

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

MATTERS IDENTIFIED AT THE
OAK RIDGE OPERATIONS OFFICE
DURING THE AUDIT OF THE DEPARTMENT'S CONSOLIDATED
FISCAL YEAR 1998 FINANCIAL STATEMENTS

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Eastern Regional Audit Office
Oak Ridge, TN

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OVERVIEW

INTRODUCTION AND OBJECTIVE

The Government Management Reform Act of 1994 requires that audited financial statements covering all accounts and associated activities of the Department be submitted annually to the Office of Management and Budget. A Departmentwide audit of the consolidated Fiscal Year 1998 financial statements was conducted by examining internal controls, assessing compliance with laws and regulations, evaluating accounting transaction cycles, and testing selected account balances at various Department facilities.

The objective of the Departmentwide audit was to determine whether the Department's consolidated financial statements presented fairly, in all material respects, the financial position of the Department as of September 30, 1998 and 1997, and its consolidated net cost, changes in net position, budgetary resources, financing activities, and custodial activities for the fiscal years then ended in conformity with Federal accounting standards. Departmentwide issues are addressed in Audit Report No. IG-FS-99-01, issued February 25, 1999.

The purpose of this report is to inform Oak Ridge Operations Office management concerning matters that came to the attention of the Office of Inspector General during the audit at Oak Ridge Operations Office and Lockheed Martin. Oak Ridge Operations Office is responsible for the account balances entered into the Department's core accounting system.

SCOPE AND METHODOLOGY

The audit was conducted from May 1998 through January 1999 at the Oak Ridge Operations Office and Lockheed Martin. Specifically, we examined internal controls, assessed compliance with applicable laws and regulations, and selectively tested account balances reported to Departmental Headquarters as necessary to achieve the Departmentwide audit objective.

Audit work was performed in accordance with generally accepted Government auditing standards for financial audits. Since we relied on computer-generated data, we evaluated the general and application control environment of certain financial systems and evaluated the reliability of the data on a test basis.

Because the audit was limited, it would not necessarily disclose all the internal control weaknesses that may have existed. Furthermore, because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. The issues addressed in this report represent our observations of activities through the end of fieldwork on January 5, 1999. Projections of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

In addition to the audit work conducted by the Office of Inspector General, Lockheed Martin internal audit personnel reviewed the payroll cycle at Lockheed Martin. The results of the internal audit work were reported separately through internal audit's normal reporting process. Also, an independent public accounting firm reviewed Nuclear Materials Inventories, Pension and Other Post-Retirement Liabilities, Disbursements, and Finance and Revenue.

The Office of Inspector General considered all findings generated as a result of these reviews when preparing the audit report on the Department's consolidated Fiscal Year 1998 financial statements (Audit Report No. IG-FS-99-01) and the management report referred to in that report. The Office of Inspector General is addressing issues requiring local management attention in this report.

Oak Ridge Operations Office management waived the exit conference.

OBSERVATIONS

We observed that Oak Ridge Operations Office provided inaccurate data to Departmental Headquarters for the environmental remediation of its active facilities. Specifically, the data contained duplicative facilities, and for some facilities, the data was based on outdated measurements. As a result, the Department's accrued liability for remediation of active facilities was overstated by \$46.6 million at September 30, 1998. We recommend that Oak Ridge Operations Office institute internal controls to ensure that its active facility remediation data is accurate.

Management concurred with the finding and recommendation and has agreed to take corrective action.

Details of the observations and management's response are on page 3.

(Signed)
Office of Inspector General

DETAILS OF OBSERVATIONS

Active Facility Data

The Department's accrued liability for active facilities represents anticipated remediation costs for facilities that are conducting ongoing operations but will ultimately require stabilization, deactivation, and decommissioning. The field offices provide Departmental Headquarters with estimated data detailed by facility type and footprint (number of floors and square footage). From this data, the Department generates its accrued liability for remediation of facilities. As of September 30, 1998, the Department's accrued liability for active facilities was about \$20 billion.

The active facility remediation data that Oak Ridge Operations Office provided to Departmental Headquarters contained duplicative facilities and, in some cases, was based on outdated measurements. Specifically, two facilities included in the data, White Oak Creek and White Oak Lake, had also been included in data submitted for the Environmental Management program facilities. Likewise, the data included the Dye Penetration Waste Storage facility, which had also been included in data submitted for pipeline facilities. These duplications resulted in a \$44.3 million overstatement of the active facility accrued liability at September 30, 1998. In addition, the accrued liability for 6 facilities was overstated by \$2.3 million because the submitted data was based on outdated measurements. An inadequate system of internal controls for active facility data contributed to this condition.

Recommendation

The Manager, Oak Ridge Operations Office, should institute internal controls to ensure that active facility remediation data is accurate.

Management Response

Management concurred with the finding and stated that its responsible management and integrated contractor has been directed to ensure that active facility remediation data are not duplicated in the program. Management indicated that a letter is being transmitted to the contractor directing that internal controls be established which mandate that the active facilities listing and facility square-footage data be updated and reviewed prior to the end of the fiscal year. Management also stated that it will continue to monitor the contractor's progress in establishing and instituting these controls.

Auditor Comment

The planned action is responsive to the intent of the recommendation.

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