



U.S. Department of Energy Office of Inspector General

Semiannual Report to Congress

October 1, 2018 - March 31, 2019



2019

DOE-IG-0076

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MESSAGE FROM THE INSPECTOR GENERAL

It's a great privilege for me to be part of the Department of Energy and begin my tenure as Inspector General. During my first 90 days in office, I had the pleasure of visiting several Department of Energy sites in New Mexico, Washington State, and California. In the next 6 months, I'll be travelling to over a half dozen more Department facilities as I continue to meet the talented and hardworking members of the Office of Inspector General (OIG) workforce. During my upcoming field visits, I will continue focusing on the Department's mission. From national defense to artificial intelligence in pursuit of grid resiliency, the mission of the Department is both critically important and remarkably diverse. In the words of one of our Lab Directors, "I saw something in this lab that I did not think was even physically possible." An inspiring observation for all of us.


Reflecting over this reporting period, the OIG issued 24 audit and inspection reports, including the OIG's annual *"Management Challenges at the Department of Energy – Fiscal Year 2019."* Within this report, we identified and described the most significant management challenges facing the Department: contract oversight including contractor/subcontract management; cybersecurity; environmental cleanup; nuclear waste disposal; safeguards and security; stockpile stewardship; and infrastructure modernization.

To underscore challenges facing the Department, our Special Report on Compilation of Challenges and Previously Reported Key Findings at the Hanford Site for Fiscal Years 2012-2018, highlighted systemic internal control weaknesses and fraudulent activities reported in a combination of 24 prior audits and inspections and 38 investigations related to the Hanford Site. Prompted, in part, by the results of OIG work, the Department's Office of River Protection downgraded the Contractor Performance Assessment Ratings of Bechtel National Incorporated's Prime Contract for the Hanford Site's Waste Treatment and Immobilization Plant for Calendar Year 2017. Specifically, the Department downgraded Bechtel National Incorporated's rating for "Management" from "Very Good" to "Unsatisfactory," and its rating for "Cost Control" from "Satisfactory" to "Marginal." This resulted in approximately \$80 million in provisional and award fee being withheld. In addition, given the Department's knowledge of the contractor's ability to perform in accordance with this contract or order's most significant requirements, the Department would not recommend Bechtel National Incorporated for similar requirements in the future.

Another link to the Management Challenges report was our review of the *"Unclassified Cybersecurity Program 2018"* where vulnerabilities were identified at new locations resulting in 25 recommendations to correct weaknesses in the areas of vulnerability and configuration management, system integrity of web applications, access controls, cybersecurity, privacy awareness training, and security control testing.

Criminal investigative activities conducted during the reporting period illuminated greater challenges to management. For example, a joint investigation uncovered a scheme involving two former company executives providing false statements in proposals, budgets, timesheets, and reports in at least 27 Small Business Innovation Research/Small Business Technology Transfer awards, which amounted to over \$8.4 million of theft from the Department and other Federal agencies. In another joint investigation, a subcontractor employee was sentenced to 12 months and 1 day of incarceration and ordered to pay \$1.6 million for their part in a conspiracy to steal over \$6.5 million of Department funds by submitting fictitious invoices for materials supposedly used to build the MOX Fuel Fabrication Facility.

I intend to continue the meaningful impact of the OIG, which includes maintaining a constructive relationship with Secretary Perry, Department officials, and stakeholders. As an organization, we will continue our service to the American taxpayers by providing timely outcomes that strengthen the Department's programs and operations.



Teri L. Donaldson

STATISTICAL HIGHLIGHTS

INVESTIGATIONS

INVESTIGATIVE ACTIVITIES

Cases Open as of October 1, 2018	196
Cases opened	41
Cases closed	48
Cases Open as of March 31, 2019	189
Multi-Agency Task Force Cases Opened During Period	5
Qui Tam ¹ Investigations Opened During Period	3
Total Open Qui Tam Investigations as of March 31, 2019	11
Total Investigative Reports ² Issued During Period	5
Administrative discipline and other management actions	7
Suspensions/Debarments	15
Total Persons ³ Referred to a Prosecuting Authority	16
Department of Justice Referrals	15
State/Local Referrals	1
Referrals accepted for prosecution ⁴	10
Total Indictments ⁵ /Criminal Informations	4
Indictments/Criminal Informations Resulting from Prior Period Referrals	4
Criminal convictions	7
Pre-trial diversions	3
Civil actions	20
Dollars Recovered ⁶ (Fines, Settlements, Recoveries)	\$12,855,488

HOTLINE RESULTS

Total Hotline calls, emails, letters, and other complaints (contacts) ⁷	1,184
Hotline contacts resolved immediately/redirected/no further action	1,011
Hotline contacts predicated for evaluation	173
Total Hotline predications processed this reporting period ⁸	179
Hotline predications transferred to OIG Program Office	22
Hotline predications referred to Department management or other entity for information/action	50
Hotline predications closed based upon preliminary OIG activity and review	105
Hotline predications open at the end of the reporting period	2

¹For more information on Qui Tams, go to:

http://www.justice.gov/usao/eousa/foia_reading_room/usam/title9/crm00932.htm

²Investigative Reports issued by the Office of Investigations include Reports of Investigation and Investigative Reports to Management.

³Persons is defined as an individual or an entity. For example, two co-owners and their business entity would be counted as three persons.

⁴Some referrals accepted during the 6-month period were referred for prosecution during a previous reporting period.

⁵Sealed Indictments are included.

⁶Some of the money collected was the result of investigations involving multiple agencies.

⁷This number includes any contact that required Hotline staff review including: re-contacts for additional information and requests for disposition.

⁸This number includes 6 predication carried over from the last semiannual reporting period.

STATISTICAL HIGHLIGHTS

AUDITS AND INSPECTIONS

AUDITS AND INSPECTION ACTIVITIES

Total Reports Issued	24
Audit Reports Issued	22
Inspection Reports Issued	2

BETTER USE OF FUNDS

	TOTAL NUMBER	BETTER USE OF FUNDS
Reports issued before the reporting period that included recommendations for better use of funds for which decisions on dollars had not been made as of September 30, 2018: ¹	8	\$48,711,393
Reports issued during the reporting period that include recommendations for better use of funds (regardless of whether a decision on dollars has been made):	0	\$0
Reports that include recommendations for better use of funds for which a decision on dollars was made during the reporting period: ²	0	\$0
(i) Agreed to by management:	0	\$0
(ii) Not agreed to by management:	0	\$0
Reports that include recommendations for better use of funds for which decisions on dollars have not been made at the end of the reporting period:	8	\$48,711,393

QUESTIONED COSTS

	TOTAL NUMBER	QUESTIONED COSTS	UNSUPPORTED COSTS	TOTAL COSTS
Reports issued before the reporting period that included questioned and/or unsupported costs for which decisions on dollars had not been made as of September 30, 2018: ¹	18	\$697,929,114	\$1,355,171	\$699,284,285
Reports issued during the reporting period that include questioned or unsupported costs (regardless of whether a decision on dollars has been made):	3	\$5,601,756	\$20,410	\$5,622,166
Reports that include questioned and/or unsupported costs for which a decision on dollars was made during the reporting period: ²	0	\$0	\$0	\$0
(i) Value of disallowed costs:		\$0	\$0	\$0
(ii) Value of costs not disallowed:		\$0	\$0	\$0
Reports that include questioned and/or unsupported costs for which decisions on dollars have not been made at the end of the reporting period:	21	\$703,530,870	\$1,375,581	\$704,906,451

Definitions:

Better Use of Funds: Funds that could be used more efficiently by implementing recommended actions.

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

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

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

¹Includes reports for which the Department may have made some decisions on dollars but not all issues within the report have been resolved.

²Does not include reports for which the Department has made decisions on some aspects of the report but not all.

POSITIVE OUTCOMES

During this reporting period, the Department took positive actions as a result of OIG work conducted during the current or previous periods.

- In response to a Hotline referral, the Western Area Power Administration (WAPA) conducted a review based on an allegation that WAPA had not established an agreement for standby services purchased from an electric cooperative. The allegation was substantiated, and WAPA will pursue entering into an agreement with the cooperative.
- Following the issuance of our Audit Report on “Management of Consultant Agreements at Lawrence Livermore National Laboratory”, the Livermore Field Office preliminarily agreed with the questioned costs identified in the report. In our report, we identified that Lawrence Livermore National Laboratory paid unsupported consultant claims, which resulted in \$21,750 in questionable costs. On February 21, 2019, the Livermore Field Office Contracting Officer preliminarily concurred with our questioned costs of \$21,750 and required Lawrence Livermore National Laboratory to provide documentation demonstrating the questioned costs were appropriately refunded, credited to the government, or provide justification of allowability by June 30, 2019.
- The Department had taken actions to address previously identified weaknesses related to its cybersecurity program. In particular, programs and sites made progress remediating weaknesses identified in our FY 2017 evaluation, which resulted in the closure of all 12 prior year weaknesses related to areas such as vulnerability and configuration management, system integrity of Web applications, and access controls.
- The Department has already taken action, as a result of our inspection, to pursue the issuance of a Deputy Secretarial Policy Memorandum to aid in the Department's protection from drones. The Department used the draft report as support to obtain confirmation with the Chief Security Officers and the Security Executive Committee that:
 - 1) the Department should re-examine and modify the Design Basis Threat (DBT) as appropriate to address emerging threats, and;
 - 2) if the DBT was to be modified, that an accelerated process via a Secretarial or Deputy Secretarial Policy Memorandum be considered to ensure any DBT modifications are completed in an expedited manner.

TABLE OF REPORTS

INVESTIGATIVE OUTCOMES

All of our investigations that result in a reportable outcome are disclosed to the public in our Semiannual Report. Reportable outcomes are defined as public and nonpublic reports, indictments, convictions, disciplinary actions, monetary recoveries, contractor debarments, and other similar results. The following reportable outcomes occurred during the period October 1, 2018, through March 31, 2019.

SUMMARY TITLE	PAGE
Sentencings in Small Business Innovation Research Fraud Investigation	19
Sentencing in Conspiracy to Commit Theft of Government Funds Investigation	19
Sentencings, Pretrial Diversion Agreements, and Civil Complaint Filed in Grant Fraud Investigation	20
Civil Settlement in <i>False Claims Act</i> Investigation – EM Photonics	20
Sentencing and Notice of Suspension in Grant Fraud Investigation	21
Civil Settlement in <i>False Claims Act</i> Investigation – University of Wisconsin	21
Guilty Plea and Sentencing in Direct Discharges to Waters of the United States and False Statements Investigation	22
Civil Settlement in <i>False Claims Act</i> Investigation – Computer Sciences Corporation	22
Guilty Verdicts, Guilty Plea, and Debarment Actions in Conspiracy to Defraud the U.S. Government Investigation	22
Guilty Finding in Small Business Innovation Research Grant Investigation	23
Indictment, Arrest, Execution of Search Warrants, and Notice of Suspension in Theft of Government Funds Investigation	23
Indictment and Summons Served in Money Laundering, Extortion, and Wire Fraud Investigation	24
Information Filed in Theft of Government Property Investigation	24
Civil Complaint Filed in <i>False Claims Act</i> and <i>Anti-Kickback Act</i> Investigation – MOX Project	24
Civil Complaint Filed in <i>False Claims Act</i> and <i>Anti-Kickback Act</i> Investigation – Hanford Site	25

SUMMARY TITLE	PAGE
Downgraded Contractor Performance Rating in False Claims Act Investigation	25
Indictment in Personally Identifiable Information Compromise and Identity Theft Investigation	25
Guilty Finding and Sentencing in Theft Investigation	26
Guilty Plea and Sentencing in Theft Investigation	26
Debarment Actions in Wire Fraud and Money Laundering Investigation	26
Debarment Actions in Conspiracy Investigation	27
Debarment Action in Theft Investigation	27
Notice of Suspension and Proposed Debarment in Theft Investigation	27
Response to Investigative Report to Management in Employee Misconduct Investigation	28
Response to Investigative Report to Management Issued in Misuse of Government Computer Investigation	28

AUDITS

The following identifies all audit reports issued between October 1, 2018, and March 31, 2019.

