DOE/IG-0443

AUDIT REPORT

THE U.S. DEPARTMENT OF ENERGY'S FUNDS DISTRIBUTION AND CONTROL SYSTEM AT THE FEDERAL ENERGY TECHNOLOGY CENTER

APRIL 1999

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

April 5, 1999

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)
Inspector General

SUBJECT: INFORMATION: Report on "Audit of the U.S. Department of Energy's Funds Distribution and Control System at the Federal Energy Technology Center"

BACKGROUND

In Fiscal Year 1998, the Federal Energy Technology Center (FETC) was responsible for managing about $723 million in budgetary resources. The objective of this audit was to determine if FETC had a funds distribution and control system to ensure appropriated funds were managed in accordance with congressional intent and applicable policies and procedures.

RESULTS OF AUDIT

Improvements are needed in FETC's administration of budgetary and accounting transactions. FETC did not have a comprehensive system to allocate indirect costs to funding programs and work-for-others projects. In addition, FETC did not completely adhere to Headquarters Clean Coal budget direction. The Office of Inspector General (OIG) reached its conclusions despite a scope impairment. Written documentation was not always available, and the audit team did not have ready access to key personnel who could explain certain transactions and management practices and procedures.

In order to strengthen the FETC financial management system, the OIG recommended (1) the development of policies, procedures, and practices to accurately collect and allocate indirect costs and (2) improvements in internal control procedures. The OIG also recommended that the Chief Financial Officer conduct a detailed "for cause" review of the financial management practices at FETC and work with the Office of Field Management to develop a schedule for reviewing the financial management systems of all Departmental elements.

MANAGEMENT REACTION

The Chief Financial Officer and FETC's management concurred with the audit recommendations. As a result of the draft report, the Chief Financial Officer initiated a one week review of FETC's accounting and budgeting practices and agreed to conduct a more indepth review once FETC also had an appropriate amount of time to implement the report's recommendations. FETC management has developed an action plan to correct OIG noted deficiencies and has informed its employees that they need to cooperate with the OIG.

Attachment

cc: Deputy Secretary
Under Secretary

The U.S. Department Of Energy's Funds Distribution And Control System At The Federal Energy Technology Center

TABLE OF CONTENTS

Overview

INTRODUCTION AND OBJECTIVE

In December 1996, two of the U.S. Department of Energy's (Department) research, development, and demonstration centers, the Morgantown Energy Technology Center in Morgantown, West Virginia, and the Pittsburgh Energy Technology Center in Pittsburgh, Pennsylvania, were consolidated into the Federal Energy Technology Center (FETC). The merger was accomplished to make Departmental operations work better and cost less. The mission of the newly created FETC organization was to solve national energy and environmental problems. In Fiscal Year 1998, FETC received about $722.9 million in budgetary funds from 14 different appropriation accounts.

FETC manages the Department's Fossil Energy research and development programs for coal and natural gas-based energy supply, as well as programs to produce technologies for environmental clean-up. It also conducts an in-house research program to support external projects. As of September 1998, FETC employed approximately 550 Federal and about 600 support contractor employees.

FETC reports to the Assistant Secretary for Fossil Energy. Management onsite consists of the Executive Board, which includes the FETC Director, Deputy Director, and seven Associate Directors. The Associate Directors manage FETC's seven operating divisions: Fuels & Specialty Markets, Power Systems, Environmental Management, Project Management, Science and Technology, Program Support and Site Operations, and Systems and Environmental Analysis. Using appropriations from Fossil Energy, Clean Coal, Environmental Management, and work-for-others, these divisions are responsible for achieving the FETC mission.

The objective of this audit was to determine if FETC had a funds distribution and control system to ensure appropriated funds were managed in accordance with congressional intent and applicable policies and procedures.

CONCLUSIONS AND OBSERVATIONS

Improvements were needed in FETC's funds distribution and control system. That system allowed (1) inappropriate cost allocations and (2) budgetary inconsistencies, which could result in the misuse of appropriated funds. For example, FETC did not allocate indirect costs to work-for-others or charge all appropriation accounts equitably. With regard to budgetary inconsistencies, funding authority was created over and above what was allocated to FETC for program direction. In addition, FETC management did not follow budget guidance promulgated by both Headquarters and FETC Clean Coal Technology Demonstration Program (Clean Coal) officials.

