

## **Statement of**

**Gregory H. Friedman  
Inspector General**

**Before the Subcommittee on Oversight and Investigations  
Committee on Energy and Commerce**

### **Summary**

The Office of Inspector General promotes the economy and efficiency of the Nation's \$27 billion annual investment in the Department of Energy's wide-ranging energy, science and national security missions. Annually, we identify the Department's most significant management challenges. Given the concern with Federal government expenditures and the mounting U.S. debt, we have concluded that "Operational Efficiency and Cost Savings" is the preeminent challenge for 2012. To help achieve this goal, we suggested five initiatives to the Department:

- Extending the reach of the Quadrennial Technology Review to guide research, development and technology efforts and ensure they are consistent with current policy direction, managed effectively, and funded on a priority basis.
- Considering the elimination of separate National Nuclear Security Administration overhead operations that duplicate existing Departmental functions.
- Establishing a commission to consolidate support functions and identify opportunities for realignment of the 16 Federally Funded Research and Development Centers.
- Reprioritizing the environmental remediation efforts to adopt a triage approach and fund only those projects with a near-term impact on health, safety, and environment.
- Reevaluating the current structure of physical security to identify opportunities for consolidating the 25 separate protective force contract instruments.

We believe the Department has a unique opportunity to reassess its operating policies, re-evaluate its organizational structure and examine new contractual approaches.

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Inspector General

U.S. Department of Energy

Before the

Subcommittee on Investigations and Oversight

Committee on Energy and Commerce

U.S. House of Representatives

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify at your request about the work of the Department of Energy's Office of Inspector General. My testimony addresses our efforts to promote the economy and efficiency of the Nation's \$27 billion annual investment in the Department's wide-ranging set of missions and functions.

During the last several years, we have issued over 200 reports identifying ways to improve operational efficiency and to reduce cost in many of the Department's programs, including science; stockpile stewardship; environmental remediation; worker and community safety; various aspects of contract and program management; and, cyber security. Through these reviews, we have identified millions of dollars in questionable, unsupported and unresolved costs. For example, we recently:

1. Identified over \$10 million in questioned and unresolved costs related to the operation of one of the Department's large national defense laboratories;
2. Recommended project and financial management improvements for the \$3.25 billion borrowing authority of one of the Department's power marketing administrations;
3. Completed a criminal investigation that resulted in a guilty plea by a university research professor and the Department's cancellation of a previously-approved \$2 million grant; and,
4. Questioned over \$13 million in costs reimbursed by the Department in grants and cooperative agreements funded under the American Recovery and Reinvestment Act (Recovery Act) of 2009.

## Recovery Act

A major focus of our work has been the Department's implementation and execution of its responsibilities under the Recovery Act. The Department received more than \$35 billion in Recovery Act funding to augment a number of science, energy and environmental initiatives. In addition, its authority to make or guarantee energy-related loans increased to as much as \$52 billion. When viewed collectively, this made the Department one of the largest Federal agency recipients of Recovery Act funding. As I have noted in past testimony before this and other congressional committees, the influx of funding of this magnitude strained resources, stretched the existing infrastructure, forced efforts to overcome a number of institutional barriers, and required the establishment of new programs on an expedited basis. The Department undertook an "all hands on deck" approach to addressing these challenges.

As of this date, the Office of Inspector General has completed nearly 80 reviews and a number of investigations related to the Department's Recovery Act activities (see the attachment). These reports identified a number of successes and failures, and raised what we consider to be important issues regarding the prudent expenditure of taxpayer-provided funds, the economic and efficient management of Federal programs, and the effectiveness of program execution related to new technology in the science and energy arenas. Although our work continues, in January 2012 we published an interim overview report entitled, "Lessons Learned/Best Practices during the Department of Energy's Implementation of the American Recovery and Reinvestment Act of 2009" (Special Report OAS-RA-12-03), in which we provided a summary of our work in key areas of Departmental operations, including: Risk Management Practices; Financial Management, Accounting and Reporting; Human Capital Management; Regulatory Compliance; and, Delivery of

Public Services. It is our hope that this report can be applied broadly by management to improve Department operations in the future.

