U.S. Department of Energy
Office of Inspector General
Office of Inspections and Special Inquiries

Inspection Report

Internal Controls Over Sensitive Property in the Office of Intelligence

DOE/IG-0722

March 2006

Department of Energy
Washington, DC 20585

March 13, 2006

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Inspection Report on "Internal Controls Over Sensitive Property in the Office of Intelligence"

BACKGROUND

The Office of Intelligence conducts technical analyses of foreign intelligence for the Department of Energy and the United States Intelligence Community. In support of this mission, the Office of Intelligence procures and maintains equipment considered by the Department to be "sensitive property," including computer processing equipment such as desktop computers, laptop computers, and computer servers. The Department requires that "sensitive property" be controlled and inventoried annually. The Office of Management provides oversight of property maintained by Headquarters program offices and is responsible for conducting all property inventories, including annual inventories of sensitive property.

The objective of this inspection was to determine the adequacy of internal controls over sensitive property maintained by the Office of Intelligence Headquarters program office. During our field work we identified numerous discrepancies regarding the program office's sensitive property inventory. Consequently, we worked extensively with program officials during the course of the review in an effort to reconcile the inventory discrepancies and strengthen inventory controls. Nevertheless, problems still remained at the conclusion of our review.

RESULTS OF INSPECTION

We concluded that the Office of Intelligence did not have adequate internal controls over its sensitive property. Specifically, we found that:

- Officials had not located 18 items of sensitive computer processing equipment, and were unable to determine if the missing items had been used to process classified information;
- Officials had not reported missing sensitive property to the Office of Security, as required by DOE policy; and,
- The office maintained 287 items of sensitive property that had not been entered into its property inventory, as required by the Department's Property Management Standards.

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Additionally, we observed that Office of Intelligence officials did not conduct physical inventories of sensitive property when the Accountable Property Representative was changed, as recommended by the Department's personal property procedures. Further, required annual physical inventories of Office of Intelligence sensitive property were not conducted by the Office of Management between 2002 and 2005. We recommended corrective actions to strengthen internal controls over sensitive property in the Office of Intelligence to improve accountability and deter possible misuse, theft, or other diversion of government property.

MANAGEMENT REACTION

In responding to our draft report, management agreed with our recommendations and identified specific corrective actions that will be taken. Management's comments are provided in their entirety in Appendix C.

Attachment

cc: Deputy Secretary
Chief of Staff
Director, Office of Intelligence
Director, Office of Management
Director, Office of Security and Safety Performance Assurance
Director, Office of Internal Review (CF-1.2)
Director, Policy and Internal Controls Management (NA-66)

INTERNAL CONTROLS OVER SENSITIVE PROPERTY IN THE OFFICE OF INTELLIGENCE

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Overview

INTRODUCTION AND OBJECTIVE

The Office of Intelligence (IN) conducts technical analyses of foreign intelligence for the Department of Energy (DOE) and the United States Intelligence Community. In support of this mission, IN procures and maintains equipment considered by DOE to be "sensitive property," including computer processing equipment such as desktop computers, laptop computers, and computer servers. DOE defines "sensitive property" as items of Government personal property susceptible to being misappropriated for personal use or readily converted to cash and requires that these items be controlled and inventoried annually. The DOE Office of Management (MA) provides, among other things, administrative support, direction, and oversight of property maintained by Headquarters program offices, including IN property. MA is responsible for conducting all property inventories, including annual inventories of sensitive property.

The objective of this inspection was to determine the adequacy of internal controls over sensitive property maintained by the IN Headquarters program office. The Office of Inspector General (OIG) has issued several reports relating to the need to improve accountability and internal controls over DOE sensitive property. These reports are listed in Appendix B.

During our inspection, we learned that the Office of Independent Oversight (OA), at the request of IN, had conducted an informal review of IN personal property management and issued a report in July 2003. For our inspection, we obtained and reviewed a copy of the report. The OA report identified concerns in IN's property management system and made recommendations for improvement.

