



Department of Energy

Washington, DC 20585

March 13, 2007

MEMORANDUM FOR THE DEPUTY SECRETARY

FROM:

Greg Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

Audit Report on "Federal Managers' Financial Integrity Act"
Audit Report No.: OAS-L-07-09

We reviewed selected aspects of the Department of Energy's implementation of the *Federal Managers' Financial Integrity Act* (FMFIA) of 1982. FMFIA requires that agencies establish internal control and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist. In response, the Department developed a program for evaluating the adequacy of internal controls and determining whether they conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. The results of these evaluations and other information provided by senior management are used to determine whether there are any material weaknesses.

As a result of its evaluation of internal controls, the Department identified "Significant Issues" that represent what it considers to be the most important issues it faces. The evaluation also identified corrective actions the Department is taking to mitigate those challenges. Our most recent *Special Report: Management Challenges at the Department of Energy* (DOE/IG-0748, December 2006), incorporates most of the issues identified by the Department and more fully describes our views on its most serious challenges and efforts to address them.

The objective of our audit was to determine whether the Department's Fiscal Year (FY) 2006 evaluation of internal controls was carried out in a reasonable and prudent manner and adequately disclosed detected waste or other reportable problems.

RESULTS OF AUDIT

Overall, the Department's FY 2006 evaluation of internal controls was carried out in a reasonable manner and generally disclosed known instances of reportable problems. Not all organizations, however, conformed to the requirements of the Department's internal control program and/or Federal policies. Specifically:

- As we noted in previous years, the National Nuclear Security Administration (NNSA) continues to employ a process that does not conform to the Departmental directive governing the FMFIA effort. Similar to issues we identified in our FY 2005 review, the FY 2006 Assurance Memorandum submitted by NNSA did



Printed with soy ink on recycled paper

not discuss whether the organization's review identified any reportable problems. In addition, while NNSA is responsible for eight of the Significant Issues identified by the Secretary in the 2006 Performance and Accountability Report, in its Assurance Memorandum, NNSA did not include corrective action plans for any of the Significant Issues. Significant Issues are the most important matters requiring resolution by the Department and include areas such as oversight of contractors, security, and safety and health. Adequate disclosure of planned corrective actions is fundamental to open recognition and proper reporting of problems as required by the Department's internal control program. These same issues were noted in our prior year FMFIA review of NNSA. In commenting on this report, NNSA officials agreed that they do not conform to the directive and indicated that they employ a separate process that is more responsive to the needs of the Administrator. According to the Departmental directive, however, NNSA remains responsible for compliance.

- The Richland Operations Office did not submit corrective action plans for two prior year reportable problems on design basis threat and information technology for which remedial actions remain incomplete. Richland indicated that it has a corrective action plan for information technology but that it was not included with Richland's Assurance Memorandum. Richland also indicated that it was waiting for additional direction from Headquarters on how to report the design basis threat issue. In addition, the Naval Petroleum Reserve at Casper, Wyoming, did not conduct its required financial management system review. These same nonconformances were noted in our FY 2005 FMFIA review.
- While timeliness and completeness of reporting had improved since last year, problems remain. Sixteen Departmental elements (down from 25 in FY 2005) did not submit their Assurance Memoranda in time to meet established deadlines. Additionally, eleven Headquarters and two field elements did not include all items required for Assurance Memoranda. Specifically, the Memorandum did not include statements addressing the areas that were considered during the evaluation and whether or not any reportable problems were identified, omitted or were not adequately addressed.

SUGGESTED ACTIONS

Current Department policies and guidelines clearly delineate management's responsibilities for establishing and maintaining adequate internal control programs. Where there is recurring nonconformance, additional direction may be necessary to ensure compliance with established requirements. Accordingly, we suggest that:

1. The Acting Administrator, NNSA; Manager, Richland Operations Office; and the Director, Naval Petroleum Reserve, disclose all planned corrective actions and conduct financial management system reviews in accordance with current policies and guidelines; and,

2. Heads of Department elements emphasize the necessity for complying with the Department's internal control program requirements related to accuracy, timeliness, and completeness.

No recommendations are being made in this report and a formal response is not required. We appreciate the cooperation of the Office of Chief Financial Officer and various Departmental elements that provided information or assistance.

Attachment

cc: Acting Under Secretary of Energy
Under Secretary for Science
Acting Administrator, National Nuclear Security Administration
Chief of Staff
Director, Policy and Internal Controls Management, NA-66
Team Leader, Audit Liaison Team, CF-1.2

SCOPE AND METHODOLOGY

The Department of Energy's (Department) evaluation of its internal controls was examined for compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) of 1982, the Government Accountability Office's "Standards for Internal Control in the Federal Government," Office of Management and Budget Circulars A-123 and A-127, and Department Order 413.1A, "Management Control Program." The results of the Department's evaluation of internal controls are included in the Department's Fiscal Year (FY) 2006 Performance and Accountability Report. This report provides critical financial and program performance information in a single report as authorized by the Reports Consolidation Act of 2000 and addresses a number of significant issues faced by the Department.

Our review was made in accordance with generally accepted Government auditing standards and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy our objective. Accordingly, we assessed internal controls regarding the FMFIA reporting process. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our evaluation. We assessed the FY 2006 Performance and Accountability Report as it relates to FMFIA, along with supporting documentation filed by selected Departmental organizations, to determine whether the results of their evaluations were accurately reported. Also, we performed work to determine whether the Department developed corrective action plans for significant issues identified during its FY 2006 FMFIA reporting process. We did not rely on computer-processed data to accomplish our audit objective.