




Department of Energy

Washington, DC 20585

February 13, 2002

MEMORANDUM FOR THE SECRETARY

FROM:


Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's
Consolidated Financial Statements

I am pleased to inform you that the Department of Energy's consolidated financial statements have received an unqualified audit opinion for the third consecutive year.

This year, the Office of Inspector General contracted with the accounting firm of KPMG LLP to conduct the audit. The accounting firm concluded that the consolidated financial statements present fairly, in all material respects, the Department's financial position as of September 30, 2001, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the year then ended. We agree with the opinion expressed in the attached report.

As part of the review of the financial statements, the auditors considered internal controls over financial reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on the consolidated financial statements. The examination revealed four reportable conditions in the Department's system of internal controls. These conditions were:

- The Department has made progress improving its performance measurement reporting, but more remains to be done to satisfy the requirements of the Government Performance and Results Act and related Office of Management and Budget's guidance. Specifically, performance goals, in many cases, were not output- or outcome-oriented, some were not meaningful or relevant, and some were not stated in objective or quantifiable terms. Additionally, the relationship between operating costs and actual outcomes was not transparent. These weaknesses limit the casual reader's ability to properly assess the Department's performance.
- The Department has certain network vulnerabilities and general access control weaknesses that could affect unclassified information system security. As previously reported, full implementation of the Department's Cyber Security Program should help ensure that Federal information standards are met and that information systems are adequately protected against unauthorized access.



- The Department's Western Area Power Administration did not uniformly perform reconciliations and could not promptly prepare account analyses. These problems increased the risk of significant misstatements in Western's financial statement balances and were the principal reason that its Fiscal Year 2001 financial statements were not ready for separate audit. To compensate for the increased control risk created by these conditions, the auditors performed agreed-upon procedures to verify the reliability of Western's financial information and account balances included in the consolidated financial statements.
- The Department's Active Facilities Data Collection System contained inaccurate data, including incorrect facility types and errors in reported square footage which, prior to audit adjustment, overstated the active facilities environmental liability estimate.

In general, management officials concurred with the audit findings supporting these conditions and have initiated or agreed to take corrective action. It should be noted that the first three reportable conditions represent findings that were also disclosed during the prior year audit.

To ensure the quality of the audit and to fulfill our responsibilities under generally accepted Government auditing standards, the Office of Inspector General approved the scope of KPMG's assignment and monitored its work. We also reviewed the audit report and related working papers to ensure compliance with applicable auditing standards.

I would like to thank all elements of the Department for their courtesy and cooperation during the conduct of the audit.

Attachment

cc: Deputy Secretary
Administrator, National Nuclear Security Administration
Under Secretary for Energy, Science and Environment
Director, Office of Management, Budget and Evaluation/Chief Financial Officer



2001 M Street, N.W.
Washington, D.C. 20036

INDEPENDENT AUDITORS' REPORT

The Inspector General, U.S. Department of Energy:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Energy (Department) as of September 30, 2001 and 2000, and the related consolidated statements of net cost, changes in net position, budgetary resources, financing, and custodial activities for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audits, we also considered the Department's internal control over financial reporting and tested the Department's compliance with certain provisions of applicable laws and regulations that could have a direct and material effect on its consolidated financial statements.

Summary

As stated in our opinion, we conclude that the Department's consolidated financial statements as of and for the years ended September 30, 2001 and 2000 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

The cost estimates supporting the Department's environmental remediation liabilities of \$238 billion and \$234 billion, as of September 30, 2001 and 2000, respectively, are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control. These matters are discussed in Note 15 to the consolidated financial statements.

Our consideration of internal control over financial reporting identified the following as reportable conditions:

- Performance measurement reporting;
- Unclassified information systems security;
- Financial management at Western Area Power Administration; and
- Environmental liabilities for active facilities.

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*, issued by the U.S. General Accounting Office, or Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements*.



Independent Auditors' Report

The following sections discuss our opinion on the Department's consolidated financial statements, our consideration of the Department's internal control over financial reporting, our tests of the Department's compliance with certain provisions of applicable laws and regulations, management's responsibilities, and our responsibilities.