We conducted an initial inventory of IN sensitive property in April 2005 and identified numerous preliminary discrepancies. Subsequently, MA conducted a wall-to-wall inventory in July 2005 of all IN personal property, including sensitive property. The MA inventory identified some of the same issues we had identified during our initial inventory. Although we have worked with IN officials in an effort to reconcile the inventory discrepancies and strengthen inventory controls, as of December 2005, these problems remained.

OBSERVATIONS AND CONCLUSIONS

We concluded that IN did not have adequate internal controls over its sensitive property. Specifically, we found that:

- IN officials had not located 18 items of sensitive computer processing equipment, and were unable to determine if the missing items had been used to process classified information;
- IN officials had not reported missing sensitive property, as required by DOE policy; and
- IN maintained 287 items of sensitive property that had not been entered into IN's property inventory, as required by DOE's Property Management Standards.

Additionally, we observed that IN officials did not conduct physical inventories of sensitive property, as recommended by the DOE Headquarters Personal Property and Supply Management Operating Procedures. Further, annual physical inventories of IN sensitive property had not been conducted by MA since 2002 as required.

PROPERTY NOT LOCATED

We found that IN officials had not located 18 items of sensitive computer processing equipment, and were unable to determine if these missing items had been used to process classified information.

During our initial inventory, IN officials were unable to locate 148 items of sensitive property, including 54 items of computer processing equipment. As of mid-December 2005, IN was still unable to locate 85 items of IN personal property. Of these 85 items, 18 were items of sensitive computer processing equipment such as desktop computers, laptop computers and computer servers. Of the 18 items, 11 items were identified as missing during our initial inventory, while the remaining 7 items were identified by MA as missing subsequent to our initial inventory. We determined that at least one of the missing items was a laptop computer.

We requested IN officials provide documentation to indicate if any of the missing items had been certified and accredited to process classified information. While IN officials said that the laptop computer could have processed classified information, they advised us that because laptop computers were "legacy" equipment, they had no accreditation documentation for the laptops.

IN officials advised that they had no records to indicate whether any of the remaining 17 items had processed classified information. According to IN officials, IN systems used for processing classified information, including networks, individual stand-alone computers, laptops, and computer servers, should be accredited, that is, certified to operate in a classified environment. However, they said that computers that are attached to an accredited network are not individually accredited and IN does not maintain historical records indicating which equipment processed classified information. We were informed by IN that the only way it is able to identify equipment that has processed classified information is if the equipment is physically attached to the accredited classified system. Therefore, if an item is no longer attached to the accredited network, there would be no documentation to indicate that the item had been used to process classified information.

IN officials also advised that they did not document whether a computer had processed classified information because they disposed of all computers as if they had processed classified

information. However, they could not provide any documentation concerning the disposition of the 18 missing items.

IN officials said that based upon the available inventory information, they could not determine the certification and accreditation status of the 18 missing items. Therefore, they were unable to provide assurances that the missing computer processing equipment had only been used to process unclassified information and, if used for classified processing, that the equipment had been disposed of appropriately.

MISSING ITEMS NOT REPORTED

We found that IN officials had not reported missing sensitive property, as required by DOE policy. Specifically, IN officials did not report any of the missing 18 items of sensitive computer processing equipment to the Department's Office of Security Operations. These items included 11 items that were missing since at least April 2005.

DOE Manual 470.4-1, "Safeguards and Security Program Planning and Management," specifies that any suspected or confirmed loss of classified matter "by any medium, method, or action" be reported as a security incident. We were informed by an Office of Security Operations official that the suspected loss of any classified or unclassified computer is to be reported as a security incident. The official continued that once a security incident was reported, a determination will be made regarding the type of inquiry to be conducted to determine if an actual loss had taken place and if there were mitigating factors. Additionally, the DOE Headquarters Personal Property and Supply Management Operating Procedures state that a program office's Accountable Property Representative must report all stolen, lost, or damaged property to the Office of Security Operations.