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Oct 19, 2018	The Department of Energy's Unclassified Cybersecurity Program – 2018 (DOE-OIG-19-01)	1				29
Oct 23, 2018	Audit Coverage of Cost Allowability for Battelle Memorial Institute Under its Contract to Manage the Pacific Northwest National Laboratory During Fiscal Years 2015 and 2016 Under Department of Energy Contract No. DE-AC05-76RL01830 (DOE-OIG-19-02)	2				30
Oct 31, 2018	The Department of Energy's Funds Distribution System 2.0 (DOE-OIG-19-03)	5				30
Nov 2, 2018	Compilation of Challenges and Previously Reported Key Findings at the Hanford Site for Fiscal Years 2012-2018 (DOE-OIG-19-04)	0				31
Nov 7, 2018	Management of Selected Financial Assistance Agreements under the Wind Program (DOE-OIG-19-05)	2				32
Nov 15, 2018	Federal Energy Regulatory Commission's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-06)	0				32
Nov 15, 2018	Management Challenges at the Department of Energy – Fiscal Year 2019 (DOE-OIG-19-07)	0				33
Nov 27, 2018	Department of Energy Nuclear Waste Fund's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-08)	0				34
Dec 14, 2018	Federal Energy Regulatory Commission's Unclassified Cybersecurity Program – 2018 (DOE-OIG-19-09)	1				34

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Dec 19, 2018	The Department of Energy's Fiscal Year 2018 Consolidated Financial Statements (DOE-OIG-19-10)	0				35
Jan 2, 2019	Implementation of Integrated Safety Management at Lawrence Livermore National Laboratory (DOE-OIG-19-11)	2				36
Jan 8, 2019	Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-12)	2				36
Jan 28, 2019	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2018 (DOE-OIG-19-13) <i>This report is Official Use Only and not available for public viewing</i>	25				37
Feb 1, 2019	Management of Consultant Agreements at Lawrence Livermore National Laboratory (DOE-OIG-19-14)	7		\$1,340	\$20,410	37
Feb 6, 2019	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2018 (DOE-OIG-19-15)	15				37
Feb 19, 2019	Interim Storage of Radioactive Canisters at the Savannah River Site (DOE-OIG-19-17)	3				38
Feb 28, 2019	Western Federal Power System's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-19)	8				39
Feb 26, 2019	The Fire Suppression System at the National Criticality Experiments Research Center at the Nevada National Security Site (DOE-OIG-19-18)	0				39
Mar 1, 2019	Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory (DOE-OIG-19-20)	2				40

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Mar 20, 2019	Management Letter on the Western Federal Power System's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-21)	10				40
Mar 27, 2019	Department of Energy's Management of Legacy Information Technology Infrastructure (DOE-OIG-19-22)	1				41
Mar 29, 2019	Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Years 2014 and 2015 Under Department of Energy Contract No. DE-AC04-94AL85000 (DOE-OIG-19-24)	2		\$5,583,067		41

INSPECTIONS

The following identifies all inspection reports issued between October 1, 2018, and March 31, 2019.

DATE ISSUED	REPORT TITLE	NUMBER OF RECS	BETTER USE OF FUNDS	QUESTIONED COSTS	UNSUPPORTED COSTS	PAGE
Feb 14, 2019	Allegations Regarding Southwestern Power Administration's Procurement of the Pathways Core Training (DOE-OIG-19-16)	5		\$17,349		43
Mar 28, 2019	Preparedness for Firefighting Response at Los Alamos National Laboratory (DOE-OIG-19-23)	4				43

RESULTS

LEGISLATIVE AND REGULATORY REVIEWS

The Inspector General Act of 1978, as amended, requires the OIG to review and comment upon legislation and regulations relating to Department programs and to make recommendations concerning the impact of such legislation or regulations on Departmental economy and efficiency. During this reporting period, we reviewed four proposed regulations, bills, and draft testimony (from other departments, etc.), commenting on none.

INTERFERENCE WITH IG INDEPENDENCE

The Department did not interfere or restrict communications between our office and Congress nor put in place any budgetary constraints designed to limit the capabilities of our office.

RESISTANCE TO OVERSIGHT ACTIVITIES OR RESTRICTED/SIGNIFICANTLY DELAYED ACCESS

Access to documents the OIG believed necessary to perform work was not restricted during this period.

INVESTIGATIONS INVOLVING SENIOR GOVERNMENT EMPLOYEES

During the reporting period October 1, 2018 through March 31, 2019, the Office of Investigations did not have any reportable actions for investigations involving an employee at the GS-15 level or above.

WHISTLEBLOWER ACTIVITIES

Whistleblower Matters Open as of October 1, 2018	7
Whistleblower Matters opened this period	12
Whistleblower Matters closed this period	11
Whistleblower Matters closed via Investigative Report	1
Whistleblower Matters closed via letter	10
Whistleblower Matters Open as of March 31, 2019	8

COMMENTS NOT PROVIDED WITHIN 60 DAYS

For the reporting period October 1, 2018, through March 31, 2019, the Department failed to provide comments on the following referrals within 60 days.

DATE ISSUED	INVESTIGATIVE REFERRALS	LENGTH OF TIME TO RECEIVE COMMENTS
Sep 24, 2018	Timecard Irregularities – Office of Economic Impact and Diversity	189 days (pending receipt)
Sep 24, 2018	Hiring Irregularities - National Nuclear Security Administration	189 days (pending receipt)

REPORTS LACKING MANAGEMENT DECISION

The Department has a system in place to track audit and inspection reports and management decisions. Its purpose is to ensure that recommendations and corrective actions indicated by audit agencies and agreed to by management are addressed as efficiently and expeditiously as possible. The following audit report is over six months old and no management decision had been made by the end of the reporting period. An explanation for the lack of management decision is described in the table below.

DATE ISSUED	REPORT TITLE	STATUS OF MANAGEMENT DECISION
April 10, 2002	Use of Noncompetitive Procurements to Obtain Services at the Savannah River Site (DOE/IG-0862)	The OIG has requested the Department temporarily delay submitting a Management Decision on the recommendations in this report, pending the outcome of an ongoing related review.

RECOMMENDATIONS NOT IMPLEMENTED

The following table identifies 55 reports with a total of 116¹ recommendations which were agreed to by the Department but have not been implemented as of March 31, 2019. The total potential cost savings associated with these reports is \$374,692,477. The OIG is committed to working with management to expeditiously address the management decision and corrective action process, recognizing that certain initiatives will require long-term, sustained, and concerted efforts. [Non-hyperlinked reports are not available on the OIG website.]

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS ²	POTENTIAL MONETARY BENEFIT ³
Dec 17, 2007	Beryllium Surface Contamination at the Y-12 National Security Complex (IG-0783)	1	
Nov 13, 2009	Management Controls over Selected Aspects of the Department of Energy's Human Reliability Program (OAS-M-10-01)	1	
Sep 22, 2010	The Department of Energy's Audit Resolution and Follow-up Process (IG-0840)	2	
Feb 20, 2013	Assessment of Audit Coverage of Cost Allowability Sandia Corporation during Fiscal Years 2009 and 2010 under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-13-07)	1	\$12,760,295
Jun 24, 2013	Mitigation of Natural Disasters at Los Alamos National Laboratory (OAS-M-13-04)	1	
Feb 14, 2014	The Technology Transfer and Commercialization Efforts at the Department of Energy's National Laboratories (OAS-M-14-02)	1	
Apr 23, 2014	Assessment of Audit Coverage of the Cost Allowability for Sandia Corporation under Department of Energy Contract DE-AC04-94-AL-85000, for Fiscal Years 2011 and 2012 (OAS-V-14-10)	1	5,741,818

¹ Those recommendations that are not agreed to by management are not tracked by the Department as open/unimplemented recommendations. Since 2007, the Department has only failed to agree on 3 recommendations issued by the OIG.

² A single recommendation in our reports may often be addressed to multiple program elements. The total number of open recommendations will include any recommendation that has not been corrected by at least one of the program elements.

³ The Potential Monetary Benefits identified are representative of reports with open recommendations rather than individual recommendations. These amounts include funds that could be used more efficiently by implementing the recommended actions as well as other unresolved or questioned costs. Based on our experience, a significant portion of unresolved and questioned costs are ultimately determined to be allowable by contracting officials.

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS ²	POTENTIAL MONETARY BENEFIT ³
Sep 19, 2014	The Department of Energy's Management of Cloud Computing Activities (IG-0918)	1	
Sep 24, 2014	Assessment of Audit Coverage of Cost Allowability for Bechtel Jacobs Company, LLC under Department of Energy Contract No. DE-AC05-98OR22700 during Fiscal Year 2011 (OAS-V-14-17)	1	160,007,744
Oct 22, 2014	The Department of Energy's Unclassified Cybersecurity Program – 2014 (IG-0925)	1	
Jun 10, 2015	Allegations Related to the Energy Information Administration's Reporting Process (DOE/IG-0940)	1	
Jun 12, 2015	Southwestern Federal Power System's Fiscal Year 2014 Financial Statement Audit (OAS-FS-15-11)	1	
Jun 22, 2015	The Department of Energy's Implementation of the Pilot Program for Agreements for Commercializing Technology (OAS-M-15-04)	1	
Jul 10, 2015	The National Nuclear Security Administration's Management of Support Service Contracts (OAS-M-15-05)	1	
Sep 3, 2015	The Department of Energy's Management of Electronic Mail Records (DOE/IG-0945)	2	
Sep 9, 2015	Assessment of Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Year 2013 Under Department of Energy Contract No. DE-AC04-94AL85000 (OAS-V-15-03)	1	\$2,569,251
Nov 3, 2015	The Department of Energy's Unclassified Cybersecurity Program – 2015 (DOE-OIG-16-01)	1	
Nov 4, 2015	The Department of Energy's Cybersecurity Risk Management Framework (DOE-OIG-16-02)	1	
Mar 1, 2016	The Department of Energy's Audit Resolution and Followup Process (DOE-OIG-16-08)	3	
Apr 1, 2016	Management and Oversight of Information Technology Contracts at the Department of Energy's Hanford Site (DOE-OIG-16-10)	1	\$183,500,000
May 2, 2016	The Department of Energy's Energy Information Technology Services Federal Support Costs (DOE-OIG-16-12)	3	
Jul 27, 2016	Battelle's Pacific Northwest National Laboratory Procurement Activities (OAI-M-16-14)	3	
Sep 29, 2016	Followup Audit of the Department's Continuity of Operations Planning (DOE-OIG-16-16)	2	
Oct 14, 2016	The Department of Energy's Unclassified Cybersecurity Program – 2016 (DOE-OIG-17-01)	1	