Opinion on Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of the U.S. Department of Energy as of September 30, 2001 and 2000, and the related consolidated statements of net cost, changes in net position, budgetary resources, financing, and custodial activities for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Energy as of September 30, 2001 and 2000, and its net costs, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the consolidated financial statements, the cost estimates supporting the Department's environmental remediation liabilities of \$238 billion and \$234 billion, as of September 30, 2001 and 2000, respectively, are based upon assumptions regarding future actions and decisions, many of which are beyond the Department's control.

The information in the Overview and Required Supplementary Information sections of the Department's *Fiscal Year 2001 Performance and Accountability Report* is not a required part of the consolidated financial statements, but is supplementary information required by the Federal Accounting Standards Advisory Board or OMB Bulletin No. 97-01, *Form and Content of Agency Financial Statements*, as amended. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it. Based upon our limited procedures, we determined that with respect to assets and liabilities, the Department completed the intragovernmental balance reconciliations with its trading partners, as specified by the January 2000 technical amendment to OMB Bulletin No. 97-01. The Department was unable to complete the intragovernmental balance reconciliations for revenues because certain trading partners were unable to provide the Department with accurate and reliable intragovernmental transaction data.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Consolidating Schedules is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, net cost, changes in net position, budgetary resources, reconciliation of net costs to budgetary obligations, and custodial activities of the Department's components individually. The information in the Consolidating Schedules has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Independent Auditors' Report

Internal Control over Financial Reporting

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

In our Fiscal Year 2001 audit, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. However, none of the reportable conditions, described below and in more detail in Exhibit I, are believed to be material weaknesses.

- **Performance Measurement Reporting** – The Department's performance reporting for Fiscal Year 2001 contains certain deficiencies, most of which were noted in previous audits, that limit the casual reader's ability to properly assess the Department's performance. The Department plans to continue improving its performance measurement reporting in response to feedback from OMB, the U.S. General Accounting Office, the Department's Office of Inspector General, and the U.S. Congress.
- **Unclassified Information Systems Security** – We noted network vulnerabilities and weaknesses in access and other security controls in the Department's unclassified computer information systems. Without adequate access and computer security controls, the integrity of essential financial management system data may be threatened. The Department should continue to improve its network security and access controls throughout the Department.
- **Financial Management at Western Area Power Administration (Western)** – Western did not uniformly perform necessary reconciliations and could not promptly prepare account analyses. These problems were the principal reason that Western's Fiscal Year 2001 financial statements were not ready for separate audit. In addition, these problems and ineffective reviews of Western's financial statement balances reported to the Department for inclusion in the consolidated financial statements increased the risk that those balances may be significantly misstated. Western should establish effective reconciliation procedures and make other related financial management improvements, with oversight from the Department's Chief Financial Officer.

Independent Auditors' Report

- Environmental Liabilities for Active Facilities – The Department's Active Facilities Data Collection System contained inaccurate data, including incorrect facility types and errors in reported square footage, which caused its active facilities liability estimate to be overstated. The Department should strengthen its process for collection of active facilities data.

A summary of the status of prior year reportable conditions is included as Exhibit II.

We also noted other matters involving internal control over financial reporting and its operation that we will report to Departmental management in separate letters addressing information technology and non-information technology matters.

Compliance with Laws and Regulations

Our tests of compliance with certain provisions of laws and regulations, as described in the Auditors' Responsibilities section of this report, exclusive of the Federal Financial Management Improvement Act (FFMIA) of 1996, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 01-02.

In addition, the results of our tests of compliance with FFMIA requirements disclosed no instances in which the Department's financial management systems did not substantially comply with the three FFMIA requirements discussed in the Auditors' Responsibilities section of this report.

Responsibilities

Management's Responsibilities. The Government Management Reform Act (GMRA) of 1994 requires each Federal agency to report annually to Congress on its financial status and any other information needed to fairly present its financial position and results of operations. To meet the GMRA reporting requirements, the Department prepares annual financial statements.

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America;
- Establishing and maintaining internal control over financial reporting, required supplementary stewardship information, and performance measures; and
- Complying with laws and regulations, including the FFMIA.

In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies. Because of inherent limitations in internal control, misstatements due to error or fraud may nevertheless occur and not be detected.

Independent Auditors' Report

Auditors' Responsibilities. Our responsibility is to express an opinion on the Fiscal Year 2001 and 2000 consolidated financial statements of the Department based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Bulletin No. 01-02. Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our Fiscal Year 2001 audit, we considered the Department's internal control over financial reporting by obtaining an understanding of the Department's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and *Government Auditing Standards*. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on internal control over financial reporting and, accordingly, we do not provide an opinion thereon.