We determined through a review of Office of Security Operations records that there was no documentation that IN officials had reported a security incident regarding the missing computer processing equipment or reported the items as lost or missing property.

PROPERTY NOT IN INVENTORY

We also found that IN maintained 287 items of sensitive property that were not in IN's property inventory, as required by DOE's Property Management Standards.

DOE's Property Management Standards, found in 41 Code of Federal Regulations Part 109, require records to be maintained for

each sensitive item. DOE uses the Sunflower Assets Management System database (Sunflower) to track personal property, including sensitive property. During its July 2005 wall-to-wall inventory of IN personal property, MA identified 104 items of personal property that needed to be entered into Sunflower, many of which should have been classified as sensitive property. Of these 104 items, 51 had not been previously identified by the OIG.

OBSERVATION

We determined that IN officials did not conduct physical inventories of sensitive property, as recommended by the DOE Headquarters Personal Property and Supply Management Operating Procedures. We determined that prior to the OIG's inventory in April 2005, the last complete physical inventory of IN's personal property was conducted by MA in July 2002.

The DOE Headquarters Personal Property and Supply Management Operating Procedures recommend a physical inventory to be completed whenever an Accountable Property Representative is changed. The purpose of such an inventory is to verify the accuracy of the inventory information provided by the departing Representative. IN had three different Accountable Property Representatives since the 2002 physical inventory, but no physical inventories were conducted upon their respective departures.

Additionally, both 41 Code of Federal Regulations Part 109 and the DOE Headquarters Personal Property and Supply Management Operating Procedures require an annual physical inventory of all sensitive property and reconciliation of the inventory discrepancies. An MA official advised us that MA had not conducted an inventory of IN property between July 2002 and July 2005 because MA had been replacing the prior database with the Sunflower database, and MA did not have the resources available to conduct the inventories.

RECOMMENDATIONS

We recommend that the Director, Office of Intelligence, ensure that:

1. Actions are taken to assure that all sensitive property is accounted for and steps are taken to reconcile items that cannot be located; and

2. All suspected or confirmed losses of sensitive property are reported to the Office of Security Operations.

We recommend that the Director, Office of Management:

3. Ensure that the Office of Management conducts required annual physical inventories of sensitive property maintained by the Office of Intelligence.

MANAGEMENT COMMENTS

In comments on our draft report, management identified specific corrective actions that will be taken to address the report recommendations. The comments from both organizations are included in their entirety at Appendix C.

INSPECTOR COMMENTS

We found management's comments to be responsive to our report recommendations. However, the IN comments state that the laptop computer that could not be located was used for unclassified processing. IN's statement was based on the lack of documentation indicating that the laptop had been used for classified processing. As discussed in our report, IN officials did not maintain historical records indicating which equipment processed classified information. Therefore, there is no assurance that the laptop was not used for classified processing.

Appendix A

SCOPE AND METHODOLOGY

This review included interviews with Federal and contractor officials with the Department of Energy's (DOE) Office of Intelligence (IN) and Office of Management. We reviewed applicable policies and procedures pertaining to personal and sensitive property management. We obtained copies of IN's inventory listing from the DOE Sunflower Assets Management System (Sunflower). We conducted a physical wall-to-wall inventory of IN's personal property, including sensitive property for headquarters locations in Washington, DC, and Germantown, MD.

Also, pursuant to the "Government Performance and Results Act of 1993," we examined performance measurement processes as they related to sensitive property.

This inspection was conducted in accordance with the Office of Inspection Policies and Procedures Manual, and "Quality Standards for Inspections" issued by the President's Council on Integrity and Efficiency.