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS ²	POTENTIAL MONETARY BENEFIT ³
Feb 15, 2017	Quality Assurance for River Corridor Closure Contract Procurements (OAI-M-17-05)	1	\$270,894
Apr 11, 2017	Followup on the Small Business Innovation Research and Small Business Technology Transfer Programs (OAI-M-17-06)	1	\$46,050
Apr 26, 2017	Department of Energy's West Valley Demonstration Project (DOE-OIG-17-05)	3	
Jul 21, 2017	Alleged Tesa Access Issues at Lawrence Livermore National Laboratory (OAI-M-17-09)	1	
Aug 16, 2017	Followup on Bonneville Power Administration's Cybersecurity Program (DOE-OIG-17-06)	1	
Sep 14, 2017	Quality Assurance Management at the Waste Isolation Pilot Plant (DOE-OIG-17-07)	1	
Oct 27, 2017	Management of the National Ignition Facility and the Advanced Radiographic Capability (DOE-OIG-18-04)	3	
Nov 6, 2017	National Nuclear Security Administration's Energy Savings Performance Contracts (DOE-OIG-18-07)	2	\$373,910
Dec 22, 2017	Lawrence Livermore National Security, LLC. Costs Claimed under Department of Energy Contract No. DE-AC52-07NA27344 for Fiscal Year 2015 (DOE-OIG-18-12)	2	\$1,262,455
Feb 8, 2018	The Office of Fossil Energy's Oversight of the Texas Clean Energy Project under the Clean Coal Power Initiative (DOE-OIG-18-17)	1	\$2,500,000
Feb 9, 2018	Management Letter on Southwestern Federal Power System's Fiscal Year 2016 Financial Statement Audit (DOE-OIG-18-18)	1	
Mar 5, 2018	Followup on Cooperative Research and Development Agreements at National Laboratories (DOE-OIG-18-22)	5	
Apr 26, 2018	Inquiry into an Alleged Anti-Deficiency Act Violation at the Department of Energy (DOE-OIG-18-29)	2	
Jul 16, 2018	Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2017 (DOE-OIG-18-40)	2	
Jul 18, 2018	Supplier Quality Management at National Nuclear Security Administration Sites (DOE-OIG-18-41)	1	
Aug 9, 2018	The Sandia National Laboratories Silicon Fabrication Revitalization Effort (DOE-OIG-18-42)	2	
Aug 14, 2018	Allegation Regarding the Oak Ridge Office Personnel Security Process (DOE-OIG-18-43)	2	
Aug 20, 2018	Management of the Workers' Compensation Program at the Hanford Site (DOE-OIG-18-44)	2	\$37,894

DATE ISSUED	REPORT TITLE	TOTAL # OF OPEN RECS ²	POTENTIAL MONETARY BENEFIT ³
Sep 10, 2018	Southwestern Power Administration's Asset Protection (DOE-OIG-18-47)	4	
Oct 19, 2018	The Department of Energy's Unclassified Cybersecurity Program – 2018 (DOE-OIG-19-01)	1	
Oct 23, 2018	Audit Coverage of Cost Allowability for Battelle Memorial Institute Under its Contract to Manage the Pacific Northwest National Laboratory During Fiscal Years 2015 and 2016 Under Department of Energy Contract No. DE-AC05-76RL01830 (DOE-OIG-19-02)	2	
Oct 31, 2018	The Department of Energy's Funds Distribution System 2.0 (DOE-OIG-19-03)	2	
Jan 28, 2019	Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2018 (DOE-OIG-19-13)	16	
Feb 1, 2019	Management of Consultant Agreements at Lawrence Livermore National Laboratory (DOE-OIG-19-14)	6	\$21,750
Feb 14, 2019	Allegations Regarding Southwestern Power Administration's Procurement of the Pathways Core Training (DOE-OIG-19-16)	5	\$17,349
Feb 19, 2019	Interim Storage of Radioactive Canisters at the Savannah River Site (DOE-OIG-19-17)	3	
Mar 1, 2019	Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory (DOE-OIG-19-20)	2	
Mar 20, 2019	Management Letter on the Western Federal Power System's Fiscal Year 2018 Financial Statement Audit (DOE-OIG-19-21)	5	
Mar 27, 2019	Department of Energy's Management of Legacy Information Technology Infrastructure (DOE-OIG-19-22)	1	
Mar 28, 2019	Preparedness for Firefighting Response at Los Alamos National Laboratory (DOE-OIG-19-23)	2	
Mar 29, 2019	Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Years 2014 and 2015 Under Department of Energy Contract No. DE-AC04-94AL85000 (DOE-OIG-19-24)	1	\$5,583,067
Total Open Recommendations		116	\$374,692,477

REVIEWS CLOSED AND NOT DISCLOSED TO THE PUBLIC

The Office of Inspector General had no undisclosed reports from the public for this reporting period October 1, 2018, through March 31, 2019.

PEER REVIEWS

PEER REVIEWS CONDUCTED BY OIG OCTOBER 1, 2018 – MARCH 31, 2019			
TYPE OF REVIEW	DATE OF PEER REVIEW	OIG REVIEWED	OUTSTANDING RECOMMENDATIONS
Audits	October, 2018	Department of Veterans Affairs	
Inspections	None this reporting period		
Investigations	None this reporting period		

PEER REVIEWS CONDUCTED OF OIG OCTOBER 1, 2018 – MARCH 31, 2019				
TYPE OF REVIEW	DATE OF PEER REVIEW	REVIEWING OIG	FREQUENCY REQUIREMENT	OUTSTANDING RECOMMENDATIONS
Audits	October, 2018	Social Security Administration	At least once every 3 years	None
Inspections	None this reporting period			
Investigations	None this reporting period			

SUMMARIES

INVESTIGATIVE OUTCOMES

Sentencings in Small Business Innovation Research Fraud Investigation

Two former executives of Small Business Innovation Research (SBIR) grant recipient companies were sentenced in the U.S. District Court, Western District of New York. One executive was sentenced to 33 months of incarceration, 3 years of supervised release, and a \$200 special assessment fee on charges of Conspiracy to Commit Wire Fraud and Engaging in Monetary Transactions in Property Derived from Specified Unlawful Activity. The other executive was sentenced to 5 years of probation, to include 6 months of home confinement, and a \$100 special assessment fee on a charge of Conspiracy to Defraud the United States. Additionally, the two former executives were ordered to pay joint restitution in the amount of \$5.5 million. As reported in the March 31, 2018, *Semiannual Report to Congress*, the two executives pleaded guilty to the aforementioned charges. The scheme involved numerous SBIR and Small Business Technology Transfer (STTR) awards to the companies, amounting to over \$8.4 million, from the Department of Energy, National Science Foundation (NSF) and the U.S. Department of Agriculture (USDA). The Department of Energy's portion of the awards was over \$5.1 million. The investigation determined the two former executives provided false statements in proposals, budgets, timesheets, and/or reports in at least 27 SBIR/STTR awards. This is a joint investigation with the Federal Bureau of Investigation, NSF OIG, USDA OIG, and the Internal Revenue Service Criminal Investigation Division. The Department of Justice press release can be found [here](#).

Sentencing in Conspiracy to Commit Theft of Government Funds Investigation

A former National Nuclear Security Administration (NNSA) subcontractor employee was sentenced in the U.S. District Court, District of South Carolina to 12 months and 1 day of incarceration, 3 years of probation, and ordered to pay \$1,616,941 in restitution with a \$100 special assessment fee on a charge of Conspiracy to Commit Theft of Government Funds. As reported in the September 30, 2018, *Semiannual Report to Congress*, another former NNSA subcontractor employee was sentenced to 23 months of incarceration, 3 years of supervised release, and ordered to pay \$4,580,470 in restitution with a \$100 special assessment fee also on a charge of Conspiracy to Commit Theft of Government Funds. Additionally, in response to an Investigative Report to Management, the two former NNSA subcontractor employees and a business were each debarred for 20 years. As reported in the September 30, 2017, *Semiannual Report to Congress*, one of the former NNSA subcontractor employees pleaded guilty to Conspiracy. As reported in the March 31, 2017, *Semiannual Report to Congress*, the other NNSA subcontractor employee also pleaded guilty to Conspiracy. As reported in the March 31, 2016, *Semiannual Report to Congress*, both NNSA subcontractor employees were indicted on 13 counts of Wire Fraud, one count of Conspiracy, and one count of Theft of Government Funds. The investigation determined that from 2009 to 2015, the indicted individuals stole over \$6.5 million of Department of Energy funds by submitting fictitious invoices to NNSA's contractors for materials supposedly used to build the MOX Fuel Fabrication Facility located at the Savannah River Site. A portion of the stolen Department funds was used to purchase gratuities for other

subcontractors at the MOX Fuel Fabrication Facility. This is a joint investigation with the Federal Bureau of Investigation. The latest Department of Justice press release can be found [here](#).

Sentencings, Pretrial Diversion Agreements, and Civil Complaint Filed in Grant Fraud Investigation

A corporation executive and three corporations were sentenced in the U.S. District Court, District of South Dakota. The corporation executive was sentenced to 2 years of probation, 80 hours of community service, and a \$100 special assessment fee on a charge of Wire Fraud. The corporation executive was also ordered to pay joint restitution, with the three corporations, in the amount of \$1,084,819. The three corporations were sentenced on charges of Conspiracy to Commit Wire Fraud and were also each ordered to pay a \$400 special assessment fee in addition to the restitution order. Two other individuals associated with the corporations reached Pretrial Diversion Agreements with the U.S. Attorney's Office. Additionally, a Civil Complaint has been filed against the corporation executive, the three corporations, and the two other individuals associated with the corporations. As previously reported in the September 30, 2018, *Semiannual Report to Congress*, an Information was filed, charging the corporation executive and the three corporations with one count of Conspiracy to Commit Wire Fraud and one count of Wire Fraud. Subsequently, the corporation executive pleaded guilty to one count of Wire Fraud and the three corporations each pleaded guilty to one count of Conspiracy to Commit Wire Fraud. The investigation determined the corporation executive used various corporations to apply for and receive Small Business Innovation Research (SBIR) grants from multiple agencies for essentially the same work, and concealed the existence of the awards and the relationships between the related corporations from the awarding agencies. Additionally, the investigation determined that during the SBIR application process, the corporation executive and corporations misrepresented to the awarding agencies the existence and use of corporation facilities and equipment, and the location of operations. This is a joint investigation with the National Aeronautics and Space Administration OIG and the National Science Foundation OIG. The DOJ press release can be found [here](#).

Civil Settlement in False Claims Act Investigation

The U.S. Department of Justice entered into a \$2.75 million settlement agreement with EM Photonics (EMP) and its Chief Executive Officer (CEO) to resolve allegations that EMP and its CEO engaged in false statements and billing improprieties under the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs. EMP received millions of dollars in Government contracts through the SBIR and the STTR programs. The investigation determined EMP and its CEO engaged in two different billing schemes under the SBIR/STTR program: (1) EMP and its CEO directed EMP employees, or caused others to direct EMP employees, to falsify timesheets for direct labor that the EMP employees did not perform and then submitted false invoices and public vouchers to the funding agencies for reimbursement, and (2) EMP and its CEO received SBIR/STTR funding for essentially equivalent work already performed and funded by another Government agency while falsely certifying that such work was non-duplicative. This is a joint investigation with the National Aeronautics and Space Administration OIG, Army Criminal Investigation Division, Air Force Office of Special Investigations, and the Naval Criminal

Investigative Service, and was coordinated with the U.S. Attorney's Office for the District of Delaware. The DOJ press release can be found [here](#).

