

Memorandum

DATE: December 11, 2007

Audit Report Number: OAS-L-08-03

REPLY TO

ATTN OF: IG-34 (A07GT010)

SUBJECT: Report on "The Department of Energy's Implementation of Revised OMB Circular No. A-123"

TO: Chief Financial Officer, CF-1

INTRODUCTION AND OBJECTIVE

The Office of Management and Budget's (OMB) revised Circular No. A-123 (A-123) requires Federal agencies to assess, document and test their internal controls over financial reporting and prepare an annual assurance statement on the operating effectiveness of those controls. The Department of Energy (Department), with approval from OMB, elected to use a three year phased approach to implement A-123. In Fiscal Year (FY) 2006, the first phase of its implementation, the Department focused on the highest risk activities with the potential for the greatest impact on the financial statement audit.

Our FY 2006 review of the first phase of implementation concluded that the Department's evaluation of internal controls over financial reporting was carried out in a reasonable manner and generally conformed to requirements established by OMB. We noted, however, that certain risk assessments were not prepared in accordance with guidance established by the Department's Office of Chief Financial Officer (OCFO) and that supporting documentation describing certain controls and the results of testing had not been prepared or was not readily available. We provided suggestions designed to strengthen these critical areas of the Department's A-123 process. Accordingly, the OCFO clarified guidance and provided additional training on the preparation of risk assessments and supporting documentation. The National Nuclear Security Administration and Energy Efficiency and Renewable Energy Program also took action to correct the minor issues we identified during our FY 2006 review. Our FY 2007 review examined whether the second phase of the Department's A-123 implementation conformed to the requirements established in A-123.

CONCLUSION AND OBSERVATIONS

The Department made substantial progress during the second phase of its implementation of A-123. We concluded that the assessment, documentation and testing of internal controls over financial reporting as of June 30, 2007, fundamentally conformed to the requirements established by OMB. The

Department properly reported the limited scope of its internal control assessment and qualified its assurance statement on the effectiveness of its controls.

Our review disclosed that the OCFO recently added a substantial number of processes to its internal control Assessment and Reporting Tool, including processes associated with the reporting of environmental liabilities. Given the significant deficiency in the accounting for environmental liabilities discovered during from the FY 2007 Audit of the Department's Consolidated Financial Statement, the additional assessment and testing of these processes that the OCFO plans to perform is important and should help resolve this weakness. The OCFO has concluded that these processes are high risk, and current plans include completing the documentation, evaluation and testing of them in FY 2008.

No formal recommendations are being made in this report and a formal response is not required.

We appreciate the cooperation of your staff and the various Departmental elements that provided information or assistance.



Rickey R. Hass
Assistant Inspector General
for Environment, Science, and Corporate Audits
Office of Inspector General

Attachment

cc: Chief of Staff
Deputy Secretary
Under Secretary of Energy
Under Secretary for Science
Administrator, National Nuclear Security Administration

SCOPE AND METHODOLOGY

We examined the Department of Energy's (Department) implementation of the revised Office of Management and Budget's Circular No. A-123 (A-123), Appendix A, regarding evaluation of and reporting on internal controls. The evaluation was performed between July and November 2007.

We conducted interviews of officials in the Headquarters Office of Chief Financial Officer who were responsible for implementation and monitoring of the revised requirements; undertook site visits to the Oak Ridge National Laboratory, the Environmental Management Consolidated Business Center (EMCBC), the Idaho National Laboratory, and the Savannah River Site; conducted work at the Office of Environmental Management while at EMCBC; and reviewed internal control, test, and remediation documentation. We assessed the FY 2007 Agency Financial Report as it relates to A-123 to determine whether the results of site and program office evaluations were accurately reported. Also, we performed work to determine whether the Department developed corrective action plans for significant issues identified during its FY 2007 reporting process.

Our limited 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 related to the implementation 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 did not rely on computer-processed data to accomplish our audit objective.