

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Principal Deputy Inspector General

SUBJECT: INFORMATION: Report on "Audit of the Department of Energy's Consolidated Financial Statements for Fiscal Year 1997"

BACKGROUND:

The subject report provides the results of our audit.

DISCUSSION:

The Office of Inspector General audited the Department's Consolidated Statement of Financial Position as of September 30, 1997, and the related Consolidated Statement of Operations and Changes in Net Position for the year then ended. In the opinion of the Office of Inspector General, these financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 1997, and the results of operations and changes in net position for the year then ended, in conformance with the basis of accounting described in Note 1 of the financial statements.

In accordance with *Government Auditing Standards*, the Office of Inspector General issued a separate report on our consideration of the Department's system of internal controls. We reported that a systematic process needs to be developed and implemented to improve the method of estimating the environmental liability. Specifically, procedures should be adopted to update the estimate through fiscal yearend and to ensure that all known remediation costs are included. This problem was considered to be a material reportable condition, but it did not have a material effect on the financial statements because of corrective actions taken by the Department. We also reported that controls over performance measure information presented in the Overview to the financial statements need to be strengthened to ensure that information is adequately supported and properly presented. While we also considered this matter to be a reportable condition, it did not materially affect the Department's financial statements.

The audit disclosed a number of other conditions relating to the Department's system of internal controls that were not considered to be reportable conditions and did not materially affect the Department's financial statements. These matters will be communicated to the Chief Financial Officer and to heads of field elements in separate reports. The recommendations made in these reports are designed to strengthen internal controls or improve operating efficiencies.

As described in *Matters of Emphasis* in our report on the consolidated financial statements, the Department is faced with a number of uncertainties. The most significant of these is the environmental liability estimate. In addition to the uncertainty inherent in

any long-term estimate, uncertainties also exist with regard to the realization of Departmental plans regarding funding, facility end-states, anticipated regulatory approvals, and projected savings from productivity and efficiency improvements. Similar concerns also exist with regard to the resolution of various administrative and legal proceedings to which the Department is a party, including issues involving the Nuclear Waste Fund. These actions may result in settlements or decisions adverse to the Government; however, the outcomes of such proceedings are not currently susceptible to reasonable estimation. The manner in which each of these matters is resolved will affect ultimate costs to the Department.

In addition to the report on internal controls, we also issued a report on the Department's compliance with applicable laws and regulations. The results of our tests in this area disclosed no compliance matters reportable under applicable audit standards.

We also performed audit procedures to test compliance with the Federal Financial Management Improvement Act of 1996. This Act requires that auditors perform tests to determine whether the Agency has substantially complied with Federal financial management systems requirements, applicable accounting standards, and implementation of the United States Standard General Ledger at the transaction level. Our procedures revealed no conditions that constituted substantial noncompliance with the Act.

MANAGEMENT RESPONSE:

Departmental Management generally concurred with the audit recommendations contained in the Department-level internal control report and has indicated that corrective actions will be taken where appropriate.

Attachment

cc: Deputy Secretary
Under Secretary
Chief Financial Officer

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

AUDIT OF
THE U.S. DEPARTMENT OF ENERGY'S
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEAR 1997

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This report can be obtained from the
U.S. Department of Energy
Office of Scientific and Technical Information
P.O. Box 62
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Report Number: IG-FS-98-01
Date of Issue: February 26, 1998

Capital Regional Audit Office
Germantown, MD 20874

ATTACHMENT: U.S. DEPARTMENT OF ENERGY ANNUAL REPORT

**U.S. Department of Energy
Office of Inspector General
Office of Audit Services**

REPORT OF THE OFFICE OF INSPECTOR GENERAL

The Secretary
U.S. Department of Energy

We have audited the accompanying Consolidated Statement of Financial Position of the U.S. Department of Energy (Department) for the year ended September 30, 1997, and related Consolidated Statement of Operations and Changes in Net Position for the year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards: *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, the evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

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, 1997, and the results of its operations for the year then ended in conformity with the hierarchy of accounting principles described in Note 1 of the financial statements.

Our audit was made for the purpose of forming an opinion on the Department's Consolidated Statement of Financial Position as of September 30, 1997, and related Consolidated Statement of Operations and Changes in Net Position for the year then ended. The information presented in management's Overview and the Supplemental Financial and Management Information sections is not a required part of the statements, but is supplementary information required by OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the above statements. Such information has been subjected to limited auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion on it. The performance information included in management's Overview is addressed in our audit report on the Department's system of internal controls.