Sentencing and Notice of Suspension in Grant Fraud Investigation

A Department of Energy grantee was sentenced in the U.S. District Court, District of Northern Florida to 30 months of imprisonment, 3 years of supervised release, and a \$200 special assessment fee on charges of Conspiracy to Commit Mail Fraud and Theft of Government Funds. Additionally, in response to an Investigative Report to Management (IRM), the Department grantee was suspended and proposed for debarment from doing business with the Government. As reported in the September 30, 2018, *Semiannual Report to Congress*, in response to an IRM, a Department grant coordinator was debarred from doing business with the Government for a period of 3 years. As reported in the March 31, 2018, *Semiannual Report to Congress*, the former Department grantee was found guilty by trial on charges of Conspiracy, Mail and Wire Fraud, and Theft of Government Funds. Additionally, the former grant coordinator was sentenced to 12 months of incarceration, 2 years of supervised release, and a \$100 special assessment fee. As reported in the September 30, 2016, *Semiannual Report to Congress*, a Federal Grand Jury indicted the former Department grantee and the former grant coordinator on one count of Conspiracy to Defraud the United States and one count of Theft of Government Property. The former grant coordinator subsequently pleaded guilty. The investigation determined the former Department grantee and the former grant coordinator submitted a series of fraudulent checks and invoices in order to receive approximately \$2.5 million in Department *Recovery Act* grant funds administered through the Department's State Energy Program formula grants. During the performance of the grant, the defendants issued false documents, including monthly progress reports and Payment Request Summary forms, in order to steal \$2.23 million of grant funds that were used for personal expenses, such as a New York City penthouse condo and a suite rental at Lincoln Financial Field in Philadelphia. The stolen funds were returned to the Department. This is a joint investigation with the United States Secret Service. The Department of Justice press release can be found [here](#).

Civil Settlement in False Claims Act Investigation

The U.S. Department of Justice (DOJ) entered into a \$1.5 million settlement agreement with the University of Wisconsin (University) to resolve allegations under the *False Claims Act*. As a public research institution, the University obtained a number of Federal awards from several different Government agencies to conduct research in a wide range of fields and programs, including but not limited to science, health care, and engineering. The investigation determined that the University participated in a number of rebate and discount programs with supply and equipment vendors paid for by Federal monetary awards. However, the University failed to apply the rebates and discounts from these purchases as a credit or reduction to the Federal awards, as required by the Office of Management and Budget (OMB) cost standards. The University had certified compliance to OMB's cost standards as a condition of accepting the Federal awards. This is a joint investigation with several Federal law enforcement partner agencies and is being coordinated with the U.S. Attorney's Office for the Western District of Wisconsin. The DOJ press release can be found [here](#).

Guilty Plea and Sentencing in Direct Discharges to Waters of the United States and False Statements Investigation

A former Department of Energy grantee was sentenced in the U.S. District Court, Eastern District of Tennessee to 15 months of incarceration, 1 year of supervised release, and a \$300 special assessment fee after pleading guilty to charges of Direct Discharges to Waters of the United States and False Statements Regarding the *Clean Water Act*. As reported in the March 31, 2018, *Semiannual Report to Congress*, a Federal Grand Jury indicted the former grantee, who had been the operator of a city Waste Water Treatment Plant (WWTP), on 24 counts of violating the *Clean Water Act*. The investigation determined the Department grantee diverted waste water from the WWTP directly into a local river without processing the waste. The WWTP was the recipient of a Department Energy Efficiency and Conservation Block Grant through the Tennessee Department of Environment and Conservation (TN DEC) funded by the *Recovery Act*. This is a joint investigation with the Environmental Protection Agency (EPA) Criminal Investigation Division, EPA OIG, the Internal Revenue Service, the Tennessee Valley Authority OIG, and TN DEC.

Civil Settlement in False Claims Act Investigation

The U.S. Department of Justice (DOJ) entered into a \$389,355 settlement agreement with Computer Sciences Corporation (CSC), a former Occupational Health Management prime contractor at the Hanford Site in Richland, Washington. The settlement resolves allegations that CSC violated the *False Claims Act* by submitting false claims and statements to the Department of Energy representing that the electronic medical records system CSC implemented at the Hanford Site was functional and would operate as intended in accordance with contractual requirements. The investigation determined that although CSC had indeed implemented the electronic medical records system, numerous major issues and failures of the system subsequently occurred, affecting the security of the Hanford Site network. Consequently, the Department determined that the electronic medical records system had to be replaced as a direct result of the numerous issues and failures observed post-implementation. The settlement was calculated based on award fees that CSC received following implementation of the system and resolves a lawsuit filed by former employees of CSC under the *qui tam* or whistleblower provisions of the *False Claims Act*. This case was coordinated with the U.S. Attorney's Office for the Eastern District of Washington. The DOJ press release can be found [here](#).

Guilty Verdicts, Guilty Plea, and Debarment Actions in Conspiracy to Defraud the U.S. Government Investigation

Two owners of two separate San Francisco-based private companies were found guilty by trial in the U.S. District Court, Northern District of California on charges of Conspiracy to Defraud the U.S. and Conspiracy to Commit Mail and Wire Fraud. Additionally, the president of a prospective Department of Energy contractor pleaded guilty to one count of Conspiracy to Defraud the U.S. and one count of making a False Statement. In response to an Investigative Report to Management (IRM), one of the owners and that owner's company were debarred for 3 years from Government contracting. As reported in the March 31, 2018, *Semiannual Report to Congress*, a partner of a consulting firm pleaded guilty to a violation of Conspiracy to Defraud the U.S. In response to an IRM, the partner of

the consulting firm was debarred from Government contracting for 3 years. As reported in the March 31, 2018, *Semiannual Report to Congress*, the president of the prospective Department contractor pleaded guilty to a violation of Conspiracy to Defraud the U.S. As reported in the September 30, 2017, *Semiannual Report to Congress*, a Federal Grand Jury returned an eight-count Indictment against eight individuals for engaging in a contract bid-rigging scheme at the Lawrence Berkeley National Laboratory (LBNL) in Berkeley, California. The Indictment included charges of Receiving a Bribe, False Statements, Conspiracy to Receive a Bribe, and Conspiracy to Defraud the U.S. The investigation determined that multiple individuals representing multiple companies conspired to manipulate a contract award through bid-rigging for the renovation of a building at the LBNL to ensure a specific developer was awarded the contract in exchange for financial reward or construction work from that developer. This is a joint investigation with the Federal Bureau of Investigation. The Department of Justice press release can be found [here](#).

Guilty Finding in Small Business Innovation Research Grant Investigation

After waiving the right to a jury trial, a Department of Energy grantee was adjudicated guilty by the presiding U.S. District Court Judge for the Western District of Virginia on charges of Conspiracy to Defraud the U.S., False Statements, and Obstruction by Falsification. As reported in the March 31, 2018, *Semiannual Report to Congress*, a Federal Grand Jury returned a 24-count Superseding Indictment against two former Department grantees charging False Claims, False Statements, Wire Fraud, Obstruction of Justice, and Conspiracy. As reported in the September 30, 2017, *Semiannual Report to Congress*, the grantee who was found guilty of Conspiracy, False Statements, and Obstruction was arrested. Simultaneous to the arrest, search warrants were served at the grantee's residence, as well as the grantee's offices and university laboratory. The investigation determined the convicted grantee conspired with other employees of the grantee's company to submit false claims and false statements to the Government in relation to Small Business Innovation Research and Small Business Technology Transfer grants. Additionally, the investigation determined the convicted grantee stole trade secrets from former company employees and transferred the technology overseas. This is a joint investigation with the National Science Foundation OIG and the Federal Bureau of Investigation. The Department of Justice press release can be [here](#).

Indictment, Arrest, Execution of Search Warrants, and Notice of Suspension in Theft of Government Funds Investigation

A Federal Grand Jury in the District of New Mexico returned a 49-count Indictment against a former Sandia National Laboratories (Sandia) contractor employee on charges of Theft of Government Funds. Subsequently, the former Sandia contractor employee was arrested by special agents from our office. Three Federal search warrants and a consent to search had been executed at the former Sandia contractor employee's residence and former residences. Additionally, another Federal search warrant was executed to search the belongings of the former contractor's spouse to seize jewelry items identified by the investigation. The former Sandia contractor employee resigned from employment and was suspended from Government contracting. The investigation determined that the former Sandia contractor employee submitted false purchase card reconciliation descriptions for

approximately \$150,000 in purchases for personal gain made on the former contractor employee's Sandia procurement card. This investigation is being coordinated with the U.S. Attorney's Office for the District of New Mexico.

Indictment and Summons Served in Money Laundering, Extortion, and Wire Fraud Investigation

A Federal Grand Jury in the U.S. District Court, District of South Carolina returned a seven-count Indictment charging Money Laundering, Extortion, and Wire Fraud against a National Nuclear Security Administration (NNSA) contractor employee at the Savannah River Site and an individual not associated with the Department of Energy. Specifically, the NNSA employee was named in two counts of the Indictment charging Wire Fraud and Money Laundering. The individual was named in all counts of the Indictment. In conjunction with special agents from several military criminal investigative organizations, numerous simultaneous arrest warrants and summonses were executed, stemming from an ongoing investigation of a sextortion ring for money laundering, extortion, and wire fraud that targeted military service members. The NNSA contractor employee was served with a summons for his alleged participation in the scheme. To date, the investigation determined that South Carolina prison inmates, aided by outside civilian associates, to include the NNSA contractor employee, preyed on service members to engage in online romantic relationships and then extorted the military service members for hush money. This is a joint investigation with the Army Criminal Investigation Division and multiple other agencies under the Joint Counter Extortion Task Force.

Information Filed in Theft of Government Property Investigation

The U.S. Attorney's Office, District of Idaho filed an Information charging an individual with one count of Misdemeanor Theft of Government Property. The investigation determined that the individual set up a fraudulent not-for-profit entity and made false representations on applications submitted to the General Services Administration under the Computers for Learning Program for excessed Government computers and computer-related equipment. For approximately 4 years, the individual fraudulently obtained excessed Government computers and computer-related equipment with an acquisition value of over \$160,000. This is a joint investigation with the General Services Administration OIG.

Civil Complaint Filed in *False Claims Act* and *Anti-Kickback Act* Investigation

The Department of Justice (DOJ), Civil Division filed a civil complaint under the *False Claims Act* and *Anti-Kickback Act* against a Department of Energy prime contractor and a subcontractor. The civil complaint is in connection to the National Nuclear Security Administration's (NNSA) multi-billion dollar contract for the construction and operation of the Mixed Oxide Fuel Fabrication Facility project (MOX Project). The investigation determined that the contractor and subcontractor officials failed to perform their contractually required obligations of confirming that the materials paid for by NNSA were necessary and delivered. Specifically, contractor officials allowed the subcontractor to process and receive payment for thousands of invoices, totaling in excess of \$6.4 million, for materials that were neither necessary nor delivered to the MOX Project. Additionally, the subcontractor, through its appointed site representative, provided kickbacks to select

MOX officials in order to receive favorable treatment. This investigation is being coordinating with the DOJ, Civil Division. The DOJ press release can be found [here](#).

