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U.S. DEPARTMENT OF ENERGY

OFFICE OF INSPECTOR GENERAL

Semiannual Report to Congress

October 1, 1993, to March 31, 1994

MASTER

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April 1994

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Department of Energy
Washington, DC 20585

April 29, 1994

The Honorable Hazel R. O'Leary
Secretary
Department of Energy
Washington, D.C. 20585

Dear Secretary O'Leary:

This Semiannual Report for the first half of Fiscal Year 1994 is being submitted to you by the Office of Inspector General for transmittal to the Congress, pursuant to the provisions of the Inspector General Act of 1978.

During this reporting period, the Office of Inspector General continued to advise Headquarters and field managers of opportunities to improve the efficiency and effectiveness of the Department's management controls, particularly in the areas of contract administration and program management. We have also supported the Department's reinvention and streamlining initiatives by evaluating the cost effectiveness and overall efficiency of Department programs and operations, placing special emphasis on those undergoing significant modifications. This office has also taken steps to streamline our own operations and improve our services to our customers.

In our office's planning and operations, we continue to balance available audit, inspection, and investigation resources with the requirements of our stakeholders. Our customer focus remains on assisting Department management to implement management controls necessary to prevent fraud, waste and abuse; on helping to ensure the quality of Department programs and operations; and on keeping the Congress informed.

Sincerely,

John C. Layton
John C. Layton
Inspector General

Enclosure

MISSION AND VISION STATEMENTS

MISSION STATEMENT

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

VISION STATEMENT

We do quality work that facilitates positive change.

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FOREWORD ON QUALITY

During this semiannual reporting period, the Office of Inspector General continued its efforts to institutionalize policies and procedures dedicated to enhancing the quality of our operations. For instance, the Office of Inspector General organization was restructured with three Deputy Inspectors General to provide a focal point for our program areas and to improve our internal processes. Each Deputy Inspector General is also the Office of Inspector General contact for designated Departmental organizations, thus placing greater emphasis on customer responsiveness. Our Departmental customers now have a focal point to raise issues, discuss program objectives, and provide feedback on our services. The Deputy Inspectors General will further enhance our processes for bringing the coordinated resources of the Office of Inspector General to bear on key issues of interest to the Department of Energy. The goal of this restructuring is to enhance the way the Office of Inspector General does business and to help facilitate positive change within the Department's programs and operations.

In its audit, inspection, and investigative reporting, the Office of Inspector General continues to emphasize evaluating management controls and making recommendations which will improve the overall efficiency and effectiveness of Department programs and operations. A key to producing practical, helpful reports is in identifying and consulting Office of Inspector General customers and stakeholders to ensure that their concerns are addressed during strategic and annual work planning cycles.

The Office of Inspector General established a Quality Council in May 1993. Its major tasks include forming a model for participative management and employee involvement, identifying Office of Inspector General customers and stakeholders and their requirements, identifying systems and procedures in need of improvement, ensuring basic quality performance standards and tracking and measuring systems are in place, and overseeing the quality process within the Office of Inspector General. The Quality Council reports directly to the Office of Inspector General Executive Steering Committee, which reviews Quality Council issues/recommendations and authorizes appropriate corrective or implementing actions wherever applicable.

The Department of Energy Inspector General led a team of Inspectors General from several agencies in developing the Inspectors General vision and strategies to apply to reinvention principles adopted by the President's Council on Integrity and Efficiency. The vision and strategies, which were issued in booklet form in January 1994, provide strong support for our ongoing efforts to reinvent and reinvigorate our accomplishment of the mission and responsibilities assigned to us under the Inspector General Act of 1978.

EXECUTIVE SUMMARY

OVERALL ACTIVITY

This Office of Inspector General Semiannual Report to the Congress covers the period from October 1, 1993, through March 31, 1994. The report summarizes significant audit, inspection and investigative accomplishments for the reporting period, a large portion of which evaluated management controls that the Department of Energy uses to ensure efficient and effective operation of its programs.

During this reporting period, the Office of Inspector General issued 128 audit and eight inspection reports. The Office of Inspector General also issued 37 investigative referrals to management for corrective action. As a result of audits of contract costs, the Office of Inspector General questioned \$665,802 in costs. Management committed to taking corrective actions which the Office of Inspector General estimates will result in a more efficient use of funds totaling \$55.9 million. For reports issued during the period, the Office of Inspector General made audit recommendations that, when implemented by management, could result in \$1.15 billion being put to better use.

In addition, the Office of Inspector General's investigations led to 10 criminal convictions and pretrial diversions, as well as criminal and civil prosecutions which resulted in fines and recoveries of \$4,052,206.

SUMMARY OF SIGNIFICANT WORK

The following is a list of significant Office of Inspector General work completed during this reporting period:

- o Application of the Department's Accountability Rule to additional contractors should be deferred until completion of a cost-benefit analysis. (IG-0339)
- o The Savannah River Operations Office's ability to oversee contractor staffing needed improvement, as did the contractor's staffing requirement justifications. (IG-0340)
- o Improvements were needed in the Department's exercise of its Cognizant Federal Agency responsibilities. (IG-0342)
- o Administration of contractor procurements from affiliated companies could be improved. (IG-0341)

- o Opportunities for improvement existed in Department management of personal property. *(IG-0344, IG-0343, IG-0338)*
- o Improved management controls were needed for special access program work-for-others projects. *(IG-0335)*
- o Improved management controls were needed for Superconducting Super Collider Laboratory subcontractor expenditures. *(IG-0336)*
- o Intelligence data could be used to identify entities with foreign interests in Department programs. *(IG-0337)*
- o The Department's cask development program for the transportation of nuclear waste is behind schedule and over cost. *(IG-0345)*

TRACKING AND REPORTING ON THE STATUS OF OIG RECOMMENDATIONS

The Inspector General Act of 1978 requires that the Semiannual Report of the Inspector General include an identification of each significant recommendation described in previous Semiannual Reports on which corrective action has not been completed. In the Department of Energy, the Office of Compliance and Audit Liaison within the Office of Chief Financial Officer has responsibility for the audit followup system. Thus, this information is included as part of the companion submission to this report which is provided by the Secretary of the Department of Energy.

Although the followup system is operated by the Department, the Office of Inspector General provides oversight in the form of biennial audits of the followup system or its components and quarterly reviews of the progress of corrective actions on audit and inspection reports as provided to us by the Department. In addition, the Office of Inspector General conducts periodic followup audits or verifications in which the objective is to determine if prior audit and inspection report recommendations were implemented and, if so, whether they were effective. Also, at the start of each new audit or inspection, the Office of Inspector General conducts a review of prior reports on related topics, a review of the recommendations included in these prior reports, and an evaluation of the corrective actions that have been taken.

During this reporting period, there were no reports made to the Secretary noting unreasonable refusal by management to provide data to the Office of Inspector General, nor were there any significant management decisions, revised or otherwise, with which the Inspector General was in disagreement.

Section 1

Significant Operational Results

Significant Office of Inspector General work is presented in this section under key issue areas which received Office of Inspector General emphasis during this past reporting period.

CONTRACT ADMINISTRATION

This key issue area encompasses all of the Department of Energy's procurement and grant management activities. The Department accomplishes many of its missions through management and operating contractors who run the Department's major facilities and other operations. Accordingly, much Office of Inspector General work involves reviews of the Department's direction and administration of its management and operating contractors and their activities.

IMPROVEMENTS RECOMMENDED FOR SMALL DISADVANTAGED BUSINESS PROGRAM

The Department's contract with Westinghouse Savannah River Company requires the contractor to award procurements to small businesses and small disadvantaged businesses. To meet this contractual requirement, Westinghouse established an extensive outreach program, expanded procurement set-asides, and joined a Small Business Administration 8(a) Pilot Program. In recognition of its efforts, Westinghouse has received numerous honors in the last four years.

A recent audit found that Westinghouse's records for procurement set-aside awards were not maintained, and reports could not be supported by procurement records for Fiscal Years 1990, 1991, and 1992. Reported information identifying purchases as small disadvantaged business purchases were not always accurate.

The audit report identified actions which should be taken by Westinghouse to improve management of its small disadvantaged business program. Specifically, Westinghouse should strengthen its internal controls and the Department's Savannah River Operations Office should perform sufficient reviews to ensure that accurate assessments can be made of Westinghouse's achievement of its Small Disadvantaged Business Program goals. Also, Westinghouse should strengthen its verification and certification procedures to ensure that

the vendors to whom the company awards contracts are eligible to receive the contracts as small disadvantaged businesses.

Department management agreed with the audit findings and recommendations, and provided details on corrective actions taken and planned. (ER-B-94-01)

AWARD FEE DETERMINATION PROCESS NEEDED STRENGTHENING

The Department's Richland Operations Office is responsible for the operation of the Hanford Site in Washington state. Twice a year, Richland determines a reasonable fee to award to one of its management and operating contractors, the Kaiser Engineers Hanford Company. The award fee is based on Kaiser's performance in the areas of construction services; environment, safety and health; and general management.

One of the performance indicators which Richland considered in awarding the fees was Kaiser's safety and health record. Because Richland partially relied on Kaiser's unverified safety and health reports to evaluate Kaiser's performance, Richland paid Kaiser award fees up to \$300,000 higher than Kaiser's performance warranted. Had Richland verified the safety and health reports, it would have been evident that the reports did not accurately present Kaiser's performance.

An audit of Richland's award fee determination procedures identified a need to strengthen controls to ensure performance

data submitted by Kaiser are verified as accurate. Richland agreed with the recommendation and began corrective action. (WR-B-94-1)

IMPLEMENTATION OF THE DEPARTMENT'S ACCOUNTABILITY RULE NEEDED COST-BENEFIT ANALYSIS

In 1991, the Department's procurement regulations were revised to hold contractors liable for some costs that were historically assumed by the Department. The objective of this revision, known as the "Accountability Rule," was to improve overall performance of contractors by increasing their financial risk for inappropriate actions while providing the contractors with the opportunity to earn increased fees.

An audit of five contractors and four Departmental field offices disclosed that, in Fiscal Year 1992, the Department spent \$22.8 million in increased contract fees and \$2.5 million in administrative costs to implement the Accountability Rule. Because the Department had not fully evaluated the potential costs and benefits of the Accountability Rule before its implementation, the Department had no conclusive evidence that the Accountability Rule was achieving its objectives.

The key audit report recommendation was that the application of the Accountability Rule to additional contractors be deferred until a cost-benefit analysis was conducted to determine whether the program was cost effective. The audit report also recommended that the Department develop improved guidance for those contractors already covered by the Accountability Rule.

The Department has initiated a cost-benefit analysis of the Accountability Rule program and has revised certain policies and procedures. Action on other report recommendations is being deferred until completion of the cost-benefit analysis. (IG-0339)

WESTINGHOUSE SAVANNAH RIVER COMPANY COULD REDUCE STAFF WITHOUT LOWERING EFFECTIVENESS

An audit was conducted to review Westinghouse Savannah River Company's policies and procedures for determining its staffing requirements. The audit found that using in-

dustry and Federal performance work standards in its construction and management activities could enable Westinghouse to further reduce its staff by over 1,800 employees. The potential savings in salaries and benefits associated with such action could be almost \$400 million over 5 years. Additional staffing reductions could be attained through using engineered time standards in the maintenance and fabrication shops.

The audit also disclosed that in periodic reports to the Department, Westinghouse significantly understated the personnel resources applied to accomplish contract requirements. This condition existed because the Savannah River Operations Office had not issued definitive guidance that required Westinghouse to report employees working on fixed-price subcontracts and because it had not formed a position on the reporting of augmentation overtime.

The audit report provided recommendations which would improve staffing requirement justifications and Operations Office oversight capability. Management agreed with the findings and recommendations and indicated that appropriate corrective actions would be taken. (IG-0340)

K-25 SITE MAINTENANCE HAS OPPORTUNITIES TO IMPROVE

Until 1985, the Department operated a gaseous diffusion plant at its K-25 Site in eastern Tennessee. In 1987, the plant's mission was changed to environmental restoration and waste management activities. However, the K-25 Maintenance Division continues to be responsible for the maintenance of over 250 process and support facilities with 13 million square feet of space, 1,360 acres, and numerous items of equipment, including 529 motor vehicles. For Fiscal Year 1993, the Maintenance Division had an operating budget of about \$66 million and a staff of about 755 employees.

An audit showed that, as the result of a comprehensive self-assessment conducted in 1991, the K-25 Maintenance Division had undertaken many significant initiatives to improve the quality of services and reduce operating costs. The audit disclosed that additional opportunities exist to reduce operating

costs, such as using engineered performance standards for maintenance tasks, leasing vehicles from the General Services Administration, and excluding exempt maintenance work from the higher wage requirements of the Davis-Bacon Act. Also, the Office of Inspector General estimates that the leasing of vehicles could enable the K-12 management and operating contractor to reduce annual operating costs by about \$410,000.

Management concurred with six Office of Inspector General recommendations to reduce operating costs. However, management disagreed with a seventh recommendation to develop procedures to ensure full documentation of justifications for classifying maintenance work as either covered or exempt from the requirements of the Davis-Bacon Act. Management contends that it has sufficient policies and procedures for accomplishing and documenting Davis-Bacon Act determinations. (ER-BC-94-01)

SMALL DISADVANTAGED BUSINESS PROGRAM NEEDED BETTER MANAGEMENT CONTROLS

The Department's contract with its management and operating contractor at the Strategic Petroleum Reserve requires that the contractor comply with the Government's policy on awarding procurements to small disadvantaged businesses to help them develop and stimulate the economy. The contractor awarded about \$18.9 million to small disadvantaged businesses for the three fiscal years ending 1992.

