

U.S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

REPORT ON MATTERS IDENTIFIED AT THE
OAKLAND OPERATIONS OFFICE
DURING THE AUDIT OF THE DEPARTMENT OF ENERGY'S
CONSOLIDATED FISCAL YEAR 1998 FINANCIAL STATEMENTS

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

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OAKLAND OPERATIONS OFFICE
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CONSOLIDATED FISCAL YEAR 1998 FINANCIAL STATEMENTS

Audit Report Number: WR-FS-99-04

SUMMARY

The Government Management Reform Act of 1994 requires that the Department of Energy (DOE) annually submit audited financial statements to the Office of Management and Budget (OMB). A DOE-wide audit was conducted to determine whether there was reasonable assurance that DOE's consolidated Fiscal Year (FY) 1998 financial statements were free of material misstatements. We conducted a portion of the DOE-wide audit at the Oakland Operations Office (Oakland) and its management and operating contractors.

The audit at Oakland and its contractors disclosed deficiencies in computer network security. In addition, Oakland had not completed corrective actions on a prior finding related to delinquent federal receivables.

We recommended that improvements be made to computer network security. Management agreed with the finding and recommendations and initiated corrective actions.

(Signed)
Office of Inspector General

PART I

APPROACH AND OVERVIEW

INTRODUCTION

The Government Management Reform Act of 1994 requires that audited financial statements covering all accounts and associated activities of DOE be submitted annually to OMB. A DOE-wide audit of the consolidated FY 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 DOE facilities.

The objective of the DOE-wide audit was to determine whether the DOE consolidated financial statements presented fairly, in all material respects, the financial position of DOE 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. DOE-wide issues are addressed in Audit Report No. DOE/IG-FS-99-01, issued on February 25, 1999.

The purpose of this report is to inform Oakland management of matters that came to the attention of the Office of Inspector General (OIG) during the audit of Oakland and its contractors. Oakland is responsible for the account balances entered into DOE's core accounting system.

SCOPE AND METHODOLOGY

The audit was conducted from April 1998 through January 1999 at the Oakland Operations Office, Oakland, California; Lawrence Livermore National Laboratory, Livermore, California; and Lawrence Berkeley National Laboratory, Berkeley, California. Specifically, we examined internal controls, assessed compliance with applicable laws and regulations, and selectively tested account balances reported to DOE Headquarters as necessary to achieve DOE-wide audit objectives.

The audit 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 of the internal control weaknesses that may have existed. Furthermore, because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless 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. Projection 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 that the effectiveness of the design and operation of policies and procedures may deteriorate.

In addition to the audit work conducted by the OIG, internal audit personnel and an independent public accounting firm reviewed certain cycles. Lawrence Livermore National Laboratory (Livermore) internal audit personnel reviewed the Payroll Cycle and reported the results to its own management in a separate report. There were no findings issued as a result of the payroll review. An independent accounting firm reviewed the Overview, Disbursements, Financing and Revenue, and Pension and Other Post-Retirement Liabilities cycles. The accounting firm also evaluated computer network security at Oakland and Lawrence Berkeley National Laboratory (Berkeley).

The OIG considered all findings, generated as a result of these reviews, when preparing the DOE-wide report and the management report referred to in that report. The OIG is addressing issues requiring local management's attention in this report. Oakland management waived the exit conference.

OBSERVATIONS

We observed internal control deficiencies in computer network security at Oakland and Berkeley. We recommended that Oakland take immediate action to strengthen computer network security at both locations. Management concurred with the recommendations and took corrective actions. Oakland had not completed corrective actions on one finding contained in the prior year's report.

Part II of this report provides additional details concerning the audit results and management's comments. Part III provides the status of a prior year open finding and recommendations.

PART II

AUDIT RESULTS

Computer Network Security

Federal and DOE directives require that procedures be developed and implemented to prevent misuse and abuse of unclassified computer resources. Included are access controls, such as passwords and user identifications, to limit or detect access to computer programs, data, equipment, and facilities. However, Oakland controls were insufficient to limit access to computing resources and to detect unauthorized access. At Berkeley, there were weaknesses in monitoring computer security and correcting identified weaknesses. As a result, computer networks and components at both locations were vulnerable to unauthorized access, modification, and loss or disclosure of data.

Recommendations

We recommend that:

1. Oakland take immediate action to strengthen its computer network security; and,
2. The Oakland Manager direct Berkeley to strengthen its computer network security.

Management Comments

Oakland agreed with both recommendations and stated that it had completed corrective actions to its system. Oakland also stated that Berkeley would complete its corrective actions by August 1999.

Auditor Comments

The comments provided by Oakland management are responsive to the intent of our recommendations. We plan to conduct follow-up reviews of management's effort to correct the conditions described and assess the effectiveness of corrective actions as part of our audit of DOE's FY 1999 consolidated financial statements.

PART III

STATUS OF PRIOR YEAR OPEN FINDING AND RECOMMENDATIONS

This section provides the status of an open finding reported in the *Report on Matters Identified at the Oakland Operations Office During the Audit of the Department's Consolidated Fiscal Year 1997 Financial Statements* (Report Number WR-FS-98-05; July 8, 1998). This finding is still pending resolution or requires further attention.

Collection of Accounts Receivable from Other Federal Agencies

Oakland had not implemented DOE's debt collection procedures for collecting delinquent accounts receivable from other federal agencies. We recommended that Oakland (1) request guidance from the DOE Chief Financial Officer (CFO) on how delinquent receivables should be referred to the Attorney General and (2) direct Livermore to fully implement the DOE debt collection strategy. Oakland stated that it would explore alternative collection approaches with DOE's CFO and work with Livermore.

Status

Oakland Finance personnel met with Headquarters CFO representatives in December 1998 and reviewed a proposed draft policy paper. The policy paper had not been issued pending completion of discussions with the Department of Justice. Oakland will advise Livermore of actions to be taken when guidance is received from the CFO.

The OIG contacted the DOE CFO's Office of Financial Policy, which stated that unresolved interagency claims should be referred through the DOE CFO to the Attorney General for resolution. The CFO agreed to assist Field CFOs in their collection efforts.

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