

124 331 08453

BY THE U.S. GENERAL ACCOUNTING OFFICE

# Report To The Secretary Of Energy

## The Department Of Energy's First-Year Implementation Of The Federal Managers' Financial Integrity Act

GAO reviewed the processes used by 22 federal departments and agencies to implement the Federal Managers' Financial Integrity Act of 1982. The act was intended to help reduce fraud, waste, and abuse across the spectrum of federal government operations by requiring agencies to assess and report annually on the adequacy of their internal controls and accounting systems.

This report highlights the progress made and problems encountered by the Department of Energy in its first year of experience with this new act. The report focuses on the evaluation of internal controls, reviews of accounting systems, and the improvements being made as a result of identified problems. The Department generally agreed with GAO's proposals to improve its implementation efforts.



029050

GAO/RCED-84-134  
JUNE 7, 1984

**Request for copies of GAO reports should be sent to:**

**U.S. General Accounting Office  
Document Handling and Information  
Services Facility  
P.O. Box 6015  
Gaithersburg, Md. 20760**

**Telephone (202) 275-6241**

**The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".**



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

RESOURCES COMMUNITY  
AND ECONOMIC DEVELOPMENT  
DIVISION

B-202205

The Honorable Donald Paul Hodel  
The Secretary of Energy

Dear Mr. Secretary:

This report culminates our review of how the Department of Energy (DOE) implemented the Federal Managers' Financial Integrity Act of 1982. DOE was 1 of 22 federal departments and agencies we reviewed to assess government-wide compliance with the act during its first year. Section 2 of the act requires each executive agency, following Office of Management and Budget (OMB) guidelines, to evaluate and report annually in a statement to the President and the Congress on the adequacy of its internal control systems. Section 4 requires each agency to report whether its accounting systems conform to principles and standards prescribed by the Comptroller General.

Your December 30, 1983, statement to the President and the Congress fairly represented DOE's efforts to comply with the act. Your statement concluded that (1) DOE's system of internal controls, taken as a whole, provides reasonable assurance that overall internal control objectives are met, but that controls in four areas can be strengthened and (2) the Comptroller General's accounting principles and standards have been incorporated in DOE's accounting systems, but documentation and additional audit coverage is needed to assure complete operational compliance. In particular, the statement recognized that the internal control and accounting systems assurances were based on DOE managers' consideration of weaknesses evidenced by Inspector General and GAO reports and other management reviews, as well as deficiencies noted as a result of implementing the act. A summary of DOE's reported internal control and accounting systems' material weaknesses is in appendix II.

DOE put forth substantial effort in carrying out its responsibilities under section 2 of the act and implementing OMB's internal control guidelines. These guidelines suggest that agencies follow a series of steps in assessing the vulnerability of

their various programs to fraud, waste, and abuse; developing plans for and conducting reviews of the internal controls of those programs judged most vulnerable based on the vulnerability assessments; taking corrective actions; and preparing the required annual statement. While we found no major deficiencies in DOE's first-year implementation efforts, we have noted the following areas where improvements can be made.

In implementing section 2 of the act, DOE did not specify procedures for reviewing the quality of vulnerability assessments. Such procedures would help assure that DOE has a sound basis for scheduling its internal control reviews. Also, not all internal control review recommendations were tracked in DOE's central tracking system, and some may potentially be overlooked and not implemented. Finally, DOE's instructions for conducting vulnerability assessments of automated data processing activities did not clearly designate who should perform the assessments, resulting in omissions from the assessment process.

In reporting, pursuant to section 4 of the act, on DOE's accounting systems compliance with the Comptroller General's accounting principles and standards, the compliance statements prepared by managers of DOE's 18 accounting systems did not always clearly describe or identify all the departmental components that were included in the 18 systems, to assure that all components had been evaluated. DOE also did not have specific review procedures to assure that these compliance statements were complete and accurate. In addition, the accounting systems within DOE have not been completely documented, and the Department needs an effective testing program to ensure that its accounting systems are operating consistently, effectively, and in accordance with established policies and procedures.

To correct the weaknesses we found, we proposed, in a draft of this report, that DOE:

- Develop written procedures for reviewing the quality of vulnerability assessments.
- Periodically follow up on the status of internal control review recommendations not currently tracked under the Department's tracking system.
- Formally designate which DOE managers should perform automated data processing vulnerability assessments.
- Expand the accounting system compliance instructions to require that the departmental components evaluated be clearly identified in the compliance statements.

- Develop specific review procedures to better assure that accounting systems compliance statements are complete and accurate.
- Complete documenting all operating accounting systems.
- Incorporate testing requirements into the Department's accounting systems compliance procedures.

Details of our findings and observations are found in appendix I.

Notwithstanding these weaknesses, DOE has made a good start, under section 2 of the act, toward creating an effective system for assessing its internal controls. Several aspects of DOE's implementation efforts were noteworthy, including top management support and some efforts by individual components. Much work is still unfinished, however, because DOE has not yet completed evaluating its internal control systems. As a result, DOE has not necessarily identified all significant control weaknesses. Thus, as DOE progresses through the internal control evaluation process, the required annual statement should become more meaningful.

In contrast to the act's section 2 internal control requirements, for which OMB furnished guidelines, no specific guidance was provided to executive agencies regarding the steps necessary to determine their accounting systems compliance with the Comptroller General's principles and standards. DOE, as well as other agencies, developed a questionnaire based on the Comptroller General's principles and standards, the results of which were used to determine system compliance.

These accounting systems compliance determinations, in our view, represent a good faith first-year effort to comply with the act's section 4 requirements, but in future years we believe it will be necessary, at a minimum, to (1) fully document accounting systems' design and control objectives and techniques and (2) test the systems' operations, including control techniques, to determine whether they are consistently operating as they should.

In commenting on a draft of this report (see app. III), your Assistant Secretary for Management and Administration concluded that the report provides recommendations that will enhance the effectiveness of DOE's internal control program but disagreed with several statements in our report. The major disagreement concerned our observation in the draft report that your annual assurance statement should be regarded as a tentative opinion pending completion of the internal control evaluation process. We have revised the report to more clearly recognize that the internal

B-202205

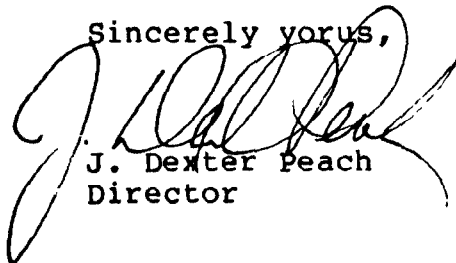
control evaluation process is an ongoing process, but we still believe that your future assurance statements will be more meaningful as more internal control reviews are completed and internal control weaknesses are corrected.

Because of DOE's responsiveness to our specific proposals, we have not included any recommendations in this report. We plan to monitor DOE's progress as part of our continuing review of federal agencies' implementation of the act.