The cost allocation and budget problems occurred because FETC did not have policies and procedures in place to allocate indirect costs. Also, FETC officials did not sufficiently emphasize sound financial management practices and internal controls. As a result, FETC could not demonstrate the accuracy of its cost allocation system or that appropriated funds were being spent in accordance with the controls established by the Department and the intent of the Congress.

The Office of Inspector General (OIG) reached its conclusions despite a scope limitation. FETC personnel did not always make written evidence and documentation available or easily accessible to the audit staff. Similarly, requests for documentation essential to the audit were not forthcoming or were unreasonably delayed. In addition, when documents were provided, they did not contain the level of detail necessary to verify the accuracy, reliability, and completeness of financial transactions. This scope limitation is discussed more fully on Pages 11 and 12 of the report.

Management agreed with the audit recommendations and stated that numerous corrective actions had already been taken but took issue with certain facts and provided additional information that was incorporated into the report where appropriate. As a result of the draft report, the Chief Financial Officer initiated a review and discussions with FETC officials regarding their management controls and response to the finding and recommendations. FETC officials reevaluated their management controls and provided an action plan to the Acting Assistant Secretary for Fossil Energy. The Director also issued a memorandum that stated that all FETC employees were expected to cooperate fully in any external survey, audit, or investigation.

The issues discussed in this report should be considered by the Department when preparing the yearend assurance memorandum on internal controls.

(Signed)
Office of Inspector General

FETC's funds distribution and control system had significant weaknesses in its cost allocation procedures and financial management system. FETC did not allocate indirect costs equitably to all of its funding programs or to work-for-others projects. Funding authority also was created over and above what was allocated to FETC for program direction, and FETC management did not follow Headquarters guidance relating to the Clean Coal program.

Cost Accounting Issues

Indirect costs were not fully allocated to FETC's benefiting programs and work-for-others projects. The appropriate allocation of the full cost of operations is essential if the Department's executives and the Congress are to have reliable and relevant data. The allocation of indirect costs also ensures consistency between costs reported in financial reports and costs provided to financial managers. Indirect costs generally include all costs incurred for centralized operations office and general operating costs essential to maintaining a functioning operations office or site. These costs should be allocated to all benefiting programs. The following discussions of (1) benefiting program allocation and (2) work for others illustrate the inappropriate cost allocation processes disclosed at FETC.

Benefiting Program Allocation

Contrary to applicable Departmental guidelines, FETC generally did not allocate site support costs to its benefiting programs. This was confirmed by a study performed by FETC and testimonial statements made by management officials as part of this audit.

In Fiscal Year 1998, FETC did charge site support costs to one of its funding programs--Clean Coal. This allocation, however, appeared to be arbitrary and was not properly supported with adequate documentation. Specifically, FETC charged the Clean Coal program $3.8 million. The FETC Chief Financial Officer stated that this was done because $3.8 million was the only amount available in the Clean Coal program direction account after deducting for direct salaries and other support costs. Similar charges were not allocated to the Environmental Management program.

Inquiries were made regarding the basis for the $3.8 million allocation, but FETC was not able to provide documentary support for this transaction. An official indicated that it was "understood" that the Clean

Coal program would be charged a portion of the site's institutional costs. Another official stated that "using Clean Coal money for Fossil Energy was not an issue" because "all of the money was under the same Assistant Secretary." Federal Accounting Standards require the establishment of a systematic process for allocating direct and indirect costs. Taking "what's left" is not an appropriate method for allocating costs to the funding program.

We also noticed that FETC's institutional budget for Fiscal Year 1997 required the Environmental Management (EM) program to pay approximately $2 million for its share of site support costs. However, in FY 1998, EM was not charged for these costs. Fossil Energy (FE) was of the opinion that an appropriation committee report permitted FETC to use FE program direction funds to support other DOE activities. Our review of the report language indicated that it was not clear, and FE's interpretation was not in keeping with traditional cost accounting methodologies.