While the contractor made extensive efforts to encourage and expand participation of small disadvantaged businesses, an audit found that its program was not always managed in accordance with established regulations. Specifically, the contractor did not (1) maintain a current list of qualified small disadvantaged businesses, (2) always equitably solicit small disadvantaged businesses, or (3) always provide for adequate competition. These conditions occurred because the Department's Strategic Petroleum Reserve Project Management Office and the contractor focused on achieving monetary goals rather than maximum vendor use, and the contractor did not have adequate procedures to properly

administer the small disadvantaged business program. Also, the contractor buyers did not follow established procedures for making competitive awards.

The audit report identified various corrective actions for strengthening internal controls and improving the administration of the small disadvantaged business program at the Strategic Petroleum Reserve. Management concurred with the findings and recommendations in the report. (ER-B-94-02)

CONTRACTOR TRAVEL POLICIES AND PROCEDURES REQUIRED TIGHTENING

Federal and Departmental regulations require that contractor travel costs result in the lowest reasonable cost to the Government. The Department spends about \$240 million annually for its management and operating contractors' travel costs.

An audit of these travel costs was conducted to determine if they were reasonable and if Departmental travel policies and practices promoted efficient and economic use of available resources. Our audit disclosed that management and operating contractors charged the Department for airline travel expenses that exceeded the lowest reasonable cost and that receipts to support travel claims were not always required.

The audit report recommended that all contracts be updated to include the Department's policy on commercial air travel and that all contractors provide receipts to support airfare costs before reimbursement. The report also recommended that each operations office be provided with specific instructions to monitor and evaluate contractor travel costs.

Management generally concurred with the findings and recommendations, stating that increased attention on both management oversight and contractor internal control audit programs would ensure that contractor travel costs are reasonable and allowable under the terms of the contracts. (CR-B-94-01)

IMPROVEMENTS NEEDED IN THE EXERCISE OF COGNIZANT FEDERAL AGENCY RESPONSIBILITIES

The use of cost-reimbursement contracts requires the Government to provide assurance

that costs claimed by contractors are reasonable and allowable. This assurance is generally provided by a single Government agency (designated as the Cognizant Federal Agency) performing specific contract administration responsibilities which include obtaining indirect rates and supporting cost data from the contractors, and requesting incurred-cost audits.

An audit of the Department's exercise of its Cognizant Federal Agency responsibilities found that, for seven Department contracting offices reviewed, contracting officials did not obtain over half of the required indirect rate submissions and did not request about half of the required incurred-cost audits. Without the indirect rate submissions and audit requests, incurred-cost audits were not performed. Further, without timely audits, Department management at the seven offices audited could not ensure that contractor costs were reasonable, allowable, and allocable for 128 contractors which were awarded 207 cost-reimbursement contracts valued at \$1.2 billion.

The auditors found that the Department needed to identify key indirect rate and audit tracking elements and make sure contracting officials include these elements in their local tracking systems. If the indirect rate submissions are late or not submitted, the Department needs to enforce cost-reimbursement contract provisions that require contractors to submit final indirect rate submissions to cognizant contracting officers within 90 days after the end of their fiscal year. The Department should also follow up if the submissions are not received when due. In addition, procurement officials need to ensure that the Procurement and Assistance Data System provides accurate, complete, and timely information necessary to determine whether the Department or another Federal agency has Cognizant Federal Agency responsibility.

When these actions are implemented, the Department will have the information necessary to identify its contract audit universe, justify budgetary requests for required audit coverage, and provide required assurance that contractor incurred costs are reasonable, allowable, and allocable.

Department management agreed with the finding and generally concurred with three of the four recommendations. Management did

not agree that contracting activities needed to report to Headquarters the status of contractor indirect rate submissions and audits requested and completed. (IG-0342)

ADMINISTRATION OF CONTRACTOR PROCUREMENTS FROM AFFILIATED COMPANIES COULD BE IMPROVED

From April 1989 through June 1993, Westinghouse Savannah River Company issued \$49 million in procurement orders to its affiliates, and through July 1993 Bechtel Savannah River, Inc., issued \$45 million to its affiliates.

An inspection determined that Bechtel's affiliated companies have been improperly authorized to burden procurements with indirect costs not permitted under terms of its subcontract with Westinghouse, resulting in overcharges to the Department. The inspection report discussed three examples where indirect costs totaling \$970,000 have been improperly authorized. The inspection report recommended that the Department's Savannah River Operations Office review these procurements to recover unallowable indirect costs, and strengthen administrative controls over this area.

The inspection also determined that the Westinghouse contract and the Bechtel subcontract contain conflicting contractual provisions regarding the requirement for competition when procuring goods and services from affiliated companies. The inspectors also found that the requirement to document the "special expertise" of affiliated companies was not being met. The inspection report recommended that the Savannah River Operations Office ensure that, for noncompetitive procurements from affiliated companies, the "special expertise" of the company be documented. The report further recommended that the Deputy Assistant Secretary for Procurement and Assistance Management provide necessary guidance on the meaning of the term "special expertise."

The inspection found deficiencies in Westinghouse's authorization and administration of procurements between Bechtel and Bechtel's affiliates. Deficiencies included authorizing work without cost estimates, scopes of work, milestones, deliverables, or identifi-

cation of the specific company to perform the work. The Savannah River Operations Office's lack of involvement in the review and approval of these procurements permitted these deficiencies to occur. The inspection report recommended that the Savannah River Operations Office direct Westinghouse to submit Bechtel procurements with Bechtel-affiliated companies to the Department for review and approval.

Further, the inspection determined that Westinghouse and Bechtel procurements with their affiliated companies were not being adequately reviewed for organizational conflicts of interest. The inspection report recommended that Savannah River Operations Office ensure that such reviews are conducted.

Management concurred with the report's findings and recommendations, and has begun corrective actions. (IG-0341)

SMALL BUSINESS SUBCONTRACTING PRACTICES NEEDED ADJUSTMENTS

A contractor alleged to the Office of Inspector General that the Department's Richland Operations Office and an engineering firm were not complying with the Federal Acquisition Regulation and public law regarding subcontracting to minority-owned businesses.

A total of \$4.5 million was set aside in the Department's contract with the engineering firm for small business subcontracts, including \$2.9 million for small disadvantaged businesses. However, an investigation determined that the engineering firm submitted improperly categorized data on their subcontracting reports. The firm incorrectly included direct subcontracting commitments to woman-owned small businesses as commitments to small disadvantaged businesses. The Small Business Administration does not classify woman-owned small businesses as socially or economically disadvantaged. The investigation found that a significant amount of the subcontract commitment dollars awarded by the engineering firm to small disadvantaged businesses were purchase orders to woman-owned small businesses, and only a small dollar amount went to minority businesses.

The investigative report recommended that the Department consider conducting a

complete review of all contracts between the Department and the engineering firm to determine if the firm is making a good faith effort in meeting its subcontracting goals for small disadvantaged businesses. The Department should also consider conducting a complete review of all the firm's subcontracting reports (SF 294) to determine whether they are in compliance with Small Business Administration guidelines and the Federal Acquisition Regulation regarding the types of business concerns that can be represented as small disadvantaged. Further, the investigation report recommended that the Department consider conducting a review to determine if the engineering firm has failed to make a good faith effort to comply with its subcontracting plan regarding commitments to small disadvantaged businesses and, if so, whether liquidated damages should be brought against the company in accordance with the Federal Acquisition Regulation.

Department management took no exceptions to the findings and is in the process of implementing the report's recommendations. (I92RL018)

FRAUDULENT CLAIMS RESULTED IN FINES AND DEBARMENTS

Westinghouse Hanford Company notified the Office of Inspector General that one of its subcontractors, Quality Services International (QSI), may have submitted fraudulent documents to Westinghouse.

An investigation determined that Westinghouse contracted with QSI to supply personnel to work at the Department's Hanford Site. The agreement provided that QSI was responsible for each employee's taxes and other obligations. Westinghouse paid QSI at labor rates which included coverage of those additional charges.

Westinghouse learned that QSI, without Westinghouse's knowledge, may have entered into a separate contract with at least one of the people who were listed as direct QSI employees. When Westinghouse requested that QSI verify that all of the Hanford Site employees were direct employees, QSI submitted annual earning summary statements and pay check stubs as proof that QSI was complying with its contract. Westinghouse notified the Office

of Inspector General of its concerns. Westinghouse estimated the value of the potentially fraudulent claims to be over \$60,000.

Investigators found that all of the employees supplied to the Hanford Site by QSI had separate contractual arrangements with QSI in which they were "independent contractors." In all cases, these "independent contractors" were responsible for their own income tax withholding, social security, unemployment compensation, workman's compensation, and similar obligations.

The Assistant U.S. Attorney's Office for the Eastern District of Washington accepted the case for prosecution. A grand jury returned indictments against two company officers and QSI, charging them with conspiracy, wire fraud, false statements, and theft of Government property. The defendants entered into plea agreements with the Government, which resulted in an \$18,000 fine against QSI, a \$3,000 fine for each of the two officers, and 2-year debarments for the highest ranking officer and QSI. Westinghouse let its contract with QSI lapse without renewal in September 1992. (I93RL001)

PAINT STORE OVERCHARGED THE DEPARTMENT

In May 1991, a national paint manufacturer informed Westinghouse Savannah River Company that a local paint store had overcharged Westinghouse almost \$95,000 for paint. An Office of Inspector General investigation disclosed that from April 1989 to May 1991, the local paint store's manager had charged Westinghouse Savannah River Company up to 90 percent more than the General Services Administration contract price for paint. The national paint manufacturer fired the local store manager and reimbursed Westinghouse for the overcharges.

The investigation determined that the paint store manager had been able to overcharge Westinghouse because Westinghouse had not checked the paint store prices against the General Services Administration authorized Federal supply schedule price list. This occurred because Westinghouse had not established procedures which adequately ensured General Service Administration supply sources were used.

The investigative report recommended that the Department's Savannah River Operations Office consider conducting a review of the management and operating contractor's procurement process and procurement personnel training to ensure that General Services Administration supply sources have been considered before procurements are awarded.

Department management noted that Westinghouse's contract, at the time of the overcharges, had not required Westinghouse to use General Services Administration suppliers. However, management is taking action to correct the situation. (I91SR018)

CONTRACTORS BOUGHT WORKERS' COMPENSATION INSURANCE INSTEAD OF SELF-INSURING

EG&G Rocky Flats, Inc., and Wackenhut Services, Inc., are responsible for ensuring that their workers' compensation programs are managed in an efficient, effective, and economical manner. Both contractors had taken measures to reduce costs and control losses subsequent to internal reviews that identified problems in the workers' compensation program at Rocky Flats. For example, the two contractors took actions to minimize the number of accidents, quickly return injured employees to work, and ensure the validity and accuracy of claims.

Despite these and other positive measures, an audit showed that workers' compensation costs for the two contractors were not reasonable. Specifically, the contractors could have self-insured and self-administered their workers' compensation programs rather than purchasing insurance coverage that provided administrative services. Furthermore, the contractors paid more in workers' compensation benefits than was required by the Workers' Compensation Act. This occurred because neither the contractors nor the Department reviewed the cost effectiveness of the program. As a result, the contractors (and thus the Department) will spend about \$3.4 million more than necessary over the next five years.

The audit report recommended that the Department's Rocky Flats Office direct the contractors to evaluate their programs to determine where costs could be reduced. The

report also recommended that the Rocky Flats Office review these evaluations and approve the options that result in the lowest overall cost.

Rocky Flats Office management agreed to implement the recommendations, including limiting workers' compensation benefits to only the required amount. (WR-B-94-3)

CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE ALLOWED BILLING IN ADVANCE OF WORK PERFORMANCE

A Bonneville Power Administration internal audit found that an advertising firm had billed Bonneville for costs before incurring them. The firm alleged that the contracting officer's technical representative had instructed the firm to do so.

An Office of Inspector General investigation determined that the current contracting officer's technical representative asked the previous technical representative how to dispose of about \$75,000 in the advertising firm's contract that would be left over at the end of the fiscal year. The technical representative claimed that the former technical representative had advised him to tell the advertising firm to bill in advance for advertising costs so that the \$75,000 in current fiscal year funds could be allocated and not lost when the fiscal year ended.

The investigation further disclosed that the former technical representative had not verified that costs billed by the advertising firm were actually incurred. The former representative had assumed that the costs were valid.

The investigation determined that the former technical representative had not received adequate training in the duties of a contracting officer's technical representative because, at the time of this person's appointment, Bonneville did not offer such training.

The investigative report recommended that Bonneville management ensure that all technical representatives and the people who supervise them receive adequate training in their responsibilities and in Bonneville purchasing policies and procedures. Bonneville management concurred with the recommendation, noting that Bonneville now has a program in place to ensure that all current and

new technical representatives are trained in their roles. (192RL005)

CONTRACTOR WAS ALLOWED TO BILL TO AN EXPIRED TASK ORDER

Bonneville Power Administration internal auditors found that a contractor had billed for work performed on task orders after the orders had expired. Further, the contractor had billed Bonneville based on the function performed, not on specific hours charged by individuals as required by the contract.

An Office of Inspector General investigation determined that the contracting officer's technical representative had approved billings to expired task orders because the representative had not compared dates of work with task order expiration dates. The technical representative also allowed the contractor to bill Bonneville by function rather than by individual time charged. Further, the technical representative assigned rates to the billed function and approved the billings for payment without first determining that the rates assigned were accurate.

The investigative report recommended that Bonneville management ensure that Bonneville's policies, procedures and training are sufficient to preclude a recurrence of these actions by contracting officer's technical representatives. Bonneville management concurred with the recommendation and has implemented corrective action. (192RL006)

FALSE PROGRESS BILLINGS SUBMITTED TO LABORATORY

After receiving allegations of false billings at a Department facility, an Office of Inspector General investigation determined that a subcontractor at a Department laboratory billed for work before its completion and before suppliers had been paid. The company had purchase orders with the laboratory with a total value in excess of \$1 million.

