



Department of Energy

Washington, DC 20585

December 10, 2004



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

FROM: *William S. Maharay*
William S. Maharay
Deputy Inspector General for Audit Services
Office of Inspector General

SUBJECT: Federal Managers' Financial Integrity Act Audit Report
Audit Report No.: OAS-L-05-01

We reviewed selected aspects of the Department of Energy's (Department) implementation of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The objective of FMFIA, and the Department's management control program, is to ensure that controls are working effectively and that program and administrative functions are performed in an economic and efficient manner consistent with applicable laws.

As a result of its evaluation of management controls, the Department identified "significant issues", which it considered to be the most serious matters facing the Department. While not material weaknesses as defined under FMFIA, the Department has undertaken a campaign to resolve these issues. Our most recent *Special Report: Management Challenges at the Department of Energy* (DOE/IG-0667, November 2004), describes several of these issues that we considered to be among the most serious challenges facing the Department and details progress made to address them. The Department's efforts, if ultimately successful, should enhance the Department's 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 2004 evaluation of management controls was carried out in a reasonable and prudent manner and adequately disclosed previously detected waste or other reportable problems. The attachment to this report details the scope and methodology used to conduct our audit.

RESULTS OF AUDIT

The Department's Fiscal Year 2004 evaluation of management controls was generally carried out in a reasonable and prudent manner and adequately disclosed known instances of waste or other reportable problems. However, all of the Departmental elements did not conform to the requirements of the Department's management control program. Specifically:



- The Office of Legacy Management did not conduct the required evaluation or report on its management controls. This office was newly established in December 2003 and funded at about \$37 million in Fiscal Year 2004;
- Three out of 44 program elements did not include detailed corrective action plans for their new and/or prior year reportable problems as required. The Department uses the corrective action plans to identify root causes, establish critical milestones, assess progress, track corrective actions, and ensure timely completion;
- The Department did not update its listing of entities required to prepare and submit assurance memoranda that was needed to ensure the Department's evaluation of management controls included all appropriate programs, administrative functions, and other sensitive areas; and,
- Twenty-three Headquarters and field elements did not submit their assurance memoranda in time to meet established milestones. In one case, the National Nuclear Security Administration (NNSA) submitted its assurance memorandum 15 days after the Departmental Internal Control and Audit Review Council (DICARC) convened to discuss the results of the management controls evaluations required to comply with FMFIA.

Although the Office of Program Liaison and Financial Analysis identified similar concerns during quality assurance reviews, such information was not always communicated to program officials in time for them to modify or correct their evaluation reports. When issues were communicated, they were usually provided informally to working level officials. In many instances, program officials lacked the time to correct deficiencies in their evaluation reports because they did not complete the reports until after the deadline for submission. As we have noted in previous years, problems of the sort identified, if left uncorrected, could lessen the level of assurance the Secretary can provide on the status of the Department's management controls to the President and the Congress.

SUGGESTED ACTIONS

The Department must ensure it has a rigorous process to evaluate management controls if it expects to be successful in implementing new requirements for assessing internal controls over financial reporting currently under consideration by the Office of Management and Budget. In light of these concerns, the Director, Office of Management, Budget and Evaluation/Chief Financial Officer, should improve the Department's quality assurance process for FMFIA and work closely with the programs to ensure deficiencies are identified and corrected in a timely fashion. Specifically; the Director should:

- Formalize the quality assurance review process and direct significant findings and concerns to the head of responsible program elements;

- Re-emphasize the importance of completing and timely reporting on the evaluation of management controls at the program level; and,
- Annually update the list of entities required to prepare and submit assurance memoranda and work closely with any new entities to ensure successful completion of the management evaluation process.

In making our assessment relating to these and other matters, we coordinated closely with the Office of Program Liaison and Financial Analysis officials and discussed the suggestions noted above on November 24, 2004. They agreed to act on our suggestions and coordinate with Departmental elements, including NNSA, to resolve these concerns before next year's FMFIA process. Since no recommendations are being made in this letter report, 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
Director, Policy and Internal Controls Management, NA-66

SCOPE AND METHODOLOGY

The Department of Energy's (Department) evaluation of its control systems 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 DOE Order 413.1.A, "Management Control Program." The results of the Department's evaluation of control systems was included in the Department's Fiscal Year 2004 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, which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We assessed the 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 Fiscal Year 2004 FMFIA reporting process.