Management has chosen for purposes of additional analysis to incorporate the Executive Summary from the Department's Report on Compliance with the Federal Managers Financial Integrity Act of 1982 in its Annual Report. This Summary is not a required part of the consolidated financial statements. While such information has been reviewed separately by the Office of Inspector General, it has not been subjected to auditing procedures applied in the audit of the consolidated financial statements, and accordingly, we do not express an opinion on it.

MATTERS OF EMPHASIS

As described in Note 13 of the financial statements, the Department changed its method of estimating its environmental remediation liability for Fiscal Year 1997. The change in method resulted in a reduction in the estimated unfunded liability of about \$49 billion, from \$228 billion reported for Fiscal Year 1996, to \$179 billion recorded at September 30, 1997. The primary reasons for such change are the adoption of a remediation approach designed to accelerate cleanup at most of the Department's sites and the change in end-state assumptions for a number of facilities assigned to the Environmental Management (EM) Program. As with previous estimation methods, the estimate continues to be based on assumptions regarding actions that are to take place in the future and is highly uncertain. In addition to the uncertainty inherent in any long-term estimate, the following factors impact the overall uncertainty of the estimate:

- The impact of potential changes to planned facility end-state or land-use assumptions could be profound.
- Congressional appropriations may not be received at the levels anticipated.
- The planned approach and scope of work for many remediation projects are subject to regulatory approval.
- Cost increases caused by future inflation may occur.
- Complete information as to the extent of contamination is not available for facilities that have not been completely characterized.
- The Department may be required to fund disposal costs for depleted uranium (including depleted uranium generated by the United States Enrichment Corporation).
- Projected savings attributable to efficiency and productivity improvements included in lifecycle cost estimates may not be achievable.
- Opening of the planned repository for storage of high-level waste and spent nuclear fuel may be delayed and projected waste volumes may exceed planned capacity.
- The portion of the accrued liability related to the Department's Accelerated Cleanup Plan is based on the adjusted mid-point of estimates derived from differing funding assumptions: a range of about \$11 billion.

- The Department's estimate of disposal fees for high-level waste was prepared during Fiscal Year 1995 and has not been updated to reflect major changes in assumptions. The estimate is to be updated during Fiscal Year 1998 in conjunction with a Congressionally-directed study and may increase.
- Remediation costs for contaminated facilities not yet assigned to the Department's environmental management program are based on computer modeling rather than lifecycle cost estimates.

The Department also is a party to various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Government, as discussed in Note 16 of the financial statements. The Office of General Counsel, in responding to our inquiries about these matters, was not able to form a conclusion as to the likely outcome or potential loss resulting from litigation, claims, and assessments against the Department. Readers of the Department's consolidated financial statements should, therefore, be aware that the statements may be affected by uncertainties concerning the outcome of claims described in Note 16, which are not currently susceptible to reasonable estimation.

REFERENCE TO OTHER REPORTS

In accordance with *Government Auditing Standards*, we have also issued a report on our consideration of the Department's system of internal controls and a separate report on its compliance with laws and regulations. Both reports are dated December 29, 1997, except as they relate to the following two items. As to Note 13, the date extends to January 30, 1998, the date on which field work was completed on procedures required to update the environmental liability estimate. As to Note 16, the date extends to February 19, 1998, the date through which several motions and lawsuits were filed by various entities related to the Department's compliance with the Nuclear Waste Policy Act.

/s/
December 29, 1997, except for Note 13, as to
which the date is January 30, 1998, and Note
16, as to which the date is February 19, 1998.

**U.S. Department of Energy
Office of Inspector General
Office of Audit Services**

**REPORT OF THE OFFICE OF INSPECTOR GENERAL
ON THE DEPARTMENT'S SYSTEM OF INTERNAL CONTROLS**

The Secretary
U.S. Department of Energy

We audited the consolidated financial statements of the Department of Energy (Department) for the year ended September 30, 1997, and have issued our report thereon dated December 29, 1997, except for Note 13, as to which the date is January 30, 1998, and Note 16, as to which the date is February 19, 1998.

