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STATEMENT OF
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BEFORE
SUBCOMMITTEE ON ENVIRONMENT, ENERGY, AND NATURAL RESOURCES
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
ON
THE DEPARTMENT OF ENERGY'S
ACCOUNTING AND INTERNAL CONTROL SYSTEMS

Mr. Chairman and Members of the Subcommittee:

At this Subcommittee's previous hearing concerning the Department of Energy's financial controls, I announced that a task force would be formed to review financial management problems at the Department. I charged the task force to concentrate on the areas where significant problems appeared to exist, namely, grant and contract management and internal controls. Those problem areas were identified in the Subcommittee's November 10, 1981, report which concentrated to a large extent on the Department's Office of Washington Financial Services. We are working at that location and several of the Department's offices throughout the country. Although the task force effort has not been completed, I would like to address a number of problems warranting attention.

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Accounting systems and
management weaknesses

The Department--like many Government agencies--is operating with several out-dated, poorly documented accounting systems which are not designed to efficiently meet current requirements. For example, the current headquarters general ledger system was developed over 10 years and two organizations ago. According to an October 1981 Department study, many changes have been made and the current system has very little capability to react to new and changed requirements for financial reporting.

We are in the process of reviewing the control features of 5 of the Department's 23 major accounting systems. Our work is not yet complete, and we cannot make an overall assessment of the reliability of the Department's accounting systems at this time. None of the systems we are reviewing have been approved by GAO and only 1 of 23 has been approved in recent years.

We recognize that since its inception in 1977, the Department has undergone major reorganizations, and the existing accounting systems were, for the most part, inherited from various predecessor agencies. The fact remains that these merged accounting systems have not been effective in meeting the increased requirements of the Department. Together with inadequate management control, they make the Department susceptible to financial losses.

We have identified continuing weaknesses in internal control and financial management, including grant and contract administration. Many of the problems previously disclosed by the Subcommittee in the Department's headquarters operation are also problems in the Department's field operations. Often the problems were caused

by the need to quickly implement new programs, such as the strategic petroleum reserve, where according to the Inspector General and other Department officials, possible contract fraud in the millions is under investigation. Overall, the areas we found in need of improvement include:

- internal controls over collections, receivables, and disbursements,
- management of grant funds, and
- contract administration practices.

I will now discuss each of these matters in more detail.

INTERNAL CONTROLS

The Department's accounting systems are decentralized, with autonomous systems being operated at each major location. There are over 70 entities performing one or more basic accounting functions and reporting summary data directly or indirectly to the Department's central financial reporting system. While such decentralization is not necessarily a weakness, it makes the implementation of uniform internal accounting controls extremely difficult. In following up on the Department's control deficiencies disclosed in our September 17, 1981, report on Weaknesses in Internal Financial and Accounting Controls at Department of Energy Accounting Stations, we found that most, but not all, of the problems had been corrected at four of the six locations visited. We have also found additional cases at one or more other locations involving either a lack of controls or a failure to follow the procedures that had

been established. For example,

--grant advances were not properly recorded in the accounting records,

--uncashed and blank checks were not properly safeguarded, and

--apparent Anti-Deficiency Act violations occurred and were not resolved promptly.

The problems we identified are not restricted to pure accounting matters, but also extend into the Department's management of grants and contracts, particularly regarding cash and Government-owned property.

GRANT ADMINISTRATION

According to the Department, there are about 5,800 active grants totaling over \$1.8 billion. Our review to date has disclosed problems in Energy's cash management and grant closeout activities, and has also indicated other administrative weaknesses.

Both Treasury and Energy regulations generally limit funds grantees can receive to immediate needs for cash outlays. We have found that Energy has not been taking appropriate action to quickly recover excess cash or any interest which grantees earned on excess cash.

In our review of grant cash management practices to date, we found evidence of about \$11.5 million in excess Federal cash at various points in time. The grants we reviewed were administered by both headquarters and field offices. In many cases, the Department did not have adequate information for determining whether grantees had excess cash. In other cases, however, information either in the files or otherwise available showed that grantees maintained

excess cash balances for extended periods of time. For example, one State began July 1981 with about \$830,000 in excess cash. Since then, the State's daily Federal cash balance has rarely fallen below \$500,000. In another example, the Department made an erroneous advance payment of over \$700,000 to a public utility in August 1980; the funds were not totally expended until June 1981.