Work For Others

FETC, in addition, did not follow Departmental policy with respect to allocating indirect costs to work for other Federal agencies and non-Federal entities. Departmental policy, as stated in DOE Order 481.1, *Work For Others*, and DOE Order 2110.1A, *Pricing of Departmental Materials and Services*, requires that pricing be based on full cost recovery. Prices charged to external parties should include all direct and allocable costs of producing the material or providing the service.

FETC's work-for-others projects, at the time of the audit, totaled $272.7 million. The largest project, a $49.2 million task assignment for the General Services Administration (GSA), was for the implementation of information technology resources acquisitions. FETC charged GSA 3.5 percent for indirect expenses. The funds were collected from GSA, but these amounts were not applied back to the appropriate funding program. Instead, they were made available to other parts of the technology center. Thus, part of GSA's funds was used to support other programs unrelated to the GSA effort.

The audit team was informed that the remaining FETC work-for-others projects (totaling $223.5 million) were not charged any amount for indirect costs. A detailed review of four work-for-others projects confirmed this assertion. Because indirect costs were not applied to these projects, the Department was inappropriately subsidizing the operations of other Federal agencies and the private sector.

Errors And Anomalies

The FETC Financial Information System (FIS) contained various coding errors and anomalies. DOE Order 534.1, *Accounting*, and DOE M 534.1-1, *Accounting Handbook*, require that Departmental elements establish accounting systems that accurately record and report financial information relating to cash, liabilities, reimbursable work, collections, and expenses. Departmental elements must also ensure that their records contain sufficient details to account for all DOE funds, assets, liabilities, and costs.

A July 1998 FIS report showed 28 negative obligations totaling to $4,563,513 and 13 negative payment transactions totaling to $4,215,077. The audit team, in its initial discussions with FETC personnel and in its review of the Department's Accounting Handbook, could find no explanation or support for these negative balances. In a subsequent discussion, a FETC budgeting and financial management official indicated that several of the balances were coding errors. However, specific documentation supporting the initial transactions was not available for audit examination.

Budgetary Inconsistencies

FETC also did not establish proper controls over budgetary authority. Obligational and funding authority was created over and above what was allocated to FETC for program direction, and FETC did not follow Headquarters budget guidance.

<u>Obligational Authority</u>

FETC's program direction allocation was augmented by the use of a suspense account. DOE Order 135.1, *Budget Execution - Funds Distribution and Control*, and the related DOE M 135.1-1, *Budget Execution Manual*, provide that funds allocated from Headquarters are subject to an obligation control level. The control level represents the upper limit placed on the amount of obligations or expenditures that may be incurred for a specific program, function, or element of expense.

In Fiscal Year 1998, Headquarters officials allocated $48.7 million to FETC for program direction. This amount was increased by $4.9 million through the use of a suspense account. Use of the suspense account was not readily apparent in the Departmental Integrated

Standardized Core Accounting System (DISCAS) and would have gone undetected unless an individual had known of its existence. Statements made to the audit team indicated that similar transactions of this type have been made in previous years. As a result of these transactions, FETC inappropriately augmented its program direction account. We could find no rationale to support these actions.

Budget Guidance

FETC, in addition, did not follow budget guidance contained in the Clean Coal Program Implementation Plan (PIP). The PIP is the result of joint planning conducted by FETC and Headquarters executives, and it identifies the program financial transactions that require the obligation of Clean Coal appropriated funds. Increases to the PIP require Headquarters approval.

The FY 1998 PIP established FETC Clean Coal program salaries and benefits for 50 Full Time Employees (FTEs) at $4.5 million. Despite this guidance, the FETC Chief Financial Officer and an Executive Board member indicated that the Clean Coal program would be charged an additional $700,000. In a discussion about the increased amount, an Executive Board member stated that 50 FTEs had worked on Clean Coal projects at a cost of $5.2 million. He further stated that the difference between the PIP and FETC salary amounts was due to Headquarters using the wrong numbers in the PIP.

The audit team examined salary and benefit charges to the Clean Coal program. Both a Clean Coal official and the audit analysis indicated that only 45 FTEs were actually supporting the Clean Coal program. Documentation supporting the additional $700,000 in payroll charges was not available for audit examination. Further, we could find no indication that Headquarters approved this increase.

