



Department of Energy

Washington, DC 20585

April 18, 2013

The Honorable Paul Broun, M.D.
Chairman
Subcommittee on Oversight
Committee on Science, Space, and Technology
U.S. House of Representatives
Washington, DC 20515-6301

Dear Mr. Chairman:

This is in response to your letter, dated April 5, 2013, concerning the Subcommittee on Oversight's March 14, 2013, hearing entitled, "*Top Challenges for Science Agencies: Reports from the Inspectors General – Part 2.*" Enclosed are our answers to the Questions for the Record posed in the enclosure to your letter (Enclosure 1), and proposed corrections to the transcript (Enclosure 2).

Please do not hesitate to contact me if I may be of further assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Greg Friedman", written in a cursive style.

Gregory H. Friedman
Inspector General

Enclosures

U.S. Department of Energy

Office of Inspector General

Responses to Questions for the Record

Following the Hearing Entitled,

“Top Challenges for Science Agencies: Reports from the Inspectors General – Part 2”

House Committee on Science, Space, and Technology

Subcommittee on Oversight

March 14, 2013

Questions for the Record Submitted by Chairman Paul Broun, M.D.

- 1. A December 2012 cyber security audit identifies duplicative capabilities for cyber security incident management between DOE and NNSA at a cost of more than \$30 million per year. How is DOE planning to resolve this issue of duplicative capabilities?**

In response to our audit report on *Follow-up Audit of the Department's Cyber Security Incident Management Program* (DOE/IG-0878, December 11, 2012), the Department noted that it planned to take action to address duplicative capabilities. In particular, management noted that the Joint Cyber Security Coordination Center (JC3) Implementation Plan will provide direction on how existing capabilities and resources from across the Department will be leveraged to accomplish the JC3 mission. Management noted that leveraging such investments should improve information sharing, better coordinate incident response, and improve incident reporting, thus reducing the duplicative services to the extent possible.

- 2. It appears that DOE is incapable of ensuring contractors compliance with DOE regulations, leading to major safety concerns in some instances. For example, a review of a July 2012 security breach at NNSA's Y-12 National Security Complex, a site that processes and stores uranium, identified "troubling displays of ineptitude" that were chalked up to a lack of "[c]ontractor governance and Federal oversight [which] failed to identify and correct early indicators of...multiple system breakdowns." Additionally, your review of DOE's storage and maintenance of explosives, which the Department keeps for research and development, as well as security purposes, revealed "problems with handling and storing explosives at each of the four contractor-operated sites [you] visited, potentially increasing the risk of harm to personnel and infrastructure." What do you attribute these failures to? Is there a cultural problem at the Department?**

The Department delegates extensive responsibility for operations, safety, and security to its large stable of contractors. In this vein, in our recent reports on the Y-12 matter, we attributed the issues to inadequate Federal oversight of the contractor workforce and the various operational decisions they routinely make. Specifically, we found particularly troubling the lack of Federal involvement in oversight and the "eyes on, hands off" approach taken by site officials.

Additionally, we attribute the explosives-related issues, in part, to the fact that Department officials had not provided adequate oversight to ensure that responsible contractors properly implemented policies for handling and storing explosives. Also, contractor officials charged with managing and safeguarding explosives had not ensured compliance with various aspects of the Department's Explosives Safety Manual. Although various reasons were offered by contractor officials in support of their approaches, the actions taken did not conform to the best protective and preventative explosives safety protocols established by the Department. Failure to properly implement safety protocols for explosives handling and storage procedures unnecessarily increases the risk of harm to personnel, infrastructure and equipment.

Performance and compliance issues, compounded by a lack of robust contract management and oversight by Federal officials, in our opinion, contributed to the environment that permitted these problems to occur and not be identified, corrected or prevented in a timely manner. These issues, and any attendant cultural issues that may exist, are of concern and, in our opinion, unnecessarily expose critical national security assets to an increased risk of harm or compromise.

3. In October 2012, your office issued a report on DOE's management of foreign travel, noting that the Department had not made a "concerted effort to reduce contractor international travel costs," which for FY 2007 through FY 2102 equals \$306 million (out of a total \$360 million for all federal and contractor international trips).

a. Did the Department provide an adequate response to explain why contractors were excluded from the travel restrictions placed on DOE employees?

No. The Department told us that it did not interpret the Office of Management and Budget's requirement to reduce travel costs to apply to contractors. However, in our opinion, the Department missed an opportunity to make meaningful cost reductions by excluding contractor foreign travel.

b. What follow-up plans do you have to monitor the Department's handling of this issue?

In addition to periodic discussions with agency officials, we monitor the Department's progress on corrective actions through the Departmental Audit Reporting and Tracking System. As often as possible with available resources, we attempt to schedule follow-up reviews in specific areas of interest, if we identify the area as high risk and particularly if we learn that promised corrective actions were not completed or effective.