### Significant Management Challenges

One aspect of our recurring work has been the development of an annual list of the Department's most significant management challenges. These represent the issues which, from an Inspector General perspective, warrant the immediate and sustained attention of the Department's senior managers. Our report entitled, "Management Challenges at the Department of Energy – Fiscal Year 2012" (Special Report DOE/IG-0858), includes the following issues:

- Contract and Financial Assistance Award Management
- Cyber Security
- Energy Supply
- Environmental Cleanup
- Human Capital Management
- Nuclear Waste Disposal
- Stockpile Stewardship

Incorporated in the report are four additional areas of concern which are part of our "Watch List" – that is, activities which we believe require intense management attention in 2012 and beyond. The "Watch List" includes:

- Infrastructure Modernization
- Loan Guarantee Program
- Safeguards and Security
- Worker and Community Safety

In addition to the challenges already noted, we have added “Operational Efficiency and Cost Savings” as the preeminent management challenge for 2012. Given the current concern with Federal government expenditures and the mounting U.S. debt, it is clear that the Department must address operational efficiencies and cost savings so that it can function and meet its core energy, science and national security mission requirements in an environment of limited budgets. In fact, the future may well entail funding levels that simply make the programmatic status quo unsustainable and which may require rethinking the fundamental structure of the Department and its operations.

In this context, and based on the body of work completed by the Office of Inspector General over many years, we presented five initiatives to the Department, which we believe provide opportunities to significantly enhance corporate economy and efficiency. These include the following:

#### Extend the Reach of Quadrennial Technology Review

The Department spends over \$11 billion each year on its science and technology mission. In September 2011, the Department released its Quadrennial Technology Review (QTR). We found the QTR, the first review of its kind to our knowledge, to be an insightful document that raised fundamental issues concerning the strategic focus of the Department’s energy technology effort. The QTR also established a framework for investment in energy technology development paths. For example, the QTR concluded that the Department was underinvested in the transportation sector and in activities supporting the modernization of the electric power grid. As beneficial as it was, the QTR was limited to the Department’s energy-related technology sector. We concluded that the discipline and analytical rigor associated with the QTR process should be applied to the Department’s entire multi-billion dollar science and technology portfolio. In our view, this would

help guide the Department's research, development and technology efforts, particularly those executed through its laboratory system, and would help to ensure that these efforts are consistent with current policy direction, managed effectively, and funded on a priority basis.

#### Eliminate Duplication of National Nuclear Security Administration (NNSA) Functions

NNSA, the semi-autonomous Departmental nuclear weapons agency, was created over a decade ago in response to national security concerns relating to the management of the Department's three weapons laboratories – each funded at between \$1 billion and \$2 billion per year. NNSA, by statute, maintains a set of distinctly separate overhead cost operations that often duplicate existing Departmental functions – for example, in the areas of human resources, congressional affairs, procurement and acquisition, information technology, and public affairs. The additional expenses associated with these functions are significant, impacting both Headquarters and field operations. In addition to cost considerations, these redundancies can complicate communications and program execution. We question whether: (i) the benefits of a semi-autonomous NNSA outweigh the additional costs; and, (ii) this costly arrangement can be sustained given the likelihood of future budget reductions.

#### Consolidate Laboratory Functions through the Establishment of a “BRAC-Style” Commission

The Department operates 16 Federally Funded Research and Development Centers (FFRDC) with a combined annual cost to the taxpayers of more than \$10.4 billion. This is in addition to a number of other research, development and technology centers which are not categorized as FFRDCs. In FY 2009, the Department spent about \$3.5 billion, or about 35 percent of total FFRDC laboratory operating expenses, on support functions such as executive direction, human resources, procurement, legal, safeguards and security, utilities, logistics support, and information services.