The cognizant U.S. Attorney's Office declined prosecution for the false billings because the laboratory had knowledge of the company's billing practices and was taking corrective action, and because the company official most responsible for the false billings had died during the investigation. The com-

pany itself is no longer in business.

The investigation found opportunities for the laboratory to improve its contractor oversight. For example, the investigation found that laboratory employees did not have the necessary technical knowledge to properly oversee the company's progress on projects. Also, the laboratory contracted projects as purchase orders rather than as subcontracts which would have provided for greater oversight.

The investigative report recommended that the cognizant operations office consider conducting a review to determine if the laboratory's procurement and contract administration procedures are adequate and are within the Department's guidelines. In addressing the recommendations, Department management noted that the laboratory's procurement and contract administration procedures are constantly being reviewed and are in accordance with Department approved guidance. Management also noted that the laboratory took adequate action when the false billings were discovered. (I92RL002)

PERSONNEL HIRING AT A DEPARTMENT LAB NEEDED BETTER MANAGEMENT CONTROLS

A person who had been recruited by a Department laboratory for employment complained to the Office of Inspector General that the laboratory had treated him unfairly in its hiring practices. He alleged that the laboratory had offered him a position and then had withdrawn its offer after he had accepted it.

An inquiry determined that the laboratory had withdrawn its offer of employment based upon its opinion that there might be lengthy delays in the issuance of a security clearance to the person. The Office of Inspector General reported to Department management that in the granting of security clearances, only the Department and not the laboratory was authorized to make such decisions.

An investigation determined that the laboratory representative who withdrew the offer of employment was not properly authorized to do so. The offer was not withdrawn in accordance with the laboratory's own procedures set forth in its personnel manual.

The investigative report recommended that the Department's operations office determine, in the context of the laboratory's failure to follow its own personnel manual, appropriate instructions to the laboratory to resolve the person's allegation of breach of contract of employment. The report also recommended the operations office ensure that the laboratory has adequate recruiting and employment policies and procedures, and that they are followed.

In response to the investigative report, management ultimately decided that the laboratory representative who withdrew the offer of employment was delegated in writing to make offers of employment, and therefore should be considered authorized to withdraw them, as well. (I93LL022)

PROGRAM MANAGEMENT

This key issue area includes the development, implementation, administration and operation of programs mandated by statute or regulation. These programs include those relating to Government property management, intelligence activities, security, equal employment opportunity, small and small disadvantaged business utilization, Federal Energy Regulatory Commission operations, Energy Information Administration operations, Economic Regulatory Administration operations, Naval Reactors, Naval Petroleum and Oil Shale Reserves, Strategic Petroleum Reserve, Power Marketing Administrations, the Superconducting Super Collider, and defense programs.

OPPORTUNITIES FOR IMPROVEMENT EXIST IN DEPARTMENT MANAGEMENT OF PERSONAL PROPERTY

The Office of Inspector General has issued numerous reports identifying opportunities for the Department to improve its management of personal property. Consistent with the Secretary of Energy's recent contract reform initiatives, the Department should take actions necessary to further enhance property management activities. Through improved controls and management emphasis, the Department can materially reduce the risk of loss or misuse of \$12.6 billion of personal property, much of which is in the possession of contractors.

Key personal property issues identified in previous Office of Inspector General reports include the following: (1) contractor property management systems were not reviewed and approved in a timely manner, (2) property inventory records were not sufficient to identify the types, quantities, location, and cost of personal property inventories, and (3) contractors were not properly identifying, storing, and disposing of excess personal property.

The audit report concluded that, given the magnitude of the Department's personal property holdings and continuing problems in this area, a concerted effort is needed at all Department facilities to ensure that sound property management practices are followed. (IG-0344)

EXCESS PERSONAL PROPERTY AT SANDIA NATIONAL LAB REQUIRES BETTER MANAGEMENT

Sandia National Laboratory at Albuquerque is responsible for managing the Department's excess personal property of about 2,845 line items with a dollar value of over \$18 million.

An inspection revealed that immediate management attention is needed to properly control, store, and dispose of excess personal property at Sandia because the current system of operation does not allow for efficient, timely, and cost effective management. In addition, storage and disposal practices were not consistent with contract requirements or the Department's policies and procedures.

Inspectors noted that Sandia's property management system had not been approved by the Department, and some valuable items of Government personal property (including computer equipment and office furniture) were stored in outside areas and exposed to the elements for prolonged periods.

Inspectors also found that Sandia's property reapplication process allowed used property in good condition to be classified and processed as "salvage," thus preventing this property from going through the Department's and General Services Administration's excess property screening process.

Inspectors further determined that Sandia had commingled property that has not been

radiologically screened with property that had already gone through the screening process, thus creating the potential for cross-surface contamination. Sandia has not established a system to use property histories in determining which excess property items require radiological screening before sale or reuse.

Some deficiencies identified in the 1987 Property Reutilization and Disposal Review, conducted by the Albuquerque Operations Office, had not been corrected or needed more management attention. Further, a lack of adequate internal controls resulted in Government property being inappropriately identified as salvage and sold at auction.

Excess personal property issues identified at Sandia were similar to those identified during an inspection of excess personal property management at Rocky Flats (report number DOE/IG-0329 of May 17, 1993). To anticipate and prevent future excess property disposal problems, the Department should consider studying the potential impact of organizational changes, downsizing, and recent organizational initiatives on excess property management.

The inspection report provided 19 specific recommendations which, if implemented, would enhance management controls over excess personal property at Sandia. Department management concurred with the findings and recommendations, and identified corrective actions taken or planned. (IG-0343)

CONTROLS OVER PERSONAL PROPERTY MANAGEMENT AT LOS ALAMOS NATIONAL LAB NEEDED IMPROVEMENT

Los Alamos National Laboratory established a personal property management system for its inventory of about \$1 billion worth of Government-owned personal property.

An audit of management controls over the inventory disclosed that Los Alamos did not account for \$11.6 million of personal property. In addition, \$22.2 million of personal property was not properly recorded in the database, \$61.7 million of personal property could not be inventoried, and property loans to employees and other entities were not adequately justified.

The audit report recommended actions which the Department's Albuquerque Operations Office could take to improve oversight of the Los Alamos National Laboratory personal property management system. Department management concurred with the audit report recommendations and agreed to implement corrective actions. (IG-0338)

INSPECTION RECOMMENDS IMPROVEMENTS TO CONTROLS FOR SPECIAL ACCESS PROGRAM WORK-FOR-OTHERS PROJECTS

At the request of Department management, the Office of Inspector General conducted an inspection of six work-for-others projects associated with classified intelligence and special access programs. A special access program is one which is established under Executive Order 12356, "National Security Information," to impose enhanced access controls over the program's classified information. These controls may include the use of access rosters, special designations of persons with authority to approve release of classified program information, or special background investigative requirements or procedures for program participants.

During this inspection, the inspectors reviewed financial, program, procurement and contract, and security management for the six work-for-others projects. The inspection report provided Department management with recommendations to improve management controls over the work-for-others projects, including:

1. Identify all Department special access program activity and information.
2. Enhance the accuracy of information on work-for-others projects.
3. Prevent inappropriate financing of reimbursable work.
4. Ensure that funds are not used for other than intended purposes.
5. Ensure that funds are not accepted in excess of funding limitations.
6. Ensure that work-for-others project funding is not accepted late in the fiscal year, or for projects not under cognizance of the applicable operations office.

7. Provide sufficient invoice detail to Department customers.
8. Use additional security procedures to protect national security information.
9. Obtain or enhance counterintelligence support for special access programs.
10. Enhance review, acceptance, monitoring, and files maintenance of work-for-others projects.
11. Increase efficiency of the closeout of work-for-others reimbursable agreements.

Department management concurred with the inspection report findings and identified actions to be taken to address the recommendations. (IG-0335)

AUDIT IDENTIFIED IMPROVEMENTS FOR CONTROLS OVER SUPERCONDUCTING SUPER COLLIDER LABORATORY SUBCONTRACTOR EXPENDITURES

The Office of Inspector General audited controls over Superconducting Super Collider Laboratory subcontractor expenditures, and the final audit report was issued in October 1993.

The audit report identified needed improvements in subcontract administration and internal controls, including appropriate audit coverage of the subcontracts. The auditors also concluded that Department guidance concerning procurement actions between Department laboratories needed to be established. By implementing the audit report's recommendations, management could improve its ability to avoid excessive and unnecessary costs, minimize subcontract cost overruns, and justify and control procurements with other Department laboratories.

Management generally agreed with the recommendations and provided details on corrective actions have already been taken or are planned. In 1993, Congress voted to terminate funding for the Superconducting Super Collider. (IG-0336)

INTELLIGENCE INFORMATION COULD BE USED TO IDENTIFY ENTITIES WITH FOREIGN INTERESTS INVOLVED IN DOE PROGRAMS

Federal law and the Federal Acquisition Regulation require that "entities with foreign

interests" disclose their foreign affiliations. "Entities with foreign interests" are those companies or organizations which are owned, controlled or influenced by foreign governments, businesses, or persons.

Inspectors determined that an increased use of intelligence information to gain knowledge of whether a company, organization or individual is owned, controlled or influenced by a foreign interest could assist the Department in identifying the foreign interests of certain contractors.

The inspection report determined that the intelligence information could also benefit specific programs. In particular, the Department's counterintelligence program could be more effectively focused if the source of potential threats to Departmental programs and activities, including potential threats from entities with foreign interests, was better identified. Further, intelligence information on entities with foreign interests might be useful in the Department's review of Cooperative Research and Development Agreements between laboratories under the Department's control and other non-Federal parties.

The inspection report recommended that the Director of the Department's Office of Intelligence, in conjunction with appropriate Departmental managers, examine how intelligence information on entities with foreign interests could support various Departmental programs, including counterintelligence, security affairs, and procurement. Management agreed with the report's recommendations. (IG-0337)

DEPARTMENT OFFICIALS ALLEGEDLY VIOLATED LOBBYING PROHIBITIONS

The Office of Inspector General received a congressional request to examine an allegation that employees with the Department's Office of Congressional and Intergovernmental Affairs violated lobbying regulations by "strategizing" with industry representatives on ways to defeat undesired legislation.

An investigation disclosed no evidence to substantiate the allegation. To avoid the possibility of such violations, the investigative report recommended that cognizant Department managers consider establishing written guidelines regarding officials meeting with trade association representatives. Also, De-

partment managers should consider the need for training or orientation for employees regarding lobbying prohibitions.

Management concurred with the recommendations, and the Department's General Counsel has been requested to conduct a training program for Congressional and Intergovernmental Affairs employees on applicable lobbying laws and regulations. (192HQ035)

REDUCING STAFF AT THE WASTE ISOLATION PILOT PLANT COULD ACHIEVE SIGNIFICANT SAVINGS

The Waste Isolation Pilot Plant is a research and development facility intended to demonstrate the safe disposal, in deep geologic formations, of transuranic radioactive wastes generated by the Government's defense activities. The Plant is located on a 10,240-acre site 26 miles east of Carlsbad, New Mexico, and is designed to hold 6.2 million cubic feet of waste. Westinghouse Electric Corporation is the management and operating contractor for the site.

In October 1993, citing concerns of the scientific community, the Department abandoned plans to test radioactive waste at the Plant and chose instead to conduct above-ground laboratory tests at another location. This decision meant that the first receipt of waste at the Plant would not occur until the late 1990s at the earliest, or about 10 years later than originally planned.

An audit disclosed that despite the sharp decline in the amount of waste planned to be tested at the Plant, Westinghouse Electric Corporation's labor force had increased. From March 1991 when the Plant base facility was declared operationally ready, through the end of Fiscal Year 1994, staffing levels were to increase by 38 percent for five Westinghouse departments which the auditors reviewed. The auditors attributed the increase to (1) overly optimistic projections for the initial receipt of waste, (2) budget-driven staffing levels, and (3) cost comparisons that were inappropriate for making decisions on reducing operations.

The audit report recommended that the Deputy Assistant Secretary for the Office of Waste Management reduce staffing levels in the five audited departments to the March

1991 operational readiness status. The Deputy Assistant Secretary should prevent all staff increases at the Plant until operating requirements are realigned with its reduced operating mission. Also, the Deputy Assistant Secretary should implement the cost savings identified in the Plant Contingency Plan until all external obstacles to receiving waste have been resolved.

The Department did not concur with the finding or recommendations. Subsequent to the issuance of the final report, the Department requested a joint review of the staffing requirements of the Waste Isolation Pilot Plant be conducted by the Office of Inspector General and the Office of Assistant Secretary for Environmental Management. A review has been initiated. (WR-B-94-2)

IMPROVED MANAGEMENT CONTROLS ARE NEEDED IN THE REVIEW OF TRAVEL ACTIVITIES

The Federal Energy Regulatory Commission regulates the nation's hydroelectric power industries, electric utilities, and natural gas and oil pipeline transportation. The Commission's headquarters is in Washington, D.C., with regional field offices in Chicago, Portland, Atlanta, San Francisco, and New York City. In Fiscal Year 1992, the Commission's travel section processed over 3,000 travel vouchers with costs of about \$2.2 million.

An audit of the Commission's travel policies and procedures found that personnel in the Commission's travel office were generally accomplishing their tasks in a professional manner with good results. However, the audit identified some discrepancies between the Federal Travel Regulation and the Commission's practices, specifically in the areas of justifying the use of actual travel expenses (in excess of standard allowances), documentation of expenses, and of travel advances.