Department of Energy
National Nuclear Security Administration
Washington, DC 20585



DEC 17 2004

MEMORANDUM FOR William S. Maharay
Deputy Inspector General
for Audit Services

FROM: Michael C. Kane 
Associate Administrator
for Management and Administration

SUBJECT: Recommendations for the Evaluation of NNSA's Federal
Managers' Financial Integrity Act Processes

On December 10, 2004, the Inspector General (IG) issued their Letter Report, OAS-L-05-01, "Federal Managers' Financial Integrity Act Audit Report." NNSA appreciates the IG's annual review of the Federal Managers' Financial Integrity Act (FMFIA) process and views the results of the annual review as a report card, in part, of NNSA's Internal Controls process.

DEC 17 2004

As I am sure you are aware, NNSA built its Internal Control's process on the statutory requirements of the FMFIA and on the requirements of Office of Management and Budget (OMB) Circular, A-123. When NNSA was established, we used these two documents as the source documents, rather than the Department's Order on Management Controls, to integrate our Internal Controls structure into the NNSA methodology of operations. One of the principal reasons for utilizing this approach is the NNSA Act that defines NNSA as a separately organized agency within the Department. It is because of this organizational distinction, and the NNSA's approach to managing internal controls that I am writing you to explain NNSA's approach to the requirements of the FMFIA, and the subsequent annual IG review of the process. I would also like to request a meeting to further discuss differences between the Department's processes and NNSA's processes.

Below are comments related to the RESULTS OF AUDIT portion of the Letter Report:

1. There is a phrase that indicates that "Departmental elements did not conform to the requirements..." NNSA has no issue with the IG's statement as it recognizes the NNSA approach which does not conform with the requirements of the Department's management control program. That was by design as I will describe later in the memorandum. Equally important is the term "Departmental elements." NNSA believes that it should not be included in the grouping of programmatic elements. As a separately organized agency within the Department, we have three programmatic and four administrative/staff functions that are at the same level as Program Secretarial Offices. Additionally, our eight site offices and our service center would normally be considered Departmental elements if they

were not part of NNSA. Our position that it is inaccurate to include NNSA with other Departmental elements is not precedent setting. NNSA's budget is formulated and developed separately from the rest of the Department. While the budget is submitted to OMB under one cover, once the budget reaches OMB the NNSA portion is provided to the Defense examiner while the remainder of the Departmental budget is provided to the Energy and Water examiner;

2. The statement that certain program elements did not include detailed corrective action plans is also correct, as NNSA was one of those who did not include such plans. NNSA believes that preparing corrective action plans solely for the purpose of meeting the Departmental Order duplicates management, administrative, and programmatic efforts that NNSA has in place to address our deficiencies. For example, we prepare corrective action plans for individual audits and reviews that are conducted by elements external to NNSA. However, the NNSA Planning, Programming, Budgeting and Evaluation process is a process that integrates elements from our Strategic Plan, the President's Management Agenda, Management Challenges – from IG, GAO, and self-generated, and external reports and develops performance measures for each program element. This process is carried downward through NNSA programs, Site Offices, the Service Center, and the contractors. A specific example of not having a corrective action plan but incorporating the topic into the process described is that of Stockpile Stewardship; and,
3. The comment that NNSA's letter did not submit its Assurance Memorandum until 15 days after the Departmental Internal Control and Audit Review Council (DICARC) convened is not completely accurate. Our memorandum was signed and dispatched prior to the DICARC meeting (final draft was submitted to the staff office significantly prior to the meeting). The possibility that it was held up somewhere outside of NNSA is troubling, and we will determine what caused the delay in delivery of the final product and adjust our processes accordingly, if appropriate.

I have cited these examples of NNSA's differences as the basis to request a meeting with you and/or your appropriate staff in order to determine the need for the Office of Inspector General to review NNSA separately from Departmental elements. NNSA heartily endorses the FMFIA processes and seeks to make our controls system as efficient and effective as possible.

Should you have any questions regarding this memorandum or desire to meet in order to better understand our structure and methodology of operations, please contact Richard Speidel, Director, Policy and Internal Controls Management.

Memorandum

OFFICE OF INSPECTOR GENERAL

DATE: JAN 05 2005

REPLY TO
ATTN OF: IG-34 (A04FF003)

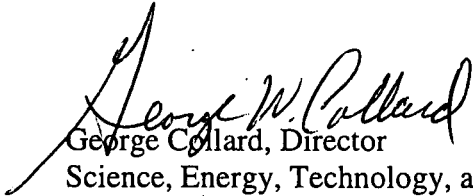
SUBJECT: Final Report Package for "Federal Managers' Financial Integrity Act Audit Report" Audit Report No.: OAS-L-05-01

TO: Rickey R. Hass, Assistant Inspector General for Audit Operations

Attached is the required final report package on the subject audit. The pertinent details are:

1. Actual Staff days: 52.5
Actual Elapsed days: 101
2. Names of OIG and/or contractor audit staff:

Assistant Director:	Kevin W. Majane
Team Leader:	William R. Lubecke
Auditor-in-Charge:	Richard L. Marvin
3. Coordination with Investigations and Inspections: Contact made for coordination purposes via email on September 8, 2004 with Brenda Froberg (Inv.), Vera Shepard (Inv.), and Fatima Pashaei (Insp.).