We are sending copies of this report to the Director, Office of Management and Budget; appropriate congressional committees; and other interested parties.

We appreciate the courtesy and cooperation extended to our staff during our work and look forward to carrying on the same spirit of cooperation in subsequent review efforts.

Sincerely yours,

A handwritten signature in black ink, appearing to read "J. Dexter Peach", written over the typed name and title.

J. Dexter Peach  
Director

C o n t e n t s

	<u>Page</u>
APPENDIX	
I	
THE DEPARTMENT OF ENERGY'S FIRST-YEAR IMPLEMENTATION OF THE FINANCIAL INTEGRITY ACT	1
Introduction	1
DOE's organization and operations	3
How DOE evaluated internal controls	3
Organization and segmentation	3
Vulnerability assessments and internal control reviews	4
Year-end reporting	5
Inspector General's role	6
How DOE evaluated accounting systems	6
Objectives, scope, and methodology	7
DOE can improve its process of assess- ing internal controls	8
DOE should establish written procedures for reviewing vulnerability assessments	8
DOE should ensure that internal control review (ICR) procedures are followed	10
DOE should exercise care in making decisions to delay or cancel ICRs	11
DOE should periodically follow up on all internal control review recom- mendations	12
DOE should clarify its instructions to effectively assess and review its ADP functions	13
Conclusions	15
Proposals, agency comments, and our evaluation	15
DOE can strengthen its accounting system compliance efforts	16
DOE should identify which components were evaluated	17
Need for better review and quality assurance	18
Future efforts will need to be more extensive	18
Conclusions	20
Proposals, agency comments, and our evaluation	21

		<u>Page</u>
II	SUMMARY OF INTERNAL CONTROL AND ACCOUNTING SYSTEMS' MATERIAL WEAKNESSES	22
	Internal control material weaknesses	22
	Accounting systems material weaknesses	22
III	LETTER DATED APRIL 19, 1984, FROM THE ASSISTANT SECRETARY, MANAGEMENT AND ADMINISTRATION, DEPARTMENT OF ENERGY	24

#### ABBREVIATIONS

ADP	automated data processing
DOE	Department of Energy
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
ICR	internal control review
OIG	Office of Inspector General
OMB	Office of Management and Budget



THE DEPARTMENT OF ENERGY'S FIRST-YEAR  
IMPLEMENTATION OF THE FEDERAL MANAGERS'  
FINANCIAL INTEGRITY ACT

INTRODUCTION

Responding to continuing disclosures of fraud, waste, and abuse across a wide spectrum of government operations, largely attributable to serious weaknesses in agencies' internal controls, the Congress passed the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. 3512 (b) and (c)). The act was passed to strengthen the existing requirement of the Accounting and Auditing Act of 1950 (31 U.S.C. 3512 (a) (3)) that executive agencies establish and maintain systems of accounting and internal control in order to provide effective control over, and accountability for, all funds, property, and other assets for which the agency is responsible.

We believe that FMFIA's full implementation will enable executive department and agency heads to identify their major internal control and accounting problems, and improve controls essential to developing an effective management control system and a sound financial management structure for their agency.

FMFIA requires that:

- Each agency establish and maintain its internal controls in accordance with standards prescribed by the Comptroller General,<sup>1</sup> so as to reasonably assure that: (1) obligations and costs comply with applicable law, (2) all funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation, and (3) revenues and expenditures applicable to agency operations are properly recorded and accounted for.
  
- Each agency evaluate and submit an annual statement to the President and the Congress on its internal control systems. The statement, due by December 31 of each year, must report whether agency systems of internal control comply with (1) the objectives of internal controls set forth in the act and (2) the standards prescribed by the Comptroller General. The act also provides for agency statements to identify any material weaknesses and describe the plans for corrective action.

---

<sup>1</sup>The Comptroller General issued Standards for Internal Controls in the Federal Government in June 1983.

- Each agency state whether the agency's accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General.<sup>2</sup>
- The Office of Management and Budget (OMB) issue guidelines for executive departments and agencies to use in evaluating their internal control systems. These guidelines were issued in December 1982.

OMB's internal control guidelines propose the following seven-phase approach for evaluating, improving, and reporting on internal controls:

- organizing the internal control evaluation process, including overall planning and direction, and assigning responsibilities,
- developing an agency-wide inventory of programs, functions, or activities (segmenting);
- assessing the vulnerability of the units in the inventory (assessable units) to waste, loss, or unauthorized use, and deciding which segments are most at risk;
- developing plans for performing internal control reviews of those agency programs and functions judged most vulnerable;
- reviewing the internal controls for the selected activities and developing recommendations to correct identified weaknesses,
- taking corrective actions to improve the internal controls; and
- preparing the required annual statement to the President and the Congress on the status of the agency's system of internal control.

This report on the Department of Energy (DOE) is 1 of 22 reports we are issuing on federal department and agency efforts to implement FMFIA during the first year.

---

<sup>2</sup>In April 1983 the Comptroller General issued a Statement of Accounting Principles and Standards for Federal Agencies on the basis of a prior GAO issuance.

## DOE'S ORGANIZATION AND OPERATIONS

DOE was established on October 1, 1977, by the Department of Energy Organization Act (Public Law 95-91). Among the many responsibilities that the act gave DOE are (1) achieving effective management of energy functions, (2) planning, coordinating, supporting, and managing a balanced and comprehensive energy research and development program, and (3) developing and commercializing the use of solar, geothermal, and other renewable energy technologies. To help carry out these responsibilities, DOE makes extensive use of contracts, cooperative agreements, interagency agreements, and grants.

DOE's organizational structure consists of a headquarters office and field offices. The field offices include eight operations offices which manage contractor-operated laboratories and production facilities; power-marketing administrations; energy technology centers; and naval petroleum reserve, strategic petroleum reserve, and naval reactor offices. In fiscal year 1983, DOE had about 17,000 employees and spent about \$12.9 billion.

## HOW DOE EVALUATED INTERNAL CONTROLS

DOE evaluated its internal controls through a process which began by designating a group to organize and direct the work, segmenting the department into components, then performing vulnerability assessments and internal control reviews. The Inspector General assisted in this process. At the end of 1983, the Secretary, using information generated from the FMFIA process, reported on the status of internal controls in DOE.

### Organization and segmentation

The Secretary of Energy has demonstrated his interest in internal control improvements by issuing several memoranda to senior officials, the first occurring in March 1981, which held them accountable for ensuring a strong system of checks and balances. Subsequent memoranda characterized strong internal controls as one of the Secretary's highest priorities.

In April 1982, DOE issued a departmental order on internal control evaluation and improvement in response to OMB Circular A-123, Internal Control Systems. Circular A-123 preceded FMFIA's enactment but contained many of the same requirements. DOE's order prescribed policies and standards for departmental internal control systems and assigned responsibility to DOE managers for maintaining effective internal controls. The order, which laid the groundwork for DOE's subsequent FMFIA implementation,

- delegated internal control review responsibility to the Assistant Secretary for Management and Administration;
- established a departmental steering committee to provide management oversight;
- established requirements for completing vulnerability assessments, internal control reviews, and annual reports on internal control improvements; and
- requested DOE's Inspector General to assess compliance with internal control directives and policies.