The audit report made recommendations which should strengthen management controls in the area of travel and ensure that travel documentation and processing meets Federal Travel Regulation requirements. Management generally agreed to review the areas ad-

ressed in the audit report recommendations and take corrective action. (CR-B-94-03)

CASK DEVELOPMENT PROGRAM IS BEHIND SCHEDULE AND OVER COST

The Nuclear Waste Policy Act of 1982 required the Department to develop a system to transport nuclear waste by January 1998. A transportation cask development program was implemented to manage and oversee the building of ten different cask designs. In a 1987 report, the Office of Inspector General advised that management needed to establish minimum criteria that each cask must meet to qualify for further development funding.

A recent followup audit found that the cask development program is behind schedule and over cost. This situation occurred because program officials did not recognize the extent of the problems they would encounter or the time it would take to address the issues associated with innovative cask designs. In addition, program officials stated that budget cuts had adversely affected cost and schedule. As a result, the Department will spend an estimated \$143 million on the cask development program and receive only two of the original ten cask designs. The two cask designs were originally estimated to cost \$26 million. It is not certain at this time whether those two cask designs will eventually receive Nuclear Regulatory Commission certification.

The audit report recommended improvements which include the establishment of formal contingency plans to counter further delays, and the development of current baselines and schedules in sufficient detail to control cask system development schedules and costs. The audit report also identified a need to reevaluate the current status of the casks under development to justify further work on them. By implementing the audit report's recommendations, management could better control the program to reduce schedule slippage and continued growth in the total cost of the program.

Management generally agreed with the audit report's recommendations and has proposed actions to address the report's findings. (IG-0345)

FORMER OFFICE OF NEW PRODUCTION REACTORS HAD OPPORTUNITIES FOR SAVINGS DURING ORDERLY SHUTDOWN

The Department's Office of New Production Reactors was established in October 1988 to design and construct a safe and environmentally acceptable new reactor capacity which would provide a dependable supply of nuclear materials (primarily tritium) to be used in the manufacture of nuclear weapons. However, in September 1992, the Department decided that the existing New Production Reactor Program should be deferred immediately and the reactor design efforts should be brought to a prompt and orderly closure.

An inspection which had been underway in the Office of New Production Reactors at the time of the Department's closure order then shifted its focus to identify opportunities by which the Office could better manage its orderly shutdown.

The inspection report recommendations included closing a dedicated telecommunications network and discontinuing grant funding to two universities. The report also included recommendations on quality assurance principles and criteria for environmental impact statements prepared by Department officials. Management concurred with the recommendations and is taking appropriate actions. (INS-O-94-1)

MOUND PLANT STAFFING AND CAPITAL SPENDING REDUCTIONS WERE NOT COMMENSURATE WITH DECREASED PRODUCTION AND CONSOLIDATION

Reduced weapons production and the Department's Nonnuclear Consolidation Plan have significantly affected activities at the Mound Plant. Production activities decreased dramatically between Fiscal Years 1989 and 1992, and the Department tentatively plans to cease all production activities at the Mound Plant by October 1995.

An audit disclosed that the Department and its management and operating contractor did not appropriately reduce staffing and capital equipment costs in response to reduced production and planned nonnuclear consolidation. A review of 20 randomly selected cost centers showed that 16 of 118 employees were

not supported by workload requirements. Also, from January 1992 through June 1993, the contractor incurred \$4 million on 12 capital projects that will be unnecessary once production ceases at the Mound Plant.

These conditions existed because the Department and the contractor formulated staffing and capital budgets based on the Department's funding authorizations rather than on production and workload requirements. As a result, the contractor incurred unnecessary labor and fringe benefits costs by employing more people than necessary to meet workload requirements. The contractor also plans to spend another \$1.4 million on unnecessary capital projects in addition to the \$4 million already spent.

The audit report recommended that the Albuquerque Operations Office develop and implement a management control system that identifies and tracks workload trends and that

incorporates these trends with forecasted workload requirements in the process of staffing individual cost centers. Based on the results of the management control system, the contractor should staff only the number of employees necessary to meet anticipated workload requirements and to comply with Federal laws and Departmental regulations.

The audit report also recommended that the Albuquerque Operations Office direct the contractor to cancel all capital projects, including those identified in the audit report, that are not essential to maintaining basic viability of the site. Funds associated with cancelled capital projects should be returned to the Albuquerque Operations Office.

Management concurred with the recommendations, although it did not concur with the findings. (ER-B-94-03)

ENVIRONMENT, SAFETY & HEALTH

The Department's activities have generated considerable radioactive and hazardous wastes. This key issue area includes all Department of Energy activities related to the cleanup, storage, and disposal of radioactive and hazardous waste, including all work involving the civilian and defense radioactive waste repositories.

ROCKY FLATS SAFETY AND HEALTH COMPLAINT PROGRAMS AND A TEMPORARY SECURITY MEASURE NEED ATTENTION

An inspection of the Rocky Flats Plant's three safety and health complaint programs, which received over 1,600 union complaints between 1990 and 1993, disclosed that some complaints have remained in an investigative or open status for more than three years. The Department manages one of the three complaint programs, but the Department's Rocky Flats Office did not establish requirements for reviewing and monitoring the two complaint programs managed by its contractors.

As a related health item, the inspection disclosed that asbestos problems which were identified at the Rocky Flats Plant as early as 1992 have not resulted in an acceptable Asbestos Management Plan despite Department and contractor efforts to address this issue.

The inspection also found that a temporary security post was established in a building for more than 20 months at a cost of \$8,500 per week while the condition which required the establishment of this post has gone uncorrected. The contractor has missed deadlines for submitting plans to correct the condition. The cost of the temporary security post, based on weekly cost projections of \$8,500 from 1/1/92 to 9/17/93, is about \$756,500. This exceeds the cost to fix the problem, which is estimated at \$650,000.

The inspection report made several recommendations which, when implemented,

would correct the noted deficiencies. Management concurred with the recommendations. (S93IS031)

HANFORD CONTRACTOR DELAYED REPORTING SUSPECTED TANK LEAK

In 1988, the Richland Operations Office notified Westinghouse Hanford Company of the importance of informing the Department of possible leaks in underground hazardous waste storage tanks at the Hanford site. In October 1992, Richland became aware of an unreported potential leak.

Inquiries by the staff of the Acting Deputy Program Manager for Tank Safety determined that Westinghouse technicians may have had knowledge of a leak but did not report it. The Office Inspector General initiated an investigation to determine whether there may have been a coverup in addition to a failure to report a leak.

The investigation found that in May 1992, Westinghouse technicians had indications of a possible leak in the storage tank, but they did not inform the Department until October 1992. Investigators also determined that the 5-month delay in reporting the suspected leak occurred because the technicians believed that the level gauge in the storage tank was malfunctioning. The technicians made continuous efforts to validate the accuracy of the level gauge and, once satisfied that it was working properly, notified the Department of the possible leak. Subsequently, Westinghouse pumped out the liquid portion of the storage tank and determined that the tank probably did leak.

Department officials stated that it cannot be determined with absolute certainty that the storage tank leaked because the quantity of liquid estimated to have leaked (7,400 gallons) is not large enough to be detected by subsurface monitoring techniques. Also, level-gauge measuring has inherent problems because storage tanks contain hardened crusts and semi-hard sludge that can distort gauge readings.

The investigation uncovered no evidence that Westinghouse technicians deliberately covered up a possible leak. The investigative report recommended that Richland ensure that some type of measuring device is in place to accurately measure the fluid levels in single shell storage tanks. Additionally, the report recommended that Richland review Westinghouse's reporting procedures to ensure that the Department is notified in a timely manner of a suspected leak in the future.

Management has taken steps to upgrade measuring instruments, although a permanent resolution to the accuracy problem will continue to be frustrated by hardened crusts and sludge. Management will undertake in-tank testing of new instruments in several tanks during Fiscal Year 1994. Westinghouse has taken steps to raise the sensitivity of its technicians to timely reporting of storage tank level data. (193RL003)

SHIPMENTS OF RADIOACTIVE WASTE FROM A DEPARTMENT FACILITY WERE IMPROPER

The Office of Inspector General received allegations of possible improprieties in the shipment of radioactive waste by one of the Department's contractors to commercial disposal companies in several states.

The investigation determined that, with the approval of the contractor's environmental attorney, the uranium content of the radioactive waste was deleted from laboratory analysis results provided to the disposal companies as a "security precaution." The attorney considered the information to be classified, sensitive and possibly nonreleasable. However, the attorney did not have the authority to make the deletion decision, nor did he contact anyone within the Department with the authority to do so.

The investigation also found that the contractor misclassified waste by inappropriately using shipping criteria to characterize "mixed waste" as "hazardous waste." The contractor considered material shipped from the facility to be "nonradioactive" because the material's radiation emission was equivalent to "background or naturally occurring radioactivity."

Further, the investigation determined that 6,000 barrels of material covered by the Resource Conservation and Recovery Act were stored beyond the one-year limit imposed by the Act.

In conjunction with the investigation, the Department of Transportation reviewed the contractor's shipping records and found three violations of improper labeling of intra-Department facility shipments of waste.

The investigative report recommended that the Department's contracting officer disallow any losses or expenses, including litigation costs, attorney fees, and settlement agreements resulting from willful misconduct or lack of good faith on the part of the contractor's officers. Further, the Department should ensure that procedures are in place to properly document, track, and characterize waste streams generated by the contractor. The Department should also review the Federal Facilities Compliance Agreement to determine if the contractor made full disclosure about barrels remaining onsite which were stored beyond one year and which were identified in their data base as "nonradioactive."

Department management concurred with the investigative report recommendations and is taking action to implement them. (191OR016)

CRANE OPERATOR CONTINUED TO OPERATE MOBILE CRANES AFTER DRIVER'S LICENSE SUSPENSION

A complainant alleged to the Office of Inspector General that a Kaiser Engineers Hanford crane operator at the Department's Hanford Site was continuing to operate heavy equipment after suspension of his Washington State driver's license.

An investigation determined that the crane operator had his driver's license suspended from May 1991 until June 1993 be-

cause of a "Driving While Intoxicated" arrest in May 1991. Also, Washington law requires a person to have a commercial driver's license to operate equipment weighing over 26,000 pounds on public property, a license which the crane operator did not have.

Kaiser Engineers Hanford superintendents had documented their conclusion that the crane operator could operate heavy equipment at the Hanford Site, as long as another heavy equipment operator with a valid commercial driver's license moved the equipment between locations. However, the crane operator's immediate supervisor admitted that he allowed the crane operator to operate mobile cranes on roadways without a commercial driver's license because he thought the operator at least had a valid ordinary driver's license.

The crane operator's supervisor had also allowed another employee to operate cranes at Hanford even though the employee had sight in only one eye and Kaiser Engineers Hanford policy prohibited such operation. The supervisor said that he allowed the sight-impaired employee to operate cranes anyway because

he had not been specifically told not to allow that particular individual to do so. The supervisor took an early retirement while the investigation was ongoing.

The investigative report recommended that the Richland Operations Office determine if the Hanford Hoisting and Rigging Manual should be modified to require that all operators of mobile cranes and other heavy equipment possess and maintain a valid state driver's license with appropriate endorsements. Richland should also determine if the Hanford Hoisting and Rigging Manual should include policies regarding commercial driver's license requirements for the Hanford Site and ensure those policies are in accordance with Washington state laws and regulations where applicable. The investigative report also recommended that Richland ensure Kaiser Engineers Hanford employees understand the requirements of the Hanford Hoisting and Rigging Manual.

Management concurred with the recommendations and took corrective action. (I93RL026)

INFRASTRUCTURE

Many of the Department's facilities (particularly in the area of weapons development and production) are old, and their operating availability and efficiency have declined. Modernization of these aging facilities and restoration of sites to make them safe and viable are two of the most important tasks facing the Department. As part of this initiative, the Department is embarking on a long-range program to consolidate and build a smaller, modern and more efficient weapons production complex. In addition to repair and improvement of existing facilities, the Department is in the process of building additional roads, utilities, and mission support structures.

Y-12 PLANT CONSTRUCTION PROGRAM NEEDS FURTHER REVIEW

The Y-12 Plant is a 50-year-old facility that has been a major materials production and component manufacturing site in the Department's nuclear weapons complex. With the cessation of nuclear weapons production, the Department revised its plans for modernizing the nuclear weapons complex. As part of this planning process, the Department was scheduled to decide on the size and structure of the future weapons complex by December 1994. In the meantime, the sites that could be affected by the decision were to limit construction activities to what was necessary to sustain current operations and comply with environmental, safety and health requirements.

An audit found that the Department was continuing with construction of permanent facilities at Y-12 that were planned before the reconfiguration study and would cost an additional \$216 million to complete. Also, the contractor's long-term construction plan called for additional facilities that may not be needed for mission requirements and could be incompatible with the Department's transition strategy. In support of these plans, the contractor and the Oak Ridge Operations Office

made assumptions without specific, formal guidance from Headquarters. In the absence of a production mission, these assumptions were used to justify "post" cold war construction and planning, especially the assumption on the need to tear down nuclear components returned from retired weapons.

The audit report recommended that the Department reassess ongoing and planned construction at Y-12 and make appropriate adjustments to ensure compatibility with current and future missions and transition strategy. The report also recommended that the Department develop an integrated plan for both near- and long-term management and disposition of nuclear components returned to Y-12.

Management generally concurred with the recommendations and has taken or initiated a number of responsive actions. Subsequent to the audit, management reassessed all ongoing projects and, as a result of this reassessment, deleted \$53 million from these projects. Management also agreed to review and update the Y-12 long-term construction plan to ensure compatibility with the transition strategy. Further, management plans to reassess weapons-related activities in light of policy and resource changes. (CR-BC-94-02)

FINANCIAL MANAGEMENT

This area focuses attention on the management controls, accounting systems and other processes that ensure that the Department of Energy and its management and operating contractors exercise proper accountability over the Government resources entrusted to them. These processes include the annual reviews of the Department's internal control systems under the Federal Managers' Financial Integrity Act, the expression of an opinion on the Department's financial statements required by the Chief Financial Officers Act of 1990, and other reviews of the Department's financial management systems. Also, before the Department approves a contractor's annual accounting for its net expenditures, the Office of Inspector General examines the reliability of contractor and Department Field Element internal controls that are used to ensure that only allowable costs are claimed and reimbursed.