As required by OMB Bulletin No. 01-02, we considered the Department's internal control over required supplementary stewardship information by obtaining an understanding of the Department's internal control, determining whether these controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal control over required supplementary stewardship information and, accordingly, we do not provide an opinion thereon.

As further required by OMB Bulletin No. 01-02, with respect to internal control over performance measures reported in the Overview section of the Department's *Fiscal Year 2001 Performance and Accountability Report*, we obtained an understanding of the design of significant controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over performance measures and, accordingly, we do not provide an opinion thereon.

Independent Auditors' Report

As part of obtaining reasonable assurance about whether the Department's Fiscal Year 2001 financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain provisions referred to in the FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under OMB Bulletin No. 01-02 and the FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

Distribution

This report is intended for the information and use of the Department's management, the Department's Office of Inspector General, OMB and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 31, 2002

Independent Auditors' Report
Exhibit I – Reportable Conditions

Performance Measurement Reporting

Statement of Federal Financial Accounting Standards (SFFAS) No. 15, *Management's Discussion and Analysis*, requires Federal agencies to include, in documents presenting their financial statements, discussion and analysis of the financial statements and related information. This discussion should provide a clear and concise description of the reporting entity, its mission, activities, accomplishments, and overall financial condition and results. It should also include information on whether and how the mission of the reporting entity is being accomplished.

The Department presents performance measurement data and other information required by SFFAS No. 15 for each of its principal programs in the Overview section of its *Fiscal Year 2001 Performance and Accountability Report*. This performance measurement data is based primarily on information from the Department's *Strategic Plan* and the revised final goals for Fiscal Year 2001 published in the *Fiscal Year 2002 Annual Performance Plan*, which were prepared under the requirements of the Government Performance and Results Act of 1993.

Prior audits of the Department's consolidated financial statements have reported that the usefulness of many programmatic performance measures presented in the Overview was limited. Management has generally concurred with our recommendations and agreed to improve the utility of performance information and its presentation. The Department has made some progress in resolving performance reporting issues, but more remains to be done.

Finding 1: Performance Measurement Reporting

The OMB requires that performance measures, to be useful, be output and outcome oriented, meaningful and relevant, objective and quantifiable, and consistent with the measures developed in the strategic planning process. Performance measures should also be described in terms understandable to the casual reader.

The Department's performance reporting for Fiscal Year 2001 contains the following deficiencies, most of which were noted in previous audits:

- We identified problems with the usefulness and completeness and the assigned organizational responsibility levels of reported goals. Goals in many cases are not output or outcome oriented; some are not meaningful or relevant, or stated in objective or quantifiable terms; and some are at a lower organizational level than necessary. In addition, a portion of the performance measurement reporting is not easily understood by the casual reader.
- Net costs for Fiscal Year 2001 are provided for significant sub-programs and offices within each business line. These net costs, in many cases, cover more than one performance goal. Cost-effectiveness data related to performance is not presented at a sufficient level of detail to determine the cost associated with individual performance goals.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

These deficiencies limit the casual reader's ability to properly assess the Department's performance.

The Department has made progress in providing a balanced collection of performance measures to help the casual reader obtain a complete understanding of how the reported programs performed. However, the Department has not yet revised its performance measures to fully meet OMB's requirements. Management has indicated that its planned Fiscal Year 2002 changes to the performance measurement reporting process will be responsive to our recommendations and will be more responsive to feedback the Department has obtained from OMB, the U.S. General Accounting Office, and the U.S. Congress.

Recommendation:

We recommend that the Department's Chief Financial Officer continue to improve the development, presentation, and systems for reporting of performance measures consistent with the Government Performance and Results Act, applicable OMB guidance, and Federal accounting standards. Making these improvements will require cooperation from all areas within the Department.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Unclassified Information Systems Security

We noted network vulnerabilities and weaknesses in access and other security controls in unclassified information systems.

Finding 2: Network Security

The Department maintains a series of interconnected unclassified networks and information systems. Security over unclassified information systems is an important issue facing government organizations. This issue has taken on greater significance as Federal agencies have migrated from mainframe environments with a closed architecture and limited access to web-based client/server systems. In addition, the U.S. General Accounting Office has designated information system security as a high-risk area.

