1) of P.L. 95-91. The proposed Order also called for the IG to serve as a member of DARC. This too concerned us, because we will be making periodic reviews of how the DARC is functioning, and we would not wish to compromise our objectivity by being a part of a body we are inspecting.

The provisions of the proposed Order which gave us concern on legal grounds have now been eliminated. Also, the DARC came into agreement with us that it would be in the Department's best interest for IG not to serve on it, but to cooperate with the DARC fully wherever IG can be of help to it.

We believe that the DARC has the potential of being a useful management mechanism for the Department.

OTHER MATTERSGAO Review of IG Audit and Inspection Activities

Late last year, the GAO completed a constructive and useful review of certain aspects of the IG audit and inspection programs. GAO had four main recommendations: (1) that we do more comprehensive and detailed planning, (2) that we establish more formal internal procedures, (3) that IG assume control of the 125 DOE auditors who now report to Operations Office managers, and (4) that we have a separate line item in the budget. GAO also said the Department needs more auditors than it now has. We agreed with all the GAO recommendations.

Affirmative Action

We have been making a major effort to recruit larger numbers of women and minority staff members for our office. The effort is meeting with growing success, and our office is benefiting greatly from the contributions of the outstanding people who have been joining us.

Training

We attach major importance to upgrading skills of our staff. Last year, about three quarters of our staff attended various types of formal training courses. Our Office of Investigations did a particularly good job insofar as training is concerned.

Delegation of Personnel Hiring Authority

On June 4, 1979, Secretary Schlesinger delegated to IG certain authorities concerned with the hiring of staff and consultants and contracting for studies and other services. We feel that this delegation has permitted us to be more effective in handling our personnel matters and has contributed to maintaining the independence of our office. However, our administratively granted personnel authority is still not as extensive as the statutorily provided personnel authority enjoyed by the IG of HEW and the 12 IG offices established by the Inspector General Act of 1978.

IG Subpoena Power

In 1978, our office attempted to obtain the testimony of John Iannone, an employee of the American Petroleum Institute (API) and a central figure in one of our investigations. This subpoena was successfully challenged in the local Federal District Court on the ground that the IG's subpoena authority does not extend to subpoenas to compel testimony and that the Secretary cannot delegate this type of subpoena authority to the IG. The Department appealed this matter on the latter ground arguing that the Secretary has authority to issue subpoenas for testimony and that this authority had been properly delegated to the IG by the Secretary in the API case.

The District of Columbia Circuit Court of Appeals ruled in favor of Mr. Iannone on August 31, 1979, and our subsequent petition for rehearing en banc was denied.

TEXT OF DOE POLICY MEMORANDUM ON
COOPERATION WITH THE OFFICE OF
INSPECTOR GENERAL ISSUED BY
FORMER SECRETARY SCHLESINGER
ON MARCH 30, 1979

This memorandum concerns the Department's policy toward the Office of Inspector General. Pursuant to the provisions of the Department of Energy Organization Act, the Inspector General is charged, in part, with responsibility for conducting, supervising, and coordinating activities that will promote economy and efficiency and prevent or detect fraud and abuse in the Department's programs and operations. To ensure that the Inspector General can perform his duties properly, all Departmental employees, contractors, and contractors' employees should cooperate fully and promptly when the Inspector General's staff requests interviews, information, documents, or access to facilities.

The Inspector General has authority to initiate, conduct and complete audits, inspections and investigations. In carrying out these responsibilities, the Inspector General is not required to give advance notice or seek the approval of any officer of the Department. However, supervisors will normally be informed in advance when their area of responsibility will be audited or inspected by the Inspector General's office. Since investigations frequently involve allegations of criminal misconduct, the type of notice given will depend on the circumstances of the particular case.

Also, as a matter of Departmental policy, all DOE and contractor employees should understand that if they have knowledge or suspicions of possible fraud, abuse, or other forms of wrongdoing in the Department's programs or operations, they have an obligation to inform the Inspector General as promptly as possible.

The Inspector General, J. K. Mansfield, can be reached by telephone at (202) 252-4073. Alternatively, communications can be mailed to Room 5A-228, James Forrestal Building, 1000 Independence Avenue, S. W., Washington, D.C. 20585 or to P. O. Box 23440, Washington, D.C. 20024. In all cases, confidentiality will be respected when requested.