REPORTS REQUIRED BY THE CHIEF FINANCIAL OFFICERS ACT OF 1990

The Secretary was advised on results of financial statement audits of 11 reporting entities as required under the Chief Financial Officers Act of 1990. These audits were conducted by the Office of Inspector General and independent public auditors in accordance with generally accepted Government auditing standards and Office of Management and Budget guidance.

Unqualified audit opinions were given on the following ten reporting entities for Fiscal Year 1993:

1. Isotopes Production and Distribution Program.
2. Low-Level Radioactive Waste Surcharge Escrow Account.
3. Naval Petroleum and Oil Shale Reserves.
4. Nuclear Waste Fund.
5. Uranium Enrichment Activity.
6. Alaska Power Administration.
7. Southeastern Federal Power Program.

8. Southwestern Federal Power System.
9. Western Area Power Administration.
10. Federal Columbia River Power System.

The eleventh reporting entity, the Federal Energy Regulatory Commission, received a disclaimer of opinion on the statements of operations and changes in net position, cash flows, and budget and actual expenses, but the auditors expressed an unqualified opinion on the statement of financial position. A number of improvements have been made by the Commission with Departmental guidance in the past year and additional corrective actions are in progress or will be initiated. Last year, the auditors expressed a disclaimer of opinion on all of the Commission's Fiscal Year 1992 financial statements.

Although most financial statements were fairly presented in the opinion of the auditors, a number of reportable conditions and material weaknesses were found at these entities and will be tracked in the Department's audit follow-up system. Also, this is the second consecutive year that the auditors expressed doubt as to the Isotopes Production and Distribution Program Fund continuing as a going concern because of funding and marketing uncertainties. Finally, the Naval Petroleum

and Oil Shale Reserves Number 3 has had net operational losses of \$1.8 million and \$2.8 million in Fiscal Years 1993 and 1992, respectively. The continuing losses need to be addressed by the Department.

The audit disclaimer of opinion, reportable conditions and material weaknesses were reported to officials at each entity. They indicated that corrective actions have been initiated.

REPORTS REQUIRED BY THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

Office of Inspector General examination of the Department's implementation of the Federal Managers' Financial Integrity Act of 1982 included detailed examinations of selected management control reviews, operative vulnerability assessment ratings, and accounting system evaluations conducted by the Department. Further, we reviewed the Assurance Memoranda and supporting documentation filed by selected Departmental organizations, including each management control plan, to determine whether the results of their evaluations were accurately reported. Follow-up work was also performed to determine what corrective action was taken by the Department on material weaknesses reported last year.

Overall, the Department made the required evaluations to provide reasonable assurance that it has adequate systems of management accounting and administrative controls. The Department has made considerable advances in addressing the problems noted in our Fiscal Year 1992 Federal Managers' Financial Integrity Act report, and managers have continued to be realistic in reporting weaknesses.

REVIEWS OF FORM 2200.1, "VOUCHER ACCOUNTING FOR NET EXPENDITURES ACCRUED," PROVIDED OPPORTUNITIES TO IMPROVE INTERNAL CONTROLS

In accordance with Department requirements, each Department integrated contractor annually prepares and certifies Department Form 2200.1, "Voucher Accounting for Net Expenditures Accrued," to summarize its ac-

counting for net expenditures accrued during the year specified. The form serves as the contractor's claim and certification that the net expenditures accrued have been incurred and are allowable under the contract.

The form also provides for the Department's approval of the contractor's accounting of net expenditures accrued. Approval by the Department's Office of Inspector General, the Head of the affected Field Element or delegated procurement official, and the affected Field Element's Chief Financial Officer constitutes an acknowledgment that expenditures incurred during the fiscal year were allowable under the contract and that they have been recorded in the accounts maintained by the contractor in accordance with Department accounting policies. Department approval does not relieve the contractor of responsibility for the Department's assets in its care, for appropriate adjustments resulting from subsequent audits, or for errors later becoming known to the Department.

Before the Department approves the Form 2200.1, the Office of Inspector General examines the reliability of the internal controls which the contractor and the affected Department Field Element use to certify that only allowable costs are claimed and reimbursed. This review includes verification of the dollar amounts on the Form 2200.1, examination of related statements of operations, evaluation of changes in Department equity, and tests of compliance with applicable laws and regulations. Each fiscal year, the Office of Inspector General provides an opinion on the adequacy of the internal control system from which the integrated contractor financial statements were prepared.

The Office of Inspector General has allocated a substantial portion of its resource base to accomplishing the reviews of Form 2200.1. This commitment is consistent with the substantial proportion of Department budget funds expended by and through the Department's integrated contractors. In this 6-month reporting period, the Office of Inspector General issued 30 reports of Form 2200.1 reviews.

The ability of the Inspector General's Office of Audits to provide sufficient audit coverage of the integrated contractors has been hampered by inadequate audit resources. Al-

though the audit staff has been augmented in recent years, the inadequate audit coverage resulting from the audit staff shortage has been considered a material weakness under the Federal Managers' Financial Integrity Act process. However, the Office of Audits is currently implementing an audit strategy that includes the Form 2200.1 review process.

In addition to the Office of Inspector General's audits, the Head of each cognizant Department Field Element is responsible for periodically evaluating the adequacy of coverage, technical competence, objectivity, and independence of audits conducted by internal auditors of the integrated contractors. Also, under the provisions of their contracts, integrated contractors are required to conduct internal audits and examinations of transactions with respect to costs they claim to be allowable.

The Field Element's Chief Financial Officer confirms that the contractor maintained an adequate and approved accounting system. The Field Element's Contracting Officer also attests that the contractor's accounting for net expenditures accrued conforms with generally accepted accounting principles, does not conflict with the provisions of the Department's accounting directives, and accurately represents the accounting activity for the fiscal year. The Field Element's Chief Financial Officer authorizes the accounting for net expenditures accrued to be reflected in the Department's accounts, subject to any adjustments disclosed by future audits.

In the event that the Office of Inspector General disclaims or renders an adverse opinion on the Form 2200.1, the Department cannot take further action to approve the contractor's Form 2200.1 until recommendations from the Inspector General's Office of Audits are implemented. Consequently, contractor records and accounts cannot be officially

closed until an Office of Inspector General signed Form 2200.1 is received.

During this 6-month reporting period, the Office of Inspector General performed reviews which identified opportunities to improve internal controls used by Department contractors and field offices. A sampling of these opportunities for improvement include:

1. Resolving material internal control weaknesses associated with cost allowability which were identified in Inspector General and internal audit reports.
2. Performing timely closure audits on physically completed cost-type subcontracts.
3. Directing the internal audit function to use auditing techniques (such as statistically valid sampling) that will allow it to express an opinion on an entire audit population within a predetermined level of risk.
4. Directing the internal audit function to question costs resulting from procedural deficiencies when a reasonable basis for questioning exists.
5. Directing the contractor to justify controlled business expenses in terms of reasonableness and contribution to the effectiveness of the contract work.
6. Determining the allowability of costs questioned in Form 2200.1 reviews and seeking reimbursement for all costs determined to be unallowable.
7. Performing internal audits of allowable costs annually.

ADMINISTRATIVE SAFEGUARDS

"Administrative Safeguards" are those Office of Inspector General investigations and other reviews of administrative operations in which there is high inherent vulnerability to waste, abuse, and mismanagement such as imprest funds, payrolls, travel claims, time cards, overtime claims, and telephone use. Although the dollar amounts involved in the investigations or reviews may be comparatively small, Office of Inspector General activities falling within this category have significant value in fostering others to obey laws, regulations, and policies.

WESTINGHOUSE INTERNAL REVIEW REFERRED ALLEGATIONS OF MEDICAL INSURANCE FRAUD

Westinghouse Hanford Company internal review staff referred to the Office of Inspector General allegations that a Westinghouse technician submitted fraudulent medical insurance reimbursement claims to Westinghouse.

The investigation found that the technician had submitted 10 fraudulent medical insurance claims for about \$1,800 to Westinghouse, and an additional \$1,900 in fraudulent claims to Medicaid. The Office of Inspector General requested that the Department's Richland Operations Office ensure that Westinghouse takes appropriate personnel and administrative action to resolve this issue.

Westinghouse fired the technician and, after the Assistant U.S. Attorney accepted the case for prosecution, the technician agreed to make full restitution for the false claims and pay a \$1,000 fine. (I92RL003)

INVESTIGATORS WORKED WITH LAWRENCE BERKELEY POLICE ON COMPUTER THEFT CASE

University of California Lawrence Berkeley police notified the Office of Inspector General that about \$20,000 in computer

equipment had been stolen from the laboratory during a weekend. The Office of Inspector General conducted a joint investigation with the Lawrence Berkeley police.

The investigation team locally distributed a list of stolen computer equipment, and shortly thereafter a computer store employee contacted the Lawrence Berkeley police. The employee reported that a person had sold one of the stolen computers on the list to his store. Further investigation identified the seller of the stolen computer as a close relative of two Lawrence Berkeley employees who had keys to and worked in the building where the thefts occurred. A search of premises occupied by the family uncovered a sales receipt for stolen computer software sold to the same computer store. The seller of the goods was arrested and charged with possession of stolen property.

The seller pled guilty to felony receipt of stolen property and was sentenced to one year in the county jail and three years of supervised probation. The seller was also ordered to make restitution and was fined \$100.

The investigative report recommended corrective actions which would improve security controls at the site, and Lawrence Berkeley took steps to address the security issues. (I91SF002)

INTERNATIONAL TELEPHONE CALLS MADE BY PERSONNEL AT OAK RIDGE APPEAR EXCESSIVE

An investigation substantiated allegations that employees and foreign visitors at Oak Ridge National Laboratory made over \$100,000 in overseas calls in the past year to numerous countries. An analysis of computerized phone records identified over \$170,000 in charges resulting from telephone calls made by Martin Marietta Energy Systems employees and foreign visitors. Nations associated with the most telephone calls were Russia with 837 calls worth over \$5800, Israel with 748 calls worth over \$6500, South Korea with 600 calls worth over \$3000, India with 528 calls worth over \$3400, Brazil with 431 calls worth over \$1400, and China with 342 calls worth over \$1700. There were also telephone calls to Romania, Ukraine, Yugoslavia, Bulgaria, Libya, and Iran/Iraq.

Although Martin Marietta has a policy against misuse of telephones, foreign visitors were allowed to call their host institutions based on an honor system. While visitors were not allowed to make personal calls, Martin Marietta had no written procedures concerning telephone calls to foreign countries. The investigation determined that certain calls in Martin Marietta's computerized telephone records were made to 23 nations listed as "sensitive access" countries by the Department of Energy. None of the foreign visitors had access to classified information.

If telephone privileges were abused and a caller had over \$50 per month in charges, Martin Marietta removed the caller's long distance access and required reimbursement. However, most foreign visitors returned to their countries before bills were processed and reviewed.

The investigative report recommended that the Oak Ridge Operations Office establish written guidelines for overseas telephone use by contractor employees and foreign visitors, to include both outgoing and incoming calls. Martin Marietta should also reimburse the Department for unreasonable costs in accordance with their contract with the Department.

Management concurred with the investigative report recommendations and has agreed to take corrective action. (I93OR010)

SOME INVESTIGATION REPORTS RECOMMEND IMPROVEMENTS TO CONTROLS OVER TRAVEL PROCEDURES

During this reporting period, the Office of Inspector General investigated several allegations of violations of travel policies, procedures, and regulations. These violations included filing a travel claim which had been falsified to cover a 2-day incarceration for a Driving While Intoxicated (DWI) arrest; instances of forging names on travel authorizations and vouchers to obtain cash advances totaling about \$19,300; and submitting travel claims for former or nonexistent employees to obtain airline tickets and about \$2,500 in cash.

In these cases, the Office of Inspector General recommended several improvements in management controls used to ensure that the requirements of Department and Federal Travel Regulations are met.

Management generally concurred with the recommendations and, in some cases, had taken corrective action before the conclusion of the investigation. (I93RL013, I93LL008, I93HQ004, I91HQ009, I92HQ026)

Section 2

Office of Inspector General Overview

This section describes the mission, staffing and organization of the Office of Inspector General, and discusses key Office of Inspector General concerns which have potential to impact the accomplishment of audit, inspection, or investigative work.

Office of Inspector General Organization Chart

OFFICE OF INSPECTOR GENERAL OVERVIEW

MISSION

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

1. To provide policy direction for, and to conduct, supervise, and coordinate audits and investigations relating to the programs and operations of the Department of Energy.
2. To review existing and proposed legislation and regulations relating to programs and operations of the Department of Energy, and to make recommendations in the semiannual reports required by the Inspector General Act of 1978 concerning the impact of such legislation or regulations on the economy and efficiency in the administration of programs and operations administered or financed by the Department, or on the prevention and detection of fraud and abuse in such programs and operations.
3. To recommend policies for, and to conduct, supervise, or coordinate other activities carried out or financed by the Department of Energy for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations.
4. To recommend policies for, and to conduct, supervise, or coordinate relationships between the Department of Energy and other Federal agencies, state and local governmental agencies, and nongovernmental entities with respect to:
 - All matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in, programs and operations administered or financed by the Department.
 - The identification and prosecution of participants in such fraud or abuse.
5. To keep the Secretary of the Department of Energy and the Congress fully and currently informed, by means of the reports required by the Inspector General Act of 1978, concerning fraud and other serious problems, abuses and deficiencies relating to the administration of programs and operations administered or financed by the Department of Energy, to recommend corrective action concerning such problems, abuses, and deficiencies, and to report on the progress made in implementing such corrective action.

