



Department of Energy

Washington, DC 20585

November 9, 2007

MEMORANDUM FOR THE SECRETARY

FROM:

Greg Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's Fiscal Year 2007 Consolidated Financial Statements

This is to inform you that the audit of the Department's Fiscal Year (FY) 2007 Consolidated Financial Statements has resulted in an unqualified audit opinion. Pursuant to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP (KPMG) to perform the audit. KPMG was responsible for expressing an opinion on the Department's consolidated financial statements based on its audits and the reports of other auditors for the year ended September 30, 2007.

KPMG concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the Department and its net costs, changes in net position, budgetary resources and custodial activity in conformity with U.S. generally accepted accounting principles. As part of this review, auditors also considered the Department's internal controls over financial reporting and tested for compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on the consolidated financial statements. The examination revealed the following two significant deficiencies in the Department's system of internal controls, neither of which were considered to be material weaknesses:

- **Environmental Liabilities:** Internal control deficiencies were found to exist in the process to identify and record environmental liabilities accurately, completely and in a timely manner. These weaknesses related to the inadequacy of management evaluations of supporting information, the use of erroneous assumptions and outdated information, and data inconsistencies between sites. The total value of the errors resulting from internal control weaknesses did not result in a material misstatement of the liabilities.
- **Unclassified Network and Information Systems:** Network vulnerabilities and weaknesses in access and other security controls over unclassified computer information systems continue to exist. The Department has taken steps to improve network security over the sites that were reviewed in prior years, however, auditors found weaknesses in user access controls, network monitoring, and software usage at the sites reviewed in the current year.



The examination disclosed no instances of noncompliance that are required to be reported under applicable audit standards and requirements. With regard to the specific findings associated with the significant deficiencies, the Department concurred and agreed to take corrective actions.

The Office of Inspector General also engaged KPMG to perform additional audit procedures to test the September 30, 2006, recorded balance of undelivered orders. For FY 2006, KPMG expressed a qualified opinion on the Department's consolidated balance sheet because of accounting issues related to obligations and undelivered orders. Earlier this year, the Department provided sufficient evidential matter to substantiate its undelivered orders balance for the prior year. KPMG performed additional audit procedures on this balance and concluded that the Department's consolidated balance sheet presents fairly, in all material respects, its financial position as of September 30, 2006.

The preparation and audit of financial statements involve many parties. The Department is responsible for preparing and submitting its consolidated financial statements in accordance with Office of Management and Budget requirements and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the public accounting firm of KPMG LLP to conduct this audit. The Office of Inspector General monitored the contractor's progress, and reviewed the audit report and related documentation to ensure compliance with generally accepted Government auditing standards. The Office of Inspector General, however, did not render an independent opinion on the Department's consolidated financial statements.

I would like to thank each of the Department elements for their courtesy and cooperation during the review.

Attachment

cc: Deputy Secretary
Under Secretary of Energy
Under Secretary for Science
Administrator, National Nuclear Security Administration
Chief of Staff
Chief Financial Officer

Audit Report: OAS-FS-08-02

<http://www.cfo.doe.gov/cf1-2/2007afr.pdf>