DOE's decentralized organizational structure, with programs and administrative functions being carried out at both DOE headquarters and field locations, complicated DOE's segmenting process. DOE headquarters divided the agency into 58 programs and 10 administrative categories and then determined which DOE components carried out 1 or more of these 68 activities. The process of associating individual DOE components with their appropriate program and administrative functions yielded 398 assessable units.

#### Vulnerability assessments and internal control reviews

In May 1982 a joint DOE Inspector General and Assistant Secretary for Management and Administration task force published a report presenting a methodology for assessing program vulnerability. To help managers conduct vulnerability assessments, DOE issued written guidelines in June 1982 and also held training sessions during June and July 1982.

DOE managers performed vulnerability assessments between June and September 1982. DOE also required that its integrated<sup>3</sup> contractor-operated facilities perform assessments, which were consolidated into the 398 program and administrative assessments.

DOE managers submitted the results of the 398 vulnerability assessments to DOE headquarters for summarization and preparation of an agency-wide report in November 1982. Of the 398 assessments, 13 were rated highly vulnerable, 84 were moderately vulnerable, and 301 were of low vulnerability.

---

<sup>3</sup>According to DOE, its "integrated contractors" account for and report on DOE funds, property, and costs of operations under their contracts in accordance with DOE accounting procedures. Financial data are combined with data from DOE field offices to produce comprehensive financial statements covering all DOE operations.

After conducting vulnerability assessments, DOE required that internal control reviews be performed for all programs and functions rated highly or moderately vulnerable. DOE issued a guide for performing internal control reviews in April 1983 and held training sessions during May and June. DOE also instituted an internal control tracking system, to be updated quarterly, to aid in tracking scheduled internal control reviews and monitor the progress of internal control recommendations being implemented. As of December 31, 1983, DOE reported that of 115 scheduled internal control reviews,<sup>4</sup> 47 were underway and 3 had been completed.

#### Year-end reporting

DOE's process for preparing the Secretary's annual assurance statement was a separate effort from its vulnerability assessment and internal control review process. Managers who had performed vulnerability assessments received separate guidance for preparing the assurances. They were to identify any internal control weaknesses by considering not only vulnerability assessments and internal control reviews but also GAO and Inspector General reports, other management reviews, and the managers' knowledge of the component. DOE managers were also asked to complete a questionnaire to help determine if programs and administrative functions complied with GAO internal control standards. The assurance statements received from the various DOE components were summarized at DOE headquarters and formed the basis for the Secretary's December 30, 1983, assurance statement to the President and the Congress.

In the statement, the Secretary reported that, on the basis of the evaluations conducted and assurances provided him, he had reasonable assurance that, taken as a whole, DOE met its internal control objectives. The statement also mentioned material weaknesses where controls should be strengthened in the following areas (see app. II for more details):

- project management at the Strategic Petroleum Reserve;
- environmental protection at active and inactive hazardous waste sites;
- independent audit coverage for DOE's integrated contractor-operated facilities; and

---

<sup>4</sup>The 115 scheduled internal control reviews included some units with low vulnerability. Also, one field office divided an assessed unit into several units to perform internal control reviews.

--safeguards over nuclear weapons, special nuclear materials, classified information, and production facilities.

The statement concluded that, during fiscal year 1984, DOE intends to work toward correcting identified internal control weaknesses, continue with its scheduled internal control reviews, and conduct a second round of vulnerability assessments.

#### Inspector General's role

DOE's Office of Inspector General (OIG) assisted DOE's FMFIA effort in several areas. OIG staff helped develop a methodology for vulnerability assessments, participated in training courses, commented on draft guidance documents, and reviewed assurance statements to check that weaknesses previously reported by OIG had been considered by managers. Also, OIG conducted its own review of FMFIA implementation for the Secretary to consider in preparing his statement. The OIG report concluded that DOE's efforts met the objectives of OMB's internal control guidelines. However, the OIG report noted that, due to time constraints, its review was less in scope and depth than an examination in accordance with generally accepted governmental auditing standards.

#### HOW DOE EVALUATED ACCOUNTING SYSTEMS

In addition to legislatively establishing agency heads' responsibility and accountability for internal controls, FMFIA also strengthened the legal requirements for executive agencies to operate effective accounting systems. The Secretary of Energy, in his December 30, 1983, assurance statement, declared that "with minor exception, the GAO principles and standards are established in the Department's accounting systems." However, because of a lack of documentation and less than adequate audit and review coverage, the Secretary was unable to report that the systems as they actually operated were always in compliance. The statement presented a detailed explanation of the status of the systems, along with plans for correcting known problems. (See app. II for more details.)

DOE required all its components maintaining accounting systems to report in their internal control assurance statements whether the component's accounting system complied with GAO principles and standards. To help make these determinations, DOE developed a 40-page questionnaire based on the April 1983 Comptroller General's statement of accounting principles and standards. DOE sent this questionnaire to all its headquarters and field components in August 1983, with instructions for them to complete the questionnaire if they maintained an accounting system.

The assurance statements from each component were due to DOE headquarters for consolidation during October 1983 and were to note deviations from the principles and standards along with plans for correcting the deviations. The Office of the Controller provided consultation to the DOE components completing the questionnaires.

#### OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review, which was conducted between July 1983 and January 1984, were to (1) assess DOE's processes for evaluating and improving its internal control and accounting systems for reporting under FMFIA and (2) assess the adequacy of the assurance statement required by FMFIA. We concentrated on actions DOE took to implement FMFIA's section 2 requirements concerning the state of its internal control systems, and section 4 of FMFIA concerning its accounting system conformance with appropriate Comptroller General principles and standards.

In addition, we examined how DOE treated its automated data processing (ADP) functions, given the critical role ADP plays in DOE internal control systems. Because our first-year review was limited to evaluating the implementation process, we did not attempt to independently determine the status of DOE's internal control systems or the extent to which their accounting systems comply with the Comptroller General's principles and standards.

Our review encompassed agency activities at DOE headquarters and three of its eight regional operations offices. At DOE headquarters, we reviewed the overall direction and guidance the agency's FMFIA effort received. At the Chicago, Ill.; Oak Ridge, Tenn.; and San Francisco, Calif., operations offices, we examined implementation at the various program levels. We judgmentally selected the three operations offices to achieve a mixture of the different types of programs DOE administers. We excluded one DOE component--the Federal Energy Regulatory Commission--from our review, since the Commission, while organizationally a part of DOE, is a wholly autonomous entity. DOE distributed its FMFIA guidance to the Commission but had no role in managing its efforts.