ORGANIZATION AND STAFFING

To perform its mission, the Office of Inspector General has a ceiling for Fiscal Year 1994 of 362 full-time equivalents located at Department of Energy Headquarters and major Department sites throughout the United States. In addition, the Office of Inspector General was allocated 17 staff years of contractor support primarily to perform audits in Fiscal Year 1994. The activities of the Office and its 362 staff allocation are divided into four functional areas which are administered by Deputy Inspectors General (see the accompanying organization chart).

The audit functional area provides policy direction and supervises, conducts and/or coordinates all internal and contracted audit activities for Department of Energy programs and operations. These operations include those conducted under contracts and grants, as well as those performed by Departmental employees. The audit staff has been organized into three regional offices, each with field offices located at major Department sites: Capital Regional Audit Office, with field offices at H Street in Washington, DC, the Federal Energy Regulatory Commission, Germantown, Pittsburgh, and Dallas; Eastern Regional Audit Office, with field offices located at Cincinnati, Chicago, New Orleans, Oak Ridge, Princeton, and Savannah River; and Western Regional Audit Office, with field offices located at Albuquerque, Denver, Idaho Falls, Las Vegas, Livermore (California), Los Alamos, Richland (Washington), and Portland.

The investigation functional area identifies and pursues indications and allegations of prohibited or improper activities committed against the Department by its employees, contractors, vendors and any others who have a relationship with the Department. In addition, the Assistant Inspector General for Investigations makes programmatic and/or internal control recommendations to Department management to prevent recurrence of the events and circumstances which allowed fraud, waste or abuse to occur. The investigative staff has been organized under two Deputy Assistant Inspectors General for Investigations: the Deputy for Operations and the Deputy for Policy and Planning. The Deputy for Operations manages six regional investigations offices located at Albuquerque, Livermore, Richland, Oak Ridge, Savannah River, and Washington, DC. The Deputy for Policy and Planning, which is the administrative arm of the Office of Investigations, directs and facilitates the focusing of planning and policy refinements. This Deputy is also responsible for operating the Inspector General Hotline, controlling investigative case files, supporting responses to Freedom of Information Act requests, and managing the investigative training program.

The inspection functional area performs inspections and analyses, as required by the Inspector General. This functional area also performs reviews of administrative allegations received by the Office of Inspector General and processes Inspector General referrals to Department management for appropriate action. An inspection is the examination of a program, project, function, activity or organization. The purpose of an inspection is to evaluate the effectiveness and/or efficiency of an operation, to evaluate program results, and to determine compliance with laws and regulations. An inspection is also another technique used to detect or prevent fraud, waste or mismanagement. Inspections are often designed to provide timely feedback to program managers and, in some instances, provide a source of analytical information for audits or criminal investigations. The inspection staff is organized into three offices: Program Inspections, Field Operations

and Administration, and Management Inspections. Field Operations and Administration has inspectors located at Albuquerque, Oak Ridge, Savannah River and Livermore, and also oversees the Office of Inspections Regulatory Review, Oversight and Administration Office.

The policy, planning and management functional area directs the development, coordination, and execution of overall Office of Inspector General management and administrative policy and planning. This responsibility includes directing the Office of Inspector General's strategic planning process, financial management activities, personnel management programs, procurement and acquisition policies and procedures, and automated data processing programs. In addition, staff members from this functional area represent the Inspector General in budget hearings, negotiations, and conferences on financial, managerial, and other resource matters. Also, staff members provide management and administrative support services, including personnel, procurement, security, travel, training, and automated data processing services. The staff prepares responses to Freedom of Information Act and Privacy Act requests directed to the Office of Inspector General and coordinates all activities of the President's Council on Integrity and Efficiency in which the Inspector General participates. The functional area is organized into four offices: Automated Data Processing, Administrative Services, Human Resources Management, and Planning and External Liaison. This functional area also provides a quality assurance program for the Office of Inspector General.

INSPECTOR GENERAL CONCERNS

Department Internal Audit Status

The Department of Energy accomplishes its mission in large part through the use of management and operating contractors that operate the Department's major facilities. Sufficient audit coverage to ensure that major Department contractors are operating economically, efficiently and effectively has been a concern for a number of years. For the past three years, the Department has reported a material deficiency in the audit coverage of these contractors in the Secretary's Federal Managers' Financial Integrity Act letters to the President.

To improve audit coverage at these management and operating contractors, the Office of Inspector General initiated a time-phased approach to acquire additional staff and performed a comprehensive reevaluation of the audit approach. As a result of this reevaluation, a Cooperative Audit Strategy was recommended. The Cooperative Audit Strategy includes the use of risk assessments as the basis for audit plans and greater cooperation between the Inspector General's audit staff and the internal audit organizations of the Department's management and operating contractors.

During Fiscal Year 1993, there was significant progress toward implementing the Cooperative Audit Strategy. This primarily involved pilot implementation of the strategy at 15 management and operating contractors; establishment of the Audit Tracking and Planning System; and initiation of the Peer Review Program. To ensure the successful implementation of the Cooperative Audit Strategy, a Steering Committee on Quality Audits was established.

While the pilot program implementation was not without its challenges, results indicated that the program could successfully be expanded to the Department's 52 management and operating contractors. The Audit Tracking and Planning System, which tracks internal auditors' and other organizations' audit work at management and operating contractors, has produced a Departmentwide audit plan that serves to avoid duplicate audit coverage and a Fiscal Year 1994 internal audit plan for all contractors.

To ensure that contractor audits are being performed in accordance with Government Auditing Standards, the Peer Review Program was initiated. The Peer Review Program meets the standards of the Institute of Internal Auditors, and is supplemented by OIG oversight and annual assessments of internal audit group performance. Seven peer reviews have been completed thus far, and reviews at the remaining management and operating contractors are to be completed by the end of Fiscal Year 1996. The completed reviews disclosed that contractor audits are being performed in accordance with Government Auditing Standards.

Another action that has served to achieve the mutual goal of ensuring high quality audit coverage was the establishment of the Steering Committee for Quality Auditing. The Committee, which is comprised of the Department's Chief Financial Officer, Procurement Executive, Deputy Inspector General for Audits, and officials from a Department program office, two operations offices and a management and operating contractor, meets quarterly and is expected to continue in this role. A nationwide audit conference is planned for May 1994 to discuss the status of the audit function in the Department of Energy and, specifically, the Cooperative Audit Strategy.

Audit Coverage of Department Laboratories

The Office of Audits has published generic guidelines for auditing mission-oriented activities at Department laboratories. The publication was developed as a tool for use by Office of Inspector General field auditors in identifying major mission-oriented activities at Department laboratories and assessing their potential audit significance. Information is provided to assist auditors in developing survey programs for specific laboratory programs selected for further review. The survey guides will help the auditors in evaluating overall laboratory operations by providing specific audit steps which will enable the auditors to assess the audit potential of a laboratory's major system acquisitions and projects -- the Department's most significant undertakings. The guides are intended as both an introduction to a major segment of the Department's operations as well as a resource for future audit work involving research and development activities.

Contract and Subcontract Administration

During this reporting period, the Office of Inspector General continued its interest in the Department's administration of its contractors. As a specific example of this interest, the Office of Inspections determined that a Department contractor authorized its affiliates to improperly burden three procurements with \$970,000 in indirect costs. Additionally, the Office of Audits has and continues to focus on the administration of prime off-site contracts, as well as on the management and operating contractors' subcontracting practices. Special attention has been given to determining if these contracts and subcontracts have been au-

dited, as appropriate, by the Defense Contract Audit Agency or other cognizant audit agencies. During this reporting period, the Office of Audits issued a report on "Review of Audit Cognizance over Cost-Reimbursement Contracts." The purpose of the review was to evaluate whether the Department of Energy, in meeting its Cognizant Federal Agency responsibilities, had: (1) obtained required annual contractor rate submissions; (2) requested annual incurred-cost audits; and (3) determined which Federal agency was responsible for establishing indirect cost rates for non-management and operating contractors with cost-reimbursement contracts. For the seven contracting offices included in the review, contracting officials had not obtained about half of the required indirect rate submissions. They also had not requested over half of the required incurred-cost audits. Further, Cognizant Federal Agency responsibility for 43 contractors had not been determined.

The Office of Audits also has identified many instances during internal control reviews at the Department's management and operating contractors that showed a lack of audit and administration over subcontracts. During this reporting period, the Office of Audits issued the report on "Audit of Management and Operating Contractors' Subcontract Administration." The objective of the audit was to determine whether the contractors awarded and administered subcontracts in accordance with Departmental acquisition regulations and contract terms. The four contractors that were reviewed had not established adequate systems to award and administer subcontracts. Their systems did not provide for fair and effective competition, reasonable costs and prices, and timely closure of completed subcontracts. As a result, the Department paid excessive prices for goods and services and committed more funds than needed for subcontract costs.

Ongoing efforts include reviews of grants, contracts, and subcontracts that the Department should be requesting, and obtaining audits to ensure allowability and reasonableness of costs. The audit results to date have shown that the Department does not always obtain from contractors or subcontractors the information required to request audits from the Defense Contract Audit Agency or other cognizant audit agency and, therefore, the audits of indirect and direct costs are not being performed in a timely manner. The Office of Inspector General, however, has redoubled its efforts to work with the Department to ensure that proper management controls are in place to provide appropriate stewardship of government activities and assets.

Increasing Work Load

As has been the trend for the last several years, the list of mandated duties for the Office of Inspector General continues to grow. The last reporting period, for example, saw the Department of Energy's Inspector General, as required by the Energy Policy Act of 1992, acting as the lead agency for the President's Council on Integrity and Efficiency in receiving, summarizing and reporting the results of a Governmentwide audit survey of agencies' compliance activities with the energy conservation requirements of Section 543, National Energy Conservation Policy Act of 1978, and internal accounting mechanisms necessary to assess the accuracy and reliability of energy consumption and related energy cost figures.

During this reporting period, the trend continues as yet another duty has been added to the list. Office of Management and Budget Circular No. A-131, which was promulgated on May 21, 1993, directs each Federal agency to institute a

Value Engineering Program. Under the Circular, the Inspector General is expected to validate the accuracy of agency-reported value engineering savings, to assess the adequacy of agency value engineering policies and procedures, and to assess the implementation of the circular. As is the case with other congressionally mandated and Office of Management and Budget mandated initiatives, no commitment for additional Inspector General resources to meet this new need has been identified. The increasing number of "unfunded audit mandates" placed on the Office of Inspector General imposes additional constraints on its limited resources.

MANAGEMENT REFERRAL SYSTEM

During this reporting period, the Office of Inspections assumed responsibility for the Office of Inspector General Management Referral System. Under this system, selected matters received through the Office of Inspector General Hotline or from other sources are referred to Department managers for review and appropriate action. We referred 123 complaints to management during the reporting period for review and response. These referrals resulted in 22 administrative disciplinary actions being taken. Complaints referred to management included such matters as time and attendance abuse, misuse of Government vehicles, standards of conduct violations, conflicts of interest, inappropriate use of the Department's mail system, environmental, safety, and health concerns, misuse of Government computers, and questionable personnel actions.

LEGISLATIVE AND REGULATORY OVERVIEW

Department of Energy and the Major Fraud Act of 1988

In previous Semiannual Reports, the Office of Inspector General has reported on the Major Fraud Act of 1988 and its provisions for increased penalties for certain frauds against the United States. The Act also places limitations on the allowability of costs incurred by contractors in certain proceedings. \

Under the Act, and subject to certain exceptions, costs incurred by a contractor in connection with any criminal, civil, or administrative proceeding commenced by the United States or a State are not allowable as reimbursable costs under a covered contract if the proceeding (1) relates to a violation of, or a failure to comply with a Federal or State statute or regulation, and (2) results in a certain disposition. The dispositions, all based on the violation or failure, include criminal conviction; civil or administrative proceeding; debarment; suspension; recision or voiding; termination for default; or disposition of the proceeding by consent or compromise if such action could have resulted in one of the other cited dispositions.

The Office of Inspector General earlier reported that the Department planned to publish rules implementing the Act. In January 1993, the Department published a proposed rule in the Federal Register. On November 22, 1993, the Department published the final rule, amending the Department of Energy Acquisition Regulation.

Congressional Requests

During the reporting period, congressional committees or subcommittees, members of Congress, and their respective staffs made 56 requests to the Office of Inspector General. We responded by providing 8 briefings, testifying at 2 hearings, and providing data or reports in 71 instances, including 18 interim responses and 53 final responses. Interim responses are provided for open matters which remain under review by the Office of Inspector General.

Legislative Review

In accordance with the Inspector General Act of 1978, the Office of Inspector General is required to review existing and proposed legislation and regulations relating to Department programs and operations, and to comment on the impact which they may have on economical and efficient operations of the Department. During this reporting period, the Office coordinated and reviewed 18 legislative and regulatory items, and offered 11 essential comments. Essential comments are those made on matters affecting efficiency, economy, mission accomplishment, or other management concerns. On August 27, 1993, the Secretary placed a moratorium on the issuance and coordination of new or revised Departmental directives. This moratorium was lifted on January 1, 1994.

Section 3

Reports Issued

The 128 audit reports issued during this semiannual reporting period are listed below in three categories: contract and grant, operational, and financial reports. Significant financial results associated with each report are also presented when applicable. The eight inspection reports are listed separately.