Establishment Of A Sound Funds Distribution And Control System

The cost allocation and budget problems occurred because FETC did not have policies and procedures in place to allocate indirect or support costs. Also, FETC officials did not sufficiently emphasize sound financial management practices and internal controls. For example, the internal control systems did not provide for proper segregation of duties and documentation and review of transactions. In addition, personnel who left the Budget and Financial Management Division had not been replaced, and there had not been a recent external review of FETC that may have detected some of the weaknesses in the funds distribution and control system.

Cost Distribution

Following the merger, FETC did not develop written policies and procedures for allocating costs. Rather than following the normal process for allocating indirect costs to funding programs, an individual in the Budget and Financial Management Division used a database to reallocate actual costs based on initial budget estimates rather than expenses incurred. The purpose of this process was not documented; however, by adjusting costs to fit to a predetermined formula, FETC was no longer associating actual costs with work performed.

FETC attempted to rectify the situation in 1997 for work-for-others projects. A Direct/Indirect Cost Team was formed. Its objective was to determine a methodology to develop indirect cost rates for services offered to FETC's outside customers. The team produced a report that included many useful recommendations; however, there was no indication that FETC was using the methodology of the report to assign indirect charges to work-for-others projects.

Internal Control

There were also weaknesses in internal control over financial transactions. For example, one person at FETC had sole responsibility for entering the institutional budget, obligating and costing funds, adjusting cost amounts, and creating yearend adjustments to uncosted balances on support service contract amounts. The OIG was informed that this individual has since left the organization and that others are learning to perform these functions. No individual, however, should have sole responsibility over all these types of transactions.

In another example, FETC's budgeting and financial management personnel were not regularly reviewing transaction and exception reports. A DISCAS report provided listings of invalid user entries such as "over advice at funds control level" or "over obligation at the B&R summary." But this report was not used at FETC even though the Department's Deputy Controller had emphasized that such error reports should be reviewed on a regular basis.

A Fossil Energy management official informed us that, as a result of the merger, FETC had lost many knowledgeable budgeting and financial management personnel. Key employees either retired or were transferred out of the Budget and Financial Management Division and, at the time of the audit, replacements had not been found.

A 1998 FETC summary management review noted the loss of key personnel and the fact that there had been no formal reviews of the financial system. The review indicated that little progress was made in the development of financial policies and procedures, and that reallocation of duties had created turmoil in the Budget and Financial Management Division. Also, periodic backlogs in processing information occurred, and without additional staffing support, the backlogs increased risk. Despite this assessment, FETC's yearend memorandum to the Acting Assistant Secretary for Fossil Energy stated that management controls were working effectively and that the financial management system had been evaluated and conformed to applicable standards.

Oversight Of FETC Financial Activities

The Headquarters Offices of Chief Financial Officer and Fossil Energy were not aware of the internal control weaknesses at FETC because of the positive assertions made by senior officials and the fact that the Department's Chief Financial Officer had not reviewed FETC financial management systems since 1991. Both the Pittsburgh and Morgantown Energy Technology Centers were subject to a 1991 compliance review by the Headquarters Chief Financial Officer. Since 1995, the Chief Financial Officer has utilized the Department's Business Management Oversight Process (BMOP) for Headquarters reviews over field activities. The BMOP reviews have focused primarily on larger Departmental field activities. At the time of the audit, FETC, because of the size of its operations, had not been scheduled for a review. We noted that there were other similarly sized organizations within the Department that had not been subjected to business oversight reviews.

Importance Of An Internal Control System

The audit findings led us to conclude that FETC had not developed or implemented a comprehensive system of financial controls. FETC had not developed adequate financial management policies and procedures or ensured that appropriate documentation was available to support all transactions. FETC also had not developed a cost distribution system that consistently and equitably applied indirect costs to benefiting programs and work-for-others projects. In addition, despite requirements for appropriate segregation of duties, several transactions appeared to have been authorized, processed, recorded, and reviewed by one individual. Taken together, these weaknesses prevented FETC from assuring its customers and stakeholders that its financial reports, use of funds, and billing of customers were accurate and supportable.