Civil Complaint Filed in *False Claims Act* and *Anti-Kickback Act* Investigation

The U.S. Department of Justice (DOJ), Commercial Litigation Branch and the U.S. Attorney's Office for the Eastern District of Washington filed a civil complaint under the *False Claims Act* and *Anti-Kickback Act* against a Department of Energy prime contractor, parent company, an affiliate company, and the former president of the company. The investigation involved alleged false claims and kickbacks in connection with a multi-billion dollar contract with the Department to support the environmental cleanup at the Hanford Site. As reported in the September 30, 2018, *Semiannual Report to Congress*, the DOJ entered into a \$124,440 settlement agreement with the Chief Financial Officer (CFO) of a Hanford Site contractor to resolve claims under the *False Claims* and *Anti-Kickback Acts*. That settlement agreement is in connection to the CFO's role in the execution of a subcontract on a prime contract for environmental cleanup services with the Department. The investigation determined that the CFO received at least \$41,000 in kickback payments to influence, assist, and reward the CFO for securing a \$232 million 5-year subcontract to an affiliate company. This case is being coordinated with the DOJ, Commercial Litigation Branch and the U.S. Attorney's Office for the Eastern District of Washington. The DOJ press release can be found [here](#).

Downgraded Contractor Performance Rating in *False Claims Act* Investigation

The Department, Office of River Protection, issued and published downgraded Contractor Performance Assessment ratings to Bechtel National Incorporated's (BNI) Prime Contract for the Hanford Site's Waste Treatment and Immobilization Plant (WTP) for Calendar Year 2017. Specifically, BNI's rating for "Cost Control" was downgraded from "Satisfactory" to "Marginal" and the rating for "Management" was downgraded from "Very Good" to "Unsatisfactory". The Department issued these downgraded performance ratings as a direct result of the OIG's ongoing criminal and civil investigations. BNI was offered an opportunity to provide comment prior to the ratings being published; however, BNI expressed concurrence with the downgraded performance ratings. This is an ongoing investigation being worked in conjunction with the U.S. Attorney's Office for the Eastern District of Washington.

Indictment in Personally Identifiable Information Compromise and Identity Theft Investigation

A Grand Jury in the Thirteenth Judicial District, State of New Mexico returned a four-count Indictment against an individual not associated with the Department of Energy charging Fraudulent Use of an Illegally Obtained Credit Card, Fraud, Dealing in Credit Cards of Another, and Theft of Identity. The investigation determined that the Personally Identifiable Information (PII) of approximately 50 current or former Department and National Nuclear Security Administration employees from various sites were compromised and used in furtherance of an identity theft scheme. The scheme involved the PII of current or former employees being utilized to fraudulently obtain credit cards, establish email addresses, and make illegal purchases using the victims' identities. This is an ongoing joint

investigation with the U.S. Postal Inspection Service, Homeland Security Investigations, and the Valencia County Sherriff's Department.

Guilty Finding and Sentencing in Theft Investigation

A former Lawrence Livermore National Laboratory (LLNL) contractor employee entered a plea of no contest and was adjudicated guilty in the Superior Court of California, County of Alameda on charges of Grand Theft and Embezzlement. Subsequently, the former LLNL contractor employee was sentenced to 120 days incarceration, 5 years of probation, and ordered to pay restitution in the amount of \$19,875. The former contractor employee was also ordered to stay 100 yards from LLNL indefinitely. As reported in the March 31, 2018, *Semiannual Report to Congress*, an arrest warrant was issued by the Alameda County, California District Attorney's Office on the aforementioned charges for the former LLNL contractor employee. The former LLNL contractor employee was subsequently arrested. As reported in the September 30, 2017, *Semiannual Report to Congress*, the former LLNL contractor employee was terminated from employment for stealing Government property. The investigation determined that the former LLNL contractor employee stole numerous Government-purchased, Freon-cylinder containers, valued at approximately \$20,000, and used them for a personal business. The former LLNL contractor employee also admitted to selling some of the containers online. This investigation is being coordinated with Alameda County, California District Attorney's Office.

Guilty Plea and Sentencing in Theft Investigation

A former contractor employee at the Oak Ridge Associated Universities (ORAU), located in Oak Ridge, Tennessee, pleaded guilty in the 7th District for the State of Tennessee, Anderson County to one felony count of Theft of over \$10,000 and less than \$60,000. The former contractor employee was sentenced to pre-trial diversion, including 6 years of probation, 100 hours of community service, and ordered to pay \$10,000 in restitution with a \$943 court cost fee. The investigation determined that the former contractor employee colluded with two unindicted co-conspirators to generate fake invoices causing ORAU to pay \$17,500 for work not performed. In return, the former contractor employee received a portion of the money and \$6,200 in daycare services. This investigation was coordinated with the 7th District Court, Anderson County, Tennessee.

Debarment Actions in Wire Fraud and Money Laundering Investigation

In response to an Investigative Report to Management (IRM), a former Sandia National Laboratories contractor procurement officer and two companies were each debarred from Government contracting for a period of 6 years. As reported in the September 30, 2018, *Semiannual Report to Congress*, the former Sandia National Laboratories contractor procurement officer was sentenced in the U.S. District Court, District of New Mexico to 3 years of incarceration, 5 years of probation, and a \$200 special assessment on charges of Wire Fraud and Money Laundering. The former contractor procurement officer was also ordered to forfeit \$643,000. Additionally, in response to an IRM, the Sandia Field Office Manager made notification of the sentencing to the appropriate security personnel. As previously reported in the March 31, 2018, *Semiannual Report to Congress*, a Federal Grand Jury indicted the former contractor procurement officer on one count of Major Fraud against the United States, three counts of Wire Fraud, and seven counts of Money

Laundering. Subsequently, the former contractor procurement officer was arrested by OIG agents and pleaded guilty to one count of Wire Fraud and one count of Money Laundering. The investigation determined that the former contractor procurement officer engaged in a scheme to direct a \$2.3 million contract to a company surreptitiously created and controlled by the former contractor procurement officer. This investigation is being coordinated with the Department of Justice Criminal Division's Public Integrity Section, Washington, D.C.

Debarment Actions in Conspiracy Investigation

In response to an Investigative Report to Management, two individuals not associated with the Department of Energy were debarred from doing business with the Government. One individual was debarred for 15 years and the other individual was debarred for 40 years. As reported in the September 30, 2018, *Semiannual Report to Congress*, a joint investigation by the Federal Bureau of Investigation (FBI) and the Tennessee Valley Authority (TVA) OIG resulted in both individuals being convicted of Conspiracy to Unlawfully Engage and Participate in the Production and Development of Special Nuclear Material Outside the U.S. without the Intent to Injure the U.S. or to Secure an Advantage to a Foreign Nation. One individual was also convicted of Participation in the Development of Special Nuclear Material Outside of the U.S. The FBI and TVA OIG joint investigation determined that these individuals provided information to the People's Republic of China (PRC) without special authorization from the Secretary of Energy, as required by Title 10, Code of Federal Regulations, Section 810. One individual was sentenced to 24 months of imprisonment, 1 year of supervised release, and ordered to pay a \$20,000 fine with a \$100 special assessment fee. The other individual was sentenced to 3 years of probation and ordered to pay a \$100 special assessment fee. This investigation is being coordinated with the FBI and TVA OIG.

Debarment Action in Theft Investigation

In response to an Investigative Report to Management, a former contractor employee at the Department of Energy's Y-12 National Security Complex (Y-12) located in Oak Ridge, Tennessee was debarred for 4 years. As reported in the September 30, 2018, *Semiannual Report to Congress*, the former contractor employee pleaded guilty in the 7th District for the State of Tennessee, Anderson County to Theft Exceeding \$10,000 and was sentenced to 48 months of probation, 50 hours of community service, and was ordered to pay a \$606 fine. As reported in the September 30, 2017, *Semiannual Report to Congress*, the former contractor employee was indicted for Theft and subsequently arrested. The investigation determined that the former contractor employee removed 298 sheets of tin metal and associated parts valued at approximately \$18,380 from the Y-12 site without permission.

Notice of Suspension and Proposed Debarment in Theft Investigation

In response to an Investigative Report to Management (IRM), a former Department of Energy contractor employee was suspended and proposed for debarment from Government contracting. As reported in the September 30, 2018, *Semiannual Report to Congress*, the former contractor employee was ordered by the 7th Judicial District Court, Anderson County, Tennessee to pay \$3,100 in restitution to the Department. Additionally, an IRM was issued to the Office of Policy, Office of Acquisition Management recommending

suspension and/or debarment of the former contractor employee. As reported in the March 31, 2018, *Semiannual Report to Congress*, a Grand Jury returned an Indictment against the former contractor employee charging Theft of Property, and the former contractor employee was subsequently arrested. The investigation determined that the former contractor employee stole 7,000 pounds of lead belonging to the Department, with a replacement value of \$11,000. The former contractor employee had been terminated for acts unrelated to the OIG investigation. This investigation is being coordinated with the Seventh Judicial District Court, Anderson County, Tennessee.

Response to Investigative Report to Management in Employee Misconduct Investigation

In response to an Investigative Report to Management (IRM), the Department of Energy's, Office of Headquarters Procurement Services, Acquisition Management, Office of Management complied with the IRMs recommendations to improve its policies and procedures within the Office of Headquarters Procurement Services by implementing: (1) a mechanism to track recurrent training; (2) individual classified accounts for appropriate personnel; (3) appropriate classification markings on emails in accordance with the Department Order; (4) and, standards of accountability for contracting officers (CO) to prevent the release of procurement sensitive information. The investigation determined a CO improperly accessed a classified computer system and transmitted via email procurement sensitive Official Use Only documents outside of the Department.

Response to Investigative Report to Management Issued in Misuse of Government Computer Investigation

In response to an Investigative Report to Management, the Idaho Falls Laboratory Naval Reactors Facility (NRF) provided remedial training to an NRF contractor employee on the Department of Energy's Computer User Agreement. Additionally, the NRF issued a letter of caution to the contractor employee. The NRF contractor employee was alleged to have used a Government computer and network to mine the cryptocurrency, bitcoin. The allegations for bitcoin mining were not substantiated; however, the investigation determined that the NRF contractor employee downloaded and executed unauthorized software from an untrusted source, potentially violating the Department's End User Rules of Behavior and User Agreement.

AUDIT REPORTS

The Department of Energy's Unclassified Cybersecurity Program – 2018

The use of information technology by Federal agencies continues to evolve, resulting in greater opportunities for efficiencies and accessibility to Government information. The Department operates many facilities, including National Laboratories and plants, across the Nation and depends on information technology systems and networks for essential operations required to accomplish its national security, research and development, and environmental management missions. Advancements in technology, however, can result in increased cybersecurity threats. For instance, the systems used to support the Department's various missions face millions of cyber threats each year, ranging from unsophisticated hackers to advanced persistent threats using state-of-the-art intrusion tools and techniques. Many of these malicious attacks are designed to steal information and disrupt, deny access, degrade, or destroy the Department's information systems.

The *Federal Information Security Modernization Act of 2014* requires Federal agencies to develop and implement agency-wide information security programs. In addition, Federal agencies are required to provide acceptable levels of security for the information and systems that support their operations and assets. As required by the *Federal Information Security Modernization Act of 2014*, we conducted an independent evaluation to determine whether the Department's unclassified cybersecurity program adequately protected its data and information systems. This report documents the results of our evaluation of the Department for FY 2018.