REPORTS ISSUED

CONTRACT AND GRANT

- ER-C-94-01 Interim Audit of Costs Claimed Under Contract No. DE-AC05-84ER40150, October 1, 1988, Through September 30, 1991, Southeastern Universities Research Association, Inc., Newport News, VA, October 27, 1993
Questioned Costs: \$3,876
- ER-C-94-02 Final Audit of U.S. Department of Navy Contract No. N00014-85-K-0021, February 1, 1984, to September 30, 1990, Princeton University, Princeton, New Jersey, December 10, 1993
Questioned Costs: \$6,896
- ER-C-94-03 Final Audit of U.S. Department of Navy Contract No. N00014-85-K-0446, June 1, 1985, to September 30, 1988, Princeton University, Princeton, New Jersey, January 12, 1994
- ER-C-94-04 Audit of Cost Claimed Under U.S. Department of Energy Contract No. DE-AC09-88SR18002, August 1, 1988, to September 30, 1992, Wackenhut Services, Inc., Aiken, South Carolina, January 24, 1994
- ER-C-94-05 Post Award Audit of M&S Cleaning Services, Inc., Subcontractor of Westinghouse Savannah River Company, February 3, 1994
Questioned Costs: \$163,408
- ER-P-94-01 Audit of Proposed Corporate and Home-Office Expense Allocations for Fernald Environmental Restoration Management Corporation, Contract DE-AC05-92OR21972, Fernald, Ohio, October 1, 1993
- ER-P-94-02 Preaward Audit of Proposal in Response to Request for Proposal No. NCI-CP-40517-13, Oak Ridge Associated Universities, Oak Ridge, Tennessee, February 25, 1994
- WR-CC-94-01 Interim Audit of Costs Claimed Under Contract No. DE-AC04-76EV01013, Interagency Agreements and Other Sponsors, October 1, 1991, Through September 30, 1992, Lovelace Biomedical and Environmental Research Institute, Albuquerque, New Mexico, October 4, 1993
- WR-CC-94-02 Final Audit of Costs Claimed Under U.S. Department of Energy Contract No. DE-AC08-87NV10559, July 1, 1987, Through September 30, 1992, Wackenhut Services, Inc., Coral Gables, Florida, October 15, 1993
Questioned Costs: \$491,622

OPERATIONAL REPORTS

- IG-0327 The Remedial Investigation/Feasibility Study Process at Oak Ridge National Laboratory, October 1, 1993
Savings: \$140,000,000
- IG-0336 Audit of Controls Over Superconducting Super Collider Laboratory Subcontractor Expenditures, October 22, 1993
- IG-0338 Audit of Personal Property Management at Los Alamos National Laboratory, December 7, 1993
Savings: \$100,000,000
- IG-0339 Audit of Implementation of the Accountability Rule, January 21, 1994
- IG-0340 Audit of Staffing Requirements at the Westinghouse Savannah River Company, January 25, 1994
Savings: \$399,000,000
- IG-0342 Review of Audit Cognizance Over Cost-Reimbursement Contracts, February 25, 1994
- IG-0344 Summary Report on the Department of Energy's Management of Personal Property, March 1, 1994
- IG-0345 Followup Audit of the Cask Development Program, March 15, 1994
- CR-B-94-01 Audit of Management and Operating Contractor Travel Policies, Procedures and Practices, February 7, 1994
Savings: \$15,000,000
- CR-B-94-03 Audit of the Federal Energy Regulatory Commission Travel Policies, March 1, 1994
Questioned Costs: \$186,939
- CR-BC-94-02 Audit of the Y-12 Construction Program, February 14, 1994
Savings: \$53,000,000
- CR-L-94-01 Audit of Cost Sharing Awards at the Chicago Field Office and Morgantown Energy Technology Center, October 6, 1993
- CR-L-94-02 Departmentwide Validation of Prompt Payment Act Quality Control System, October 7, 1993
- CR-L-94-03 Review of Superconducting Super Collider Project Office's Compliance with the Federal Managers' Financial Integrity Act for Fiscal Year 1993, November 2, 1993
- CR-L-94-04 Federal Managers' Financial Integrity Act - Fiscal Year 1993 at Schenectady Naval Reactors Office, November 4, 1993
- CR-L-94-05 Federal Managers' Financial Integrity Act - Fiscal Year 1993 at Pittsburgh Naval Reactors Office, November 4, 1993

CR-L-94-06	Audit of Oil Overcharge Receivables Collection Actions, November 22, 1993
CR-L-94-07	Assessment of Martin Marietta Corporation - KAPL, Inc., Internal Audit Function, November 23, 1993
CR-L-94-08	Assessment of Pittsburgh Naval Reactors Internal Audit Function, November 23, 1993
CR-L-94-09	Assessment of Westinghouse Electric Corporation Internal Audit Function, November 23, 1993
CR-L-94-10	Assessment of Schenectady Naval Reactors Internal Audit Function, November 23, 1993
CR-L-94-11	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of Science Education and Technical Information, December 13, 1993
CR-L-94-12	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of Energy Research, December 13, 1993
CR-L-94-13	Report on the Department of Energy's Compilation of Data on Consultant Services, December 23, 1993
CR-L-94-14	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of Laboratory Management, December 13, 1993
CR-L-94-15	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of Public and Consumer Affairs, December 13, 1993
CR-L-94-16	Federal Managers' Financial Integrity Act - Fiscal Year Fiscal Year 1993 for the Office of Civilian Radioactive Waste Management, December 13, 1993
CR-L-94-17	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Energy Information Administration, December 13, 1993
CR-L-94-18	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of Nuclear Energy, December 13, 1993
CR-L-94-19	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of the Associate Deputy Secretary for Field Management, December 13, 1993
CR-L-94-20	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of the Assistant Secretary for Human Resources and Administration, December 13, 1993
CR-L-94-21	Audit of Aircraft Management at the Nevada Operations Office, December 15, 1993
CR-L-94-22	Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Office of General Counsel, December 17, 1993
CR-L-94-23	Federal Managers' Financial Integrity Act, December 13, 1993

CR-L-94-24 Report on the Department of Energy's Implementation of New Restrictions on Lobbying, December 23, 1993

CR-L-94-25 Assessment of BDM Oklahoma, Incorporated, Disclosure Statement, December 21, 1993

CR-L-94-26 Federal Managers' Financial Integrity Act - Fiscal Year 1993 for the Federal Energy Regulatory Commission, December 23, 1993

CR-L-94-27 Assessment of TRW Environmental Safety Systems Internal Audit Function, February 15, 1994

CR-L-94-28 Audit of Added Factor Charges for Reimbursable Work, February 18, 1994

ER-B-94-01 Audit of the Disadvantaged Business Program at Savannah River Site, December 1, 1993

ER-B-94-02 Audit of Boeing Petroleum Services, Inc.'s, Administration of the Small Disadvantaged Business Program at the Strategic Petroleum Reserve, February 1, 1994

ER-B-94-03 Audit of Production Decline and Nonnuclear Consolidation at the Mound Plant, March 9, 1994
Savings: \$1,400,000 Questioned Costs: \$15,900,000

ER-BC-94-01 Audit of Maintenance Activities at the K-25 Site, Martin Marietta Energy Systems, Inc., February 9, 1994
Savings: \$2,050,000

ER-L-94-01 Federal Managers' Financial Integrity Act - Assurance Memorandum Filed by the Southeastern Power Administration - Fiscal Year 1993, October 22, 1993

ER-L-94-02 Audit of Department of Energy Service Contracts at Savannah River Site, October 25, 1993

ER-L-94-03 Federal Managers' Financial Integrity Act - Assurance Memorandum Filed by the Oak Ridge Operations Office - Fiscal Year 1993, October 29, 1993

ER-L-94-04 Federal Managers' Financial Integrity Act - Assurance Memorandum Filed by the U.S. Department of Energy Fernald Field Office - Fiscal Year 1993, October 29, 1993

ER-L-94-05 Federal Managers' Financial Integrity Act - Assurance Memorandum Filed by the U.S. Department of Energy Chicago Operations Office, Fiscal Year 1993, October 29, 1993

ER-L-94-06 Federal Managers' Financial Integrity Act - Assurance Memorandum Filed by the U.S. Department of Energy Savannah River Operations Office - Fiscal Year 1993, October 29, 1993

ER-L-94-07 Use of Government Supply Sources at Princeton Plasma Physics Laboratory, December 23, 1993

ER-L-94-08	Audit Survey of Grants Management at the Chicago Operations Office, January 20, 1994
ER-L-94-09	Audit of Production Decline and Nonnuclear Consolidation at the Pinellas Plant, January 31, 1994
ER-L-94-10	Assessment of Management and Operating Contractor Internal Audit Function, February 3, 1994
ER-L-94-11	Survey of Accounting and Reporting of Current Production Activities at the Pinellas and Kansas City Plants, February 23, 1994
ER-L-94-12	Assessment of Associated Universities, Inc., Internal Audit Function, February 23, 1994
ER-L-94-13	Assessment of EG&G Mound Applied Technologies, Inc. Internal Audit Function, March 8, 1994
ER-L-94-14	Assessment of Westinghouse Savannah River Company Internal Audit Function, March 8, 1994
ER-L-94-15	Assessment of DynMcDermott Petroleum Operations Company's Fiscal Year 1993 Internal Audit Function, March 9, 1994
WR-B-94-01	Audit of Kaiser Engineers Hanford Company's Award Fee, October 29, 1993 <i>Savings: \$74,000 Questioned Costs: \$300,000</i>
WR-B-94-02	Audit of Labor Utilization at the Waste Isolation Pilot Plant, Carlsbad, New Mexico, February 11, 1994 <i>Savings: \$414,000,000</i>
WR-B-94-03	Audit of Management and Operating Contractors' Workers' Compensation Programs at the Rocky Flats Plant, March 9, 1994 <i>Savings: \$3,420,000</i>
WR-L-94-01	Review of the DOE Rocky Flats Office's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-02	Review of Naval Petroleum Reserves in California's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-03	Review of Western Area Power Administration's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-04	Review of Bonneville Power Administration's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-05	Review of DOE Richland Operations Office's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 28, 1993

WR-L-94-06	Review of Southwestern Power Administration's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-07	Review of Naval Petroleum and Oil Shale Reserves in Colorado, Utah, and Wyoming's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 29, 1993
WR-L-94-08	Review of the DOE Golden Field Office's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 28, 1993
WR-L-94-09	Review of Alaska Power Administration's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 28, 1993
WR-L-94-10	Review of DOE Nevada Operations Office's Compliance With the Federal Managers' Financial Integrity Act for Fiscal Year 1993, October 28, 1993
WR-L-94-11	Audit of Maintenance and Repair of Real Property, Lawrence Livermore National Laboratory, November 15, 1993
WR-L-94-12	Audit of Planned Modifications to the Nevada Test Site's Pistol Range and Construction of a Rifle Firing Range, November 23, 1993
WR-L-94-13	Audit of Hanford Security Force Requirements, January 6, 1994
WR-L-94-14	Assessment of EG&G Idaho, Inc., Internal Audit Function, January 18, 1994
WR-L-94-15	Assessment of Lawrence Livermore National Laboratory's Audit Function, February 17, 1994
WR-L-94-16	Assessment of EG&G Energy Measurements Internal Audit Function, March 1, 1994
WR-L-94-17	Adequacy and Compliance Review of EG&G Rocky Flats, Inc.,'s Cost Accounting Standards Board Disclosure Statement, March 10, 1994
WR-L-94-18	Management of the Remedial Investigation and Feasibility Study Process at the Rocky Flats Plant, March 14, 1994
WR-L-94-19	Assessment of Westinghouse Hanford Company Internal Audit Function, March 23, 1994
WR-LC-94-01	Audit of Hanford Management and Operating Contractor Computer Purchases for Fiscal Years 1992 and 1993, October 5, 1993
WR-LC-94-02	Audit of the Administration of Reynolds Electrical and Engineering Company, Inc., Self-Insured Health Benefit Plan, January 18, 1994

FINANCIAL REPORTS

- CR-FC-94-01 Department of Energy's Low-Level Radioactive Waste Surcharge Escrow Account Fiscal Year 1993 Financial Statement Audit Under the Chief Financial Officers Act, February 9, 1994
- CR-FC-94-02 Federal Energy Regulatory Commission's FY 1993 Financial Statement Audit, February 9, 1994
- CR-FC-94-03 Department of Energy's Isotope Production and Distribution Program Fiscal Year 1993 Financial Statement Audit Under the Chief Financial Officers Act, February 14, 1994
- CR-V-94-01 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Martin Marietta Corporation's Knolls Atomic Power Laboratory Under Department of Energy Contract No. DE-AC12-76SN00052, February 17, 1994
- CR-V-94-02 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Electric Corporation's Bettis Atomic Power Laboratory Under Department of Energy Contract No. DE-AC11-88PN38014, February 17, 1994
- CR-V-94-03 Internal Controls that Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Westinghouse Electric Corporation's Plant Apparatus Division Are Allowable Under Department of Energy Contract No. DE-AC11-88PN38014, February 17, 1994
- CR-V-94-04 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to TRW Environmental Safety Systems, Inc., Under Department of Energy Contract No. DE-AC01-91RW00134, March 1, 1994
- ER-FC-94-01 U.S. Department of Energy Uranium Enrichment Activity Financial Statements With Supplementary Information for June 30, 1993, and September 30, 1992, With Independent Auditors' Reports Thereon, February 7, 1994
- ER-V-94-01 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to Fermi National Accelerator Laboratory Are Allowable Under U.S. Department of Energy Contract No. DE-AC02-76CH03000, October 8, 1993
- ER-V-94-02 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to Martin Marietta Energy Systems, Inc., Are Allowable Under U.S. Department of Energy Contract No. DE-AC05-84OR21400, October 27, 1993
Questioned Costs: \$144,888 Unsupported Costs: \$528,655
- ER-V-94-03 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to Oak Ridge Associated Universities Are Allowable Under U.S. Department of Energy Contract No. DE-AC05-76OR00033, December 15, 1993
Questioned Costs: \$15,137

ER-V-94-04 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to MK-Ferguson of Oak Ridge Company Are Allowable Under U.S. Department of Energy Contract No. DE-AC05-91OR21900, December 16, 1993

