



Department of Energy

Washington, DC 20585

December 20, 2005



MEMORANDUM FOR THE ADMINISTRATOR, NATIONAL NUCLEAR SECURITY
ADMINISTRATION
CHIEF FINANCIAL OFFICER
DIRECTOR, OFFICE OF MANAGEMENT

FROM: *William S. Maharay*
William S. Maharay
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Office of Inspector General

SUBJECT: Audit Report on "Federal Managers' Financial Integrity Act"
Audit Report No.: OAS-L-06-04

We reviewed selected aspects of the Department of Energy's (Department) implementation of the *Federal Managers' Financial Integrity Act* (FMFIA) of 1982. FMFIA requires that agencies establish management control and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist. In response, the Department developed a management control program for evaluating the adequacy of the management controls and determining whether they conform to the principles and standards established by the Office of Management and Budget (OMB) and the Government Accountability Office (GAO). The results of these evaluations and other information provided by senior management are used to determine whether there are any material weaknesses.

As a result of its evaluation of management controls, the Department identified "Significant Issues" that represent the most important matters facing the Department and has been pursuing corrective actions to mitigate these challenges. Our most recent *Special Report: Management Challenges at the Department of Energy* (DOE/IG-0712, December 2005) describes several of these issues that we considered to be among the most serious challenges and details the progress made to address them. The Department's efforts, if implemented successfully, should enhance its ability to correct problems and strengthen its overall management control structure.

The objective of our audit was to determine whether the Department's Fiscal Year (FY) 2005 evaluation of management controls was carried out in a reasonable and prudent manner and adequately disclosed detected waste or other reportable problems.

RESULTS OF AUDIT

The Department's FY 2005 evaluation of management controls was generally carried out in a reasonable manner and adequately disclosed known instances of reportable problems. However, we found that not all Departmental elements appropriately conformed to the requirements of the Department's management control program and/or Federal policies. Specifically:



- The process followed by the National Nuclear Security Administration (NNSA) does not conform to the Departmental directive governing the FMFIA process. We found that the FY 2005 submission prepared by NNSA did not discuss whether the organization's review identified reportable problems and did not contain required corrective action plans. In particular, we observed that NNSA did not describe action needed to update the Stockpile Stewardship Departmental Action Plan – an action necessary to address the Significant Issue on Stockpile Stewardship reported in the Department's FY 2004 Performance and Accountability Report. NNSA officials informed our office that they closely track actions taken to resolve control and performance issues and believed that the preparation of separate corrective action plans was unnecessary. These same officials acknowledged, however, that NNSA was subject to the Departmental directive that requires the preparation and submission of corrective action plans.
- The Office of Environment, Safety and Health did not provide an updated Departmental Action Plan for the portion of the Safety and Health Significant Issue for which it is responsible. This Significant Issue was also reported by the Secretary during FY 2004.
- While the Federal Energy Regulatory Commission's (FERC) assurance memorandum identified two reportable problems, it did not reveal the nature of the problems in an executive summary and did not submit corrective action plans as required. Similarly, the Richland Operations Office did not submit a corrective action plan for a new reportable problem. The Western Area Power Administration also did not include a corrective action plan for a reportable nonconformance that was closed during the year.
- Naval Petroleum Reserves (NPR)–Casper did not conduct its required financial management system review. An Office of Internal Review official stated that this review should have been conducted because NPR–Casper enters its own data into the accounting system.
- Twenty-five of the Departmental elements did not submit their assurance memoranda in time to meet the established milestones; and,
- Six Headquarters and seven field elements did not include all items required as prescribed for the corrective action plans.

Many of the problems identified above could have been avoided by focusing on adherence to established policies and guidelines. We also observed that quality assurance reviews performed by the Department's Office of Internal Review did not always identify reporting problems. For

example, issues we identified related to FERC's assurance memorandum submission were not discovered during the Office of Internal Review's quality assurance process.

SUGGESTED ACTIONS

In light of the concerns discussed above, the Chief Financial Officer, in coordination with the Administrator, National Nuclear Security Administration, and the Director, Office of Management, should:

1. Emphasize, through training and annual guidance, the necessity of complying with the Department's management control program requirements related to accuracy, timeliness, and completeness; and,
2. Develop a more stringent methodology for reviewing assurance memoranda.

No recommendations are being made in this report, and a formal response is not required. We appreciate the cooperation of the various Departmental elements that provided information or assistance.

Attachment

cc: Chief of Staff

SCOPE AND METHODOLOGY

The Department of Energy's (Department) evaluation of its management controls was examined for compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) of 1982, the Government Accountability Office's "Standards for Internal Control in the Federal Government," Office of Management and Budget Circulars A-123 and A-127, and Department Order 413.1A, "Management Control Program." The results of the Department's evaluation of management controls are included in the Department's Fiscal Year (FY) 2005 Performance and Accountability Report. This report provides critical financial and program performance information in a single report as authorized by the Reports Consolidation Act of 2000 and addresses a number of significant issues faced by the Department.

Our review was made in accordance with generally accepted Government auditing standards and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy our objective. Accordingly, we assessed internal controls regarding the FMFIA reporting process. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our evaluation. We assessed the FY 2005 Draft Performance and Accountability Report as it relates to FMFIA, along with supporting documentation filed by selected Departmental organizations, to determine whether the results of their evaluations were accurately reported. Also, we performed work to determine whether the Department developed corrective action plans for significant issues identified during its FY 2005 FMFIA reporting process. We did not rely on computer-processed data to accomplish our audit objective.