

DOE/IG-0447

AUDIT  
REPORT

THE  
U.S. DEPARTMENT OF ENERGY'S  
AUDIT FOLLOW-UP PROCESS



JULY 1999

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES

July 7, 1999

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman  
Inspector General

SUBJECT: INFORMATION: Report on "The U.S. Department of Energy's Audit Follow-up Process"

BACKGROUND

Audit follow-up is an integral part of good management. According to Office of Management and Budget (OMB) Circular A-50, corrective action taken by Departmental officials on audit findings and recommendations is essential to improving the effectiveness and efficiency of Government operations. Over the past several years, the Office of Inspector General (OIG) has issued reports addressing a variety of Departmental challenges. Management is responsible for taking prompt and effective corrective action on those issues where Departmental concurrence has been obtained. The objective of this audit was to determine if the Department has made progress in correcting weaknesses previously disclosed through audit.

RESULTS OF AUDIT

Although some problem areas had been addressed, the Department needs to act more promptly and effectively to correct weaknesses identified by audit. This audit examined actions taken by management to address findings and recommendations made by the OIG in three areas--personnel security clearances, personal property management, and quality assurance laboratory testing. Security clearance issues had only been partially resolved. Personal property problems had been addressed, but only after considerable time had elapsed. Quality assurance laboratory weaknesses had not yet been corrected.

The Department's audit follow-up system tracked corrective actions reported by management. However, the system did not verify that implemented actions addressed the underlying control weakness, and the system did not share information on potential weaknesses across the Departmental complex. Further, the impetus for corrective action usually took place outside of the formal audit follow-up process. To address these and other issues, we are recommending the adoption of a more proactive management approach to audit follow-up. This report recommends enhancements to the system to ensure that operational economies and efficiencies, agreed to by management, are implemented in a prompt and effective manner.

MANAGEMENT REACTION

The Chief Financial Officer expressed general agreement with the findings and recommendations. He advised that senior management has recently placed renewed emphasis on resolution and follow-up of audit findings and that the OIG recommendations in this report would strengthen the Department's process. Management's verbatim comments are set forth in Appendix 5.

Attachment

cc: Deputy Secretary  
Under Secretary

# The U.S. Department Of Energy's Audit Follow-up Process

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# Overview

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## INTRODUCTION AND OBJECTIVE

Audit follow-up is a key component in management's efforts to have efficient and effective Government operations. The Office of Management and Budget (OMB) has assigned each Federal agency the responsibility for fully addressing control weaknesses and ensuring the completion of agreed-upon actions.

Each year the Department receives an average of 100 Office of Inspector General (OIG) reports, which address financial, economy and efficiency, and programmatic issues that impact its operations. The Department reported, as of September 30, 1998, that corrective actions were still in progress on 72 audit reports dating back as early as Fiscal Year (FY) 1988. The agreed-upon savings for these 72 reports were \$129 million, \$92 million of which is dependent upon the outcome of litigation or an appropriation from the Congress. In addition, some reports recommended enhancements to the control structure that would assist in the achievement of programmatic goals. Appendix 2 presents a schedule from the Department's FY 1998 Accountability Report that summarizes the status of actions taken or planned on OIG audit reports.

To facilitate the correction of weaknesses, the Chief Financial Officer (CFO) serves as the Department's audit follow-up official. The CFO is responsible for developing, implementing, and maintaining the Department's follow-up system. Specific responsibility for implementing corrective actions is assigned to the agency official to which audit findings and recommendations pertain. As part of the audit follow-up process, the head of the applicable element is required to prepare a specific plan of corrective action with appropriate target dates for implementing all accepted recommendations.

The Departmental Internal Control and Audit Review Council (DICARC) assists in the resolution and follow-up process and consists of the CFO and representatives of senior management. The DICARC is charged with resolving major disagreements, providing guidance on corrective actions to be taken, and requiring additional corrective action when reported actions are not sufficiently responsive to audit findings and recommendations.

The OIG periodically evaluates the audit follow-up process to determine if it promotes prompt and effective corrective action. Over the past several years, the OIG has issued reports addressing a variety of concerns relating to personal property, security clearances, and quality assurance laboratory testing. Because of the operational importance of

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these areas, progress in correcting previously reported systemic conditions is critical to the achievement of the Department's goals. The objective of this audit was to determine if the Department has made progress in correcting weaknesses previously disclosed through audit.

## **CONCLUSIONS AND OBSERVATIONS**

While some problem areas had been addressed, the Department needs to act more promptly and effectively to correct weaknesses identified by audit. This audit examined three areas—personnel security, personal property management, and quality assurance laboratory testing—in which the OIG recommended corrective actions. In the area of personnel security, the Department achieved mixed results. Blanket clearance policies were eliminated and individual clearance requests were more closely monitored. However, significant problems remained in processing clearances and performing reinvestigations. In the area of personal property, the Department made significant progress. Most contractor property management systems had been approved, and improvements had been made in inventory and records management as well as the disposal of excess personal property. However, it took considerable time for the Department to recognize the systemic nature of these issues. With reference to quality assurance evaluations of external laboratories, the Department was not successful in correcting the reported weakness. Despite an audit recommendation made in 1995, the Department and its contractors continued to conduct overlapping and, in some cases, redundant evaluations of third-party laboratories.