REPORTS CONCERNED WITH 1979
IG AUDIT ACTIVITIES

The following reports having to do with audit work performed by IG in 1979 have been issued:

Conditions Adversely Affecting the Weatherization
Program for Low Income Persons 1/

Weatherization Grants in Region III

Lack of Competition for FY 78 Grants to Office of
Consumer Services in States, Territories and
Other Entities 1/

Grants to the D.C. Office of People's Counsel 1/

Management of Government-owned Property Held by DOE
Off-site Contractors

Unallowable Overtime Payments to Department of Energy
Employees

Slow Payment of Contractor Invoices

Interest Rates Charged in Settling Pricing Violations

Compensation Paid to Consulting Firms Under Selected
Support-Service Contracts

Iridium Procurements by the Department of Energy

Marine Terminal Service Contracts for the SPR Program

Controls Over Revenue Activities at the Naval Petroleum
Reserve at Caspar, Wyoming

Inaccurate Accounting for Oil Stored in the Strategic
Petroleum Reserve

Questionable Projects Funded by the Department of Energy
at the Fermi National Accelerator Laboratory (FERMILAB)

1/ Field audit work on this report was largely performed during calendar year 1978.

Uneconomical Practices of the Purchasing Function
at the Pittsburgh and Midway Coal Co.

Entitlements Exemptions for New Refiners

Receipt and Use of Half-Fare Airline Coupons at
Department of Energy Headquarters

The following reports dealing with IG audits in which the field
work was completed in 1979 are now in various stages of
preparation:

Status and Processing of Violation Cases

Contract Administration of Selected Support Services Contracts

Naval Petroleum Reserve Revenue Producing Activities

Priority Treatment of Prices, Schedules and Contractor
Practices at SPR

Travel Practices

Louis Records Subcontract with Mike's Rentals,
W. Lafayette, La.

FERC's Headwater Benefits Program

Management of Office Furniture

Quick Reaction Work Orders

REPORTS CONCERNED WITH 1979
IG INSPECTION ACTIVITIES

The following reports having to do with inspection work performed by IG in 1979 have been issued:

Management Controls at the Solar Energy Research Institute (SERI)

Certain Unallowable, Unnecessary, and Unauthorized Expenditures at SERI

H-Coal Pilot Plant Project

Federal Energy Regulatory Commission's Dam Safety Program

Technical Evaluation Process in the Biomass Energy Systems Program

Inadequate Justifications for Non-competitive Procurements by Solar Applications

Consultants Employed by the Principal Management Support Services Contractor of the Office of Solar Applications

Costly Mistakes in the Printing of the 1980 Gas Mileage Guide

Administration of Health and Safety Activities at a Biomass Facility

Money Being Wasted on Storage of Department of Energy Publications

Visitors' Center of the 10 MWe Solar Pilot Plant Project

Strategic Petroleum Reserve (SPR) Drilling Operations 1/

DOE Management of Printing and Dissemination of Publications 1/

1/ Field inspection work on this report was largely performed during calendar year 1978.

The following reports dealing with IG inspections in which the field work was completed in 1979 are now in various stages of preparation:

Project Management of the 10 MWe Solar Thermal Central Receiver Pilot Plant Project

Technical Risk of the 10 MWe Solar Thermal Central Receiver Pilot Plant Project

Procurement Practices at the 10 MWe Solar Pilot Plant Project

Performance Accountability in the Biomass Energy Systems Program

Assessment of National Programs for Solar Heating and Cooling of Commercial Buildings

Safeguards, Security and Safety of Special Nuclear Materials

The 5 MWe Geothermal Power Pilot Plant Project, Raft River, ID

Atlantic Coastal Plains Geothermal Project

Management Issues in the Western Area Power Administration

Solar Heating and Cooling - Regional Center

Fort Hood Solar Energy Project

THE SECRETARY OF ENERGY
WASHINGTON, D.C. 20585

April 8, 1980

Honorable Walter F. Mondale
President of the Senate
Washington, DC 20510

Dear Mr. President:

On March 31, 1980, the Department's Inspector General submitted to the Congress his Annual Report for the calendar year 1979, pursuant to Section 208(c) of the Department of Energy Organization Act (P.L. 95-981). The Act provides that the Secretary's comments be appended to the report. Because the report has already been submitted, I am forwarding the following comments.

I would like to underscore my commitment to the concept of a Departmental Inspector General and the statutory role of promoting economy and efficiency and preventing and detecting fraud and abuse in the Department's programs and operations. I recognize the Inspector General's special relationship with the Congress; I support the need for independence; and I believe the existence of this source of scrutiny is an aid in the management of the Department. I also appreciate the requirement for an annual report from the Inspector General, as it gives both the Congress and the Department an opportunity to take stock of the operations of that office.

One part of the Annual Report is devoted to what the Inspector General refers to as "Some Matters of Concern" -- the targets of which are certain managerial actions taken in the Fall of 1979. Upon becoming the Secretary of Energy on August 24, 1979, I undertook a review of the organization and structure of the Department, including the Office of the Inspector General. A need for improvement in that office was suggested by a review of the audit reports that it had submitted and by extensive interviews within and outside the Department during the "transition" period.