RECOMMENDATIONS

We recommend the Director, Federal Energy Technology Center:

1) Develop, document, and implement policies, procedures, and practices for collecting and allocating indirect costs to FETC funding programs and work-for-others projects.

2) Develop and implement a system of internal controls over financial management that includes:
   a) documentation of control systems and all transactions that are readily available for examination;
   b) separation of responsibilities in authorizing, processing, recording, and reviewing transactions;
   c) continuous supervision to ensure that the internal control objectives are achieved; and
   d) necessary staff resources to accomplish assigned duties.

We recommend that the Chief Financial Officer:

1) Conduct a "for cause" review to ensure that FETC is performing financial management according to established Departmental policies and procedures; and

2) Work with the Office of Field Management to develop a schedule to review, based on risk, the financial operations of field and Headquarters' reporting units.

MANAGEMENT REACTION

FETC concurred with the recommendations and indicated that individuals within its Budget and Financial Management Division are working to institute improvements and a financial reporting structure relating to internal controls, recovery of indirect costs, the development of written budget and accounting desk procedures, and the evaluation of training and workload distribution. FETC will coordinate these policies with the Headquarters' CFO Office of Policy to ensure full compliance with Departmental policy. FETC intends to complete its action plan by October 1999. In addition, the Director of FETC issued a memorandum for all FETC employees indicating that they were expected to fully cooperate in any external survey, audit, or investigation. (See Appendix 3.)

The Chief Financial Officer agreed with the report's recommendations and approved and coordinated the FETC action plan and response to the draft report. With regard to the recommendations, the Office of Chief Financial Officer plans to perform a follow-up review of FETC financial management activities after management has had an appropriate amount of time to implement the report's recommendations. It also plans to pursue with the Office of Field Management the need to perform periodic cyclical reviews of financial management activities at the Department's other Field sites.

AUDITOR COMMENTS

Management comments are responsive to the recommendations.

Appendix 1

SCOPE

The audit was performed from May 11, 1998, to November 10, 1998, at the Federal Energy Technology Center (FETC) offices in Pittsburgh, Pennsylvania, and Morgantown, West Virginia, and at Fossil Energy, Clean Coal Technology and the Chief Financial Officer's offices in Washington, DC and Germantown, Maryland. The review included an examination of Fiscal Year 1998 appropriated funds.

In conducting the audit, we considered the audit scope impaired. The audit team was not provided with complete documentation for many transactions and did not have full access to key personnel during the review. Responses to information requests were delayed, and FETC officials chose not to provide the Office of Inspector General with requested information because they "could not devote critical resources to researching" information requests. In addition, restrictions were placed on audit interviews. For example, documentary support requested in July of 1998 was not provided, and in September 1998, FETC officials indicated that the information requested in July would not be available due to yearend closeout activities. Generally, when documentation was provided, it did not contain the level of detail necessary to support the statements made by budget and accounting personnel.

FETC procedures also required individuals contacted by the OIG to submit a "contact report," to be forwarded and distributed to management in the FETC organization. The "contact report" practices at the FETC may have inhibited knowledgeable employees from speaking freely or providing candid views on the issues under audit. On March 22, 1999, FETC management eliminated the contact report requirement.

On several occasions the audit team met with senior FETC officials to discuss the tentative results of audit. During these discussions, FETC officials indicated that they were in the process of initiating certain corrective actions, and at the final meeting, offered to provide a corrective action plan addressing the issues noted in this report. The Office of Inspector General, on October 15, 1998, formally provided FETC the opportunity to have any corrective actions referenced in our report. However, FETC decided it would be preferable to formulate a corrective action plan following receipt of the draft report.

In response to the draft, FETC in coordination with the Office of Chief Financial Officer, provided additional information that was reflected in the report as appropriate.

METHODOLOGY

To achieve the audit's objective, Federal financial accounting standards and related Departmental guidance were reviewed to determine the requirements for funds distribution and control. DOE Orders related to budget execution and accounting and related manuals were also examined to determine the systems, policies, and requirements for the execution and control of the Department's budgetary and accounting processes. In addition, *U.S. General Accounting Office Standards for Internal Controls in the Federal Government* were reviewed to establish the requirements necessary for systems of internal control directed by the Federal Managers' Financial Integrity Act of 1982. Further, a variety of internal FETC and Clean Coal program reports were reviewed to gain insight into the methodology for determining indirect rates for work-for-others projects and the Fiscal Year 1998 budget amounts. Finally, prior audit reports and responses to findings were assessed to determine their applicability to FETC and the operation of the Departmental Integrated Standardized Core Accounting System (DISCAS).

