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BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To The Secretary Of Energy

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

GAO reviewed the implementation of the Federal Managers' Financial Integrity Act of 1982 by 23 federal departments and agencies. The act was intended to help reduce fraud, waste, and abuse in federal government operations by requiring agencies to assess and report annually to the President and the Congress on the adequacy of their internal controls and accounting systems.

This report highlights the progress made and problems encountered by the Department of Energy (DOE) during its second year under the act. GAO evaluated DOE's efforts to correct internal control weaknesses and improve its accounting systems. GAO discusses ways in which DOE can strengthen its internal control and accounting system evaluations.



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

RESOURCES, COMMUNITY,
AND ECONOMIC DEVELOPMENT
DIVISION

B-216946

The Honorable John S. Herrington
The Secretary of Energy

Dear Mr. Secretary:

This report presents our evaluation results on how the Department of Energy (DOE) implemented the Federal Managers' Financial Integrity Act of 1982.

The report contains recommendations to you on pages 13, 30, and 42. As you know, 31 U.S.C. §720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

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

Sincerely yours,

A handwritten signature in dark ink, appearing to read "J. Dexter Peach".

J. Dexter Peach
Director

EXECUTIVE SUMMARY

Responding to continuing reports of fraud, waste, and mismanagement in government programs, the Congress enacted the Federal Managers' Financial Integrity Act in 1982. By requiring agencies to evaluate and report on their internal control and accounting systems, the act provides a discipline for agencies to identify, remedy, and report on problems that hamper effectiveness, potentially cost taxpayers billions of dollars, and erode the public's confidence in the government.

In evaluating the Department of Energy's (DOE's) second-year implementation of the act, GAO examined the

--improvements in internal controls and the process DOE used to evaluate and correct control weaknesses,

--status of DOE's major accounting systems and evaluations made to determine if they conform to GAO requirements, and

--accuracy and completeness of the Secretary's annual report. (See pp. 1 and 3.)

BACKGROUND

The act requires federal agencies to establish controls in accordance with the Comptroller General's standards that reasonably ensure obligations and costs comply with applicable law; assets are safeguarded against fraud, waste, and mismanagement; and revenues and expenditures are properly recorded and accounted for.

Agency heads must report to the President and the Congress annually on whether their internal control systems comply with the act's objectives. To the extent systems do not comply, the report must identify material weaknesses together with plans for corrective actions. They also must report on whether their agency's accounting systems conform to the Comptroller General's accounting principles, standards, and related requirements.

GAO issued standards for agencies to meet in establishing their internal control systems. The Office of Management and Budget (OMB) also published guidelines that require managers to

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analyze programs and functions to determine their vulnerability to waste, fraud, and mismanagement. In implementing these guidelines DOE performs (1) vulnerability assessments to determine its units' susceptibility to fraud, waste, or abuse and (2) internal control reviews to examine and test controls in place. (See pp. 1 and 16.)

RESULTS IN BRIEF

DOE is making reasonable progress in implementing an internal control evaluation process that complies with OMB guidelines. In its 1984 annual report, DOE identified five major areas in which internal controls need to be improved, and it has initiated corrective actions. While GAO did not identify any material weaknesses not reported by DOE, it did conclude that DOE needs to increase its internal control testing. Also, GAO found that in some instances vulnerability assessments and internal control reviews were not performed according to DOE guidelines. (See pp. 6 and 16.)

DOE has developed a comprehensive plan for reviewing its accounting systems for conformance with GAO standards. GAO found, however, that DOE did not sufficiently test most of the existing systems. (See p. 35.)

The Secretary's 1984 annual report stated that DOE had reasonable assurance that its systems of internal controls, taken as a whole, met the act's objectives and that its accounting systems conform to the Comptroller General's principles and standards. GAO concluded, however, that DOE does not have an adequate basis for these assurances without better evidence based on sound internal control reviews and checking that its systems are working as intended. (See p. 9.)

PRINCIPAL FINDINGS**Improving internal controls**

DOE improved controls in four areas that it identified as material weaknesses in its 1983 and 1984 reports. For example, at the Strategic Petroleum Reserve, DOE developed plans and procedures for completion of construction, clarified responsibilities for security operations, and developed strengthened performance evaluation criteria for contractors. DOE is also identifying its hazardous waste sites and planning to clean them up. (See p. 7.)

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| Evaluating internal controls | GAO reviewed 28 vulnerability assessments and 12 internal control reviews and found problems with 11 assessments and 5 internal control reviews. Vulnerability assessment problems included: (1) assessments were not properly rated, (2) evaluation criteria were not properly applied or controls over automatic data processing were not considered, and (3) integrated contractors' assessment results were omitted from overall program assessments. Concerning internal control reviews, DOE managers did not always evaluate and test internal control objectives and techniques nor explain the basis for review results. Also, some managers did not receive training or have criteria for performing and reviewing assessments. (See pp. 18 and 25.) |
| Evaluating accounting systems | In some instances, DOE did not adequately describe the scope of accounting system evaluations performed and did not adequately document evaluation results. Accounting systems transactions were not sufficiently tested primarily because most systems are to be replaced by the end of 1985. Also, although DOE requires its integrated contractors to participate in the accounting evaluation process, it omitted some contractors from the process. (See pp. 37, 39 and 40.) |
| The annual report | The Secretary's 1984 annual report stated that DOE had reasonable assurance that its systems of internal and accounting controls, taken as a whole, met the act's objectives. DOE's representation was based on many sources of management information but lacked assurance that the sources were based upon the results of tests to assure that not only are controls in place but that they are working as intended. GAO believes DOE should review and test internal controls over its most important functions to determine what it should say in its annual report. (See p. 14.) Although DOE has developed a reasonable plan for reviewing its accounting systems, GAO believes the agency is not yet in a position to state in its annual report that its systems conform to GAO standards. GAO believes that before DOE reports that its systems conform, the new accounting |

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systems must be substantially implemented and tested. (See p. 35.)

RECOMMENDATIONS

GAO recommends that until a more adequate basis has been developed, with accounting systems reviewed in operation to include testing, the Secretary of Energy not report general conformance with the Comptroller General's principles and standards. (See p. 42.)

GAO also recommends, among other things, that the Secretary of Energy train managers who evaluate internal controls, establish criteria for supervisory review of vulnerability assessments, clarify accounting system review guidelines, and report more accurately on the condition of accounting systems. (See pp. 30 and 42.)

AGENCY COMMENTS

DOE disagreed with GAO's position that the agency does not have an adequate basis for giving reasonable assurance that its internal controls meet the act's objectives. Although DOE believes that its assurance was based on the "sum and substance" of all that was known regarding the adequacy of its internal controls, GAO continues to believe DOE needs to do more testing to have a basis for reasonable assurance. (See p. 13.)

DOE agreed in principle that assurances on its accounting systems should not be given until those systems have been evaluated and tested in operation and that further testing of its systems would provide a more adequate basis for the Secretary's report. Nevertheless, DOE said that it was justified in reporting conformance in 1984. GAO believes that the testing performed was not adequate to determine that its systems conform to the Comptroller General's principles and standards. (See pp. 42 and 43.)

DOE agreed with other recommendations in the report, except where noted in the agency comments sections, following chapters 2, 3, and 4. (See pp. 13, 31 and 42.)

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ABBREVIATIONS

| | |
|--------|--|
| ADP | Automated Data Processing |
| DICARC | Department of Energy Internal Control and Audit Review Council |
| DICTS | Departmental Internal Control Tracking System |
| DISCAS | Departmental Integrated Standardized Core Accounting System |
| DOE | Department of Energy |
| FIS | Financial Information System |
| FMFIA | Federal Managers' Financial Integrity Act |
| GAO | General Accounting Office |
| ICR | Internal Control Review |
| OIG | Office of Inspector General |

Glossary

| | |
|--------------------------|---|
| Abbreviated review | A preliminary evaluation of internal controls to identify needed improvements and implement corrective action without conducting a detailed internal control review. |
| ADP application controls | Those ADP controls that are unique to each software application system. Application controls are intended to assure the quality of data origination, input, processing, and output. |
| ADP general controls | Those controls that apply to the overall management of the ADP function of an agency. General ADP controls have a direct effect on the quality of service rendered to ADP users and cover the processing of all ADP application systems. These controls, which affect most ADP hardware and application software systems, include (1) organizational controls for the ADP unit, (2) system design, development, and modification controls, (3) data center management controls, (4) data center security controls, (5) system software controls, and (6) hardware controls. |
| Assessable unit | A program or administrative function or subdivision thereof which is to be subjected to a vulnerability assessment. |
| Control objective | A desired goal or condition for a specific event cycle that reflects the application of the overall objectives of internal control. |
| Control technique | The processes or documents that enable the control objectives to be achieved. |
| Departmental elements | Term used by DOE to refer to its headquarters offices, operations offices, energy technology centers, power administrations, and petroleum reserve offices. |
| Event cycle | The process used to initiate and perform related activities, create the necessary documentation, and gather and report related data. |

Integrated
contractors

DOE contractors that 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.