Federal and Departmental directives require the establishment and maintenance of security over unclassified information systems, including financial management systems. Past audits identified significant weaknesses in selected systems and devices attached to the computer networks at some Department sites. The Department has implemented certain corrective actions to improve network security at the sites we reviewed in prior years. However, we identified significant weaknesses at the two sites we reviewed in Fiscal Year 2001, and at three sites reviewed by other organizations. At all of these sites, we identified network vulnerabilities similar to those found at other sites in previous years, including poor password management, weak configuration management, outdated software with known security problems, and firewall configuration problems. In addition, many previously identified weaknesses have not been resolved.

The identified weaknesses and vulnerabilities increase the risk that malicious destruction or alteration of data or unauthorized processing could occur. Because of our concerns, we performed supplemental procedures and identified compensating controls that mitigate their potential effect on the integrity of the Department's financial systems.

Recommendation:

We recommend that the Department's Chief Information Officer take actions to improve network security throughout the Department. Detailed recommendations to address the issues discussed above will be included in a separate report to the Chief Information Officer.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Finding 3: Information Systems Access and Other Security Controls

The Department has mandated compliance with several Federal information security directives and public laws in DOE Notice 205.1, *Unclassified Computer Security Program*, dated July 26, 1999. The program also establishes policies for the protection of unclassified information and information systems. Within this security framework, the Department operates its financial management systems that form the basis for preparing its consolidated financial statements.

Our audit disclosed weaknesses in access and other security controls at several sites. These weaknesses included unsecured network ports, inadequate monitoring of networks for questionable activity, and shortcomings in password security. We also identified weaknesses in security planning, including outdated or nonexistent security certifications for major applications. Finally, we noted inadequate planning for re-establishment of computer operations following a disruption. For example, some sites had arranged for backup processing facilities, but had not tested those facilities, and others had not finalized or tested disaster recovery plans. The Department's Office of Inspector General also reported deficiencies in the Department's information system risk management, contingency planning, configuration management, and access controls in its evaluation report on *The Department's Unclassified Cyber Security Program*, dated August 30, 2001.

Without adequate access and computer security controls, the integrity of essential financial management system data may be threatened. Because of our concerns, we performed supplementary audit procedures and identified compensating controls that mitigate the potential effect of these security weaknesses on the integrity of the Department's financial systems. Because the purpose of our audit was to express an opinion on the Department's consolidated financial statements, our audit did not address the potential effect of the security weaknesses on the integrity of the Department's non-financial systems.

Recommendation:

As recommended in the prior year, the Department's Chief Information Officer should follow up on the implementation of its Cyber Security Program throughout the Department, to ensure that the Federal information standards are met and that its information and information systems are adequately protected against unauthorized access. Detailed recommendations to address the issues discussed above will be included in a separate report to the Chief Information Officer.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Financial Management at Western Area Power Administration

The Western Area Power Administration (Western), a component of the Department, markets and transmits electric power and provides related services. Western implemented a new financial management system on November 2, 1998. Throughout Fiscal Years 1999, 2000 and 2001, Western has been addressing operational deficiencies in the system, including problems with system functionality and performance, data accuracy, security, and reporting. As reported in the Department's Fiscal Year 1999 audit, components of Western's new financial system did not have common data elements; consistent controls over data entry, transaction processing, and reporting; or transaction entry procedures to preclude unnecessary duplication. Further, the system lacked adequate internal control and system documentation to meet user needs. Our Fiscal Year 2000 audit found that these system problems persisted for most of that year. Inadequate reconciliation procedures also contributed to Western's inability to produce timely and reliable financial statements.

Finding 4: Financial Management at Western Area Power Administration

OMB Circular No. A-127, *Financial Management Systems*, requires Federal agencies to ensure that financial systems support management's fiduciary role; support the legal, regulatory, and other special management requirements of the agency; support budget decision-making; and comply with internal and external reporting requirements.

Although Western has made progress in improving its systems, Western's Fiscal Year 2001 financial statements were not ready for separate audit, largely because of inadequate reconciliation procedures. In addition, Western did not have an effective process for ensuring the accuracy of the financial statement balances reported to the Department for inclusion in the consolidated financial statements. Western did not uniformly perform timely reconciliations of subsidiary ledgers to the general ledger or timely reconciliations of cash balances reported in the general ledger to balances reported by the U.S. Treasury, and could not promptly prepare detailed analyses of reported account balances. The inadequate reconciliation procedures and the inability to analyze account balances increased the risk of significant misstatements in Western's financial statement balances. Western's internal reviews of financial statement balances reported to the Department did not disclose numerous errors that were later identified and corrected as a result of auditor and Department-level reviews.

Western reported that personnel constraints, competing priorities, and lack of certain reports from its accounting system that would facilitate reconciliations and account analyses, prevented it from meeting external reporting requirements, including the timely preparation of financial statements and reporting accurate financial statement balances to the Department. We believe that improving the overall financial management at Western will take on even more importance as the U.S. Government adopts interim financial reporting requirements.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

To compensate for the increased control risk created by these conditions, we used alternative measures to verify the reliability of Western's financial information and account balances included in the Department's consolidated financial statements for Fiscal Years 1999, 2000 and 2001.

Recommendations:

The Department's Chief Financial Officer should monitor Western's implementation of the actions recommended below.

Western's management should:

- a) Review the adequacy of its overall financial management policies and procedures, including development of formal reconciliation procedures.
- b) Ensure that its accounting department is staffed with sufficient and experienced personnel who meet the core competency requirements outlined for financial accountants in the Federal Government's Joint Financial Management Improvement Program guidance.
- c) Establish procedures that would ensure: (1) timely, monthly reconciliations of all subsidiary ledgers to the general ledger, and cash balances reported in the general ledger to balances reported by the U.S. Treasury; (2) supervisory reviews of reconciliations and account analyses prepared by accounting staff; (3) an effective supervisory approval prior to recording all manual journal entries; and (4) an effective review of financial statement balances reported to the Department.
- d) Establish an accounting policy group to review and set standards to account for unique transactions entered into by Western. The group should also monitor compliance with accounting policies throughout the organization.

Independent Auditors' Report
Exhibit I – Reportable Conditions, Continued

Environmental Liabilities for Active Facilities

The Department's liability for remediation of its active and surplus facilities is largely based upon an estimate computed by a cost-estimating model, using facility data from the Active Facility Data Collection System (AFDCS). The AFDCS includes facility size information, the type of facility, and the type of contamination for each contaminated facility not addressed in the Environmental Management program's baseline estimates. A cognizant Federal manager at each Departmental field office providing facility data to AFDCS is required each year to review and approve this data.

Finding 5: Active Facility Data Collection System

The Department's AFDCS contained inaccurate data, including incorrect facility types and errors in reported square footage, which caused its active facilities liability estimate to be overstated. In a test of a statistically derived sample of data for 12 facilities at each of 8 sites, we found 10 errors in 96 facilities tested, a 10 percent error rate. In addition, we found that the Los Alamos National Laboratory erroneously identified 60 electrical transformers and substations as contaminated facilities.

The Department corrected the errors discussed above in its Fiscal Year 2001 consolidated financial statements. We agreed with Departmental management that the statistically projected overstatement did not cause a material misstatement of the liability for remediation of active facilities in those financial statements. However, the errors we identified indicate a need to improve the accuracy of facility data.

Recommendations:

We recommend that the Department's Chief Financial Officer strengthen field office procedures for preparation, review, and approval of facility data included in the AFDCS. Such procedures should include supervisory quality control checks and independent comparisons of facility data to source documents. We further recommend that the Chief Financial Officer encourage field offices to involve site contractors in reviews and quality checks of facility data.

Independent Auditors' Report
Exhibit II – Status of Prior Year Audit Findings

<u>Reportable Conditions from Fiscal Year 2000</u> (with parenthetical disclosure of year first reported)	<u>Status at September 30, 2001</u>
--------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------

- | | |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Performance Measurement Reporting (1997) | Improvements made, but still reported in Exhibit I as a reportable condition. |
| 2. Unclassified Information System Security (1999) | Still reported in Exhibit I as a reportable condition. |
| 3. Financial Management at Western Area Power Administration (1999) | Prior audit recommendations are partially implemented. Included in Exhibit I as a reportable condition focused on improving overall financial management at Western. |