The management of the Department is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. A system of internal controls should provide management with reasonable, but not absolute, assurance that the following objectives are met:

1. Transactions are executed in accordance with management's authorization and are properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with applicable accounting policies and to maintain accountability over assets.
2. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.
3. Transactions, including those related to obligations and costs, are executed in compliance with laws and regulations that could have a direct and material effect on the financial statements, and are in compliance with any other laws and regulations that Office of Management and Budget (OMB), Departmental management, or the Inspector General have identified as being significant and for which compliance can be objectively measured and evaluated.
4. Data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information.

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Department for the year ended September 30, 1997, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the system of internal controls. Our consideration included obtaining an understanding of the significant internal control policies and procedures, determining whether they had been placed in operation, assessing the level of control risk relevant to all significant account balances, and performing sufficient tests to assess whether internal controls are effective and working as designed. Our evaluation of the system of internal controls was conducted to determine whether it met the objectives identified in the previous paragraph and not to provide an opinion on the system of internal controls. Accordingly, we do not express such an opinion.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant control policies and procedures designed to permit the preparation of reliable and complete performance information and assessed control risk.

In evaluating internal controls, we considered matters reported by the Department in compliance with the Federal Managers' Financial Integrity Act, our prior and current audit reports, and other independent auditor reports on financial matters and internal accounting control policies and procedures. The Appendix to this report lists performance audit reports published by the Office of Inspector General during Fiscal Year 1997 that were considered in our evaluation of internal controls.

As part of our audit, we noted certain matters involving the system of internal controls and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and OMB Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the system of internal controls that, in our judgment, could adversely affect the Department's ability to ensure that the objectives of internal controls, as previously defined, are being achieved. The conditions considered to be reportable conditions are discussed in Exhibits I and II to this report.

A reportable condition is classified as a material weakness when the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statement being audited, or material to performance measures or

<p style="text-align: center;">Material Reportable Condition Findings and Recommendations</p>
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Environmental Remediation Liabilities

Background: The Department's estimate of environmental liabilities should reflect future costs associated with remediation of environmental contamination existing as of the last day of the fiscal year. In the Fiscal Year 1996 consolidated financial statements, the Department's estimate was based primarily on the 1996 Baseline Environmental Management Report (BEMR), a Congressionally-mandated report produced by the Office of Environmental Management (EM). During the latter part of Fiscal Year 1996, the Department embarked on a new vision and strategy for addressing the environmental cleanup of its sites. This new strategy was communicated in a June 1997 Discussion Draft, *Accelerating Cleanup: Focus on 2006* (2006 Plan). This effort resulted in significantly lower life-cycle cost estimates for most EM activities than had been reported in BEMR. It did not include active facilities or currently excess or soon to be excess facilities not currently in the EM program that had been included in BEMR (pipeline facilities).

To reflect the Department's new strategy, the Office of Chief Financial Officer (CFO) adopted a multi-faceted approach to capture all pieces of the environmental liability estimate. The Department's environmental remediation liability at September 30, 1997, was based on three main components:

- EM's 2006 Plan, which estimates life-cycle costs for the EM program;
- Cost estimates for currently excess or soon to be excess facilities not yet transferred to EM; and
- A cost estimate for remediation of currently active facilities.

Each of the Department's field offices was instructed to record its portion of the liability according to instructions issued by the CFO.

Finding 1: Cost Estimates for Environmental Liabilities

As a component of its overall system of internal controls, the Department is responsible for establishing controls to provide reasonable assurance that estimates supporting accruals of unfunded environmental liabilities are complete and readily verifiable. The Department's system for estimating environmental remediation costs did not completely and accurately capture the Department's environmental liability as of September 30, 1997. The following are examples of the problems our audit identified:

<p style="text-align: center;">Material Reportable Condition Findings and Recommendations</p>
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- The EM component of the environmental liability was based on data submitted to Headquarters in February of 1997 in preparation for issuance of the June Discussion Draft of the 2006 Plan and was not updated through the end of the fiscal year.
- None of the five field offices included in our test work had documented that each facility known to be contaminated had been included in one of the three components of the environmental liability.
- The recorded liability at September 30, 1997, before audit adjustments, omitted most of the disposal fees (about \$5 billion) associated with high-level waste and spent nuclear fuel.
- Errors in removing productivity projections and recording program direction costs were made by certain field offices when the liability was initially recorded.
- The methodology used for developing support costs for the currently active facilities component of the estimate produced incorrect results.
- Headquarters staff members recorded comments that questioned the completeness and accuracy of the 2006 Plan project cost estimates and waste volume data. Despite the effort devoted to this review, these comments were never addressed or specifically considered during preparation of the June Discussion Draft of the 2006 Plan.
- Departmental officials within the programs currently responsible for pipeline and active facilities were not actively involved in preparing or reviewing the liability estimates associated with these facilities.
- The Department did not make provision for the effect of several uncertainties that impact the liability, including potential delays in opening or capacity issues at planned waste repositories or the availability of funding for various privatization projects.