This cost structure, specifically the significant proportion of scarce science resources designated for administrative and overhead costs for each laboratory, may be unsustainable in the current budget environment. In our view, using a blue ribbon commission patterned after the Department of Defense's Base Realignment and Closure Commission, the Department should: (i) determine whether the Nation can afford to maintain 16 individual FFRDCs and other related research centers and their sizeable overhead cost burden, and, (ii) identify opportunities for laboratory consolidation and realignment while minimizing disruption to the Department's overall science mission.

#### Reprioritize Environmental Remediation Efforts

Largely as a result of the U.S. weapons program, which dates back to the Manhattan Project, the Department is responsible for a huge inventory of nuclear, hazardous and mixed waste, currently found at sites and facilities throughout the United States. The Department has an active environmental remediation effort in place to address this problem. It currently estimates that it will cost about \$250 billion to complete the effort. Funded at about \$6 billion per year, environmental program costs are largely driven by 37 individually negotiated Federal Facility Agreements that are augmented by numerous other local agreements with their own set of actions and requirements at Department sites across the Nation. If available resources for the Department's environmental management program are drastically reduced, it is unlikely that the current cleanup strategy can be sustained. To address such shortfalls, we believe that the Department should revise its current environmental remediation strategy by adopting an approach which emphasizes addressing environmental concerns on a national complex-wide, risk-driven basis. In short, using a form of triage, primarily fund only those projects with a demonstrated near-term impact on health, safety and environment.

### Re-evaluate Current Structure of Physical Security

Finally, physical security consumes a large portion of the Department's budget and therefore has a potential for significant cost savings. The Department is responsible for some of the Nation's most sensitive sites and spends more than \$1 billion per year providing physical security. Of this amount, nearly \$700 million per year is spent on a complex-wide protective force staff of nearly 4,000 highly trained paramilitary professional guards. The protective force is made up almost exclusively of contractor personnel whose services are procured using three or more distinct contract approaches, resulting in at least 25 separate contract instruments that often lack uniformity and consistency. It is our view that there may be significant economies of scale and related cost benefits associated with consolidation of protective force contracting. For example, actions could be taken to encourage a more consistent approach to protective force organization, management compensation, training and equipment purchases. Accordingly, we believe that the Department should consider available options, including a "master contract" (i.e., a single contractor nationwide); consolidating protective force contracts using regions of the country, nature of the entity, or some other basis; and/or Federalizing the protective force.

### Practical Implications

We recognize that these proposals will be extremely difficult to implement. For example, any meaningful reduction in operational cost will require deep and painful reductions in staff, both Federal and contractor. Secondly, the Department's laboratory system, which has essentially been unchanged organizationally for about a half-century, has an extraordinarily rich history of service to the Nation. Thus, change will be controversial and challenging. And, finally, the Department's facilities are among the most potent economic generators in at least five states, accounting for employment of more than 110,000 personnel. Any material change in this structure will potentially

be disruptive, have significant local economic consequences and, frankly, have political ramifications. While we cannot predict the future of the budget process, it appears reasonable to conclude that declining budgets are likely. Our proposals are intended to provide a basis for discussion by the decision-makers as they prepare for this possibility.

#### Department of Energy Actions

To its credit, the Department has undertaken a number of management initiatives intended to increase operational efficiency. This includes a new framework for “management and operational excellence.” The Department has committed to such actions as realigning roles and responsibilities, improving contract and project management, improving transparency, cutting waste, and reapportioning savings. Additional Department efforts include programs to reduce the vehicle fleet, achieve cost savings associated with building energy efficiency measures, and improve efforts to reduce the number of websites. Similarly, NNSA has introduced plans to consolidate the contracts for the Pantex Plant outside of Amarillo, Texas, and the Y-12 National Security Complex in Oak Ridge, Tennessee. This is intended to consolidate business and information technology operations at these sites. These actions have not yet been reviewed by my office.

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While the circumstances may be quite challenging, it is our view that the current environment provides a unique opportunity to reassess operating policies, re-evaluate organizational structure and examine new contractual approaches with a view toward ensuring that important mission objectives and core functions can be met. We are hopeful that the steps outlined in our Management Challenges report will aid in this effort.

We look forward to working with the Department and Congress in addressing these issues.

Mr. Chairman, this concludes my statement and I would be pleased to answer any questions that the Subcommittee may have.

**Department of Energy Office of Inspector General  
Recovery Act Reports**

	<b>Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<b>Department-wide Reports</b>			
1.	Lessons Learned/Best Practices during the Department of Energy's Implementation of the American Recovery and Reinvestment Act of 2009"	OAS-RA-12-03	January 2012
2.	Review of the Department of Energy's Plan for Obligating Remaining Recovery Act Contract and Grant Funding	OAS-RA-10-15	August 2010
3.	Accounting and Reporting for the American Recovery and Reinvestment Act by the Department of Energy's Funding Recipients	OAS-RA-10-06	April 2010
4.	Management Challenges at the Department of Energy	DOE/IG-0832	December 2009
5.	Selected Department of Energy Program Efforts to Implement the American Recovery and Reinvestment Act	OAS-RA-10-03	December 2009
6.	The Department of Energy's Quality Assurance Process for Prime Recipients' Reporting for the American Recovery and Reinvestment Act of 2009	OAS-RA-10-01	October 2009
7.	Department of Energy's Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act	OAS-RA-09-04	September 2009
8.	Department of Energy Efforts to Manage Information Technology Resources in an Energy-Efficient and Environmentally Responsible Manner	OAS-RA-09-03	May 2009
9.	Special Report - The Department of Energy's Acquisition Workforce and its Impact on Implementation of the American Recovery and Reinvestment Act of 2009	IG-RA-09-02	March 2009
10.	The American Recovery and Reinvestment Act at the Department of Energy	OAS-RA-09-01	March 2009

**Department of Energy Office of Inspector General  
Recovery Act Reports**

<b>Office of Energy Efficiency and Renewable Energy (EERE)</b>			
11.	The Department's Management of the Smart Grid Investment Grant Program	OAS-RA-12-04	January 2012
12.	The Department of Energy's Geothermal Technologies Program under the American Recovery and Reinvestment Act	OAS-RA-11-05	March 2011
13.	Investigative Report - Management Alert on the State Energy Efficient Appliance Rebate Program	INV-RA-11-01	December 2010
14.	Review of Allegations Regarding Hiring and Contracting in the Office of Energy Efficiency and Renewable Energy	OAS-SR-10-04	September 2010
15.	Management Controls over the Development and Implementation of the Office of Energy Efficiency and Renewable Energy's Performance and Accountability for Grants in Energy System	OAS-RA-10-14	July 2010
16.	Progress in Implementing the Advanced Batteries and Hybrid Components Program under the American Recovery and Reinvestment Act	OAS-RA-L-10-04	April 2010
17.	The Department of Energy's Program to Assist Federal Buyers in the Purchasing of Energy Efficient Products	OAS-RA-10-08	April 2010
<b>EERE - Weatherization Assistance Program</b>			
18.	The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of New York	OAS-RA-12-07	April 2012
19.	Alleged Misuse of American Recovery and Reinvestment Act Grant Funds by the Western Arizona Council of Governments	INS-RA-12-01	February 2012
20.	The Department of Energy's American Recovery and Reinvestment Act – Arizona State Energy Program	OAS-RA-L-12-03	January 2012
21.	Examination Report on Action for a Better Community, Inc. – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-21	September 2011
22.	Examination Report on People's Equal Action and Community Effort, Inc. –	OAS-RA-11-20	September 2011

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	Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009		
23.	Examination Report on Cuyahoga County of Ohio Department of Development – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-19	September 2011
24.	Examination Report on Community Action Partnership of the Greater Dayton Area – Weatherization Assistance Program Funds Provided by the American Recovery and Reinvestment Act of 2009	OAS-RA-11-18	September 2011
25.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Tennessee	OAS-RA-11-17	September 2011
26.	The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the Commonwealth of Virginia	OAS-RA-11-14	August 2011
27.	The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act in the State of Indiana	OAS-RA-11-13	August 2011
28.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of Missouri	OAS-RA-11-12	August 2011
29.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act in the State of West Virginia	OAS-RA-11-09	June 2011
30.	The Department of Energy's Weatherization Assistance Program Funded under the American Recovery and Reinvestment Act for the State of Wisconsin	OAS-RA-11-07	May 2011
31.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the Capital Area Community Action Agency - Agreed Upon Procedures	OAS-RA-11-04	February 2011

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32.	The Department of Energy's Weatherization Assistance Program under the American Recovery and Reinvestment Act for the City of Phoenix - Agreed Upon Procedures	OAS-RA-11-03	November 2010
33.	Selected Aspects of the Commonwealth of Pennsylvania's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-11-02	November 2010
34.	The State of Illinois Weatherization Assistance Program	OAS-RA-11-01	October 2010
35.	The Department of Energy's Use of the Weatherization Assistance Program Formula for Allocating Funds under the American Recovery and Reinvestment Act	OAS-RA-10-13	June 2010
36.	Management Controls over the Commonwealth of Virginia's Efforts to Implement the American Recovery and Reinvestment Act Weatherization Assistance Program	OAS-RA-10-11	May 2010
37.	Management Controls over the Department's WinSAGA System for Energy Grants Management Under the Recovery Act	OAS-RA-10-05	March 2010
38.	Progress in Implementing the Department of Energy's Weatherization Assistance Program Under the American Recovery and Reinvestment Act	OAS-RA-10-04	February 2010
39.	Management Alert on the Department's Monitoring of the Weatherization Assistance Program in the State of Illinois	OAS-RA-10-02	December 2009
<b>EERE - Energy Efficiency and Conservation Block Grant Program</b>			
40.	The State of Nevada's Implementation of the Energy Efficiency and Conservation Block Grant Program	OAS-RA-12-02	November 2011
41.	Management Alert on The Status of Energy Efficiency and Conservation Block Grant Recipients' Obligations	OAS-RA-11-16	September 2011
42.	The Department of Energy's Energy Efficiency and Conservation Block Grant Program Funded under the American Recovery and Reinvestment Act for the State of Pennsylvania	OAS-RA-L-11-11	September 2011

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43.	The Department of Energy's Implementation of the Energy Efficiency and Conservation Block Grant Program under the American Recovery and Reinvestment Act: A Status Report	OAS-RA-10-16	August 2010
<b>EERE – State Energy Program</b>			
44.	The Department of Energy's American Recovery and Reinvestment Act - California State Energy Program	OAS-RA-11-10	July 2011
45.	The Department of Energy's American Recovery and Reinvestment Act - New Jersey State Energy Program	OAS-RA-L-11-07	April 2011
46.	The Department of Energy's American Recovery and Reinvestment Act - Massachusetts State Energy Program	OAS-RA-11-06	March 2011
47.	Management Controls over the Department of Energy's American Recovery and Reinvestment Act - Michigan State Energy Program	OAS-RA-10-18	September 2010
48.	Status Report: The Department of Energy's State Energy Program Formula Grants Awarded under the American Recovery and Reinvestment Act	OAS-RA-10-17	September 2010
49.	The Department of Energy's American Recovery Act - Georgia State Energy Program	OAS-RA-L-10-06	September 2010
50.	The Department of Energy's American Recovery and Reinvestment Act - Florida State Energy Program	OAS-RA-10-12	June 2010
51.	Management Controls over the Department of Energy's American Recovery and Reinvestment Act - Louisiana State Energy Program	OAS-RA-10-09	May 2010
<b>Office of Environmental Management</b>			
52.	The Management of Post-Recovery Act Workforce Transition at Office of Environmental Management Sites	OAS-RA-12-06	February 2012
53.	Waste Disposal and Recovery Act Efforts at the Oak Ridge Reservation	INS-RA-L-12-01	December 2011
54.	Implementation of the Recovery Act at the Savannah River Site	OAS-RA-L-11-12	September 2011
55.	Los Alamos National Laboratory Environmental Management Activities Funded by the Recovery Act	OAS-RA-11-15	August 2011

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56.	Department of Energy's Controls over Recovery Act Spending at the Idaho National Laboratory	OAS-RA-L-11-10	July 2011
57.	Performance of Recovery Act Funds at the Waste Isolation Pilot Plant	OAS-RA-L-11-09	July 2011
58.	Use of American Recovery and Reinvestment Act of 2009 Funds on Solid Waste Project Activities at the Department of Energy's Hanford Site	OAS-RA-L-11-08	May 2011
59.	Management of the Tank Farm Recovery Act Infrastructure Upgrades Project	OAS-RA-L-11-03	February 2011
60.	Audit of Environmental Cleanup Projects Funded by the Recovery Act at the Y-12 National Security Complex	OAS-RA-L-11-02	December 2010
61.	Management of the Plutonium Finishing Plant Closure Project	OAS-RA-L-11-01	November 2010
62.	Decommissioning and Demolition Activities at Office of Science Sites	OAS-RA-L-10-05	August 2010
63.	Waste Processing and Recovery Act Acceleration Efforts for Contact-Handled Transuranic Waste at the Hanford Site	OAS-RA-10-10	May 2010
64.	Moab Mill Tailings Cleanup Project	OAS-RA-L-10-03	April 2010
65.	Management Alert on Environmental Management's Select Strategy for Disposition of Savannah River Site Depleted Uranium Oxides	OAS-RA-10-07	April 2010
66.	Special Inquiry Report - Review of Allegations Involving Potential Misconduct by a Senior Office of Environmental Management Official	S09IS024	December 2009
<b>Office of Science</b>			
67.	Recovery Act Funded Projects at the Lawrence Berkeley National Laboratory	OAS-RA-L-12-02	January 2012
68.	The 12 GeV CEBAF Upgrade Project at Thomas Jefferson National Accelerator Facility	OAS-RA-L-11-13	September 2011
69.	Department's Management of Cloud Computing Services	OAS-RA-L-11-06	April 2011
70.	Recovery Act Funded Projects at the SLAC National Accelerator Laboratory	OAS-RA-L-11-05	March 2011
71.	The Department's Infrastructure Modernization Projects under the Recovery and Reinvestment Act of 2009	OAS-RA-L-11-04	March 2011
72.	Office of Science's Energy Frontier Research Centers	OAS-RA-L-10-09	August 2010

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73.	Audit of Fermi National Accelerator Laboratory's NOvA Project	OAS-RA-L-10-02	April 2010
74.	The Department of Energy's Management of the NSLS-II Project	OAS-RA-L-10-01	April 2010
<b>Advanced Research Projects Agency - Energy</b>			
75.	The Advanced Research Projects Agency - Energy	OAS-RA-11-11	August 2011
<b>Loan Guarantee Program</b>			
76.	The Department of Energy's Loan Guarantee Program for Clean Energy Technologies	DOE/IG-0849	March 2011
<b>Office of the Chief Financial Officer</b>			
77.	Special Inquiry on the Office of the Chief Financial Officer's Information Technology Expenditures	OAS-RA-L-12-01	November 2011
<b>Office of Fossil Energy</b>			
78.	Management Alert on Planned Actions Related to the National Energy Technology Laboratory's Simulation-Based Engineering User Center	OAS-RA-11-08	April 2011
<b>Western Area Power Administration</b>			
79.	Management Alert on The Western Area Power Administration's Control and Administration of American Recovery and Reinvestment Act Borrowing Authority	OAS-RA-12-01	November 2011