We examined appropriate documents and interviewed officials having general management and specific FMFIA responsibilities at DOE headquarters and the three operations offices. We reviewed DOE instructions to assess their consistency with the OMB guidelines and GAO internal control standards.

To assess how well DOE implemented FMFIA provisions, we examined available materials and documentation generated in preparing selected vulnerability assessments, internal control reviews, and accounting system evaluations, and interviewed the

employees who prepared them. To determine how the individual assurance statements were consolidated into a department-wide statement, we interviewed "internal control action officers," who had been assigned FMFIA responsibilities, and other officials responsible for reviewing completed vulnerability assessments and internal control reviews, and summarizing and preparing the annual assurance statement.

Our review was conducted in accordance with generally accepted government auditing standards.

DOE CAN IMPROVE ITS PROCESS OF  
ASSESSING INTERNAL CONTROLS

DOE has made a good start toward creating an effective system for assessing its internal controls. The Secretary of Energy has expressed his support for effective internal controls, and in assigning responsibility to the Assistant Secretary for Management and Administration, has chosen a central focus for all department activities. We also found strong commitment to FMFIA by top management at the three DOE operations offices we visited, as evidenced by memos and meetings where support for FMFIA was advanced. However, DOE still has much to do to complete the internal control evaluation process and correct identified internal control weaknesses. Although we found no major deficiencies in DOE's first-year implementation efforts, we have noted areas where improvements can be made. Specifically, DOE should

- establish written procedures for reviewing the quality of its vulnerability assessments,
- ensure that internal control review procedures are followed,
- exercise care in making decisions to delay or cancel internal control reviews,
- periodically follow up on all internal control review recommendations, and
- clarify its instructions to effectively assess and review its ADP functions.

DOE should establish written  
procedures for reviewing  
vulnerability assessments

DOE needs to establish written procedures to help its managers review the quality of vulnerability assessments. While DOE's vulnerability assessment procedures conformed with



applicable OMB guidelines, the judgmental nature of assessing vulnerability makes it difficult for DOE officials reviewing the assessments to measure their quality. This is important because the assessments form the basis for determining whether and when internal control reviews should be performed.

DOE's vulnerability assessment guidelines provide a general framework, including suggested worksheets and some numeral tabulations, to determine vulnerability to fraud, waste, and abuse. The worksheets contain spaces for approvals so that assessments can be reviewed by managers other than those who do the assessments. However, the guidelines do not define who should review the assessments or what methods should be used to check the quality of the work.

For instance, DOE guidelines state that the person making the assessment should be familiar with the program and, using his/her own knowledge and professional judgment, rate the program's vulnerability. However, similar guidance is not provided for the DOE managers responsible for reviewing the assessments. In addition, we found that in many cases the assessment document did not sufficiently detail the reviewers' relationship to the program. This made it difficult for us to determine whether the reviewing officials had sufficient knowledge of the program to assure the quality of the assessments.

DOE performed some reviews in its 1982 vulnerability assessment effort to summarize the numerous assessments at local DOE levels. The Office of the Controller reviewed the assessments primarily to assure the reporting formats were consistent but not to judge whether the vulnerability rating was appropriate. Some DOE headquarters program officials reviewed the assessments to be sure the ratings were correct. However, we found virtually no criteria by which the vulnerability rating could be verified.

One notable exception was DOE's headquarters Office of Personnel. This office developed a lengthy checklist which was then used by all DOE personnel offices in performing vulnerability assessments. The checklist showed various personnel functions and described specific measures by which high, moderate, or low vulnerability could be determined. The checklist not only allowed for greater consistency in reporting on vulnerability but also made it easier for reviewers to evaluate the assessments.

DOE should ensure that internal control review (ICR) procedures are followed

We examined five essentially completed ICRs<sup>5</sup> during our review, although DOE had not yet accepted any as final. Three of these were performed in accordance with DOE and OMB guidelines, with the ICR conducted at the Office of Headquarters Accounting Operations particularly noteworthy. However, two other ICRs, conducted in the Strategic Petroleum Reserve Project Management Office and the headquarters Procurement Operations Office, had significant shortcomings in that they did not sufficiently evaluate existing internal controls. We found that the individuals conducting the reviews in these cases did not fully understand how to conduct a proper ICR.

DOE's ICR guidelines outline a 15-step process for conducting the reviews. The guide also includes an extensive list of program and administrative activities, related control objectives and procedures to achieve those objectives, and GAO internal control standards. When the guide is followed, it should result in effective internal control reviews.

The Strategic Petroleum Reserve and Procurement ICRs were not performed according to available ICR guidance. The Petroleum Reserve ICR began in late November, 1982--before the DOE guide was available, but only shortly before the OMB guidelines were issued (December 1982). Most of the review work took place after OMB's guidance was available, but the guidance was not followed. The review team conducted a broad scope management review of the Petroleum Reserve rather than an ICR. The management review evaluated how well various functions were performed, in relation to the existing controls such as regulations, processes, and procedures. An ICR, in addition to testing whether the control procedures work as designed, also evaluates the sufficiency of the procedures themselves. The review team did not evaluate this aspect in their review. In addition, the review team did not follow other procedures for performing an ICR, and, as a result, produced a report which was not adequately documented and could not be independently verified. DOE, therefore, cannot be assured that all internal control weaknesses were identified.

The Procurement ICR was conducted after the DOE guide was issued. However, the reviewer did not fully understand the concept of an internal control review and how it differs from a management review. Instead of independently defining and testing control techniques, the reviewer used the results of a previous

---

<sup>5</sup>DOE considers one of the five to be a "sub" internal control review and not an official ICR.

management review to determine that existing controls were being followed. Again, the emphasis was placed on adherence to existing controls rather than determining if the procedures constituted effective internal control.

An ICR not performed in accordance with the DOE guidelines may fail to recognize needed internal control improvements. DOE officials at the Petroleum Reserve and headquarters Procurement agreed with us that the two reviews were not adequately performed and said that as managers become more familiar with the ICR process, future reviews will be better.

In contrast to the weaknesses in the above two reviews, we found the Office of Headquarters Accounting Operations performed a thorough review of DOE's finance and accounting functions. The Office reviewed 19 finance and accounting functions, followed DOE guidelines closely, and documented its conclusions. The Office is now correcting the internal control deficiencies it identified.

DOE should exercise care in  
making decisions to delay or  
cancel ICRs

During our review, we found that DOE headquarters and field offices sometimes delayed or cancelled scheduled ICRs without adequate justification. Decisions to delay and cancel these reviews should be made carefully, with adequate justification for the changes. Otherwise, timely internal control improvements may not occur.

DOE established a schedule of ICRs based on the results of its 1982 vulnerability assessments. As stated previously, all the assessable units having high or moderate vulnerability ratings were scheduled for review. These reviews were to begin in 1982 and continue past 1985. However, DOE changed the schedule during 1983, deleting some ICRs that had been scheduled and delaying many others.