We identified weaknesses related to vulnerability and configuration management, system integrity of Web applications, access controls, cybersecurity and privacy awareness training, and security control testing. Although the types of vulnerabilities identified were mostly consistent with our prior evaluations, our FY 2018 review disclosed weaknesses at new locations.

To correct the weaknesses highlighted in this report, we made 25 recommendations to programs and sites during FY 2018. In addition to these program- and site-specific recommendations, we made one overall recommendation to ensure that appropriate emphasis is placed on correcting identified cybersecurity weaknesses, including addressing findings identified during our current unclassified cybersecurity evaluation; this process should include the effective use of plans of actions and milestones to improve performance monitoring by identifying, prioritizing, and tracking the progress of remediation actions for all identified cybersecurity weaknesses.

Audit of Cost Allowability for Battelle Memorial Institute Under its Contract to Manage Pacific Northwest National Laboratory for FYs 2015 and 2016

Since 1965, Battelle Memorial Institute (Battelle) has operated the Pacific Northwest National Laboratory under contract with the Department. This Laboratory, as part of the Department's Office of Science, performs research and innovations in the areas of environmental protection and cleanup, energy resources, and national security. As a management and operating contractor, Battelle's financial accounts are integrated with those of the Department, and the results of transactions are reported monthly according to a uniform set of accounts. Battelle is required by its contract to account for all funds advanced by the Department annually on its Statement of Costs Incurred and Claimed, to safeguard assets in its care, and to claim only allowable costs.

To help ensure that audit coverage of cost allowability was adequate during FYs 2015 through 2016, the objectives of our assessment were to determine whether Battelle's Internal Audit conducted cost allowability audits that complied with professional standards and could be relied upon; Battelle conducted or arranged for audits of its subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor; and questioned costs and internal control weaknesses impacting allowable costs that were identified in prior audits and reviews have been adequately resolved.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Battelle's Internal Audit for FYs 2015 through 2016 could not be relied upon. We did not identify any material internal control weaknesses with cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. Although we ultimately concluded that we could rely on Battelle's Internal Audit work, due to the timing of improvements implemented in its FY 2016 audit files, we noted that work papers from FY 2015 audit reports did not always include adequate documentation of supervision; determined that Battelle's Internal Audit did not always document all potential impairments to auditor independence and objectivity; and identified a weakness in the implementation of Battelle's risk-based approach. Therefore, we made two recommendations to assist in strengthening Battelle's processes and procedures.

The Department of Energy's Funds Distribution System 2.0

The Office of the Chief Financial Officer is responsible for maintaining and operating several key systems to manage the Department's financial transactions. The Funds Distribution System 2.0 (FDS 2.0) is one of these systems and provides for the receipt, control, and distribution of all obligational authority available to the Department. Initially, the Funds Distribution Improvement Project was established in response to a need by the National Laboratory Directors Council to improve the speed and efficiency of the funds distribution process. As part of this effort, FDS 2.0 was intended to improve the efficiency and effectiveness of the funds distribution process and be the single source of budgetary appropriations, apportionments, allotments, and allocations for the Office of the Chief Financial Officer's Office of Budget, program and staff offices, and field offices. Given its importance to the Department's financial operations, we initiated this audit to determine

whether FDS 2.0 was effectively developed and implemented and is meeting its goals and objectives.

Although the system was placed into operation on October 1, 2016, we found that FDS 2.0 was not effectively developed and implemented. In particular, we determined that the project significantly exceeded its estimated cost and schedule. In addition, upon implementation, FDS 2.0 had not achieved several of its intended goals and objectives. We also found that information related to the system's development and implementation was not accurately reported to the Office of Management and Budget prior to operation, as required. The Department also did not obtain approval of changes to the funds control regulations from the Office of Management and Budget. Furthermore, Department officials had not ensured that critical project decisions were appropriately documented and that policies and procedures were updated to reflect process changes associated with the new information system.

The issues identified occurred, in part, because Office of the Chief Financial Officer officials did not adhere to several key Department directives that could have helped enhance the effectiveness of FDS 2.0 development and implementation efforts. We made several recommendations that, if fully implemented, should help the Department improve the management of FDS 2.0 and future information system implementation efforts.

Special Report on “Compilation of Challenges and Previously Reported Key Findings at the Hanford Site for Fiscal Years 2012-2018”

The Department's Hanford Site was established during World War II to produce plutonium for the Nation's nuclear weapons. The 586-square-mile Hanford Site is located along the Columbia River in southeastern Washington State. Beginning in the 1940s with the Manhattan Project, the Hanford Site played a pivotal role in the Nation's defense with the construction and operations of nine nuclear reactors and five large plutonium processing complexes. Today, the Hanford Site includes numerous former nuclear material production areas, active and closed research facilities, waste storage and disposal sites, and large areas of natural habitat and buffer zones. Under the direction of the Department, the Hanford Site workforce is engaged in the cleanup of contaminated facilities, groundwater, and soils resulting from this period of national defense activities.

The Department's Office of Environmental Management oversees the Hanford Site, and the two offices at Hanford whose mission is environmental cleanup include the Richland Operations Office and the Office of River Protection. The Office of River Protection is responsible for cleanup of Hanford Site tank waste. The Richland Operations Office is responsible for nuclear waste and facility cleanup and overall management of the Hanford Site.

Due to the complex nature of operations at the Hanford Site and the significant funding involved, as well as the trend of similar findings involving mismanagement, weak internal controls, and fraud committed by contractors and subcontractors, we initiated this report to provide a consolidated body of work representing a compilation of our findings from FYs 2012–2018. Our objective is to highlight management challenges and key findings that

were identified in its previous audits, inspections, and investigations related to the Hanford Site.

As many of the weaknesses continue, without more aggressive oversight of contractors and subcontractors, millions of dollars will continue to be at risk for inappropriate charges and potential fraudulent activities. We are hopeful that this consolidated summary of the previously issued significant findings from FY 2012–2018 will serve as evidence of systemic internal control weaknesses and fraudulent activities and ultimately result in the Department strengthening its oversight of Federal operations and contractors.

Management of Selected Financial Assistance Agreements under the Wind Program

The Office of Energy Efficiency and Renewable Energy's (EERE) Wind Energy Technologies Office (Wind Program) invests in energy science research and development activities that enable the innovations needed to advance U.S. wind systems, while continuing to address market and deployment barriers. According to the *Department of Energy Fiscal Year 2018 Congressional Budget Request*, as of 2016, wind energy provided nearly 5.5 percent of our Nation's electricity. The Wind Program's long-term goal is to achieve significant reductions in the cost of wind energy.

To accomplish the Wind Program's mission, EERE enters into financial assistance agreements, also referred to as awards, with recipients. Award management is a shared responsibility among multiple EERE entities, including the Wind Program, the Financial Assistance Office, and the Procurement Policy and Compliance Office. Given its significant role in supporting initiatives for energy independence and environmental protection, we initiated this audit to determine whether EERE effectively managed selected Wind Program financial assistance agreements.

We found that EERE had not always monitored project costs for one of the two financial assistance awards included in our audit in an effective manner. Specifically, we identified issues related to effective monitoring of project costs on the Principle Power, Inc. award. We did not identify any issues with the management of the award to Virginia Electric and Power Company, the second financial assistance agreement reviewed.

During the audit, EERE took action to address and resolve the issues related to the Principle Power, Inc. award. Because the costs were resolved, no costs are being questioned. However, we did identify other opportunities for EERE to improve its management of financial assistance awards. We made two recommendations to ensure an effective and timely process of managing indirect costs throughout the life of financial assistance awards and to ensure that indirect and fringe costs are reconciled annually.

Federal Energy Regulatory Commission's Fiscal Year 2018 Financial Statement Audit

This report presents the results of the independent certified public accountants' audit of the Federal Energy Regulatory Commission's (FERC) balance sheets, as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, custodial activity, and budgetary resources for the years then ended.

To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit, subject to our review. KPMG LLP is responsible for expressing an opinion on FERC's financial statements and reporting on applicable internal controls and compliance with laws and regulations. We monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted Government auditing standards. We did not express an independent opinion on FERC's financial statements.

KPMG LLP concluded that the financial statements present fairly, in all material respects, the financial position of FERC as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in accordance with United States generally accepted accounting principles.

As part of this review, auditors also considered FERC's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit did not identify any deficiencies in internal control over financial reporting that is considered a material weakness.

Management Challenges at the Department of Energy – Fiscal Year 2019

Based on the results of our body of work over the past year, the management challenges list for FY 2019 remains largely consistent with that of the previous year. These challenges include:

- Contract Oversight
 - Contractor Management
 - Subcontract Management
- Cybersecurity
- Environmental Cleanup
- Nuclear Waste Disposal
- Safeguards and Security
- Stockpile Stewardship
- Infrastructure Modernization

We also prepared an annual Watch List, which incorporates other issues that do not meet the threshold of a management challenge, yet in our view, warrant special attention by Department officials. For FY 2019, the Watch List includes the Department's Employee Concerns Program, the Power Marketing Administrations, Human Capital Management, the Loan Guarantee Program, and Worker and Community Safety.

Department of Energy Nuclear Waste Fund’s Fiscal Year 2018 Financial Statement Audit

The attached report presents the results of the independent certified public accountants’ audit of the balance sheets of the Department of Energy Nuclear Waste Fund, as of September 30, 2018, and 2017, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended.

To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit, subject to our review. KPMG LLP is responsible for expressing an opinion on the Nuclear Waste Fund’s financial statements and reporting on applicable internal controls and compliance with laws and regulations. We monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG LLP did not comply, in all material respects, with generally accepted Government auditing standards. We did not express an independent opinion on the Nuclear Waste Fund’s financial statements.

KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Nuclear Waste Fund as of September 30, 2018, and 2017, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with United States generally accepted accounting principles.

As part of this review, auditors also considered the Nuclear Waste Fund’s internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The results of the auditors’ review disclosed no instances of noncompliance or other matters required to be reported under generally accepted Government Auditing Standards or applicable Office of Management and Budget guidance.

Federal Energy Regulatory Commission’s Unclassified Cybersecurity Program – 2018

The Federal Energy Regulatory Commission (FERC) is an independent agency within the Department responsible for, among other things, regulating the interstate transmission of the Nation’s electricity, natural gas, and oil. FERC’s mission is to assist consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means. To accomplish this, the information technology infrastructure that supports FERC must be reliable and protected against attacks from malicious sources.

The *Federal Information Security Modernization Act of 2014* established requirements for Federal agencies to develop, implement, and manage agency-wide information security programs, including periodic assessment of the risk and magnitude of the harm that could result from the unauthorized access, use, disclosure, disruption, modification, or destruction of information systems and data that support the operations and assets of the agency. In addition, the *Federal Information Security Modernization Act of 2014* mandated that an independent evaluation be performed annually by our office to determine whether

FERC's unclassified cybersecurity program adequately protected data and information systems. We contracted with KPMG LLP to perform an assessment of FERC's unclassified cybersecurity program. This report presents the results of that evaluation for FY 2018.

Based on FY 2018 test work performed by KPMG LLP, nothing came to our attention to indicate that attributes required by the Office of Management and Budget, Department of Homeland Security, and the National Institute of Standards and Technology were not incorporated into FERC's unclassified cybersecurity program for each of the major topic areas tested. In particular, FERC had implemented information technology security controls for various areas such as configuration management, risk management, and security training.