Internal control
action officer

An individual designated by the head of a DOE office who acts as the principal point of contact for the office in coordinating all planning, evaluating, reporting, and related internal control matters.

Internal control
review

A detailed examination of a system of internal control to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks to waste, loss, unauthorized use, or misappropriation in a cost-effective manner.

Vulnerability
assessment

A review of the susceptibility of a program or function to the occurrence of waste, loss, unauthorized use, or misappropriation.

CHAPTER 1

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 strengthens the existing requirement of the Accounting and Auditing Act of 1950 [31 U.S.C. 3512 (a) (3)]. It requires executive agencies to establish and maintain systems of accounting and internal control to provide effective control over, and accountability for, all funds, property, and other assets in the agency. This is our second report on how well the Department of Energy (DOE) has implemented FMFIA.¹

In accordance with the act, the Secretary of DOE issued his second annual report to the President and the Congress on December 31, 1984. The report states that DOE's system of internal accounting and administrative controls, taken as a whole, provided reasonable assurance that the internal control objectives set forth in the act were achieved. DOE's report also states that its accounting systems were in general compliance with the Comptroller General's prescribed principles and standards except for complete and current documentation of the accounting systems.

FMFIA REQUIREMENTS

FMFIA requires that:

--Each agency, under section 2 of the act, establish and maintain internal controls in accordance with standards prescribed by the Comptroller General,² which 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 report to the President and the Congress on its internal control

¹GAO's first report entitled The Department of Energy's First-Year Implementation of the Federal Managers' Financial Integrity Act (GAO/RCED-84-134), June 7, 1984.

²The Comptroller General issued Standards for Internal Controls in the Federal Government in June 1983.

systems. The report, due by December 31 annually, must state whether systems of internal control comply with (1) the objectives of internal control set forth in the act and (2) the standards prescribed by the Comptroller General. To the extent systems do not comply, the act also requires agency reports to identify any material weaknesses and describe the plans for corrective action.

--Each agency, under section 4 of the act, state whether its accounting systems conform to principles, standards, and related requirements prescribed by the Comptroller General.

--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 outline 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 agencywide 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 action to improve internal controls; and
- preparing the required annual statement to the President and the Congress on the status of the agency's system of internal controls.

DOE is 1 of 23 agencies included in our review of the status of federal agencies' efforts to implement the act.

DOE'S ORGANIZATION AND OPERATIONS

DOE was established on October 1, 1977, by the Department of Energy Organization Act (Public Law 95-91). The act authorized DOE to (1) achieve effective management of energy functions, (2) plan, coordinate, support, and manage a balanced and comprehensive energy research and development program, and (3) develop and commercialize 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 is a decentralized organization with programs and functions carried out in headquarters and field offices. The field offices include eight operations offices that 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 1984, DOE had about 16,700 employees and spent about \$12 billion.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our review, conducted between May 1984 and February 1985, were to examine the (1) improvements in internal controls and the process DOE used to evaluate and correct control weaknesses, (2) status of DOE's major accounting systems and evaluations made to determine whether they conform to our requirements, and (3) accuracy and completeness of the Secretary's annual report on internal controls and accounting systems. We did not attempt to determine the actual condition of internal controls in DOE. Our review concentrated on how well DOE complied with FMFIA's and OMB's process, both in the internal control and accounting compliance areas. In addition, we examined how DOE evaluated and improved internal controls over its automated data processing (ADP) functions, given the critical role ADP plays in DOE internal control systems.

At DOE headquarters, we reviewed the overall FMFIA direction and guidance provided by the Assistant Secretary for Management and Administration, as well as implementation efforts for both section 2 and section 4 within various assistant secretarial groups. We examined section 2 compliance at three operations offices--Albuquerque, San Francisco, and Nevada--and at DOE's Strategic Petroleum Reserve Office (SPRO) in New Orleans. These offices were judgmentally selected to cover some of DOE's largest departmental elements, in terms of dollars spent on and number of DOE programs.

We reviewed section 4 compliance at five DOE locations: Albuquerque, Chicago, San Francisco, Oak Ridge, and SPRO. We selected the San Francisco office because it had the most experience with DOE's new accounting system, which was implemented at three field offices during fiscal year 1984. We selected the other three operations offices because they account

for a large percentage of DOE's funds, and also to achieve a mixture of the different types of programs DOE administers. SPRO was selected because it was one of DOE's four material weaknesses reported in 1983.

We excluded one DOE component--the Federal Energy Regulatory Commission--from our review, since the Commission, while organizationally a part of DOE, is an 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 selected field offices. We reviewed DOE instructions to assess their consistency with OMB guidance and GAO internal control standards.

To assess how well DOE implemented FMFIA provisions, we examined available materials and documents generated in preparing selected vulnerability assessments (VAs), internal control reviews (ICRs), and accounting system evaluations for compliance with OMB guidelines and the Comptroller General's standards. We also interviewed employees who prepared them. To determine how the individual assurance statements were consolidated into a departmentwide statement, we interviewed (1) "internal control action officers" who had been assigned FMFIA responsibilities, (2) officials in the Office of Compliance Programs, which prepared the Secretary's letter of assurance, and (3) officials in the Office of the Controller, which coordinated all DOE section 4 work.

DOE segmented its activities and functions into approximately 500 assessable units in 1984, of which we randomly selected 25 non-ADP units and judgmentally selected 3 ADP units for detailed review of VAs. Six of these units were from headquarters, and four to seven were from each of the four field offices where we conducted section 2 audit work. We also reviewed 14 subunit assessments, which DOE used to prepare the VAs in our sample. (See app. I.) Subunit assessments are separate VAs made on portions of assessable units and used in preparing the overall VA for the unit. For example, DOE officials prepared the Defense Waste and Byproducts Management VA using six subunit assessments on portions of that program. In reviewing the VAs, we examined applicable GAO and OIG reports, which would indicate weaknesses, if any, in DOE internal controls.

We reviewed 12 ICRs, 2 of which were located at DOE headquarters, 4 at the San Francisco Operations Office, 2 at the Strategic Petroleum Reserve Office, and 2 each at the Albuquerque and Nevada Operations Offices. (See app. I.) By the end of fiscal year 1984, DOE had completed 31 ICRs agencywide. DOE used this cutoff date to prepare its 1984 annual report.

We coordinated with DOE's Office of Inspector General, whose work paralleled ours. The Inspector General evaluated and reported to the Secretary on the Department's implementation of FMFIA. We discussed and shared findings and observations.

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

CHAPTER 2

DOE IS MAKING PROGRESS IN ACHIEVING FMFIA'S OBJECTIVES

The Secretary stated in his 1984 FMFIA report that he had reasonable assurance that DOE's internal controls, taken as a whole, meet FMFIA's objectives, and he also identified five areas where controls need to be strengthened. DOE is taking action to correct weaknesses identified in VAs, ICRs, and its 1983 FMFIA report. However, because DOE has only done limited testing of the effectiveness of its internal controls, in our opinion the Secretary does not yet have an adequate basis for reporting that DOE's systems, taken as a whole, provide reasonable assurance. DOE says that it relies on other management reviews to test internal controls but has not validated that these reviews contain the essential elements of an ICR. We also found that DOE needs to assure that corrective actions are not dropped from the internal control tracking system before they are implemented.

PROGRESS MADE IN CORRECTING MATERIAL WEAKNESSES IDENTIFIED IN 1983

DOE has made progress in correcting the four material¹ weaknesses identified in its 1983 annual report, although all four were again listed as weaknesses in the 1984 annual report. The 1984 report also added a fifth weakness where control systems could be strengthened. The five weaknesses, the first four of which were identified in DOE's 1983 report, are

- project management functions at the Strategic Petroleum Reserve;
- environmental protection from hazardous wastes discharged at various DOE production facilities;
- audit coverage for DOE's integrated contractors;
- safeguards and security for nuclear weapons, special nuclear materials, classified information, and one-of-a-kind production facilities; and
- reprogramming of funds.

We did not identify any additional material weaknesses beyond those identified by DOE during our review.

¹"Material weaknesses" are defined by the House Committee on Government Operations as those matters that could (1) impair fulfillment of an agency's mission, (2) deprive the public of needed government services, (3) violate statutory or regulatory requirements, or (4) result in a conflict of interest.

DOE took corrective action on the four weaknesses originally identified in 1983 as follows:

Improved operations at SPRO

The 1983 annual report to the President and the Congress identified a material weakness in operations at SPRO. SPRO manages the design, construction, and operation and maintenance of the nation's strategic oil reserve. SPRO is authorized to acquire, store, and be prepared to distribute up to 750 million barrels of oil. The Secretary based the material weakness on nine weaknesses identified in SPRO's 1983 assurance memorandum to the Secretary. Eight of the nine weaknesses concerned the need for plans, policies, procedures or documentation in several areas, including accepting new operating systems after construction, equipment repair, strengthened security functions, and performance indicies for major maintenance activities. The ninth weakness concerned the need for a system to reconcile actual oil delivery documents with monthly financial records to assure DOE was not paying for oil that it did not actually receive.

SPRO has developed a corrective action plan containing 18 recommendations to correct the weaknesses, and it has assigned implementation responsibility to various management levels. In its 1984 assurance memorandum, SPRO reported that it had completed work on five of the nine weaknesses and planned to complete the other four by March 31, 1986.

We reviewed 11 of the 18 recommendations and confirmed that SPRO has taken action to resolve the weaknesses. The DOE officials who took corrective action told us they corrected weaknesses relating to eight recommendations and substantially completed action on the other three. Among other things, DOE officials developed plans and procedures for accepting new operating systems after construction, clarified responsibilities for security operations, and developed strengthened performance evaluation criteria for contractors. We reviewed the new procedures, and believe, if followed, they can be reasonable corrective actions. We did not review implementation of these procedures.

Cleanup of active and inactive hazardous waste sites

A second material weakness concerns hazardous non-nuclear waste at various DOE sites. Although the extent of the problem has not yet been clearly defined, air emissions and fluid discharges of hazardous wastes which are outside limits established by law and regulations have occurred at some DOE plants. DOE officials told us that it will cost billions of dollars to clean up these sites.

DOE's OIG, who was primarily responsible for determining the status of this material weakness according to our

audit-sharing agreement, reported in its 1984 letter to the Secretary that DOE has undertaken initiatives to increase assurance that its hazardous waste sites comply with regulations. DOE officials told OIG that field offices have submitted plans to cognizant headquarters offices (such as Defense Programs and Nuclear Energy) for managing and correcting problems at active sites. A final internal order governing inactive sites should be issued during 1985.

Also, DOE officials said that the Deputy Assistant Secretary for Environment, Safety and Health has developed a prioritizing system to rank its proposed waste cleanup projects. This office also developed a system to track these projects through the budgetary process. Funding decisions that conflict with the ranking will require strong justification, according to OIG. OIG reported to the Secretary that the effectiveness of the projects should be monitored closely to assure that problems are corrected.

Improving audit coverage of DOE's integrated contractors

In fiscal year 1983 DOE recognized a critical need for independent audit coverage of its integrated contractors. OIG reviews and approves the contractors' annual "Voucher for Net Expenditure Accrued," which summarizes the contractor's annual financial activity. According to the Secretary's 1983 annual report, independent financial and compliance audits of these contractors are virtually nonexistent due to insufficient OIG staff resources. The problem is significant because the integrated contractors spend about \$8 billion annually in DOE funds.

DOE has since increased independent audit coverage of its integrated contractors by hiring independent public accounting firms to perform the audits. The accounting firms were to have audited 19 contractors in fiscal year 1984 but were only able to audit 5. Audits of the remaining 24 integrated contractors will be performed in fiscal year 1985. DOE plans to audit integrated contractors biennially.

OIG has increased its audit coverage of DOE's integrated contractors, even though the numbers of audits completed do not match the number anticipated in the 1983 annual report. We did not evaluate the effectiveness of DOE's audits, and therefore, have no opinion concerning DOE's success with using public accounting firms.

Safeguarding nuclear weapons, materials, and classified information

DOE is responsible for safeguarding nuclear weapons, special nuclear materials, classified information, and one-of-a-kind production facilities. Several weaknesses

in DOE's safeguards and security program constituted a material weakness listed in the 1983 annual report.

DOE initiated several actions, listed below, to correct this material weakness. Because of their classified nature, we cannot discuss them in detail in this report. However, we believe DOE's actions appear to be reasonable and improvements have been made.

DOE's 1984 annual report listed the following unclassified actions taken to correct the material weakness: sizable additions to security forces, improved training and equipment and initiation of physical fitness standards for guards, development of special response teams for tactical emergencies, acquisition of helicopters for sight surveillance and response capabilities, installation of hardened guard towers to better protect against terrorist attack, installation of vehicle barriers at site perimeter entrances, and improved exterior and interior alarm and assessment systems.

At DOE's Albuquerque Operations Office we found that corrective actions are taking place. We found that additional training has been given to security personnel and that projects are in process or completed at several sites. The corrective actions DOE is taking appear reasonable.

At the time of our review, OIG had initiated a comprehensive review of DOE's nuclear safeguards and security program. Because the scope of the OIG work changed after we completed our review, we did not determine whether the work is sufficiently broad to properly evaluate the agency's efforts to correct the material weakness.

MORE TESTING NEEDED TO
VALIDATE ANNUAL REPORT

The Secretary stated in his 1984 annual report that he had reasonable assurance that, taken as a whole, DOE's system of accounting and administrative control achieves FMFIA's objectives that funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation. While DOE has made progress in evaluating its systems, we believe the agency has not yet tested its internal controls to a point where DOE has an adequate basis for determining reasonable assurance on the systems, taken as a whole.

DOE's FMFIA order² contains procedures for managers to report on the status of their internal controls. The policy

²DOE Order 1000.3A, "Internal Control Systems," June 21, 1984 (draft).

states that managers, in preparing their assurance memoranda, should consider

- compliance or noncompliance with GAO internal control standards,
- VA reports and corrective action plans,
- abbreviated reviews and internal management reports and corrective action plans,
- ICRs and corrective action plans,
- OIG and GAO audit reports and management reviews applicable to internal controls,
- corrective actions for weaknesses reported in the prior year assurance memorandum, and
- status of action taken to correct weaknesses identified in the Secretary's prior year report.

After the various field and headquarters offices prepared individual assurance memoranda, they were forwarded to the Office of Compliance Programs. Compliance Programs personnel reviewed them to assure that forms were properly completed and known internal control weaknesses were identified. They analyzed and compared weaknesses among DOE offices to determine whether widespread weaknesses would constitute a material weakness. In conformance with OMB guidance, the office then drafted the Secretary's report based on "all the available information," according to the Director of Compliance Programs. The final draft was circulated to Department heads for comment prior to the Secretary's signature.

In determining whether an agency has an adequate basis for reporting that systems of internal and administrative controls meet the act's objectives, we believe the agency head should consider the (1) significance of the weaknesses disclosed, (2) status of the corrective actions, (3) comprehensiveness and quality of the internal control evaluations performed, and (4) extent to which accounting systems conform to the Comptroller General's requirements. As discussed earlier in this chapter, DOE has identified its material weaknesses and is taking action to correct them. However, as discussed in chapter 4, DOE is not yet in a position to state that its accounting systems conform to the Comptroller General's requirements. We also believe DOE's internal control evaluations are not yet comprehensive enough to give it a basis to reasonably assure that its internal controls, taken as a whole, meet the act's requirements. The main problem in our view is that DOE has not yet completed ICR's of its most vulnerable units.

We believe ICRs provide a good basis for managers to determine the strength and effectiveness of their internal

controls. By the end of fiscal year 1984, DOE had completed 31 ICRs since the enactment of FMFIA, a relatively small number considering that from its 1982 round of VAs, DOE scheduled 149 to be performed in 1983-86. DOE reported that as of June 30, 1985, it had completed an additional 40 ICRs since the end of fiscal year 1984. We encourage DOE to perform more ICRs in the future.

According to DOE officials, the 1984 assurances given at all levels within the Department were based on managers' knowledge of program strengths and weaknesses through GAO and OIG reviews and internal management reviews. OMB guidance permits agencies to use reviews other than ICRs, but agencies must assure that these other reviews will determine whether existing controls are operating as intended and are effective. DOE is currently identifying its numerous management review processes as an initial step in evaluating them to determine whether, and to what extent, they test internal controls. Once this procedure is completed, DOE may be able to claim it has valid substitutes for ICRs and that they produce information showing internal controls over the agency's most important functions are in place, sufficient, and working as intended.

We discussed the issue of reasonable assurance in our June 7, 1984, report on DOE's first-year implementation of FMFIA. In that report we said that while DOE had made a good start towards creating a system for assessing its internal controls, much work was unfinished because DOE had not yet completed evaluating its internal control systems. As a result DOE had not necessarily identified all significant control weaknesses. We concluded that future assurance statements will be more meaningful as more ICRs are completed and more internal control weaknesses are corrected.

DOE is making reasonable progress in assessing its internal controls. However, we believe the Department did not complete sufficient testing of its internal control systems to have an adequate basis to give reasonable assurance.

IMPROVEMENTS STILL NEEDED TO TRACK CORRECTIVE ACTIONS

In our June 1984 FMFIA report on DOE, we reported that DOE had established a central tracking system to help track scheduled internal control reviews and monitor the progress of internal control recommendations being implemented. DOE changed its policy in 1984 to correct a problem we identified whereby some ICR recommendations were not considered "significant" enough to be entered in the central system and could possibly not be implemented. Now DOE policy requires that all ICR recommendations should be monitored either by the central tracking system or through a local tracking system. Despite this improvement, we found the central tracking system still does not always accurately reflect the status of the recommendations it tracks.

DOE's internal control tracking system (known as DICTS) tracks significant recommendations and related corrective actions identified in VAs and ICRs. Although DOE's FMFIA order requires that the recommendations be tracked until corrective action is completed, we found several instances where actions were dropped from the system before being implemented. If corrective actions are not systematically tracked until they are completed, DOE may not have assurance that the problem is fixed.

DICTS is modeled after DOE's audit report tracking system, obtaining information from quarterly reports as required by the draft order. However, the order does not describe what constitutes a completed corrective action, even though the quarterly reports must indicate which recommendations have been closed during the quarter. As a result, some actions could be dropped from the system before the corrective action is implemented.

During our review, we identified several instances where corrective actions were dropped before completion. For example, SPRO closed out two internal control recommendations in March 1984, even though they were not actually implemented until June and November 1984. Also, in DOE's headquarters accounting office, four recommendations were closed between March and August 1984, even though the corrective actions were not completed at that time.

DICTS relies on input from the various DOE offices to determine whether a recommendation should be dropped from the system. However, without a clear definition of a "closed" recommendation, managers may declare them closed with varying consistency. The internal control coordinator at SPRO has recognized this problem and has issued a requirement that managers submit documented evidence of a completed action before it will be closed out of the tracking system.

CONCLUSIONS

DOE has progressed in correcting the material weaknesses it identified in its 1983 annual report. Although the Department carried forward the four weaknesses to its 1984 report, we confirmed that DOE is taking action to resolve them.

DOE needs to increase its internal control testing through ICRs or other review processes to determine the status of internal controls for its annual report. VAs, on which DOE appeared to rely heavily to generate its 1984 assurances, provide information on the general condition of internal controls. However, they are not designed to test the effectiveness of internal controls, which is an important aspect of an agency's assurance that FMFIA objectives are being met. ICRs, which should include an analysis of controls and testing, have only been performed in limited numbers in DOE.

DOE relied on the results of other management reviews to support its claim of reasonable assurance but has not determined that these reviews contain the essential elements of an ICR. Without performing additional ICRs or adequate substitute reviews on important programs and functions and correcting resulting identified weaknesses, we believe the Department did not have an adequate basis for reporting that its systems, taken as a whole, provide reasonable assurance that it is meeting FMFIA's requirements.

DOE's central system for tracking corrective actions allows internal control recommendations to be closed out before they are actually implemented. Therefore, we believe DOE lacks assurance that its corrective actions are implemented as planned.

RECOMMENDATION

We recommend that the Secretary of Energy direct the Assistant Secretary for Management and Administration to amend the DOE FMFIA order to define what constitutes a closed internal control recommendation. In communicating this amended guidance to managers throughout DOE, the Assistant Secretary should emphasize the need to assure that internal control weaknesses are corrected before they are dropped from the tracking system and periodically follow up on corrective actions to assure that problems have been fixed.

AGENCY COMMENTS

DOE disagreed with the proposal in our draft report that the agency track internal control weaknesses until managers submit documented evidence that corrective actions have been implemented. DOE stated that a requirement to submit such documentation would be burdensome, paperwork intensive, and without benefit to DOE as a whole. The intent of our proposal was to assure that internal control weaknesses are tracked until corrected, not to impose additional documentation burdens. We have therefore clarified our position that DOE should amend the DOE order to include a definition of a "closed" internal control recommendation and emphasize the need to assure that recommendations are tracked until implemented.

Our draft report also contained a proposal that the Secretary not report having reasonable assurance that DOE's internal controls meet FMFIA's objectives until more testing, through ICRs or adequate substitute reviews, takes place. We have deleted this proposal. Although we continue to believe that DOE does not have an adequate basis for reasonable assurance, we recognize that DOE is making a good faith effort to comply with the act's requirements and, accordingly, agree that a formal recommendation is not necessary at this time.