Generally, two factors caused the schedule changes. First, several DOE offices took corrective action in areas where weaknesses had been identified by OIG and GAO reports, other management reports, or the vulnerability assessment process. Such corrective action, according to DOE officials, reduced the vulnerability and eliminated or delayed the need for ICRs. Second, DOE managers learned that ICRs took more time and staff resources than they had first expected, so they delayed some scheduled reviews.

Cancelling or delaying a review because the vulnerability of the unit has been reduced is an appropriate step in the internal

control evaluation process provided the decision is made carefully. The decision should be based on evidence that such a vulnerability reduction has taken place. DOE's Chicago Operations Office notified headquarters that it had cancelled five scheduled ICRs without furnishing such evidence. Rather than performing ICRs, the Office stated that it planned to analyze the reasons for the vulnerability ratings and make corrections. Because an ICR is a unique type of review designed to both test the appropriateness of the controls and assure they are being followed, the Office's planned actions may not necessarily identify or correct all internal control weaknesses.

Delaying or cancelling an ICR because of limited resources should also be considered carefully. Three DOE offices reported to headquarters that ICRs were being delayed due to limited resources. The proper performance of an ICR may well consume significant staff time, but failing to timely perform the reviews could leave the unreviewed offices potentially susceptible to fraud, waste, and abuse.

DOE managers providing input quarterly to the internal control review follow-up system are required to briefly explain any changes in scheduled ICRs. Thus, DOE officials reviewing the follow-up system reports should be sure that adequate explanations are provided when cancellations and changes are made.

A problem that may surface during DOE's next round of vulnerability assessments is that DOE managers now know that any unit rated highly or moderately vulnerable is subject to an ICR, and thus may assign a low rating to their unit to avoid such a review. This could preclude DOE from identifying and correcting internal control weaknesses. DOE officials in the Offices of Compliance Programs and Financial Policy stated they are aware that this possibility exists, and they will carefully monitor the upcoming vulnerability assessment process with this in mind.

DOE should periodically follow up  
on all internal control review  
recommendations

DOE's internal control review follow-up system will track "significant" recommendations for corrective action made as a result of a review. The system is not currently designed to track actions DOE considers less significant. Instead, the cognizant DOE manager is responsible for seeing that such recommendations are implemented, and the agency has no plans to further monitor the actions. DOE headquarters should periodically check on the status of these less significant recommendations, as part of its FMFIA oversight, to assure that DOE's various programs and offices are taking corrective action.

DOE developed a central internal control tracking system to report quarterly on the status of scheduled ICRs and help assure that significant recommendations are implemented. During our review, very little information had been loaded into the system because none of the ICRs had been completed. DOE officials had, however, entered data on scheduled start and completion dates for planned reviews.

The internal control tracking system, as designed, will monitor information on scheduled ICRs and the status of recommendations to correct weaknesses. However, DOE plans to centrally monitor only those recommendations determined to be of agency-wide significance. DOE's Audit Liaison Staff will consult with appropriate program officials who will determine which recommendations are significant and are to be formally monitored. Individual offices or program managers will be responsible for implementing lesser recommendations without central monitoring. One of the three field offices we examined has established its own local tracking system to monitor its local recommendations; the others have no plans to establish such a system.

Since DOE does not plan to use its central tracking system to monitor lesser recommendations, we believe it is important, particularly during the early stages of FMFIA implementation, for DOE's headquarters oversight responsibilities to include periodic checks on the status of all recommendations. This will give DOE headquarters added assurance that needed internal control improvements are made.

DOE officials informed us that the Compliance Programs Office will be responsible for checking the status of all ICR recommendations during periodic compliance reviews at DOE offices. We believe, however, that this process may not be sufficient to ensure that all recommendations are acted upon because these reviews will not occur at all DOE components every year. Officials also informed us that DOE is considering various modifications to the tracking procedures as necessary to strengthen the process.

DOE should clarify its instructions  
to effectively assess and review  
its ADP functions

DOE's consideration of ADP internal controls generally appears to be adequate. However, further clarification of its instructions for conducting vulnerability assessments and internal control reviews would enhance ADP coverage by ensuring that all ADP units are assessed and reviewers use correct procedures when evaluating ADP during an internal control review.

DOE did not formally designate which managers should assess all its program and administrative ADP activities. In the initial FMFIA segmenting process, ADP was identified as an administrative function. However, because large ADP functions in DOE also support program activities, some ADP personnel and program managers have been confused over who should have performed the assessments. As a result, some ADP systems were not reviewed.

For example, at DOE's Lawrence Livermore National Laboratory, the ADP personnel conducted vulnerability assessments only on the administrative information systems' activities. They did not assess two major program-related computer centers. The program managers who had responsibility for assessing these programs, on the other hand, did not assess these computer center operations either.

DOE has a policy that all ADP operations should be assessed by persons having ADP expertise, whether they work in the administrative or program area. A more specific policy, possibly in the vulnerability assessment guidelines, is needed to require that people having ADP knowledge and expertise will (1) conduct assessments of administrative information systems activities and (2) assist program managers, as necessary, in assessing the vulnerabilities of ADP aspects of their program activities. Such a policy would eliminate the confusion as to who performs ADP assessments, and it should prevent incomplete coverage of computer operations in future vulnerability assessments.

In addition, we observed a situation where staff used the wrong criteria to evaluate an ADP activity in an ICR. When conducting an ICR covering budget functions which included budget-related ADP activities, reviewers erroneously used batch-oriented criteria instead of the appropriate on-line criteria.<sup>6</sup> This occurred because DOE's ICR instructions covering budget functions only discussed batch-oriented criteria for ADP. Correct instructions, on the other hand, were available in the guidance dealing with ADP as an independent activity. DOE officials in the Financial Policy Office have agreed to correct this problem by changing the instructions to refer reviewers of other activities to the ADP instruction section whenever an ADP activity is evaluated. These changes should be completed by June 1984.

---

<sup>6</sup>Batch processing occurs when a number of transactions are collected and processed in the computer as a single unit. On-line processing occurs when the user has a computer terminal and may process transactions as they occur.

## Conclusions

In general, DOE has performed well this year to establish a system to identify and review its internal controls. However, we noted some areas where DOE can improve. Vulnerability assessment guidelines need some clarification to determine how reviews of the completed assessments should be performed and who should do them, and more clearly define who should perform ADP assessments. Also, DOE managers need to fully understand how to perform an internal control review before they begin such a review. To make sure that timely internal control review improvements are made, decisions to delay or cancel scheduled reviews should be made carefully, and the status of recommendations that are not tracked centrally by DOE should be checked periodically.

DOE has procedures in place to correct the deficiencies we have noted regarding conducting ICRs in accordance with DOE guidelines and delays in performing ICRs. Continued attention is needed, however, to ensure that these problems do not persist.

DOE has not yet completed evaluating its internal control systems and, as a result, additional material control weaknesses may still surface. As DOE progresses through the internal control evaluation process, the required annual statement should become more meaningful.