To address these issues and to ensure that the audit follow-up system promotes prompt and effective corrective action, we recommended that senior management emphasize the importance of the audit follow-up system. We also recommended that the CFO establish a plan to ensure that corrective actions are taken and analyze audit recommendations for trends and system-wide issues that need to be considered from a Departmental perspective. In addition, we recommended that the Assistant Secretary for the Office of Nonproliferation and National Security (NN) and the Office of Environmental Management (EM) correct previously identified weaknesses.

In addition to the areas examined in detail during this audit, we noted that at least three other recent reports issued by the Office of Inspector General contain repeat findings.

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- In March 1999, we issued a report on *Vehicle Fleet Management at the Idaho National Engineering and Environmental Laboratory*, (WR-B-99-02) noting that 45 percent of Idaho's light vehicles were used significantly less than established mileage standards. This repeated a 1993 finding that 41 percent of Idaho's light vehicles were underutilized.
  - Our January 1999 report on *Aircraft and Air Service Management Programs*, (DOE/IG-0437) contained a repeat finding, from a 1994 report, that air service costs paid by the Albuquerque Operations Office were excessive.
  - In our December 1998 report on *Transportation Safeguards Division Courier Work Schedules and Escort Vehicle Replacements*, (WR-B-99-01) we noted that nuclear materials couriers earn more overtime pay and incur more unproductive time than necessary. This report repeated an April 1995 finding.

In our opinion, the matters discussed in this report should be considered by management when preparing its yearend assurance memorandum on internal controls. A listing of prior OIG audit reports in the areas of personal property, security clearances, and quality assurance laboratory testing is set forth in Appendix 3.

/S/  
Office of Inspector General

## Audit Follow-up Process

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### **Implementation Of Corrective Actions**

In the three areas reviewed—personnel security, personal property management, and quality assurance laboratory testing—corrective actions were not always taken in a prompt and effective manner.

#### Personnel Security Clearances

The Department achieved partial success in addressing weaknesses in its personnel security program. The number and level of clearances were reduced, but problems remained in processing initial clearances and reinvestigations.

The OIG issued numerous reports in the late 1980s and early 1990s indicating that individuals who did not specifically require access to classified material were granted clearances. A Departmentwide report, issued in March of 1993, recommended the discontinuance of blanket clearance policies at field sites, closer scrutiny of individual clearance requests, and the adoption of a long-range strategy to manage the number and level of security clearances granted.

Since FY 1993, there has been a substantial drop in the number and level of security clearances. At that time, the Department had approximately 155,000 active security clearances. This number declined to 105,000 at the end of FY 1998, or a 32 percent reduction. The decrease was due in part to the implementation of the audit recommendations. Departmental officials eliminated "blanket" clearance policies and more closely scrutinized individual clearance requests. The decrease was also due to a reduction in Federal and non-Federal employment levels. Between FYs 1993 and 1998, total Federal and operating contractor employee levels declined by 21 and 27 percent, respectively.

The 1993 report also indicated that there were problems in processing clearances. The average timeframe to process cases, after the investigative report had been received, exceeded the Office of Personnel Management standard of 90 days. This resulted in reduced employee productivity, added program costs, and increased security risks. The report also indicated that, as of July 1992, about 4 percent or 5,500 cases, of individuals with "Q" clearances, were overdue for their reinvestigation.

Limited success was achieved in addressing clearance processing and reinvestigation issues. The Department developed processing timeframes, but did not implement a mechanism to determine whether

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the 90-day standard was met. In addition, the reinvestigation backlog increased. As of October 1, 1998, approximately 9 percent, or 6,024 individuals, of the "Q" level population, were overdue for their scheduled clearance reinvestigation. Management attributed the backlogs to (1) the quality of work performed by the investigative agency and (2) the limited budgetary resources available to support the security clearance program.

At the beginning of FY 1999, with congressional approval, the Department decentralized funding for clearance investigations. The purpose of the change was to encourage Departmental activities to operate more efficiently and assess their own clearance needs. Since this change was only recently started, sufficient data was not available to determine the success of this initiative.

Subsequent to the completion of audit fieldwork, the Department issued its *23rd Annual Report to the President on the Status of Safeguards and Security at Domestic Nuclear Weapon Facilities*. The report outlined a series of measures being taken to strengthen the Department's security program. Among those measures was an action item to eliminate the reinvestigation backlog.

### Personal Property Management

The Department made progress in addressing personal property management issues. However, the recognition of the systemic nature of these problems and their correction took considerable time and effort.