I sought the aid of the newly appointed Chief Financial Officer, ideally suited to reviewing this situation both because of his skills and because he and his office were new to the Department and thus had no apparent stake in any matter in which the Inspector General might have investigative interest. At a meeting in October 1979, involving the Chief Financial Officer and the Inspector General, I underscored the latter's independent investigative role and

discussed my desire that the Inspector General consult with the Chief Financial Officer with respect to the allocation of audit resources. The Inspector General did not object at that time to this approach. The Chief Financial Officer was not given supervisory responsibility with respect to the Inspector General; to the contrary, I revoked my predecessor's delegation of this responsibility to the Deputy Secretary so that it would rest with me alone. I did believe it desirable that the Chief Financial Officer act as a point of liaison on routine matters, since it is impractical for me to do so. The procedure for routing Inspector General memoranda through the Chief Financial Officer, to which the Inspector General refers, was suggested merely for efficiency -- to elicit the views of the Chief Financial Officer in advance, instead of having Inspector General memoranda routed back from my office in order to seek such views.

Shortly after this meeting, on November 20, 1979, representatives of the General Accounting Office (GAO) met with the Chief Financial Officer and other staff to brief them on a report to be published concerning the performance of the Office of the Inspector General. The GAO staff also cited deficiencies in the management and planning functions of the Office of the Inspector General. The GAO's report, entitled "Evaluation of the Department of Energy's Office of Inspector General (EMD-80-29)," was issued on November 28, 1979.

Given this background, the other specific "concerns" which the Inspector General raises, and my comments on his assertions are, in brief, as follows:

- He states, out of context, that the Special Assistant to the Secretary suggested that it would be "useful" for the Inspector General to coordinate with the Chief Financial Officer on outlines of matters to be discussed at meetings with the Secretary. What was "useful," however, was not "required." Specifically, the memorandum of the Special Assistant stated, "[P]lease send up a short outline and a meeting will be scheduled as quickly as competing priorities permit," before reciting, in a subsequent sentence, that coordination would be "useful."
- He objects that the Chief Financial Officer "levied" and "tasked" his office with respect to two assignments. In fact, the Chief Financial Officer did no more than send, in early 1980, memoranda in which he sought to have the Inspector General take the lead in

two extremely important undertakings related to the Schools and Hospitals Program -- specifically to review the monitoring, control, and evaluation section of the State plans and to develop audit policy recommendations that would guide our Regional Representatives in carrying out their assigned responsibilities.

- He complains that a plan for the reorganization of field audit functions which he presented in August 1979, and another in October 1979 for the absorption by his office of all the 125 field departmental auditors have not been acted upon. We understood the October 1979 proposal as superseding the prior one. The October plan has merit and remains under consideration, but in light of doubts raised as to whether the Inspector General had utilized effectively the resources he already had -- including an additional 55 positions he received late in 1979 -- as well as significant arguments in favor of maintaining internal review capability in the operations offices, there were questions about the wisdom of consigning to the Inspector General all such departmental resources.

On March 11, 1980 the Inspector General sent a memorandum to the Chief Financial Officer announcing that he was "beginning an inquiry" into the circumstances of the processing of his reorganization proposals.

- He complains that his plan for the establishment of "a small automatic data processing (ADP) unit" was not immediately approved. It was submitted about the time I first took office and was under consideration during the period in which other significant reorganization and personnel changes were occurring and the Department was otherwise heavily taxed by substantive demands placed upon it. This concededly small matter, involving 3 to 5 employees, was ultimately approved before any draft of the Annual Report was issued, and does not provide reasonable ground for "concern."

On a related matter, certain of the statistics set forth in the Annual Report give continuing concern about the office's productivity.

For example, Appendix B of the report lists 17 reports as "having to do with audit work performed by the Inspector General in 1979." However, only 12 reports relate to audit work performed in 1979, the remainder relating to 1978 audits. Since the Inspector General had 36 auditors, the result of one report for every 3 auditors in one year would seem to suggest a need for improvement.

Similarly, in the section entitled "Investigative Activities," it appears that the case backlog has grown from 45 in 1977, to 66 in 1978, to 120 at year-end in 1979. This trend occurred despite an increase in investigative personnel from 21 in 1978 to 24 in 1979.

I believe that there have been, and apparently continue to be, problems of management in the Inspector General's office. I do not believe that efforts to correct these problems and to improve the investigative efficiency of the office should be construed as efforts to "hamstring" it, just as I reject the notion that the Inspector General should be sheltered from managerial scrutiny. Obviously some problems remain to be worked out with regard to the office, and as we address these problems, I welcome the advice of the members of Congress.

Sincerely,

Charles W. Duncan, Jr.