Other problems were found as well: A large backlog of expired grants is still awaiting final closeout; some erroneous and improper payments were made; grant files were missing, and cost reports, and other necessary forms and signatures were missing or were not submitted promptly by grantees.

All of these problems illustrate a lack of adequate attention to grant administrative requirements and strongly suggest that the Department needs to increase its efforts in this area.

CONTRACT ADMINISTRATION

We have also identified a need for improvement in the Department's administration of contracts. We found problems both at headquarters and in the field regarding property control, audit resolution, and closeouts.

Energy estimates that contractors have purchased hundreds of millions of dollars worth of equipment and other items which became Government-owned property, yet the agency does not effectively record and track that property. Although the Department's procedures and regulations require contractors to report the Government property they hold, the regulations have not been uniformly implemented. Some Department procurement offices do not know which contractors

have property, or how much the property is worth. Even where the Department appears to be receiving adequate information from contractors, there is little coordination of what is recorded by procurement compared to the property records kept by the accounting function. In three Department offices we visited, there were significant discrepancies between the records of these two functions--sometimes amounting to tens of millions of dollars.

For example, in one case, the Department's accounting records showed a contractor had about \$900,000 of Government-owned property. After adjusting for a duplicate entry, a comparison with an inventory from the contractor disclosed another \$650,000 worth of unrecorded property. Also, about \$200,000 of the property was excess to his needs.

Officials at some of the locations downplayed these problems, claiming that the property figures could be corrected when the contracts are closed out. However, the Department has reported thousands of expired contracts awaiting closeout action, some for as long as 10 years. Until closed out, the contractors have free use of the property, which can deteriorate or be lost to the Government entirely. This also hinders an already unsatisfactory excess property program which could otherwise permit the unused property to be transferred to current contractors in lieu of purchasing new property.

As with grants, the Department also has cash management problems with contracts. Certain methods for paying contractors' costs require the deposit of funds in noninterest bearing accounts at commercial banks to reimburse the banks for their services. The Department

has not monitored all of these accounts to ensure that only the minimum balances necessary are maintained. As a result, program funds were unavailable for expenditure and the Government's borrowing costs may have been increased. The Department identified this prior to our review as an area needing improvement and issued a draft policy in June 1981 which, if properly implemented, would reduce the excess balances. However, it had not been issued as a final order at the time of our review.

Further indications of contract administration problems can be found at the strategic petroleum reserve project. The Department's Inspector General staff instituted 25 fraud investigations in 1980 and 1981. Our limited review of some expenses for that project identified cases of excessive or improper charges to the Government. Local financial management officials have called for increased audit coverage, but little has been done. In cases where contracts have been audited, prompt action has not always been taken to resolve the audit findings.

The need for effective contract administration cannot be over-emphasized. Without an effective program, the Department, which is one of the largest procuring agencies in the Government, cannot be assured that it is receiving all of the funds and property due it.

OTHER RELATED WORK

We also are working on a number of other assignments that further underline the deficiencies in the Department's financial management. In the near future, we will report on

--Weaknesses at the Department's Chicago operations office in estimating acquisition costs which result in cost growth and lack of management control over projects,

- The degree to which the Department's and other agencies' sole source contract awards could have been competitive,
- Selected internal controls at some of the Department's laboratories and energy technology centers, and
- The Department's system for tracking its contracts and related procurement information.

CONCLUSIONS

I should point out that since the Subcommittee investigation, the Department has taken a number of actions to improve its accounting and overall financial management. Among them are

- Prohibiting the practice of advancing 60 percent of grant funds at the award date,
- Requiring field offices to develop plans for closing out grants and contracts, and
- Directing property management reviews.

The Department's actions are a step in the right direction. However, the task force findings, along with the information developed on our related assignments, indicate that more needs to be done. Top management must give adequate priority and commitment to ensuring strong internal controls and effective financial management systems. The task force will continue its efforts and make recommendations to assist the Department in that endeavor.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions.