

**Department of Energy**

Washington, DC 20585

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MEMORANDUM FOR THE CHIEF FINANCIAL OFFICER

FROM:

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William S. Maharay  
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for Audit Services  
Office of Inspector General

SUBJECT:

Audit Report on "Federal Managers' Financial Integrity Act"  
Audit Report No.: OAS-L-08-06

We reviewed selected aspects of the Department of Energy's (Department) implementation of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. FMFIA requires the head of the agency to provide an annual assurance statement on whether internal control and financial systems provide reasonable assurance that the integrity of Federal programs and operations is protected. In response, the Department developed a program for evaluating the adequacy of internal controls and determining whether they conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. 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 internal controls, the Department identified several Leadership Challenges and the related actions it is taking to mitigate them. Our most recent Special Report: *Management Challenges at the Department of Energy* (DOE/IG-0782, December 2007) incorporates most of the issues identified by the Department and more fully describes our views on its most serious challenges and efforts to address them. The objective of this audit was to determine whether the Department's Fiscal Year (FY) 2007 evaluation of internal controls was carried out in a reasonable and prudent manner and adequately disclosed detected waste or other reportable problems.

**RESULTS OF AUDIT**

Overall, the Department's FY 2007 evaluation of internal controls was carried out in a reasonable manner and generally disclosed known instances of reportable problems. Consistent with our suggested action from last year, we noted that the Richland Operations Office disclosed their planned corrective actions in FY 2007. Other organizations, however, did not revise their FMFIA processes in accordance with our suggestions, which were intended to ensure conformance to the requirements of the Department's internal control program and/or Federal policies. Specifically:

- As we noted in previous years, the National Nuclear Security Administration (NNSA) continues to employ a process that does not conform to the Departmental directive governing the FMFIA effort. The FY 2007 Assurance Memorandum submitted by NNSA



did not discuss whether the organization's review identified any reportable problems. In addition, while most of the Department's Leadership Challenges affect NNSA, it did not include action plans for any of them. Leadership Challenges are the most important matters requiring resolution by the Department and include areas such as contract administration, security, and stockpile stewardship. Adequate disclosure of planned actions to address such matters is fundamental to open recognition and proper reporting as required by the Department's internal control program. These same issues were noted in our prior year FMFIA review of NNSA. In its response to last year's audit report, NNSA indicated that it has its own FMFIA process and does not conform to the Department's directive. However, the Department directive covering FMFIA specifically states that it is applicable to NNSA.

- The Naval Petroleum Reserve (NPR) at Casper, Wyoming did not conduct its required financial management system review. This same issue was noted in our FY 2006 FMFIA report. The Department's Office of Internal Review indicated that they will take actions to help ensure the NPR's compliance in FY 2008.
- Timeliness and completeness problems continue. Almost half of the Departmental elements – 19 of 41 – did not submit their Assurance Memoranda in time to meet established deadlines. Additionally, five Headquarters elements did not include all disclosures, statements and action plans required in Assurance Memoranda.

### SUGGESTED ACTIONS

Current Department policies and guidelines clearly delineate management's responsibilities for establishing and maintaining adequate internal control programs. Where there is recurring nonconformance, additional direction may be necessary to ensure compliance with established requirements. Accordingly, we suggest that:

1. The Administrator, NNSA disclose all planned corrective actions and the Director, NPR conduct financial management system reviews in accordance with current policies and guidelines; and,
2. Heads of Department elements continue to emphasize the necessity for complying with the Department's internal control program requirements related to accuracy, timeliness, and completeness.

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

Attachment

cc: Deputy Secretary  
Under Secretary of Energy  
Under Secretary for Science  
Under Secretary for Nuclear Security  
Chief of Staff

Attachment

**SCOPE AND METHODOLOGY**

The Department of Energy's (Department) evaluation of its internal 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 internal controls are included in the Department's Fiscal Year (FY) 2007 Agency Financial Report.

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 2007 Agency Financial 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 Leadership Challenges identified during its FY 2007 FMFIA reporting process. We did not rely on computer-processed data to accomplish our audit objective.