## Proposals, agency comments, and our evaluation

In a draft of this report, we proposed that the Secretary of Energy direct the Assistant Secretary for Management and Administration to

- develop written procedures for reviewing the quality of the vulnerability assessments,
- periodically follow up on the status of internal control review recommendations not currently tracked under DOE's tracking system to ensure that appropriate action has been taken by DOE components, and
- formally designate which DOE managers should perform ADP vulnerability assessments.

In commenting on a draft of this report (see app. III), DOE stated that, in general, our report provides recommendations that will enhance the effectiveness of its internal control program. Because of DOE's responsiveness to our specific proposals, we have not included any recommendations in this report. We plan to monitor DOE's progress as part of our continuing review of federal agencies' FMFIA implementation.

In its comments, however, DOE disagreed with our observation in the draft report that the Secretary's assurance statement should be regarded as a tentative opinion to be verified when the system's evaluation is complete, and with our conclusion that DOE's responsibilities for conducting vulnerability assessments of ADP activities were not clear. DOE also provided some editorial comments.

DOE stated that the internal control evaluation process is an ongoing process, and that it is possible to have reasonable assurance that FMFIA's requirements have been met by taking a "snapshot" of the internal control process and evaluations performed at a particular point in time. We agree that the internal control evaluation process is an ongoing one, and that the process is not designed to be "complete." However, since DOE is in the midst of its first series of ICRs, the annual assurance statement should become more meaningful in the future as more ICRs are completed and internal control weaknesses are corrected. We have revised the report to more clearly recognize that the internal control evaluation process is an ongoing process.

In responding to our conclusion that responsibilities for conducting vulnerability assessments of ADP activities were not clear, DOE explained its procedures for performing such assessments. DOE stated that ADP was categorized as an administrative function, and consequently, a vulnerability assessment was to be performed at each DOE component that had an ADP organization. In addition, managers of programs containing ADP operations were to consider the risks inherent in the ADP operations as part of the overall program vulnerability assessment. We agree that the intent of DOE's procedures is to include both program-related and administrative ADP activities but still believe DOE needs to clarify its procedures to prevent a reoccurrence of the situation, as cited in our report, where program managers and ADP officials each assumed the other would perform a vulnerability assessment on program-related ADP activities.

#### DOE CAN STRENGTHEN ITS ACCOUNTING SYSTEM COMPLIANCE EFFORTS

DOE's report describing its accounting system compliance efforts, as contained in its December 30, 1983, assurance statement, represents a good faith effort to comply with section 4 of FMFIA, considering that OMB had not yet developed guidance for compliance. DOE's efforts can be improved, however, by identifying the specific departmental accounting components that were evaluated and developing quality assurance procedures. In addition, DOE's compliance efforts will have to be more extensive, including documenting and testing its accounting systems, to report with better assurance that its systems conform to the Comptroller General's principles and standards.



DOE should identify which components were evaluated

Our review of accounting system compliance statements revealed inconsistencies in how the statements described which DOE components had been evaluated. Given the numerous components that are part of DOE's total accounting system, DOE would have greater assurance that all components have been evaluated for conformance with the Comptroller General's principles and standards if the scope section of the compliance statements identified the components included in the evaluations.

DOE employs a decentralized accounting system, with many components carrying out one or more accounting functions. For example, 74 DOE components--including such activities as operations offices, integrated contractor-operated facilities, energy technology centers, and power-marketing administrations--provide data to DOE's central financial information system. Within this accounting framework, DOE has 18 official accounting systems that together serve all these components.

DOE's instructions for preparing accounting system compliance assurances require that each of these 18 official accounting systems be evaluated. The instructions require that the scope of the accounting system evaluation be reported, but do not specify what the scope statement should say. Consequently, we found a wide variance in how the 18 accounting systems assurance statements addressed whether the activities at all DOE's components conformed with the Comptroller General's principles and standards.

For example:

- The Albuquerque Operations Office assurance letter did not include a scope statement.
- The Chicago Operations Office assurance letter stated that accounting activities at each of its contractor-operated facilities had been considered, but did not mention DOE's Pittsburgh Energy Technology Center, for which Chicago provided accounting service.
- The Oak Ridge Operations Office assurance letter stated that various accounting functions had been considered, but did not specifically mention contractor-operated facilities, or the Morgantown Energy Technology Center, for which Oak Ridge has accounting responsibility.

We found no evidence that any components were not evaluated, but specific identification of components evaluated in the scope statement would have provided DOE a basis for determining whether all components were evaluated.

Need for better review and quality assurance

The compliance assurances and supporting questionnaires DOE prepared for its 18 accounting systems did not always adhere to the instructions provided. While the Office of the Controller reviewed the submissions, the Office did not establish written quality assurance guidance. Instances where instructions were not adhered to might have been corrected had the Office developed procedures specifying formal review and quality assurance responsibilities along with instructions on how to accomplish the review.

The following are examples of cases we noted where instructions were not followed:

- Four components did not include a statement describing the scope of their evaluations, as required by DOE instructions.
- One questionnaire was incomplete, leaving about 40 questions unanswered.
- One DOE component erroneously reported internal control deviations instead of accounting principles and standards deviations.

Complicating the Office's quality assurance duties was the short time span--about 1 month--between receiving the submissions and completing the required consolidated report. The Office's consideration of the accuracy and completeness of the evaluations consisted of examining the accounting system compliance report in each assurance statement, and where appropriate, the attachment to the statement reporting deviations and corrective actions. However, the Office was not able to extensively review and follow up, but officials informed us that additional follow-up activities would be accomplished in 1984.

Future efforts will need to be more extensive

In contrast to the FMFIA internal control requirements for which methodology for compliance had been furnished by OMB, OMB was neither required by the act nor did it provide guidance to executive agencies on the steps necessary to determine whether their accounting systems complied with the Comptroller General's principles and standards. Nonetheless, most agencies, including DOE, made an effort to determine their accounting system's compliance with these principles and standards. In most cases, these efforts were much less intensive, formalized, and structured than those devoted to the internal control evaluations. Compliance determinations were generally based on the experience, knowledge,

and observations of accounting officials. While the professional judgment of these officials is indispensable in the compliance evaluation process, we believe that it is important to test transactions in order to assess how an accounting system is actually operating. DOE, as well as some other agencies, developed a questionnaire based on the Comptroller General's principles and standards to use as the basis for determining their respective systems' compliance.

Such efforts, in our view, represent a good-faith effort to comply with FMFIA section 4 requirements. However, such approaches are far too limited to provide a sound basis for concluding whether accounting systems are operating properly and in accordance with the Comptroller General's principles and standards. Our experience, and that of accounting firms in the private sector, has consistently shown that more comprehensive and detailed evaluations are necessary for this purpose.