The OIG issued its first property management audit report in 1985. By 1994, 27 audit reports related to property management had been issued. The results of these reviews were documented in a 1994 summary report. This report, as well as the earlier reports, identified three major problem areas: (1) review and approval of contractor property management systems, (2) inventory management, and (3) property disposal. The OIG reported that contractor property management systems at Lawrence Livermore National Laboratory, Lawrence Berkeley Laboratory, and the Stanford Linear Accelerator Center had not been approved. Several other Department contractors were also operating without approved property management systems. The OIG also reported that Richland's contractor did not conduct the required physical inventory of equipment until 5 years after assuming control of the facility. Another report cited inadequate storage and control of



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excess personal property and the improper disposal of property at the Sandia National Laboratories.

The program manager responsible for this area indicated that congressional hearings, in 1994, heightened Departmental awareness of property management matters. In response to the issues raised, the Department designated personal property as a material weakness in its FY 1993 report to OMB. By the end of FY 1998, the Department concluded that it had made significant progress and removed the material weakness designation.

Our analysis confirmed that progress had been made since the issuance of the summary report. As of February 1999, all the management and operating contractors, except for Lawrence Berkeley Laboratory and the National Renewable Energy Laboratory, had received approval of their property systems. Also, improvement had been made in inventory management. For example, in 1997, the Richland contractor conducted a complete inventory of its assigned Government property and accounted for nearly 100 percent of the inventoried items. Property inventories or statistical testing were also conducted at Sandia National Laboratories, Los Alamos National Laboratory, and the Idaho Operations Office with similar results. Corrective actions, in addition, were taken to dispose of excess property.

#### Quality Assurance Laboratory Testing

The Department was not successful in coordinating Departmental and contractor reviews of commercial analytical laboratories. These commercial laboratories test samples related to the environmental management activities and worker health and safety programs. While individual field sites attempted to coordinate their activities, the Department did not put in place, as planned, a centralized approach to reviewing analytical laboratories.

In June 1995, the OIG reported that Departmental contractors had conducted multiple evaluations of some laboratories, applied quality assurance evaluations inconsistently, had not evaluated the quality of some commercial laboratories and had not communicated results of their reviews to other contractors. In response to the audit report, management agreed to adopt a third-party laboratory accreditation program, or an alternative approach, and develop specific evaluation procedures to correct this situation.

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In FY 1996, management worked to develop new guidance and policies. The following year, management worked with state authorities and other Federal agencies to develop nationwide accreditation standards. At the beginning of FY 1998, the Office of Environmental Management moved responsibility for this function to Idaho where it was renamed as the National Analytical Management Program. However, as of March 31, 1999, no Departmental third-party accreditation program was adopted.

As a part of the current audit, a survey of 18 analytical laboratories was conducted to determine the amount and extent of quality assurance reviews conducted by the Department and its contractors over the last 3 fiscal years. The survey found that all 18 analytical laboratories had been examined. However, many of the reviews appeared to be redundant and unnecessary. For example, one laboratory manager advised that, during FYs 1996-98, his laboratory had been subject to 10 quality assurance reviews. Most of these reviews were duplicative since the same technical and administrative areas were examined each time an evaluation was performed.

The methodologies used by the Department and its contractors were also inconsistent. To illustrate, a manager at a commercial laboratory reported that a "checklist" approach was used in conducting many of the reviews. These checklists, however, were not standardized. Further, the results of these evaluations were not formally shared with other Departmental contractors performing similar reviews.

### **Requirements For Audit Resolution And Follow-up**

OMB Circular A-50, "Audit Followup," and DOE Order 2300.1B, "Audit Resolution and Followup," established policies and procedures for addressing audit recommendations. Agencies must maintain follow-up systems to ensure the prompt and proper resolution and implementation of both monetary and non-monetary audit recommendations.

In the Department of Energy, the CFO is responsible for ensuring that the audit follow-up systems are in place, that timely responses are made to all audit reports, and that corrective actions are actually taken. The CFO reviews Departmental Audit Report Tracking System (DARTS) reports and assesses whether corrective actions taken or planned are timely and responsive to audit findings and recommendations. In addition, the CFO is required to conduct independent reviews to determine if corrective action meets the intent of the recommendation to

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ensure adequate closure. The CFO should also periodically analyze audit follow-up activities to determine trends and system-wide problems and recommend solutions. When disagreements between management officials and the OIG persist about proposed corrective actions, the CFO may convene a meeting of the DICARC to attempt to resolve such differences.

Management officials within the Department are responsible for analyzing audit reports and providing timely responses to the audit organization. Under the Circular, management is responsible for completing actions, in a timely manner, on audit recommendations where agreement has been reached. Management is also required to provide formal status updates to the DARTS until audit reports are closed.

### **Insufficient Emphasis On Audit Follow-up**

Problems in the audit follow-up system inhibited prompt and effective resolution of previously reported weaknesses. While the CFO tracked and communicated the status of individual reports to Departmental managers, senior management did not fully emphasize audit follow-up issues. Although the DICARC met annually to discuss weaknesses reported under the Federal Managers' Financial Integrity Act, it did not play an active role in monitoring major corrective actions. In addition, the CFO did not conduct periodic analyses of audit recommendations, resolution, and corrective actions. According to OMB Circular A-50, this should be done to determine trends, identify system-wide problems, and recommend solutions. In August 1987, the Under Secretary distributed to all Departmental elements a compendium of audit reports identifying potential areas of vulnerability. The Under Secretary requested that each field element (1) assess its own operations to determine the applicability of any of the audit recommendations and (2) use the results to identify opportunities to enhance operations. It was anticipated that similar broad-based analyses would be provided in the future, but this was not done.