Discussions were also held with FETC and Headquarters officials. Meetings were conducted with the Fossil Energy and Clean Coal Technology program budget and financial management officials to obtain information with regards to appropriation language and budgeting processes.

The audit examined various budgetary and accounting transactions. FETC allotment postings totaling to $722.9 million were matched against allotments posted on DISCAS for the month ending June 1998. FETC employee Budget and Reporting (B&R) codes for pay periods ending May 9 and May 23, 1998, were compared against Fiscal Year 1998 codes assigned at the beginning of the year. Four work-for-others agreements were also reviewed to determine whether indirect charges had been allocated to these projects and FETC accounts.

Except for the scope impairment previously noted, the audit was conducted in accordance with generally accepted Government auditing standards for financial related audits which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the objectives of the audit. Internal controls were reviewed with regards to controls over funds distribution and control. Because the review was limited, it would not have disclosed all internal control deficiencies that may have existed. Computer-processed data was used only as necessary to review internal controls over budgetary and financial transactions.

An exit conference was held with representatives from the Offices of Chief Financial Officer, Fossil Energy, and the Federal Energy Technology Center on March 22, 1999.

Department of Energy
Washington, DC 20585

February 26, 1999

MEMORANDUM FOR WILLIAM S. MAHARAY
MANAGER, CAPITAL REGIONAL AUDIT OFFICE
OFFICE OF THE INSPECTOR GENERAL

FROM: for MICHAEL L. TELSON Elizabeth E. Smedley
CHIEF FINANCIAL OFFICER

SUBJECT: Draft Report on "Funds Distribution and Control System at the Federal Energy Technology Center"

Thank you for the opportunity to comment on the subject Draft Report. We have reviewed the findings and recommendations and agree with the recommendations in the report. We have some issues with specific facts as presented in the findings which are addressed in the attachments to this memorandum.

With respect to the recommendations addressed to the Chief Financial Officer, we plan to perform a follow-up review of FETC financial management activities after management has had an appropriate amount of time to implement the report's recommendations. We will also pursue with the Office of Field Management the need to perform periodic cyclical reviews of financial management activities at the Department's other Field activities.

For those recommendations addressed to the Federal Energy Technology Center, we have attached a detailed Action Plan (Attachment A) with a schedule for implementing corrective actions. The follow-up review performed by Headquarters CFO will concentrate on validating corrective actions taken.

Attachment B contains our detailed response to the recommendations addressed to Headquarters CFO. Attachment C contains FETC's detailed response and Attachment D contains additional information supporting FETC's reply including a memorandum from the Manager, FETC, reiterating to all FETC employees our policy requiring full cooperation with auditors.

If you have any questions regarding our response, please call Rick Sweeney or (Woody) Fisher of my staff on 301-903-2551.

Attachments

U. S. Department of Energy
Federal Energy Technology Center
3610 Collins Ferry Road
P.O. Box 880
Morgantown, WV 26507-0880

626 Cochrans Mill Road
P.O. Box 10940
Pittsburgh, PA 15236-0940

FETC
We Solve National Energy and Environmental Problems

FEB 11 1999

MEMORANDUM FOR ROBERT W. GEE
ACTING ASSISTANT SECRETARY FOR FOSSIL ENERGY

FROM: RITA A. BAJURA
DIRECTOR, FETC

SUBJECT: Management Control and Financial Management System Review

Following receipt of the Draft Inspector General Report entitled "Funds Distribution and Control System at the Federal Energy Technology Center," we have reevaluated our management controls. The Draft Report revealed areas where improvements are needed. Those areas of improvement include the development of FETC policies and procedures on the recovery of indirect costs, the development of written budget and accounting desk procedures, and the evaluation of training and workload distribution within the new Budget and Financial Management Division.