ER-V-94-05 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to Martin Marietta Specialty Components, Inc., Are Allowable Under U.S. Department of Energy Contract No. DE-AC04-92AL73000, January 31, 1994

ER-V-94-06 Audit of Internal Controls That Assure Costs Claimed by and Reimbursed to West Valley Nuclear Services Company, Inc., Are Allowable Under U.S. Department of Energy Contract No. DE-AC07-81NE44139, January 31, 1994

ER-V-94-07 Assessment of Internal Control Changes and Their Impact on the Costs Claimed by and Reimbursed to Argonne National Laboratory Under DOE Contract No. W-31-109-ENG-38, February 3, 1994

ER-V-94-08 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Savannah River Company Under U.S. Department of Energy Contract No. DE-AC09-89SR18035, March 8, 1994

ER-V-94-09 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to DynMcDermott Petroleum Operations Company Under Department of Energy Contract No. DE-AC96-93PO18000, March 8, 1994

ER-V-94-10 Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Mound Applied Technologies, Inc., Under Department of Energy Contract No. DE-AC04-88DP43495, March 9, 1994

WR-F-94-01 Alaska Power Administration's FY 1993 Financial Statement Audit Under the Chief Financial Officers Act, February 28, 1994

WR-FC-94-01 Department of Energy's Naval Petroleum and Oil Shale Reserves Fiscal Year 1993 Financial Statement Audit Under the Chief Financial Officers Act, February 14, 1994

WR-FC-94-02 Department of Energy's Western Area Power Administration's Fiscal Year 1993 Financial Statement Audit Under the Chief Financial Officers Act, February 22, 1994

WR-V-94-01 Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Westinghouse Idaho Nuclear Company, Inc., Are Allowable Under Department of Energy Contract No. DE-AC07-84ID12435, October 13, 1993

WR-V-94-02 Assessment of Internal Control Changes and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Idaho, Inc., Under Department of Energy Contract No. DE-AC08-NV11265, February 24, 1994

- WR-V-94-03** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Allied-Signal, Inc., Kansas City Division, Are Allowable Under Department of Energy Contract No. DE-AC04-76DP00613, March 3, 1994**
- WR-V-94-04** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Rust Geotech, Inc., Are Allowable Under Department of Energy Contract No. DE-AC04-86ID12584, February 28, 1994**
- WR-V-94-05** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to National Renewable Energy Laboratory, Are Allowable Under DOE Contract No. DE-AC02-83CH10093, March 10, 1994**
- WR-V-94-06** **Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to EG&G Energy Measurements Under Department of Energy Contract No. DE-AC08-NV11265, March 7, 1994**
- WR-V-94-07** **Audit of Internal Controls That Assure Fiscal Year 1992 Costs Claimed by and Reimbursed to Sandia Corporation Are Allowable Under Department of Energy Contract No. DE-AC04-76DP00789, March 11, 1994**
- WR-V-94-08** **Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Lawrence Livermore National Laboratory Under Department of Energy Contract No. W-7405-ENG-48, March 18, 1994**
- WR-V-94-9** **Assessment of Changes to the Internal Control Structure and Their Impact on the Allowability of Costs Claimed by and Reimbursed to Westinghouse Hanford Company Under Department of Energy Contract No. DE-AC06-87RL10930**
- WR-VC-94-01** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Babcock and Wilcox Idaho, Inc., Are Allowable Under Department of Energy Contract No. DE-AC07-92ID13050, October 29, 1993**
- WR-VC-94-02** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Hanford Environmental Health Foundation Are Allowable Under DOE Contract No. DE-AC06-90RL11711, October 29, 1993**
- WR-VC-94-03** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Protection Technology Idaho, Inc., Are Allowable Under Contract No. DE-AC07-88ID12715, January 18, 1994**
- WR-VC-94-04** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Reynolds Electrical and Engineering Company, Inc., Are Allowable Under U.S. Department of Energy Contract No. DE-AC08-89NV10630, January 19, 1994**
- WR-VC-94-05** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Kaiser Engineers Hanford Company Are Allowable Under DOE Contract No. DE-AC06-87RL10900, February 16, 1994**

- WR-VC-94-06** **Audit of Internal Controls That Assure Fiscal Year 1993 Costs Claimed by and Reimbursed to Battelle Memorial Institute, Pacific Northwest Division, Are Allowable Under Contract No. DE-AC06-76RL01830, March 9, 1994**
Questioned Costs: \$5,785
- WR-VC-94-07** **Audit of Internal Controls That Assure 1993 Costs Claimed by and Reimbursed to Energy Technology Engineering Center Are Allowable Under U.S. Department of Energy Contract No. DE-AC03-76SF00700, March 18, 1994**

INSPECTION REPORTS

- INS-L-94-01** **Inspection of Alleged Questionable Expenses Associated with the Forum on Security Inspection Concepts Sponsored by the Office of Security Evaluations, October 22, 1993**
- INS-L-94-02** **Follow-up Inspection of OIG Recommendations Made Pursuant to Report DOE/IG-205, "Allegations of Diversion and Substitution of Crude Oil, Bayou Choctaw Storage Site, Strategic Petroleum Reserve," October 22, 1993**
- INS-L-94-03** **Inspection of Rockwell International Corporation Vouchers for Legal Costs Associated with the Rocky Flats Grand Jury Investigation, January 7, 1994**
- INS-O-94-01** **Inspection of the Department of Energy's Former Office of New Production Reactors, March 21, 1994**
- IG-0335** **Inspection of Selected Intelligence and Special Access Program Work-for-Others, October 8, 1993**
- IG-0337** **Inspection of the Use of Intelligence Information to Identify the Foreign Interests of Entities Involved with DOE Programs, October 22, 1993**
- IG-0341** **Inspection of the Administration of Integrated Contractors' Procurements from Affiliated Companies, February 25, 1994**
- IG-0343** **Inspection of the Management of Excess Personal Property at Sandia National Laboratory, Albuquerque, New Mexico, March 1, 1994**

Section 4

Statistics

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

DEFINITIONS

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

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

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

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

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

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

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

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

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

AUDIT REPORT STATISTICS

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

	Total Number	One-Time Savings	Recurring Savings	Total Savings
Those issued before the reporting period for which no management decision has been made	27	\$380,166,892	\$59,442,140	\$439,609,032
Those issued during the reporting period	121	\$490,243,619	\$654,776,000	\$1,145,019,619
Those for which a management decision was made during the reporting period	28	\$296,910,255	\$3,442,140	\$300,352,395
Agreed to by mgmt.		\$55,021,804	\$897,064	\$55,918,868
Not agreed to by mgmt.		\$137,354,666	0	\$137,354,666
Those for which a management decision is not required	93			
Those for which no management decision had been made at the end of the reporting period*	27	\$678,034,041	\$713,321,076	\$1,391,355,117

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

AUDIT REPORT STATISTICS

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

	Total Number	Questioned Costs	Unsupported Costs
Those issued before the reporting period for which no management decision has been made	16	\$10,072,837	\$707
Those issued during the reporting period	7	\$665,802	
Those for which a management decision was made during the reporting period	6	\$980,242	
<i>Value of disallowed costs:</i>		\$1,657	
<i>Value of costs not disallowed:</i>		\$978,585	
Those for which a management decision is not required	3	\$170,304	
Those for which no management decision had been made at the end of the reporting period	14	\$9,588,093	\$707

REPORTS LACKING MANAGEMENT DECISION

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

The Contracting Officers have not yet made decisions on the following contract reports for a variety of reasons. They include delaying settlement of final costs questioned in audits pending negotiation of indirect cost rates, awaiting review of independent research and development costs, and litigation. The Department has a system in place which tracks audit reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are indeed addressed and effected as efficiently and expeditiously as possible.

- CR-C-89-01 Interim Audit of Costs Claimed Under Contract Number DE-AC05-84OR21441, October 1, 1986, to September 30, 1987, Cotton and Company, 100 South Royal Street, Alexandria, VA 22314, June 20, 1989.
- WR-CC-89-34 Final Audit of Costs Claimed Under Contract DE-AC05-86OR21645, June 21, 1986, Through June 20, 1987, Advanced Sciences, Inc., Albuquerque, New Mexico, September 10, 1989.
- CR-C-90-01 Interim Audit of Costs Claimed Under Contract No. 21441, October 1, 1987, to September 30, 1988, Cotton & Company, 100 South Royal Street, Alexandria, VA 22314, October 19, 1989.
- ER-CC-90-03 Interim Audit of Costs Claimed Under U.S. DOE-Funded Contracts, July 1, 1986, to June 30, 1988, and Review of Proposed Cost Allocation Plan With Revis Institute of Biological Research, Inc., Oak Ridge, Tennessee, October 31, 1989.
- ER-CC-90-21 Report on the Independent Interim Audit of Subcontract Costs Claimed Under Contract No. DE-AC05-85OR21510 and No. DE-AC05-86OR21644, September 30, 1985, to December 31, 1986, Analysas Corporation, Washington, D.C., April 16, 1990.
- WR-CC-90-32 Audit of Costs Claimed Under Contract No. DE-AC01-80RA32049 for the Operation Period From October 1, 1984, Through April 30, 1985, and the Post Operation Period From August 1, 1985, Through November 30, 1987, Williams Brothers Engineering Company, Tulsa, Oklahoma, May 10, 1989.
- WR-C-92-01 Report on the Final Audit of Costs Incurred by EWA, Inc., Environmental and Water Resources Management, Minneapolis, Minnesota, Under its Contract with the Yakima Indian Nation, United States Department of Energy Grant DE-FG06-83RL10545, for the Period May 14, 1984, Through December 22, 1988, April 6, 1992.
- WR-C-93-01 Report on the Independent Final Audit of Contract No. DE-AC04-85AL27671, October 22, 1984, Through June 30, 1990, Wackenhut Services, Inc., Central Training Academy, Albuquerque, New Mexico, January 22, 1993.

- CR-C-93-01** Interim Audit of Costs Claimed Under DOE Contract DE-AC35-89ER40486, Universities Research Association, Inc., from Jan. 18, 1989, to Sept. 30, 1991, June 17, 1993.
- ER-CC-93-03** Report on the Independent Audit of Claimed Final Indirect Cost Rates and Claimed Office and Service Costs Allocated to Princeton Plasma Physics Laboratory, Fiscal Year 1987, Princeton University, Princeton, New Jersey, April 22, 1993
- ER-CC-93-04** Report on the Independent Audit of Claimed Final Indirect Cost Rates and Claimed Office and Service Costs Allocated to Princeton Plasma Physics Laboratory, Fiscal Year 1987, Princeton University, Princeton, New Jersey, April 22, 1993.
- ER-CC-93-05** Report Based on the Application of Agreed-Upon Procedures With Respect to Temporary Living Allowance Costs Claimed Under Contract No. DE-AC09-88SR18035, October 1, 1987, to September 20, 1990, Bechtel National, Inc., San Francisco, California, and Bechtel Savannah River, Inc., North Augusta, South Carolina, May 3, 1993.

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

- ER-B-92-06** Selected Aspects of the Governor's Office of Energy Programs Management of Petroleum Violation Escrow Settlement Funds, State of South Carolina, March 20, 1992. *(The Department of Energy has been working with the Department of Justice to resolve the complex legal issues involved in this report. Progress is being made, and the Department of Energy expects a management decision by September 1994.)*
- IG-0314** Pension Fund Activities at Department Laboratories Managed by the University of California, September 18, 1992. *(The issues involved in this report are quite complex. In addition, as a result of Congressional interest, the Department has conducted a broader and more comprehensive review of the pension issues related to the University of California laboratories. A management decision will be made once these broader issues are resolved, which is expected by June 1994.)*
- IG-0317** Department of Energy's In-House Energy Management Program, January 11, 1993. *(Final resolution of the Inspector General recommendations has been delayed to allow the Department to merge the new requirements of the Energy Policy Act and Executive Order 12902 into the management decision. The Department expects this to be accomplished by September 1994.)*

The Department of Energy does not track issued audit reports and their recommendations for the Federal Energy Regulatory Commission. The Office of Inspector General will request the Federal Energy Regulatory Commission to set up its own tracking system and to otherwise comply with applicable reporting requirements in current law.

- CR-B-93-02** Audit of the Ebasco Contract at the Federal Energy Regulatory Commission, March 23, 1993.

- AP-BC-93-01** **Audit of Information Resource Management Activities at the Federal Energy Regulatory Commission, June 9, 1993.**
- CR-FC-93-02** **Federal Energy Regulatory Commission's FY 1992 Financial Statement Audit, June 18, 1993.**

INVESTIGATIVE STATISTICS

**The investigative statistics below cover the period from
October 1, 1993, through March 31, 1994**

Investigations open at the start of this reporting period	517
Investigations opened during this reporting period	112
Investigations closed during this reporting period	169
Investigations open at the end of this reporting period	460
Debarments/Suspensions	2
Investigations Referred to Management for Corrective Action	37
Complaints Referred to Mgmt. for Review and Response	123
Administrative Disciplinary Actions Taken	22
Investigations Referred for Prosecution	28
Accepted*	19
Declined*	15
Indictments	4
Convictions	7
Pretrial Diversions	3
Fines	\$587,699
Investigative Recoveries (exclusive of fines)	\$3,464,507

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

Hotline Statistics

Complaints Received via the Hotline	209
Complaints Received via the General Accounting Office	3
Total Complaints Received	212
Investigations Opened	29
Complaints Resolved or Pending Resolution	152
Complaints That Required No Action	31

FEEDBACK SHEET

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

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

ATTN: Rob Jacques

Your name:

Your daytime telephone number:

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

If you would like to discuss your suggestion with a staff member of the Office of Inspector General or would like more information, please call Rob Jacques at (202) 586-3223.

**DATE
FILMED**

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