Additionally, recent staffing and mission changes within the Headquarters audit liaison office preempted the CFO's ability to review and follow-up on corrective actions. For example, staffing problems occurred when the compliance and audit liaison functions were separated and the number of personnel assigned to the audit follow-up function was substantially reduced. In addition, the number and extent of CFO field reviews decreased. The CFO chose instead to rely on programmatic and functional managers to assess and report on the status

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of their corrective actions. This was done in conjunction with the Department's implementation of its Business Management Oversight Process.

We also noted that the CFO had established one specific and usable performance measure associated with audit follow-up. This measure related to correcting deficiencies reported in financial statement audits. More could be done. The Government Performance and Results Act of 1993 requires agencies to establish such measures in order to compare actual performance to programmatic goals. OMB Circular A-50 contains eleven audit follow-up standards (see Appendix 4), which could serve as the basis for Department performance measures aimed at improving the speed and effectiveness of corrective actions.

## **Potential Benefits**

Without a more planned and proactive approach to audit follow-up, the Department cannot ensure that agreed-upon actions—currently covering 72 open audit reports issued as early as 1988 with \$129 million in potential savings—will be implemented. The three areas discussed in this report—personnel security, personal property management, and quality assurance laboratory testing—posed problems for management and the delays to implement the corrective actions increased management's vulnerability and costs. For instance, inattention to reducing clearance processing and reinvestigation backlogs increased security risks and program costs. Similarly, the delayed attention to personal property increased the quantity and cost of inventory. Finally, failure to implement a third-party accreditation program resulted in increased costs for commercial analytical laboratory services.

Recent congressional interest has underscored the importance of having a vigorous audit follow-up system where prompt and effective corrective management actions are essential to improving operations. The audit process, including follow-up, provides management with the opportunity to participate in addressing individual weaknesses and determining the possible applicability of potential vulnerabilities throughout the Departmental complex.

## **RECOMMENDATIONS**

We recommend that the Office of Chief Financial Officer:

1. Schedule regular meetings of the DICARC emphasizing audit follow-up issues.

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2. In accordance with OMB Circular A-50, provide the Deputy Secretary with a periodic analysis of audit recommendations and field management input to determine trends and system-wide issues facing the Department.
  3. Work with the Office of Field Integration to develop a program involving personnel with functional and technical expertise to verify that corrective actions are taken.
  4. Reassess the roles and responsibilities of the audit liaison function and commit the resources necessary to resolve audit findings and track corrective actions.
  5. Develop specific performance measurements for enhancing the speed and effectiveness of corrective actions called for in audit reports.

We also recommend that the Assistant Secretary for the Office of Nonproliferation and National Security:

1. Create and implement an action plan to eliminate security clearance investigation backlogs and processing delays.
2. Work with the Offices of Chief Financial Officer; Defense Programs; Science; Environmental Management; and Nuclear Energy, Science and Technology to conduct a fiscal yearend assessment of the decentralized funding for security clearances.

Additionally, we recommend that the Assistant Secretary for the Office of Environmental Management fully develop and implement an action plan to establish a Departmentwide program for reviewing commercial analytical laboratories.

## **MANAGEMENT REACTION**

In a joint response for management, the CFO agreed with the recommendations for strengthening the follow-up process. He agreed to schedule at least one additional DICARC meeting annually, and others if necessary, to ensure responsive follow-up actions. Periodic analyses of audit recommendations, resolutions, and corrective actions will be performed, and systemic problems reported to the Deputy Secretary. With regard to verifying that corrective actions are taken, the CFO will work with the Office of Field Integration to develop and integrate an

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accountability plan. The Department agreed to initiate efforts to resolve resource and responsibility issues in processing audit findings and tracking corrective actions. Management agreed to review measures and standards in OMB Circular A-50 to determine if revised performance measures are necessary.

In the joint management response, the CFO advised that the Secretary recently announced a consolidation of the Department's security functions under a "security czar," which is in the process of being initiated. This structuring and reorganizing will have an effect on the way the Department budgets for and carries out security investigations in the future.

The CFO advised in the joint management response that the Office of Environmental Management had initiated a number of actions to address the report findings and was developing a plan to move the laboratory audit process to the private sector. The proposed plan is dependent on adequate funding in Fiscal Year 2001 to allow for this transition.

The CFO's comments to this report have been incorporated verbatim in Appendix 5.

## **AUDITOR COMMENTS**

Management comments were generally responsive. However, to fully implement these corrective actions, the Department will have to prepare a detailed plan for each action to ensure implementation. In addition, the DICARC should closely monitor management's progress toward meeting milestones established in the plans. Such progress should also be reported through senior management periodically.

# Appendix 1

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## SCOPE

Our follow-up audit was performed between May and December 1998 to determine if the Department has made progress in correcting weaknesses that were previously disclosed through audit. Site visits were made to (1) Albuquerque Operations Office and Sandia National Laboratories in Albuquerque, New Mexico; (2) Los Alamos National Laboratory in Los Alamos, New Mexico; (3) Richland Operations Office in Richland, Washington; and (4) Idaho Operations Office in Idaho Falls, Idaho.

## METHODOLOGY

We reviewed the Department's progress in correcting previously reported conditions involving personnel security clearances, personal property management, and quality assurance laboratory testing. From previously issued OIG audit reports, we identified the following systemic conditions and examined these issues on a Departmentwide basis:

- Personnel Security Clearances:

Unnecessary clearances and clearances issued at too high a security level.

Processing delays and backlogs of initial and reinvestigation requests.

- Personal Property Management:

Property management systems were not reviewed and approved. Property inventory records were incomplete.

Excess personal property was not properly identified, stored, or disposed.

- Quality Assurance Laboratory Testing:

Redundant evaluations were conducted at laboratories.

To accomplish the audit objective, we:

- obtained and reviewed related reports issued by the Office of Inspector General;
- reviewed applicable laws and regulations;
- obtained and analyzed security clearance materials;

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- reviewed property inventory records and conducted walk-throughs of both current and excess personal property; and
  - conducted a quality assurance survey of analytical laboratories used by the Department and contractor representatives.

We also met with members of the Department's Office of Chief Financial Officer, and Offices of Nonproliferation and National Security, Environmental Management, and Management and Administration. In addition, we met with Departmental and contractor employees throughout the audit.

The audit was conducted in accordance with generally accepted Government auditing standards for performance audits and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objectives. Because our review was limited, it would not necessarily have disclosed all deficiencies that may have existed at the time of our audit. We did not conduct a reliability assessment of computer-processed data because such data was not relied upon during the audit.

An exit conference was waived by management.



## Appendix 2

### ACTIONS ON OFFICE OF INSPECTOR GENERAL AUDIT REPORTS

Corporate Management

#### **Management's Response to Inspector General Audit Reports**

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the Inspector General (IG), and implementing agreed upon corrective actions. In some instances, we are able to take corrective actions immediately and in others, action plans with long-term milestones are developed and implemented. This audit resolution and follow-up process is an integral part of the Department's efforts to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability. The Inspector General Act, as amended,

requires that we report on the status of our progress in implementing these corrective actions semiannually. A report was issued in May 1998 for the semiannual period ended March 31, 1998. This section provides similar information for the second half of FY1998.

During the semiannual period ended September 30, 1998, the Department took final action on 31 IG operational, financial, and preaward audit reports. At the end of the period, 72 reports awaited final action. Some of these reports contain recommendations to make changes to our operations in order to save funds that could be reapplied elsewhere in the future. The table below provides more detail on the audit reports with open actions and the dollar value of recommendations that funds "be put to better use" that were agreed to by management.

<b>STATUS OF FINAL ACTION ON IG AUDIT REPORTS</b> (For the Period April 1 - September 30, 1998)		
<b>Audit Reports</b>	<b>Number of Reports</b>	<b>Agreed Upon Funds Put To Better Use</b>
Pending final action at the beginning of the period	80	\$ 359,882,695
With actions agreed upon during the period	23	7,161,683
<b>Total pending final action</b>	<b>103</b>	<b>367,044,378</b>
Achieving final action during the period	31	237,439,084
Requiring final action at the end of the period	72	129,605,294

Note: Recovery of approximately \$92 million of the \$129,605,294 is dependent on the outcome of litigation or on agreement by OMB and an appropriation from the Congress.

Source: U.S. Department of Energy's FY 1998 Accountability Report

## **Appendix 3**

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### **PRIOR OFFICE OF INSPECTOR GENERAL REPORTS**

Personnel Security Clearances - Since 1988, the Office of Inspector General had issued seven reports identifying opportunities for the Department to improve its personnel security program. Listed below are examples of reports that relate to issues included in this report.