Prior Sensitive Property Reports

- "Control and Accountability of Emergency Communication Network Equipment," DOE/IG-0663, September 2004;
- "Internal Controls Over the Accountability of Computers at Sandia National Laboratory, New Mexico," DOE/IG-0660, August 2004;
- "Internal Controls Over Personal Computers at the Los Alamos National Laboratory," DOE/IG-0656, August 2004;
- "Internal Controls Over Classified Computers and Classified Removable Media at the Lawrence Livermore National Laboratory," DOE/IG-0628, December 2003;
- "Internal Controls Over Laptop and Desktop Computers at the Savannah River Site," INS-L-03-09, July 2003;
- "Management of Sensitive Equipment at Selected Locations," DOE/IG-0606, June 2003;
- "Inspection of Internal Controls Over Personal Computers at Los Alamos National Laboratory," DOE/IG-0597, April 2003; and
- "Operations at Los Alamos National Laboratory," DOE/IG-0584, January 2003.

Department of Energy
Washington, DC 20585

FEB 27 2006

MEMORANDUM FOR ALFRED K. WALTER
ASSISTANT INSPECTOR GENERAL FOR
INSPECTIONS AND SPECIAL INQUIRIES

FROM: ROLF MOWATT-LARSSEN
DIRECTOR
OFFICE OF INTELLIGENCE

SUBJECT: Draft Report on "Internal Controls Over Sensitive Property In the Office of Intelligence" (S05IS020)

The Office of Intelligence has reviewed the draft report on "Internal Controls Over Sensitive Property in the Office of Intelligence". The office agrees with the facts presented, the conclusions reached, and the recommendations that were addressed in the draft report.

The three recommendations listed in the report are: that the Director of Intelligence ensures actions are taken to assure sensitive property is accounted for and steps are taken to reconcile items that cannot be located; all suspected or confirmed losses of sensitive property are reported to the Office of Security Operations; and ensures the Director, Office of Management conducts required annual physical inventories of sensitive property maintained by the Office of Intelligence.

The Office of Intelligence will implement the following corrective actions to address the draft report's recommendations. By April 2006 the office will have 100% resolution of the November 30, 2005 discrepancy list; items will be located or reported missing and property adjustment action will be initiated to drop the items from the IN property list. IN will institute a policy that all property discrepancies are resolved immediately and publish a clear and concise procedure outlining responsibilities for property accountability. IN will report all suspected or confirmed losses of sensitive property to the Office of Security as soon as the loss is discovered. Property will be inventoried twice each year. By April 2006 the office will assign every item of property to an individual user and hold that person responsible for reporting changes in the location of that property in writing to the Account Property Representative (APR).

In reference to the Observations and Conclusions section of this report concerning the 18 items of sensitive computer processing equipment, as of February 24, 2006, five (5) of those items have been located. The unclassified laptop was reported missing to the Office of Security on February 8, 2006. The search continues for the missing 13 items.

cc: Director, Office of Management

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Department of Energy
Washington, DC 20585

MAR 1 2006

MEMORANDUM FOR ALFRED K. WALTER,
ASSISTANT INSPECTOR GENERAL FOR
INSPECTIONS AND SPECIAL INQUIRIES

FROM: INGRID KOLB
DIRECTOR
OFFICE OF MANAGEMENT

SUBJECT: Draft Report on "Internal Controls Over Sensitive Property in the Office of Intelligence" (S05IS020)

We appreciate the opportunity to submit comments on the subject draft report. While we agree with the recommendations as they pertain to the Office of Intelligence (IN), we wish to add clarity on recommendation number three, "Ensure that the Office of Management conducts required annual physical inventories for sensitive property maintained by the Office of Intelligence."

The DOE Personal Property Assets Management directive (HQ O 580.1C) revised effective September 26, 2005 mandates reviews and additionally places further responsibilities on the Accountable Property Representatives (APRs). These actions will ensure that the Office of Intelligence APR will conduct his own annual inventory of sensitive equipment and maintain an accurate property record that will be reported to the Office of Management (MA).

We agree that MA should conduct annual sensitive property inventories of IN sensitive property as required by 41 CFR Part 109. MA conducted an annual inventory of IN sensitive property in July 2005 and plans to conduct another annual inventory by the end of FY 2006. Should you have any questions, please contact Brian D. Costlow, Director of Administration, at 202-586-5710.

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