Most areas of improvement have been identified in summary management reviews completed during Fiscal Year 1998. However, we did not believe at the time that these areas met the definition of a reportable problem. We have reconsidered our position with the issuance of the Draft Report, and we now consider our weaknesses to be a reportable problem. The Action Plan (Attachment A) summarizes remedies for these weaknesses.

If you or your staff has any questions on this subject, please contact me or Janet Hogler, Chief Financial Officer, at (412) 892-6153.

Attachment

cc: Inspector General, Pittsburgh Group
L. E. Mills, HQ
J. R. Sweeney, HQ (2)

REPLY TO: Morgantown Office
Voice (304)285-4511 • FAX (304)285-4403 • rbajur@fetc.doe.gov • http://www.fetc.doe.gov

Department of Energy
Germantown, MD 20874-1290

FEB 19 1999

MEMORANDUM FOR MICHAEL L. TELSON
CHIEF FINANCIAL OFFICER

FROM: J. RICHARD SWEENEY, DIRECTOR
OFFICE OF PROGRAM LIAISON AND FINANCIAL ANALYSIS

SUBJECT: Draft Report on "Funds Distribution and Control System at the Federal Energy Technology Center"

As discussed at our recent briefing, we have reviewed and are in agreement with the findings and recommendations in the Draft Report which are addressed to the Chief Financial Officer. Our specific comments are as follows:

Financial Oversight. In accordance with the Department's Business Management Oversight Process which requires performance-based oversight, Headquarters CFO has performed limited onsite reviews of financial management activities at the Department's Field sites. The IG report is correct in stating that we have not performed any onsite review work at FETC sites since the early 1990's. Our oversight since that time has been limited to analysis of financial and performance information reported by FETC.

Recommendations. We agree with the Inspector General's recommendations to the Chief Financial Officer and plan to perform a followup review of FETC financial management activities after management has had an appropriate amount of time to implement the report's recommendations. We will also pursue with the Office of Field Management the need to perform periodic cyclical reviews of financial management activities at the Department's other Field sites.

Please call T. (Woody) Fisher of my staff on 3-2557 if you have any questions regarding our comments.

U. S. Department of Energy
Federal Energy Technology Center
3610 Collins Ferry Road
P.O. Box 880
Morgantown, WV 26507-0880

626 Cochrans Mill Road
P.O. Box 10940
Pittsburgh, PA 15236-0940

FETC
We Solve National Energ and Environmental Proble

February 10, 1999

MEMORANDUM FORALL FETC EMPLOYEES

FROM: RITA A. BAJURA *(ORIGINAL SIGNED BY)*
DIRECTOR, FEDERAL ENERGY TECHNOLOGY CENTER

SUBJECT: Cooperation with External Auditors

All employees are expected to cooperate fully in any external survey, audit, or investigation (e.g., Office of the Inspector General, General Accounting Office). As you know, my policy is that anyone can talk to anyone, and this is no exception. Open communications with external auditors are necessary and encouraged.

To facilitate communications between FETC and external auditors, I am designating Tom Torkos, Associate Director for the Office of Program Support & Site Operations, as FETC's Audit Liaison. During any audit or follow-up, auditors will be asked to brief Mr. Torkos twice a month to ensure that they are receiving the full cooperation of employees. Mr. Torkos will keep me advised of all audit-related issues.

If any FETC employee believes they are being discouraged by their supervisor or management from openly communicating in an audit or investigation, they should notify me immediately.

cc R. Gee, FE
M. Telson, CFO
G. Friedman, IG
W. Maharay, IG
R. Lewandowski, IG

REPLY TO: Pittsburgh Office
Voice (412)892-6125 • FAX (412)892-6127 • torkos@fetc.doe.gov • http://www.fetc.doe.gov

IG Report No. DOE/IG-0443

CUSTOMER RESPONSE FORM

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.

Name ______________________________ Date ___________________________

Telephone __________________________ Organization _____________________

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following alternative address:

U.S. Department of Energy Management and Administration Home Page
http://www.hr.doe.gov/ig
or
http://www.ma.doe.gov

Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.

This report can be obtained from the
U.S. Department of Energy
Office of Scientific and Technical Information
P.O. Box 62
Oak Ridge, Tennessee 37831