- *Timeliness in Processing Department of Energy Headquarters Security Clearances*, (DOE/IG-0255, April 1988). The average time at Headquarters for processing a security clearance was about 10 months, with many employees waiting over a year for their clearances. Further, only about a third of that time was used in actually conducting the field investigation. The other two-thirds of the processing time was used in submitting the application for investigation and in making the access determination once the investigation was complete.
- *Review of Security Clearances at Bonneville Power Administration, Portland, Oregon*, (WR-B-91-5, January 1991). Bonneville exceeded the minimum number of clearances for security and operational efficiency by designating 242 positions when clearances were not needed and by designating 9 positions at a higher clearance level than needed.
- *Nevada Operations Office Oversight of Management & Operating Contractor Personnel Security Clearances*, (WR-O-90-2, March 1990). While the contractor had reduced the number of "Q" clearances, four areas within the contractor's operation were identified where further clearance reductions could be made if the Manager's directions were fully implemented.
- *Security Clearances and Controls at the Department of Energy's Savannah River Plant*, (ER-OC-89-03, November 1988). The policies and procedures for issuing and controlling site access for permanent employees with security clearances, and for ensuring that "Q" sensitive clearances were kept to a minimum, were not totally effective.
- *Review of DOE's Personnel Security Clearance Program*, (DOE/IG-0323, March 1993). Security clearances continued to be granted to individuals who did not specifically require access to classified material. Furthermore, Departmental offices did not always follow established procedures for clearance terminations, initial justifications, and recertification of clearance requirements.
- *Richland Operations Office Oversight of Management & Operating Contractor Personnel Security Clearances, Richland, Washington*, (WR-B-91-1, November 1990). Security clearances were not kept to a minimum to meet mission requirements and issued only to those with a need-to-know.
- *Review of Contractors' Personnel Security Clearances at the DOE Field Office, Albuquerque*, (WR-B-91-8, September 1991). Albuquerque granted "Q" level clearances to contractor employees who did not need access to classified information to perform official duties.

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Property Management – Since 1985, the Office of Inspector General had issued 27 reports detailing problems with the Department's management of personal property. Listed below are examples of reports that relate to issues included in this report.

- *Disposal of Excess Capital Equipment at the Fernald Environmental Management Project – Fernald, Ohio*, (DOE/IG-0320, February 1993). Westinghouse did not dispose of Government equipment in accordance with Federal and DOE regulations, contract terms, and company policy. It also mixed contaminated equipment with uncontaminated equipment, disposed of Government equipment without DOE notification and approval, and sold Government equipment and scrap materials at less than maximum prices.
- *Inspection of Management of Excess Personal Property at Rocky Flats*, (DOE/IG-0329, May 1993). Immediate management attention was needed to properly control, store, and dispose of excess personal property, and the current system of operation did not allow for efficient, timely, and cost effective management. Current storage and disposal practices were not consistent with contract requirements or DOE policies and procedures, and the required property management system had not been approved by DOE.
- *Department Management of the Ross Aviation, Inc. Contract Aircraft Major Spare Parts Inventory, Albuquerque, New Mexico*, (WR-B-91-6, July 1991). Approximately \$447,000 (acquisition and interest carrying costs) of low-use major spare parts inventory was excessive.
- *Audit of Property and Equipment at Battelle, Columbus, Ohio – A Contractor to the Office of Civilian Radioactive Waste Management*, (CR-B-91-01, February 1991). Internal control weaknesses in Battelle's property management system contributed to the loss of equipment in Battelle's custody. Management had not placed sufficient emphasis on such internal control procedures as property identification, recording and accounting procedures for protecting Government property.
- *Department of Energy Oversight of Lawrence Livermore National Laboratory Property Management*, (WR-OC-90-1, February 1990). Livermore was retaining, in unofficial storage, government-owned personal property acquired at a cost of about \$30 million. Project managers were holding this property so that it was unavailable to others. During this holding period, some of it became obsolete and some deteriorated.
- *Management of Capital and Sensitive Property at the Strategic Petroleum Reserve*, (ER-OC-89-22, September 1989). Boeing Petroleum Services, Inc., did not identify all sensitive items susceptible for personal use or readily convertible to cash in accordance with DOE Property Management Regulations.
- *Summary Report on the Department of Energy's Management of Personal Property*, (DOE/IG-0344, March 1994). Certain Departmental contractors were operating without approved property management systems, did not conduct required physical inventories nor properly identify property as excess, and could not account for personal property in their possession.

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- *Audit of Personal Property Management at Los Alamos National Laboratory*, (DOE/IG-0338, December 1993). Los Alamos did not have an efficient and effective personal property management system to ensure that personal property was adequately protected, identified, and controlled, and Albuquerque did not approve or disapprove Los Alamos' personal property management system consistent with Federal and DOE regulations.
  - *The Inspection of the Management of Excess Personal Property at Sandia National Laboratory, Albuquerque, New Mexico*, (DOE/IG-0343, March 1994). Immediate management attention was needed to properly control, store, and dispose of excess personal property at Sandia National Laboratory.

Quality Assurance Laboratory Testing – Since 1990, the Office of Inspector General had issued six reports detailing problems with the Department's use of analytical laboratories. Listed below are examples of reports that relate to issues included in this report.

- *Audit of the Department of Energy's Commercial Laboratory Quality Assurance Evaluation Program*, (DOE/IG-0374, June 1995). Contractors conducted redundant quality assurance evaluations of commercial laboratories, did not evaluate others, applied standards inconsistently, produced inconsistent results, and did not communicate those results among contractors.
- *Audit of the Richland Operations Office Site Characterization Plan*, (DOE/IG-0368, March 1995). Neither the Department nor the Richland Operations Office evaluated alternatives to ensure that two site characterization activities were accomplished in a cost-effective manner. Certain economic factors in performed sample analyses were not considered by either the Department or the Richland Operations Office.
- *Audit of Effectiveness and Efficiency of the Rocky Flats Analytical Services Program*, (CR-B-95-01, November 1994). The M&O contractor at Rocky Flats did not evaluate alternatives to contractor provided analytical services. Instead, the contractor used in-house laboratories to provide analytical services when less expensive and more efficient services were available from subcontract laboratories.