For future years' compliance with section 4, we believe it will be necessary, at a minimum, to (1) fully document accounting system design and control objectives and techniques and (2) test the system's operations, including control techniques, to determine whether they are consistently operating as they should. Creating a tracking system, similar to the internal control tracking system, might be useful for tracking the status of these expanded compliance evaluations.

#### Accounting systems should be documented

Basically, the purpose of system documentation is to provide a clear and comprehensive description of such things as a system's objectives, methods of operations, established procedures, equipment used, operating locations, control features, special characteristics, and end products, such as accounting reports and financial statements. The documentation itself consists of narrative descriptions such as flow charts, procedures manuals, schedules, and charts sufficiently detailed and logically organized to provide a ready understanding of a system's design, operations, and features.

Such information is needed to design the testing procedures necessary to determine if a system operates properly. However, there are many other advantages to properly documenting systems. For example, good documentation

- provides all employees with a consistent understanding of the system's established operating procedures and requirements,

- facilitates familiarization and training for new employees,
- provides for a permanent record of changes made to equipment and operating procedures, and
- permits reviews by outside parties to be performed more quickly and lessens the need for employees to spend time explaining systems.

DOE reported that its accounting systems were not adequately documented. However, DOE has already developed much of the information needed to complete the documentation of its accounting systems. Thus, DOE needs to complete the review of its existing information and complete the additional documentation needed. This is particularly true for DOE's Departmental Integrated Standardized Core Accounting System scheduled for implementation in 1984.

Accounting systems should be tested periodically

In our audit work at federal agencies, we have frequently noted accounting systems operating differently from the manner specified in their design, and even differently from the manner that responsible officials believed them to be operating. Accordingly, we believe DOE's future FMFIA section 4 process should require the testing of system operations to assure they are functioning as intended.

An effective testing program can show whether systems are operating consistently, effectively, and in accordance with established policies and procedures. To be economically feasible, the tests employed should be designed to focus on a system's key controls and features. For this reason, good system documentation greatly simplifies the process of designing tests because it clearly identifies the key features and operations.

Conclusions

DOE's strategy for evaluating accounting system compliance was appropriate for the first year but could be improved to better determine that all its components have been evaluated for conformance with the Comptroller General's principles and standards, and that reports submitted are accurate and complete.

More importantly, for its future years' work, DOE needs to fully document and test its accounting systems. The advantages of documenting and testing are widely recognized, and DOE should complete its documentation efforts as soon as possible. We recognize that the testing and documentation we are suggesting will initially require more resources than were expended in the first

compliance reviews. However, once a system has been properly documented, relatively few resources should be required to keep the documentation current. Testing procedures can be carefully developed and applied on a selective basis to maximize the potential benefits from available resources.

Proposals, agency comments,  
and our evaluation

In a draft of this report, we proposed that the Secretary of Energy direct the Assistant Secretary for Management and Administration to

- expand the accounting system evaluation instructions to require more specific scope sections in the compliance reports, particularly identifying those components that were considered in the overall evaluation of each accounting system;
- develop specific review procedures to better assure that accounting system compliance reports adhere to instructions provided;
- complete documenting all operating accounting systems; and
- incorporate testing requirements into DOE's accounting systems compliance evaluation procedures.

DOE concurred with our proposals, stating that, in general, our report provided recommendations that will enhance the effectiveness of its internal control program. Because of DOE's responsiveness to our specific proposals, we have not included any recommendations in this report. We plan to monitor DOE's progress as part of our continuing review of FMFIA's implementation.

SUMMARY OF INTERNAL CONTROL  
AND ACCOUNTING SYSTEMS' MATERIAL WEAKNESSES  
AS REPORTED BY THE DEPARTMENT OF ENERGY

INTERNAL CONTROL MATERIAL WEAKNESSES

- DOE needs to improve its project management functions at the Strategic Petroleum Reserve. DOE reported a major management review and reorganization of the Reserve was completed during 1983. Implementation of the recommendations of the management review team has begun and will continue in fiscal year 1984.
- DOE needs to increase its efforts in the area of environmental protection, especially at its active and inactive hazardous waste sites. Even though DOE has a high level of confidence that environmental protection measures currently in effect are adequately protecting the health and safety of the public, plans are underway to review and improve these areas.
- DOE needs to increase independent audit coverage for its integrated contractor-operated facilities. DOE stated it has established a plan for the cyclical review of these operations. With the assistance of independent public accountants, all of its integrated contractor operations will have an independent audit during the next 2 years.
- DOE needs to continue efforts to reduce vulnerabilities where it has responsibility for safeguarding nuclear weapons, special nuclear materials, classified information, and one-of-a-kind production facilities. DOE stated that each of the safeguards and security program elements is continuously examined, and system improvements are implemented to address specific vulnerabilities and enhance the overall effectiveness of its safeguards and security programs. Although DOE's safeguards and security programs have a number of technical weaknesses, DOE has identified them along with the vulnerabilities, risks, upgrades, cost estimates, and priorities for implementation in its 1983 report, The Department of Energy's Eighth Annual Report on Domestic Safeguards. DOE stated that this classified report contains the information in detail, including plans for resolving the vulnerabilities.

ACCOUNTING SYSTEMS' MATERIAL WEAKNESSES

- DOE stated that, of 18 DOE accounting offices reporting on accounting systems, seven reported that they met all of the Comptroller General's principles and standards, and 11 reported that they met the Comptroller General's principles and standards with minor exceptions.

- DOE stated that its accounting systems are not adequately documented. Adequate measurement criteria have not been applied to system event cycles, processes, transactions, and results to determine the degree of compliance or non-compliance with the Comptroller General's principles and standards.
  
- DOE stated that audit coverage has been unbalanced in that most emphasis has been placed on management procedures and deficiencies. By contrast, automated and manual input, process, and output controls inherent in operating the accounting systems were not adequately reviewed or audited.



Department of Energy  
Washington, D.C. 20585

APR 19 1984

Mr. J. Dexter Peach  
Director, Resources, Community and  
Economic Development Division  
U.S. General Accounting Office  
Washington, DC 20548

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the GAO draft report entitled "First Year Implementation of the Federal Managers' Financial Integrity Act of 1982 in the Department of Energy."

In general, the draft GAO report provides recommendations that will enhance the effectiveness of DOE's Internal Control Program. However, the Department's view differs with the GAO observation that the Secretary's annual assurance letter, which attested to having reasonable assurance that overall internal control objectives were met, was a tentative opinion to be verified when the system's evaluation is complete. DOE's interpretation of OMB Guidelines is that evaluations of internal control are ongoing, and it is possible to have reasonable assurance that the requirements of the Act are met by taking a "snap shot" of the internal control process and evaluations performed as of a particular point in time. DOE understands that the level of confidence will be greater after the 115 scheduled internal control reviews have been completed and accounting systems have been completely documented and tested. However, notwithstanding this, DOE believes the fact that 398 vulnerability assessments have been completed, that virtually every program and administrative function at every operating contractor, field office, and Headquarters component were reviewed, coupled with the year-end process provides a reasonable basis for the Secretary's position in his letter of assurance. Additionally, the DOE Inspector General (IG) has conducted an independent review of the program and the year-end results and found it to be in compliance with OMB guidelines. The IG also recognized that the program is a multi-year effort.