These conditions occurred because the Department did not have an adequate system of internal controls in place to ensure that the environmental liability estimate was complete and accurate. As a result, the Department's environmental liabilities, before audit adjustments, were understated by about \$7.5 billion, and the uncertainty related to the estimated costs for environmental liabilities was increased.

<p style="text-align: center;">Material Reportable Condition Findings and Recommendations</p>
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Recommendations: The Department should:

1. Develop and implement a process to update the environmental liability estimate through fiscal year end;
2. Ensure that validation procedures are sufficient to determine that all contaminated facilities are included in the environmental liability estimate;
3. Set up a quality control program to identify and correct errors in the cost estimates upon which the environmental liability is based;
4. Clarify lines of authority and responsibility for active and pipeline facilities and develop procedures to involve responsible program officials in estimating the liability associated with these facilities; and
5. Analyze the impact of uncertainties with regard to the estimate and record or disclose the results as appropriate.

Management Reaction: Management generally concurred with the recommendations and agreed to instruct the field elements in future guidance to update their estimates through the end of the fiscal year, strengthen internal controls for Plan 2006 work, increase program official involvement, reemphasize to the field the importance of documenting inclusion of all facilities, amend the financial statements to reflect audit adjustments, and evaluate the need for disclosure of uncertainties.

Auditor Response: Management's planned actions for future periods are responsive to our recommendations. In addition, in response to draft audit findings issued on these matters, the Department performed supplementary yearend analyses and reconciliation work and recorded audit adjustments necessary to ensure that the liability recorded in the financial statements was materially correct. We were required to extend our fieldwork in this area through January 30, 1998 to consider these additional actions taken by the Department.

<p style="text-align: center;">Reportable Conditions Findings and Recommendations</p>
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Performance Measurement Reporting

Background: In accordance with OMB guidance, each annual financial statement should include a narrative Overview of the reporting entity. This Overview should provide a clear and concise description of the reporting entity, its mission, activities, accomplishments, and overall financial results and condition. It should also include information on whether and how the mission of the reporting entity is being accomplished. The performance data presented in the Overview of the Fiscal Year 1996 consolidated financial statements was based primarily on commitments drawn from the Secretary's Performance Agreement with the President (Agreement). The Overview presented the Department's commitments, planned goals necessary to accomplish the commitment, and results achieved during the fiscal year. Although the Agreement continued to be used as the basis for reporting performance information, the Department elected to modify the Overview presentation method significantly for its Fiscal Year 1997 consolidated financial statements.

The Department relied on a computer database (system) to collect and report performance information for use in the Overview in Fiscal Year 1996 and Fiscal Year 1997. Our Fiscal Year 1996 Audit of the Department's Consolidated Financial Statements identified problems with the accuracy, validation, and maintenance of data in that system (see Office of Inspector General Report No. CR-FS-97-02). Management generally concurred with the audit findings and agreed to take corrective action in the form of Departmental guidance and training. Despite efforts to provide guidance and additional training to program officials, problems with data used to support performance measures persist.

Finding 2: Performance Measure Reporting

OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*, requires the Overview to the financial statements to communicate whether and how the Department is accomplishing its missions using explicit measures of performance. Both OMB Bulletin No. 94-01 and Statement of Federal Financial Accounting Concepts No. 2 (SFFAC 2) require that performance measures presented in the financial statements contain certain attributes in order to be useful to readers of the financial statements. We found in many cases that the usefulness of the programmatic performance measures presented in the financial statements was limited. For example, we found that the performance measures presented in the Overview:

<p style="text-align: center;">Reportable Conditions Findings and Recommendations</p>
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- Provide information about the cost effectiveness of programs;
- Include an explanation of what needs to be done and what is planned to be done to improve financial and program performance; and
- Are linked to the programs presented in the Statement of Net Cost.

Recommendation: The Department should review and incorporate in its preparation of performance measures the OMB and SFFAC requirements ensuring that it communicates whether and how the Department is accomplishing its missions, thereby enhancing the usefulness of the Overview.

Management Reaction: Management concurred with the recommendation. The Department is working to improve the performance measures and the Overview and will use the new strategic plan to present short and long-term goals and relate accomplishments to missions, goals and objectives. Management has agreed to include performance results for FERC and the PMA's performance in future reports; will work to address the problem of specific measures and performance; and include further explanatory information needed to help readers understand the significance of measures. The Department will also provide more trend data and report appropriate negative results to clearly set forth performance.

Auditor Comments: Management's planned actions are responsive to our recommendation.

Finding 3: Collection and Support of Performance Measure Information

OMB Bulletin No. 94-01 requires the Department to maintain adequate supporting documentation for its performance measures and retain such documentation in a manner suitable for audit. As a component of its overall system of internal controls, the Department is also responsible for establishing controls to provide accurate, complete, and timely performance measure information. As previously reported in the Office of Inspector General's FY 1996 Headquarters-level management report (CR-FS-97-02), performance information in the Department's system was not always supported, accurate, complete, or up-to-date. For example:

<p style="text-align: center;">Reportable Conditions Findings and Recommendations</p>

- Information indicating that the Department exceeded its savings goals for energy efficiency and renewable energy efforts was based on a draft report of Fiscal Year 1996 results. As a result of our request for data to support Governmentwide energy savings, program officials reevaluated their submission and revised previously reported savings downward by over \$170 million. Reported annual savings of \$10 billion in the category of consumers' energy costs were not adequately supported.
- The system contained information indicating that the Department was on track to meet Department of Defense weapons alteration, modification, and surveillance schedules. However, the responsible program manager reported this based on his personal knowledge, had no support for the information reported, and informed us that he was not aware of the requirement to maintain support for performance measures.
- The system also contained information indicating that the Department had met its Fiscal Year 1997 goal with regard to the award of performance-based management contracts. The claimed results were supported by a list prepared from memory that was not supported by documentary evidence. Two cited examples of performance-based contracts were actually contract modifications that contained performance-based attributes adopted in Fiscal Year 1996. One contract listed as an example was not a performance-based management contract and had been originally awarded in the 1960s.
- Because the system was not completely updated on a timely basis as required, the Department could not rely on it to generate the Overview and was forced to obtain more accurate and current information directly from the program offices.
- A discrete set of supporting information was not generally available for audit verification. Support was often assembled from numerous sources only after auditor requests for supporting data.

These problems occurred because the Department had not fully developed a system of internal controls for ensuring accurate and timely reporting of performance information in the Overview. As a result, the Department continues to risk reporting information in the Overview and supplemental information that does not present an accurate and up-to-date picture of how it is accomplishing its missions.

<p style="text-align: center;">Reportable Conditions Findings and Recommendations</p>
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Recommendation: We recommend that the Department strengthen internal controls to ensure the Headquarters program offices follow Departmental guidance on preparing and reporting accurate and current performance information.

Management Response: Management concurred with the recommendation and recognized the potential weakness. The Department is improving and management is hopeful that audit involvement will result in further enhancements to the reporting processes. The Department's performance measure information system, if used appropriately, can provide a greater level of assurance that managers have read reports of results and approve of system inputs. The Department's philosophy has been that managers who are accountable must ensure that results are accurately reported. In Departmental guidance for development of commitments for Fiscal Year 1998, management emphasized that performance goals (measures) should be specific, quantified, stretching, and auditable.

Auditor Comments: Management's planned actions are responsive to our recommendation.

Reportable Conditions Findings and Recommendations

<u>Report Number</u>	<u>Report Title</u>	<u>Date Report Issued</u>
IG-0398	Special Report on the Audit of the Management of Department of Energy Construction Projects	November 21, 1996
IG-0399	Audit of the U.S. Department of Energy's Identification and Disposal of Nonessential Land	January 8, 1997
IG-0400	Summary Audit Report on Contractor Employee Relocation and Temporary Living Costs	January 27, 1997
IG-0402	Audit of the Management of the Department of Energy's Leased Administrative Facilities	April 1, 1997
IG-0403	Audit of the Use of Intra-Department Requisitions	May 2, 1997
IG-0404	Audit of Department of Energy Contractor Occupational Injury and Illness Reporting Practices	May 7, 1997
IG-0405	Audit of the Savannah River Site's Quality Control Program for Groundwater Sampling	May 20, 1997
IG-0407	Audit of the Department of Energy's Scientific and Technical Information Process	June 17, 1997
IG-0408	Audit of Shutdown and Transition of the Mound Plant	June 24, 1997
IG-0409	Audit of the Western Area Power Administration's Contract With Basin Electric Power Cooperative	June 25, 1997
IG-0410	Audit of Environmental Restoration at the Los Alamos National Laboratory	July 15, 1997
IG-0411	Audit of the Contractor Incentive Programs at the Rocky Flats Environmental Technology Site	August 13, 1997
CR-B-97-01	Audit of the Department of Energy's Warehouse Space	January 28, 1997

<u>Report Number</u>	<u>Report Title</u>	<u>Date Report Issued</u>
CR-B-97-02	Audit of Department of Energy's Contractor Salary Increase Fund	April 4, 1997
CR-B-97-03	Followup Audit on the Procurement of Support Services for the Energy Information Administration	May 16, 1997
CR-B-97-04	Audit of Controls Over the ADP Support Services Contract	August 25, 1997
ER-B-97-01	Audit of Economic Development Grants and a Cooperative Agreement With East Tennessee Not-for-Profit Organizations	October 22, 1996
ER-B-97-02	Audit of the Department of Energy's Grant for Economic Development at the Mound Plant	February 14, 1997
ER-B-97-03	Audit of Proposal to Acquire Land at the Fernald Environmental Management Project	June 5, 1997
ER-B-97-04	Audit of Selected Hazardous Waste Remedial Actions Program Costs	August 11, 1997
WR-B-97-01	Audit of Electrical System Construction Projects at the Nevada Operations Office	November 6, 1996
WR-B-97-02	Audit of Bus Service Subsidies at the Idaho National Engineering Laboratory	November 7, 1996
WR-B-97-03	Audit of Groundwater Monitoring at Hanford	November 15, 1996
WR-B-97-04	Audit of the Use of Hanford Site Railroad System	March 20, 1997
WR-B-97-05	Audit of Work Force Restructuring Under Section 3161 of the National Defense Authorization Act	May 6, 1997

<u>Report Number</u>	<u>Report Title</u>	<u>Date Report Issued</u>
WR-B-97-06	Audit of Renovation and New Construction Projects at Lawrence Livermore National Laboratory	June 9, 1997
WR-B-97-07	Audit of Desktop Computer Acquisitions at the Idaho National Engineering and Environmental Laboratory	August 25, 1997

**U. S. Department of Energy
Office of Inspector General
Office of Audit Services**

**REPORT OF THE OFFICE OF INSPECTOR GENERAL ON
COMPLIANCE WITH LAWS AND REGULATIONS**

The Secretary
U.S. Department of Energy

We audited the consolidated financial statements of the U.S. Department of Energy (Department) for the year ended September 30, 1997, and have issued our report thereon dated December 29, 1997, except for Note 13, as to which the date is January 30, 1998, and Note 16, as to which the date is February 19, 1998.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The management of the Department is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the consolidated financial statements were free of material misstatements, we performed tests of its 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 other laws and regulations specified in OMB Bulletin No. 93-06, as amended, including the requirements referred to in the Federal Financial Management Improvement Act (FFMIA) of 1996.

The results of our tests of compliance with the laws and regulations described in the preceding paragraph disclosed no instances of noncompliance required to be reported under *Government Auditing Standards* and OMB Bulletin No. 93-06, as amended.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the Federal financial management systems requirements, applicable accounting standards, and the United States Standard General Ledger at the transaction level. To meet this requirement we performed tests of compliance using the implementation guidance for FFMIA issued by OMB on

September 9, 1997. The results of our tests disclosed no instances where the Department's financial management systems did not substantially comply with the three requirements discussed in the preceding paragraph.

This report is intended for the information of the U.S. Department of Energy. However, this report is a matter of public record, and its distribution is not limited.

/s/

December 29, 1997, except for Note 13, as to which the date is January 30, 1998, and Note 16, as to which the date is February 19, 1998.

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The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

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