## **Appendix 4**

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### **GUIDANCE ON FEDERAL AGENCY FOLLOW-UP SYSTEMS**

Office of Management and Budget Circular A-50 provides the policies and procedures for use by executive agencies in the audit follow-up process and emphasizes that high priority shall be given to the process. The Circular specifically establishes the following 11 standards for Federal agency follow-up systems:

1. Provide for appointment of a top-level audit follow-up official.
2. Require prompt resolution and corrective actions on audit recommendations. Resolution shall be made within a maximum of six months after issuance of a final report or, in the case of audits performed by non-Federal auditors, six months after receipt of the report by the Federal Government. Corrective action should proceed as rapidly as possible.
3. Specify criteria for proper resolution and corrective action on audit recommendations, whether resolution is in favor of the auditor or an auditee. These criteria should provide for written plans for corrective action with specified action dates, where appropriate.
4. Maintain accurate records of the status of audit reports or recommendations through the entire process of resolution and corrective action. Such records shall include appropriate accounting and collection controls over amounts determined to be due to the Government.
5. Provide a means to assure timely responses to audit reports and to resolve major disagreements between the audit organization and agency management or contracting officials. The process should provide sufficient time to permit resolution to take place within the 6-month limit.
6. Assure that resolution actions are consistent with law, regulation, and Administration policy; and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.
7. Provide for coordinating resolution and corrective action on recommendations involving more than one program, agency, or level of Government.
8. Provide semi-annual reports to the agency head on the status of all unresolved audit reports over six months old, the reasons therefor, and a timetable for their resolution; the number of reports or recommendations resolved during the period; the amount of disallowed costs; and collections, offsets, write-offs, demands for payment and other monetary benefits resulting from audits. These reports should include an update on the status of previously reported unresolved audits.
9. Provide for periodic analysis of audit recommendations, resolution, and corrective action, to determine trends and system-wide problems, and to recommend solutions.
10. Assure that performance appraisals of appropriate officials reflect effectiveness in resolving and implementing audit recommendations.

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11. Provide for an evaluation of whether the audit follow-up system results in efficient, prompt, and proper resolution and corrective action on audit recommendations. The first evaluation will be made within one year of the date of the OMB Circular No. A-50, and evaluations will be made periodically thereafter.

## Appendix 5

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### Department of Energy

Washington, DC 20585

June 15, 1999

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDIT SERVICES

FROM:

*Michael L. Telson*  
MICHAEL L. TELSON  
CHIEF FINANCIAL OFFICER

SUBJECT:

Comments on Draft Report on "The U.S. Department of Energy's Audit Follow-up Process"

We have reviewed the subject draft report and have the following comments:

I believe our audit follow-up process is essentially a sound one. As pointed out in your draft report, the Department currently has a comprehensive audit follow-up process in place. Our process requires that a corrective action plan, with target completion date(s), be prepared for all agreed upon recommendations. These actions are then tracked in the Departmental Audit Report Tracking System (DARTS) until implemented and an "assurance of effectiveness of corrective actions taken" is provided by the Head of the responsible Departmental Element. In addition, the Departmental Internal Control and Audit Review Council (DICARC), which is composed of senior management officials, oversees the audit resolution and follow-up process. However, I agree with your recommendations for strengthening our process.

Top management has given renewed emphasis to resolution and follow-up of audit findings. The Deputy Secretary receives weekly reports on audit activity and monthly status reports which provide substantive information on audits. Recently, these reports have been specifically focused on audits with sensitive issues and significant findings. The Department is also currently implementing procedures to ensure the Secretary's senior advisors review responses to audits and keep the Office of the Secretary informed on all significant audit matters.

Our detailed response to the specific recommendations in the draft report is attached.

Attachment



Printed with soy ink on recycled paper

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**Management Response To  
Draft Inspector General Report  
“The U.S. Department of Energy’s Audit Follow-up Process”**

**RECOMMENDATIONS**

We recommend that the Office of the Chief Financial Officer:

1. “Schedule regular meetings of the DICARC emphasizing audit follow-up issues.”

**MANAGEMENT RESPONSE**

Concur

We will schedule at least one meeting annually and more if necessary to bring to the DICARC’s attention those audit resolution and follow-up issues requiring its guidance. This action will be implemented during calendar year 1999.

2. “In accordance with OMB Circular A-50, provide the Deputy Secretary with a periodic analysis of audit recommendations and field management input to determine trends and system-wide issues facing the Department.”