George Collard, Director
Science, Energy, Technology, and
Financial Audits
Office of Audit Services
Office of Inspector General

Attachments:

1. Final Report
2. Monetary Impact Report
3. Audit Project Summary Report
4. Audit Database Information Sheet

MONETARY IMPACT OF REPORT NO.: OAS-L-05-01

1. Title of Audit: Federal Managers' Financial Integrity Audit Report
2. Division: Science, Energy, Technology, and Finacial Audits
3. Project No.: A04FF003
4. Type of Audit: (Definitions and examples of audit types are found in Chapter 2 of the OIG Audit Manual.)

Financial: X Performance: _____
 Financial Statement _____ Economy and Efficiency _____
 Financial Related X Program Results _____
 Other (specify type): _____

5.

FINDING		BETTER USED		QUESTIONED COSTS			MGT. POSITION	POTENTIAL BUDGET IMPACT
(A)	(B) Title	(C) One Time	Recurring	(E) Questioned Portion	(F) Unsupported Portion	(G) Total	(H) C=Concur N=Noncon U=Undec	(I) Y=Yes N=No
			(D) Amount Per Year					
TOTALS--ALL FINDINGS		0.00	0.00	0.00	0.00	0.00	C	N

6. Remarks: Our issues did not result in funds better used or questioned costs.

7. Contractor: _____
 8. Contract No.: _____
 9. Task Order No.: _____

10. Approvals: _____
 Division Director/Date: George W. Calland 1/5/05
 Technical Advisor & Date: _____

Office of the Inspector General (OIG)
 Audit Project Office Summary (APS)

Report run on: December 22, 2004 9:15 AM

Audit#: A04FF003 Ofc: FFA Title: FMFIA - FY 2004

**** Milestones ****

	Planned	End of Survey	Revised	Actual
	-----	-----	-----	-----
Entrance Conference:.....	01-OCT-03		31-AUG-04	31-AUG-04
Survey:.....				
Draft Report:.....	01-NOV-04			
Completed (With Report):.	30-NOV-04		15-NOV-04	10-DEC-04 (R)
-----Elapsed Days:	426		76	101
			Elap. Less Susp:	

Date Suspended:	Date Terminated:
Date Reactivated:	Date Cancelled:
DaysSuspended (Cur/Tot): ()	Report Number: OAS-L-05-01
Rpt Title:	Report Type: LTR LETTER REPORT

**** Audit Codes and Personnel ****

Class:	FIN FINANCIAL		
Function:	Not Found		
MgtChall:	Not Found		
Site:	Not Found	AD: 530	MAJANE
SecMiss:	Not Found	AIC: 630	MARVIN
PresInit:	Not Found	Team Ldr: 232	LUBECKE
		Tech Adv: 544	ACTON

**** Task Information ****

Task No:	
Task Order Dt:	CO Tech. Rep:
Orig Auth Hrs:	Orig Auth Costs:
Current Auth:	Current Auth Cost:
Tot Actl IPR Hr:	Tot Actl Cost:

**** Time Charges ****

Emp/Cont Name	Numdays	Last Date
BLEIGH, S	2.3	27-NOV-04
LUBECKE, W	10.1	11-DEC-04
MARVIN, R	40.1	11-DEC-04
Total:		52.5

**** Keywords ****

FMFIA

AUDIT DATABASE INFORMATION SHEET

1. Project No.: A04FF003
2. Title of Audit: Federal Managers' Financial Integrity Act Audit Report
3. Report No./Date: OAS-0L-05-01/December 10, 2004
4. Management Challenge Area: None
5. Presidential Mgmt Initiative: Improved Financial Performance
6. Secretary Priority/Initiative: None
7. Program Code: ME
8. Location/Sites: Headquarters
9. Finding Summary:

All Departmental elements did not conform to the requirements of the management control program. Specifically, one element did not conduct the required evaluation, three did not include required action plans, twenty-three did not file on time, and the Department did not update its listing of entities required to file assurance memos.

10. Keywords:

FMFIA
Management Control
Internal Control
Reportable Problems
Integrity Act