During our FY 2017 test work, we became aware of a security incident involving FERC's unclassified cybersecurity program. Upon learning of the incident, FERC officials initiated action to identify the cause of the incident, determine its impact, and implement corrective actions, as necessary. While FERC's corrective actions taken related to the implementation of preventative controls are noteworthy, we found that FERC was still in the process of reviewing the impact of the incident and completing its analysis. Consistent with the recommendation included in our prior year's evaluation, until all corrective actions are completed, we continue to recommend that the Executive Director of the Federal Energy Regulatory Commission ensure that the analysis related to the cyber incident is completed in a timely manner.

The Department of Energy's Fiscal Year 2018 Consolidated Financial Statements

Pursuant to requirements established by the *Government Management Reform Act of 1994*, we engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit of the Department's FY 2018 Consolidated Financial Statements.

KPMG audited the consolidated financial statements of the Department as of September 30, 2018, and 2017, and the related consolidated statements of net cost, changes in net position, custodial activity, and combined statements of budgetary resources for the years then ended. KPMG concluded that these consolidated financial statements are presented fairly, in all material respects, in conformity with United States generally accepted accounting principles and has issued an unmodified opinion based on its audits and the reports of other auditors for the years ended September 30, 2018, and 2017.

As part of this audit, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The audit did not identify any deficiencies in internal control over financial reporting that is considered a material weakness.

We issued notices of findings and recommendations to management throughout the audit. In nearly all instances, management concurred with the findings and recommendations. However, responses to two non-information technology-related findings indicated one non-concurrence and one partial concurrence. The audit disclosed

no instances of noncompliance or other matters required to be reported under applicable audit standards and requirements.

We are responsible for technical and administrative oversight regarding KPMG's performance under the terms of the contract. Our review was not intended to enable us to express, and accordingly, we do not express, an opinion on the Department's financial statements, management's assertions about the effectiveness of its internal controls over financial reporting, or the Department's compliance with laws and regulations. Our monitoring review disclosed no instances where KPMG did not comply with applicable auditing standards.

Implementation of Integrated Safety Management at Lawrence Livermore National Laboratory

Since October 2007, Lawrence Livermore National Security, LLC has operated Lawrence Livermore National Laboratory (Livermore) for the National Nuclear Security Administration (NNSA). Livermore has a primary mission to strengthen the United States' security through development and application of science and technology to enhance the Nation's defense, reduce the global threat from terrorism and weapons of mass destruction, and respond to scientific issues of national importance. In the context of workplace safety at the Department, Livermore also must systematically integrate safety into management, work practices at all levels, and all facets of work planning and execution.

In accomplishing its mission, Livermore committed itself to perform work in a manner that protects the health and safety of employees and the public, preserves the quality of the environment, and prevents property damage by using an Integrated Safety Management (ISM) system. In our previous audit of Livermore's ISM system, [Implementation of Integrated Safety Management at Lawrence Livermore National Laboratory](#) (DOE/IG-0797, July 2008), we concluded that until Livermore fully implements an effective ISM system, NNSA cannot be assured that future worker-related illnesses and injuries will be prevented. We initiated this audit to followup on progress made since our previous audit and to determine whether Livermore effectively implemented an ISM system.

Nothing material came to our attention to indicate that Livermore had not effectively implemented an ISM system. We determined that Livermore had taken actions sufficient to address the weaknesses we identified in the prior report. However, we identified opportunities to ensure that Livermore continues to improve its ISM system.

Management Letter on the Federal Energy Regulatory Commission's Fiscal Year 2018 Financial Statement Audit

This audit presents the results of the independent certified public accountant's consideration of the Federal Energy Regulatory Commission's internal control over financial reporting during the Federal Energy Regulatory Commission's FY 2018 Financial Statement Audit. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit. KPMG LLP's letter report

addresses one prior year finding, which was reissued during the course of the audit, and offers two recommendations.

Information Technology Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2019

During the audit, KPMG LLP (KPMG) noted certain matters involving internal control and other operational matters. These comments and recommendations are intended to improve internal controls or result in other operating efficiencies. Management provided planned corrective actions for the recommendations listed in the management letter. This report is Official Use Only (OUO) and not available for public viewing.

Management of Consultant Agreements at Lawrence Livermore National Laboratory

Since October 2007, Lawrence Livermore National Security, LLC has operated Lawrence Livermore National Laboratory (Livermore) for the National Nuclear Security Administration. Livermore has a primary mission to strengthen the United States' security through development and application of science and technology to enhance the Nation's defense, reduce the global threat from terrorism and weapons of mass destruction, and respond to scientific issues of national importance. In accomplishing its mission, Livermore uses a variety of methods for obtaining services, including consultant agreements. For FY 2013 through 2015, Livermore had 484 active consultant agreements, with incurred costs of approximately \$6 million. We initiated this audit to determine whether Livermore effectively managed and administered its consultant agreements.

In general, nothing came to our attention to indicate that Livermore had not effectively managed and administered its consultant agreements. Livermore had a consultant agreement and claims administration in place to process consultant agreements and review consultant invoices. In addition, Livermore established policies and procedures to reflect its management and operating contract requirements and applicable regulations. However, we identified instances that would improve how Livermore manages and administers its consultant agreements.

The issues we identified were due to weaknesses in Livermore's internal policies and procedures, as well as a lack of implementation of Federal Acquisition Regulation requirements. Specifically, Livermore's policies and procedures did not provide clear guidance for mitigation plan monitoring responsibilities, consultant agreement renewals, and travel requirements. In addition, Livermore did not always follow its internal policies and procedures. Therefore, we made recommendations to ensure that Livermore's consultant agreements are effectively managed and administered.

Management Letter on the Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 2018

Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the audit of the Department of Energy's Fiscal Year 2018 Consolidated Financial Statements. During the audit, KPMG LLP considered the Department's internal controls over financial reporting and tested for compliance with

certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements.

During the course of the audit, KPMG LLP identified deficiencies in internal controls. Specifically, KPMG LLP noted 10 new findings and 15 recommendations that were issued during the Fiscal Year 2018 Audit of the Department of Energy's Consolidated Financial Statements. One prior year finding and recommendation was also re-issued. Management fully or partially concurred with all but two recommendations included in the management letter and had taken or planned to take corrective actions. Management did not concur with two findings and recommendations. Management's responses are included with each finding. The audit did not identify any deficiencies in internal controls over financial reporting that are considered material weaknesses.

Interim Storage of Radioactive Canisters at the Savannah River Site

The Department's Savannah River Site became operational in 1951 and produces nuclear materials for national defense, research, medical, and space programs. The separation of fissionable nuclear material from irradiated targets and fuels results in the generation of liquid radioactive waste, which is stored in underground storage tanks at the site. The Savannah River Operations Office is responsible for the day-to-day oversight of the Department's Office of Environmental Management (Environmental Management) operations at the Savannah River Site.

In 1996, the Defense Waste Processing Facility (DWPF) at the Savannah River Site began stabilizing the high-level radionuclides in the liquid radioactive waste through a vitrification process that immobilizes the waste in a borosilicate glass matrix within a stainless steel canister. The radioactive canisters are then stored on an interim basis on-site while awaiting final shipment to a yet-to-be-determined permanent off-site Federal repository. There are currently two canister storage buildings on the Savannah River Site, Glass Waste Storage Buildings #1 and #2.

At the end of calendar year 2017, DWPF operations had produced 4,159 radioactive canisters. The Savannah River Operations Office estimates that a total of 8,170 radioactive canisters will be produced through the end of the treatment process, currently estimated to be completed by 2036, resulting in a single stack canister storage capacity shortfall for 3,580 radioactive canisters. Since 2010, Environmental Management has considered several different strategies to increase its interim storage capacity, including the construction of a third canister storage building, and more recently, double stacking the canister storage positions in Glass Waste Storage Building #1. Because the canisters need to be safely stored until a permanent repository is identified, we initiated this audit to determine whether Environmental Management had developed an effective strategy for providing adequate interim storage for radioactive canisters at the Savannah River Site.

While Environmental Management had considered several interim storage strategies, the decision to double stack radioactive canisters in Glass Waste Storage Building #1 and single stack radioactive canisters in Glass Waste Storage Building #2 may not provide adequate interim storage capacity to accommodate planned DWPF radioactive canister production

through 2036. We determined that Environmental Management selected this strategy without first resolving several uncertainties. We acknowledge that the Department has a strategy for the interim storage of radioactive canisters that allows DWPF to currently accomplish mission requirements. However, in light of the uncertainties associated with the double stacking strategy, the Savannah River Operations Office may need to develop additional interim radioactive canister storage capacity sooner than Environmental Management's expected date of 2029. As such, we made three recommendations to assist Environmental Management with developing and implementing a strategy for the interim storage of radioactive canisters at the Savannah River Site.

Western Federal Power System's Fiscal Year 2018 Financial Statement Audit

This report presents the results of the independent certified public accountant's audit of the Western Federal Power System's combined balance sheets for FY 2018. To fulfill our audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP to conduct the audit. KPMG LLP concluded that the combined financial statements present fairly, in all material respects, the respective financial position of the Western Federal Power System as of September 30, 2018, and 2017, and the results of its operations and its cash flow for the years then ended, in conformity with United States generally accepted accounting principles.

As part of this review, the auditors also considered the Western Federal Power System's internal control over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements that could have a direct and material effect on the determination of financial statement amounts. The audit revealed four deficiencies in internal controls over financial reporting that were considered to be either a material weakness or significant deficiency. KPMG LLP made several recommendations to the Western Area Power Administration related to these identified deficiencies.

The Fire Suppression System at the National Criticality Experiments Research Center at the Nevada National Security Site

The National Criticality Experiments Research Center (NCERC) is located within the Device Assembly Facility at the Nevada National Security Site in Mercury, Nevada. Responsibility for the Device Assembly Facility falls under the Nevada National Security Site management and operating contractor, and NCERC is operated by Los Alamos National Laboratory. The National Nuclear Security Administration (NNSA) has oversight of Los Alamos National Laboratory, Nevada National Security Site, and their respective management and operating contractors. NCERC's principal operation is to conduct research and experiments on nuclear criticality for the Department of Energy. NCERC maintains a special nuclear material inventory to support its nuclear security missions and contains the largest collection of nuclear critical mass assembly machines in the western hemisphere.

In June 2009, a Nuclear Explosive Safety Study Group reported concerns that activation of the NCERC fire suppression system would release water on the criticality machines, which could lead to a criticality accident. The report concluded that the NCERC fire suppression system required further investigation and analysis, along with technical expertise to evaluate alternatives based on a graded risk basis. In addition, the report noted that

because of criticality safety concerns, a compromise was reached in which the fire suppression system selected for NCERC was a dry pipe system. We initiated this audit to determine whether NNSA fully evaluated fire suppression system alternatives prior to initiating repairs at NCERC.

Our review found that NNSA had not fully evaluated fire suppression system alternatives based on a graded risk basis prior to initiating and completing repairs at NCERC. During our audit, NNSA directed that an analysis of the alternatives be performed; however, the analysis is not yet complete. While we did not issue any formal recommendations, we suggest that NNSA complete the feasibility study of implementing an alternative to the current water-based automatic fire suppression system at NCERC as planned.