The draft GAO report indicates that responsibilities for conducting vulnerability assessments for automated data processing (ADP) activities were not clear. The DOE internal control program requires the managers responsible for programs and administrative functions to perform assessments. ADP was categorized as an administrative function and consequently was to be reviewed at each DOE component that had an ADP organization. Additionally, programs that utilized ADP were to consider the risks inherent in their operations as a part of their evaluations of the "General Control Environment."



Editorial comments are provided as an enclosure for consideration in preparing the final report.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Hesse', with a stylized flourish at the end.

Martha O. Hesse  
Assistant Secretary  
Management and Administration

Enclosure

Letter,

1. page 2. "Finally, the Department's instructions for conducting vulnerability assessments of automated data processing activities did not clearly designate who should perform the assessments, resulting in omissions from the assessment process."

Comment -- DOE policy for performing vulnerability assessments advised that assessments should be assigned to individuals who operate the program or function. Based on the assumption that these individuals had the necessary qualifications and understanding of the area to perform a vulnerability assessment and assign a relative ranking, DOE did not specifically designate beyond this generic policy who should perform assessments for the other 67 assessable units in the Department.

Letter,

2. page 3. "Develop specific review procedures to better assure that compliance evaluation submissions are complete and accurate."

Comment -- The type of evaluation needs clarification. It is suggested that the words "accounting systems" be inserted after the word "that." This correction should also be made in the discussion on page 2.

Letter,

3. page 1. "Your December 31, 1983, letter to the President and the Congress fairly represented the Department's efforts to comply with the Act."

Comment -- The Secretary's letter was dated December 30, 1983. Page 15 should also be corrected to reflect the correct date.

Letter,

4. page 1. "In particular, the letter recognized that the internal control and accounting systems assurances were based on managers' consideration of material weaknesses evidenced by Inspector General and GAO reports. . . ."

Comment -- DOE managers considered all weaknesses, not just material weaknesses, in determining their assurances. Therefore, it is suggested that the word "material" be deleted.

Letter,

5. page 3. "These accounting compliance evaluations. . . ."

Comment -- It is suggested that the word "systems" be added following the word "accounting" to clarify that the discussion pertains only to section 4 requirements on accounting systems evaluations.

App. I,

6. page 3. "DOE's organizational structure consists of a headquarters office and field offices. The field units include eight operations offices, contractor-operated laboratories, production facilities, and power marketing administrations. The eight operations offices provide the formal link between headquarters, the field laboratories, and the other operating facilities. In fiscal year 1983 the Department had about 17,000 full time employees, and spent about \$12.9 billion."

(See GAO note 1 on page 28.)

Comment -- In the interest of clarity it is suggested that this language be used, "DOE's organizational structure consists of a headquarters office and field offices. The field offices include eight operations offices which manage contractor-operated laboratories and production facilities; power marketing administrations; energy technology centers, naval petroleum reserve offices; strategic petroleum reserve and naval reactor offices. In fiscal year 1983 the Department had about 17,000 employees, and spent about \$12.9 billion."

- App. I,  
7. page 6. "DOE required all its components maintaining accounting systems to include a statement in their internal control assurance letters declaring whether the component's system complied with GAO principles and standards. To help make these determinations, DOE developed a 40 page questionnaire. . . . DOE sent this questionnaire in August 1983 to all its headquarters and field components, with instructions to complete the questionnaire if they maintained an accounting system."

Comment -- The last sentence conveys the thought that DOE did not know the offices that operated accounting systems. This is not the case, rather, it reflected the DOE convention that a standard list of administrative functions be developed for the Department. In the update of the inventory of assessable units for 1984, the assessable unit inventory, including accounting systems will reflect only those assessable units applicable for each DOE component.

- App. I,  
8. page 8. "However, DOE still has much to do to complete the internal control evaluation process and correct identified internal control weaknesses."

Comment -- As stated in the basic letter, DOE does not agree with the GAO concept that the evaluation process is going to be completed at some specific future date. Rather the internal control concept as outlined in OMB guidelines is that the evaluation process is a continuous one. It is suggested that GAO clarify its language throughout the letter and the report where reference is made to "completing the internal control evaluations" and "tentative opinion" regarding the Secretary's assurance.

- App. I,  
9. page 10. "However, two other ICRs, conducted in the Strategic Petroleum Reserve Project Management Office and the Headquarters Procurement Operations Office, had significant shortcomings in that they did not sufficiently evaluate existing internal controls. We found that the individuals conducting the reviews in these cases did not fully understand how to conduct a proper ICR."

Comment -- While it is correct that the internal control review at the Strategic Petroleum Reserve Project Office and the Headquarters Procurement Office did not adhere to the Internal Control Guidelines, it is worthy to note that these reviews were started either before or soon after issuance of the Internal Control Review Guidelines. As a result of this experience, the Procurement Directorate is developing a guide for the DOE Procurement community on how to establish control objectives, identify risks and evaluate control techniques. This guide is scheduled for issuance in mid-

June. The Strategic Petroleum Reserve office internal control reviews are now subjected to a quality assurance check by audit-qualified Oak Ridge personnel. These actions should preclude similar incidents from occurring in the future.

- App. I,  
10. page 13. "The internal control tracking system as designed, . . . . However, DOE plans to centrally monitor only those recommendations determined to be of agency-wide significance. DOE's Audit Liaison Staff will consult with appropriate program officials to determine which recommendations are significant and will be centrally monitored."

Comment -- Program officials will make the determinations on what to track and advise the Audit Liaison Staff. Accordingly, it is requested that the word "to" in the last sentence be deleted and replaced with the words "who will."

11.

Deleted  
(See GAO note 2.)

12.

- App. I,  
13. page 18. ". . . the Office's consideration of the accuracy and completeness of the evaluation consisted of examining the accounting system statement in the internal control assurance letters, and where furnished, the attachment to the letter reporting deviations and corrective actions."

Comment -- The paragraph as written gives the appearance that some deviations and corrective actions were omitted. This is not the case. Therefore, it is suggested that the words "where appropriate" be used for accuracy.

GAO note 1: Page references in this appendix have been changed to correspond to page numbers in this final report.

GAO note 2: The deleted comments relate to matters which were discussed in the draft report but omitted from this final report.

(006108)



**AN EQUAL OPPORTUNITY EMPLOYER**

UNITED STATES  
GENERAL ACCOUNTING OFFICE  
WASHINGTON, D C 20548

---

OFFICIAL BUSINESS  
PENALTY FOR PRIVATE USE \$300

POSTAGE AND FEES PAID  
U S GENERAL ACCOUNTING OFFICE



**THIRD CLASS**