**MANAGEMENT RESPONSE**

Concur

We are currently providing the Deputy Secretary with weekly reports on audit activity and with monthly status reports. Recently, monthly reports have been specifically focused on audits with sensitive issues and significant findings. In addition the Chief Financial Officer alerts the Deputy Secretary to any sensitive audit activity on an ad-hoc basis. However, we will perform periodic analyses of audit recommendations, resolution, and corrective action and report systemic problems to the Deputy Secretary. This action will be implemented during calendar year 1999. We will coordinate with your office in preparing this report.

3. “Work with the Office of Field Integration to develop a program involving personnel with functional and technical expertise to verify that corrective actions are taken.”

**MANAGEMENT RESPONSE**

Concur In Principle



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The CFO will work with the Office of Field Integration to develop and implement a plan for ensuring the effectiveness of audit follow-up. However, any such program must be cost effective, within existing resource constraints, and avoid the re-introduction of “checkers checking the checkers.” This plan will be developed during calendar year 1999.

4. “Reassess the roles and responsibilities of the audit liaison function and commit the resources necessary to resolve audit findings and track corrective actions.”

#### **MANAGEMENT RESPONSE**

Concur

We have undertaken an effort to improve our automated system capabilities for audit tracking and follow-up. Our goal is a system that will be more responsive to the needs of our audit resolution staff, thereby increasing efficiency and productivity. When we have determined the effect the resultant automation on efficiency, we will reassess roles and responsibilities and the resources needed for this function in relation to our other requirements and priorities. This action will be implemented during calendar year 1999.

5. “Develop specific performance measurements for enhancing the speed and effectiveness of corrective actions called for in audit reports.”

#### **MANAGEMENT RESPONSE**

Concur

The CFO already has two performance measures that deal with expediting audit resolution: (1) Zero repeat audited financial statement deficiencies noted in IG reports to HQ and Field Offices, and (2) Zero IG and GAO audit recommendations open more than one year after management decision. We will review these measures and the standards in OMB Circular A-50 to determine if any revisions are warranted. This action will be implemented during calendar year 1999.

We also recommend that the Assistant Secretary for the Office of Nonproliferation and National Security:

1. “Create and implement an action plan to eliminate security clearance investigation backlogs and processing delays”.

#### **MANAGEMENT RESPONSE**

Concur.

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The Secretary recently announced a consolidation of the Department's security functions. The Secretary has committed that the reinvestigation backlog will be eliminated by the end of fiscal year 1999. The detailed procedures, funding, and other issues related to meeting this commitment are currently being discussed. The Department plans to implement actions necessary to eliminate the backlog during FY 1999. The newly appointed Security Czar will oversee this area and bring security investigation backlog and funding issues to the attention of Lead Program Secretarial Officers.

2. "Work with Offices of Chief Financial Officer; Defense Programs; Science; Environmental Management; and Nuclear Energy, Science and Technology to conduct a fiscal year-end assessment of the decentralized funding for security clearances".

#### **MANAGEMENT RESPONSE**

Concur in principle.

The Secretary's commitment to consolidate security functions within the Department is currently in the process of being implemented. Since the restructuring and reorganization currently underway will have an effect on the way the Department budgets for security investigations and other security activities, we do not believe that it would be prudent or productive to conduct the recommended analysis this fiscal year. However, after the new budget structure for security is developed and in place for a year, we will assess the way we budget for security functions in the Department.

Additionally, we recommend that the Assistant Secretary for the Office of Environmental Management:

1. "Fully develop and implement an action plan to establish a Departmentwide program for reviewing commercial analytical laboratories."

#### **MANAGEMENT RESPONSE**

Concur.

The Office of Environmental Management (EM) has undertaken several actions to develop an accreditation program for analytical laboratories. EM's National Analytical Management Program (NAMP) and its predecessors have initiated a number of actions to address the report findings. These include establishment and maintenance of database systems for the exchange of data between DOE contractors coordinating sampling and analysis activities for EM. These systems were redesigned in 1999 and are being populated for immediate use. The databases form a functional group along with databases containing results of the performance-evaluation programs and information on analytical methods. In addition, NAMP has worked with the

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United States Environmental Protection Agency (EPA) to establish a nationally recognized and accredited audit program within DOE. NAMP has applied for 'Accrediting Body Status' as a Federal agency and expects approval in the near future. NAMP has also pioneered the development of a national contract that will provide a vehicle for implementing reciprocity of laboratory audits between contractors. Finally EM has issued "Guidance on Quality Assurance for Environmental Sampling and Analysis" in 1994. This guidance included standard laboratory assessment guides that facilitate the acceptance of laboratory audit findings across multiple DOE contractors.

These numerous actions were designed to: address the need to reduce the redundant laboratory audits performed within DOE; standardize the audit process; make available findings of the audit results; and eventually move the laboratory audit process to the private sector (third-party). The proposed NAMP budget for FY 2001 contains a request for \$600K that would allow a transition to the private sector. Based on the values quoted in DOE/IG-0374 (\$2.4M in 1993 dollars annually for commercial laboratory evaluations) the cost savings as a result of implementing these actions are estimated to be \$1.8M in the first year, with the entire savings to be realized during subsequent years.

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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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