Radioactive Liquid Waste Treatment Facility Replacement Project at Los Alamos National Laboratory

The primary responsibility of the National Nuclear Security Administration's (NNSA) Los Alamos National Laboratory is to ensure the safety, security, and reliability of the Nation's nuclear stockpile. From June 1, 2006, to October 31, 2018, Los Alamos National Security, LLC (LANS) operated Los Alamos National Laboratory as an Agent for NNSA. To meet its mission, Los Alamos National Laboratory stores, treats, and disposes of low-level waste (LLW) and transuranic liquid waste (TLW) at the Radioactive Liquid Waste Treatment Facility (RLWTF). The facility has been in operation since 1963, and the facility's systems have degraded and failed on multiple occasions. Therefore, NNSA committed to constructing one facility for processing LLW and a second for processing TLW. Because of the importance of the project, we conducted this audit to determine whether NNSA and LANS effectively managed the RLWTF Replacement Project.

Although NNSA provided adequate oversight of the RLWTF Replacement Project, LANS still experienced significant problems managing the LLW and TLW projects. Specifically, we found issues with the design process, construction quality, and subcontractor management of the LLW project, as well as issues with the design phase of the TLW project. We determined that these conditions occurred because LANS had not corrected systemic project management weaknesses. In particular, LANS lacked a consistent method of analyzing and addressing project management lessons learned. Further, LANS did not effectively incorporate lessons learned from prior capital asset projects into the planning and execution of subsequent capital asset projects.

To address the issues we identified, we recommended that the NNSA (1) ensure that lessons learned are adequately implemented during TLW performance and (2) ensure that cross-cutting project management lessons learned are identified and incorporated into institutional practices.

Management Letter on the Western Federal Power System's Fiscal Year 2018 Financial Statement Audit

Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the audit of the Western Federal Power System's Fiscal Year 2018

Financial Statements. During the audit, KPMG LLP considered the Western Federal Power System’s internal controls over financial reporting and tested for compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

During the course of the audit, KPMG LLP identified six deficiencies related to internal controls. To address these findings, KPMG LLP made 10 recommendations. Management fully concurred with all recommendations and had taken or planned to take corrective actions.

Department of Energy’s Management of Legacy Information Technology Infrastructure

The Federal Government spends close to \$90 billion annually on information technology (IT) resources. Approximately 80 percent of funds budgeted for IT are dedicated to maintaining legacy IT that is outdated or obsolete and, therefore, particularly vulnerable to malicious cyber activity. To address concerns over aging technologies, the Modernizing Government Technology Act was signed into law in 2017. The law is designed to improve, retire, or replace existing IT; transition legacy systems to commercial cloud computing services; and support efforts to provide adequate risk-based solutions to address evolving threats to information security.

The Department of Energy and its contractors operate many types of IT systems and infrastructure to support its diverse missions related to nuclear security, scientific research and development, and environmental management. Prior reviews conducted by the Office of Inspector General have identified weaknesses related to the existence of outdated software and hardware. We initiated this audit to determine whether the Department effectively managed the lifecycle of legacy IT systems and components. Our review focused on the Department’s unclassified information systems and did not include industrial control and national security systems.

We determined that while actions to manage the lifecycle of unsupported IT systems and components had been taken at the sites we reviewed, opportunities for improvement exist. To continue to improve activities related to the Department’s management of legacy IT, we recommended developing policies and procedures to ensure that unsupported IT systems and system components are phased out as rapidly as possible, including defining the resources that should be considered legacy IT and establishing a comprehensive plan to replace legacy IT across the Department and its contractors.

Audit Coverage of Cost Allowability for Sandia Corporation During Fiscal Years 2014 and 2015 Under Department of Energy Contract No. DE-AC04-94AL85000

From October 1993 to April 30, 2017, Sandia Corporation, a Lockheed Martin Company, managed and operated the Sandia National Laboratories (Sandia) under contract with the Department of Energy and National Nuclear Security Administration. As an integrated management and operating contractor, Sandia Corporation’s financial accounts are integrated with those of the Department. Therefore, we conducted this assessment to help ensure that audit coverage of cost allowability for Sandia Corporation was adequate during fiscal years (FYs) 2014 and 2015.

Based on our assessment, nothing came to our attention to indicate that the allowable cost-related audit work performed by Sandia Corporation's Internal Audit for FYs 2014 and 2015 could not be relied upon. We did not identify any material internal control weaknesses with cost allowability audits, which generally met the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. Further, Sandia Corporation's Contract Audit Department (Contract Audit) had conducted or arranged for audits of subcontractors when costs incurred were a factor in determining the amount payable to a subcontractor.

We observed that Sandia Corporation's Internal Audit identified \$127,636 in questioned costs in FY 2014 and \$4,802 in FY 2015, which have been resolved and reimbursement has been made to the Department. While we did not identify any material internal control weaknesses with either cost allowability or subcontract audit, we are questioning \$183,928 of unresolved questioned costs identified by Contract Audit in FY 2014 and \$211,285 in FY 2015, which remained unresolved as of February 2018. The Office of Inspector General is reporting these unresolved costs in FY 2014 and 2015 as absolute values.

In addition, we are reporting \$2,459,152 in FY 2014 and \$2,728,702 in FY 2015 in home office expenses, which remained unresolved as of February 2018 since these costs were pending Defense Contract Audit Agency's audit of the parent corporation, Lockheed Martin Corporation. Finally, we are reporting on the following prior questioned and unresolved costs: \$16,487,033 in potential overpayments of New Mexico gross receipts tax, which remained unresolved at the time of our review; \$20,852 in Contract Audit findings from FY 2012 and FY 2013, which remained unresolved as of February 2018; and \$6,982,097 in unresolved home office expenses from FYs 2011 through 2013 that were included in our previously issued audit report (OAS-V-15-03, September 2015) and remained unresolved as of September 2018 while either undergoing or pending Defense Contract Audit Agency's audit.

INSPECTION REPORTS

Allegations Regarding Southwestern Power Administration’s Procurement of the Pathways Core Training

Southwestern Power Administration (Southwestern) is an agency of the Department of Energy that transmits and markets hydroelectric power. Southwestern employs about 200 Federal workers in offices across the Nation. Southwestern’s operation and maintenance budget request for FY 2017 was nearly \$140 million, of which about \$260,000 was for employee training.

We received a complaint related to the former Southwestern Administrator’s plan to send management staff to Pathways Core Training (Pathways). According to its website, Pathways is an experience-based training to help individuals overcome barriers from the past, align habits and relationships to core values, and design an attainable life plan that elevates the quality of their future. We summarized the complaint into five distinct allegations and conducted this inspection to determine the facts and circumstances surrounding these allegations.

We substantiated three of the five allegations: (1) the allegation that Pathways was not appropriate training for Southwestern employees, (2) the allegation that Southwestern misused appropriated funds, and (3) the allegation that Southwestern’s former Administrator had a covered relationship with the Pathways organization. We did not substantiate the allegation that Southwestern had not followed Federal regulations related to competition, split disbursements, and source selection when purchasing Pathways. We also did not substantiate the allegation that Southwestern’s former Administrator inappropriately used his personal funds to cover subordinates’ training costs.

The substantiated allegations occurred because Southwestern officials were not aware of the appropriation restrictions until the Department’s Office of the General Counsel informed Southwestern of the restrictions. As a result, Southwestern employees were sent to Pathways with misused appropriated funds that were not recovered by Southwestern. In addition, during the performance of our inspection, we identified other matters that warrant management’s attention. Specifically, we found that Southwestern officials were not following policy requirements for completing training needs assessments and individual development plans. We made five recommendations to address the issues identified in our report.

Preparedness for Firefighting Response at Los Alamos National Laboratory

The National Nuclear Security Administration’s (NNSA) Los Alamos National Laboratory (Los Alamos) operates in “unique” hazardous environments that create special fire suppression and emergency management challenges. Department of Energy Order 420.1C, Facility Safety, requires NNSA to ensure that Los Alamos has emergency response, including fire protection capabilities, regardless of who performs the function. In addition, the Order requires Los Alamos to provide fire protection response capabilities that include pre-incident plans.

The Los Alamos County Fire Department provides fire protection for Los Alamos through a Cooperative Agreement between NNSA and the County of Los Alamos, with the Los Alamos Field Office acting as the sponsoring office. The Field Office is responsible for day-to-day oversight of the Cooperative Agreement. Between 2009 and 2014, the Office of Inspector General, the Field Office, and Los Alamos expressed concerns that pre-incident plans lacked the information necessary for firefighters to effectively respond to incidents at Los Alamos. Therefore, the objective of this inspection was to determine whether pre-incident plans complied with applicable policies.

We found that some pre-incident plans may not have complied with requirements of Department Order 420.1C. Specifically, pre-incident plans did not include adequate information to support a timely and effective emergency response at Los Alamos due to an unresolved disagreement over pre-incident plan content. In addition, Los Alamos' actions to incorporate subject matter expert review to ensure accuracy for specified pre-incident plans were not effectively implemented. During our review, we also noted that the Los Alamos Field Office did not ensure that sensitive Government information maintained in the Los Alamos County Fire Department's management software and used to develop the pre-incident plans was properly protected.

Based on these findings, we made several recommendations related to establishing pre-incident plans at Los Alamos that will support a timely and effective firefighting response. We also recommended that a cybersecurity assessment of the Los Alamos County Fire Department network and computers be conducted to assure that electronically held information is being properly protected.

SEMIANNUAL REPORTING REQUIREMENTS INDEX

The following identifies the sections of this report that address each of the reporting requirements prescribed by the Inspector General Act of 1978, as amended.

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ABOUT THE DEPARTMENT AND OIG

The U.S. Department of Energy is headquartered in Washington, DC and currently operates the Energy Information Administration, the National Nuclear Security Administration, 21 preeminent research laboratories and facilities, four power marketing administrations, nine field offices, and 10 Program Offices which help manage the Department's mission with more than 15,000 employees. The Department is the Nation's top sponsor of research and development and has won more Nobel Prizes and research and development awards than any other private sector organization and twice as many as all other Federal agencies combined. The mission of the Department is to ensure America's security and prosperity by addressing its energy, environmental and nuclear challenges through transformative science and technology solutions.

The OIG's mission is to strengthen the integrity, economy and efficiency of the Department's programs and operations. The OIG has the authority to inquire into all Department programs and activities as well as the related activities of persons or parties associated with Department grants, contracts, or other agreements. As part of its independent status, the OIG provides the Secretary with an impartial set of "eyes and ears" to evaluate management practices. With approximately 280 employees, the organization strives to be a highly effective organization that promotes positive change.

OIG HOTLINE CONTACTS

Contact the OIG Hotline if you suspect fraud, waste or abuse involving Department programs or by a Department employee, contractor or grant recipient.

Contact Information:

- Complaint Form: <https://www.energy.gov/ig/complaint-form>
- Toll Free Telephone Number: 1-800-541-1625
- Washington DC Metro Telephone Number: 202-586-4073
- Email Address: ighotline@hq.doe.gov
- Physical Address: U.S. Department of Energy
1000 Independence Ave, SW
Washington, DC 20585

FEEDBACK

The contents of this Semiannual Report to Congress comply with the requirements of the Inspector General Act of 1978, as amended. If you have any suggestions for making the report more responsive, please provide the following information by clicking the “submit email” button below:

- Name
- Telephone Number
- Comments/Suggestions/Feedback