4. Your February 2013 report on LG Chem Michigan Inc, succinctly summarizes problems that appear to exist Department-wide in other programs that benefited from an influx of stimulus spending. Specifically, regarding LG Chem, your report confirmed the allegation that "employees at the Michigan facility had little work to do and were spending time volunteering at local non-profit organizations, playing games and watching movies at the expense of the Federal government and taxpayers." Despite the expenditures of \$142 million in Recovery Act funds, LG Chem Michigan has not yet achieved the objectives outlined in its Department-approved project plan. Is the Department going to recovery these funds from LG Chem?

The Department recovered \$842,189 from LG Chem Michigan, Inc. related to the questionable labor costs identified in our report. At the time of our review, however, the Department had no plans to attempt to recover the entire \$142 million in expenditures.

5. DOE has awarded ECOTality approximately \$125 million in stimulus funding to install electric vehicle chargers across the United States – some of which was provided nearly a year after the SEC (U.S. Securities and Exchange Commission) issued a subpoena to the company.

a. Last year, at a Science, Space, and Technology Committee hearing, your office identified a number of concerns associated with ECOTality's award, and informed the Committee an audit would be forthcoming in the second quarter of 2012. Given your broad concerns about DOE's Transportation Electrification Program, and previous statements, when can we expect your report on ECOTality?

We began our audit in the first quarter of 2013. We are currently in the process of drafting the report of this review.

b. Have you received all necessary information required for your review?

Yes. We received all of the necessary information required for our review.

c. Can you describe some of the elements of this audit report? (Your answer should include potential abuse of mandatory cost-share, accounting problems, and extensive project delays).

Our report is currently in the drafting stage. We can provide additional information once that process is complete.

6. In testimony before the Energy and Environment Subcommittee last July, your colleague explained the need for improvements in financial management for the Clean Cities and Transportation Electrification Programs. In February, you issued a report about LG Chem Michigan, Inc., which has received nearly \$150 million of taxpayer funds, but has yet to achieve objective outlined in its Department-approved project plan even as it paid employees to watch movies and play board games.

A number of your reports on the Clean Cities and Transportation Electrification Program found stunning waste and mismanagement. What do you attribute this to?

During our reviews for the reports listed, we found that inadequate policies and procedures, ineffective oversight, and a lack of clear guidance contributed to the findings.

- 7. Regarding the Clean Cities Program, you could state in your most recent Semiannual Report to Congress that DOE” also asserted that competition was not required.” What criteria did the Department use to evaluate proposals and identify award recipients?**

To clarify, the Department used competition to select award recipients for the Clean Cities Program. The Department uses 10 CFR 600 as the criteria for all financial assistance awards. During our review, however, management asserted that competition was not required for procurements by recipients. However, we emphasized that recipients had procured services after their award had been granted and therefore, due to requirements established in the award, should have complied with Federal procurement regulations.

- 8. How often does the Department use other transactional authorities such as Cooperative Agreements (CA)? What are they mostly used for and what oversight work does your office conduct on these CAs, which typically are not subject to the same rigor and reporting mechanisms as a contract?**

Cooperative agreements are one type of financial assistance agreements utilized by the Department. By definition, cooperative agreements are to be used when "substantial involvement" by the Department in the project will be necessary. Periodically, these types of agreements are selected as part of our reviews. The reporting mechanisms and requirements vary on projects as well as programs. As far as frequency of use is concerned, responsible Department officials may be able to provide such information.

- 9. A report issued earlier this month by another Committee noted that “open and unimplemented IG recommendations could save taxpayers \$67 billion” in 2012.**

- a. How many open and unimplemented recommendations do you have with DOE?**

As of the date of the hearing, March 14, 2013, approximately 300 Office of Inspector General recommendations remained open. The Chief Financial Officer (CFO) is the Department’s designated audit follow-up official and maintains the agency’s audit follow-up system, known as the Departmental Audit Report Tracking System. The CFO works with the responsible program and administrative elements to ensure that audit recommendations and corrective actions are appropriately tracked.

b. How much could the Department save if your recommendations were incorporated, and how have these numbers changed over the years?

The 300 recommendations noted above have an associated potential monetary benefit of approximately \$1.6 billion. Please note that in terms of potential monetary benefit, these figures are representative of reports with open recommendations rather than individual recommendations themselves. These amounts include funds that could be used more efficiently by implementing recommended actions as well as other unresolved or questioned costs.

10. Are certain issues more likely than others to be on the “open and unimplemented” recommendations list for DOE? If so, can you please elaborate on them?

Over the last 10 years, the Office of Inspector General has issued more than 3,000 recommendations on a variety of Department programs and operations. These recommendations include, but are not limited to, issues such as contract administration, cyber security and information technology, environmental cleanup, national security, project management, internal controls, and operational efficiencies. Looking at the inventory of reports and open recommendations in its entirety, we have not identified any trend or pattern suggesting that certain issues or review topics are more likely than others to remain unaddressed by the Department.

U.S. Department of Energy

Office of Inspector General

Proposed Corrections to the Transcript

Following the Hearing Entitled,

“Top Challenges for Science Agencies: Reports from the Inspectors General – Part 2”

House Committee on Science, Space, and Technology

Subcommittee on Oversight

March 14, 2013

1. Line 241: replace “employees 150,000” with “employs 115,000”
2. Line 252: add “in” at end of line. Should read “...which I will discuss in a little bit more depth...”