Regarding our position that DOE did not have a sufficient basis for reporting that it has reasonable assurance, DOE

stated, "The Department believes the totality of [its] internal control evaluation program provides the necessary support for the assurance contained in the Secretary's report," and that, "Additional support was provided by assurances from every senior official within the Department, an elaborate quality assurance and review process, as well as an independent assessment performed by the Inspector General." (See app. III.)

We recognize that management judgment is involved in reaching a conclusion that the internal control systems, taken as a whole, provide reasonable assurance that the act's requirements have been met. In deciding whether their systems provide reasonable assurance, we believe agencies need to consider four factors collectively:

- the comprehensiveness and quality of the evaluation work performed,
- the significance of the weaknesses disclosed,
- the status of corrective actions, and
- the extent to which accounting systems conform to the Comptroller General's requirements.

In our opinion, unless the agency's key accounting systems and internal controls over major programs and functions are adequately evaluated and tested, and until the material weaknesses in the systems are substantially corrected, the agency head does not have an adequate basis to conclude that he has reasonable assurance under the act. Evaluations and corrective actions needed to address the act's requirements may take several years to complete. An agency may be making good progress toward that goal, yet not have progressed to the point where reasonable assurance can be provided.

While we recognize in this report that DOE relies on evaluations other than ICRs to give assurance, we continue to believe that DOE did not have sufficient evidence that internal controls are working as intended through operational testing of its internal control systems. Operating reviews are very important, since we have often found that breakdowns in control systems are the result of individuals not following prescribed policies and procedures which, if implemented, would provide necessary control. If sources of information other than ICRs are relied upon, we believe that such sources should be examined to assure that they demonstrate that adequate controls exist and are working as intended. Only then, in our opinion, will DOE be in a position to state that it has reasonable assurance that its internal controls, taken as a whole, meet FMFIA's requirements.

DOE may have reached its judgment concerning reasonable assurance in accordance with guidelines disseminated by OMB. In our report on first-year implementation of FMFIA (GAO/OCG-84-3, August 24, 1984), we recommended that OMB clarify and revise its guidance on what should be contained in the year-end reporting

statement. The House Committee on Government Operations, in its August 2, 1984, report on first-year implementation of the act, also recommended that OMB revise its guidance concerning annual reporting. The Committee suggested that it would be more practical for some agencies to report they "have reasonable assurance except ..." and identify areas where they do not have assurance. However, OMB took no action on these recommendations. This issue will be discussed further in our overall report on second-year implementation of the act, which is to be issued later this year.

CHAPTER 3

DOE HAS IMPLEMENTED A GOOD INTERNAL CONTROL EVALUATION PROCESS BUT IMPROVEMENTS ARE NEEDED

DOE is making reasonable progress in implementing an internal control evaluation process which complies with OMB guidelines and improved its process during the second-year implementation of FMFIA. The Department revised its internal control guidance to incorporate DOE managers' suggestions, as well as those proposed by the Inspector General and in our first-year report on DOE's implementation of FMFIA. In implementing its second-year process, DOE complied with the requirements of the OMB guidelines.

We identified several areas where additional changes or improvements could help DOE in evaluating its internal controls. Our review showed that DOE needs to develop quality assurance guidelines and increase internal control evaluation training to ensure that programs and functions are assessed accurately and consistently. In addition, we believe DOE should make all managers performing VAs aware of the ADP internal control guidelines so they can appropriately consider ADP in future VAs. These changes, in our opinion, will improve DOE's ability to effectively identify and correct agency internal control weaknesses.

DOE'S PROCESS FOLLOWS OMB GUIDELINES

DOE continued to evaluate its internal controls in 1984 using the process it established in 1982 and expanded in 1983. In June 1984, DOE revised its internal control guidelines in an effort to improve and streamline the process. The new order provides guidance that effectively incorporates OMB's seven-step approach for implementing control systems. Although the order is in draft, it is being implemented as interim operating guidance. It consolidates DOE's internal control guidance but is still in draft because revised ICR procedures have not been incorporated. DOE currently uses its 1983 procedures to perform ICRs.

The order prescribes policies and standards for departmental internal control systems and assigns responsibility to DOE managers for maintaining effective internal controls. Among other things, it

- delegates overall responsibility for administering internal control policies and requirements to the Assistant Secretary for Management and Administration; the Assistant Secretary has delegated some responsibility for administering the program to the Controller;

- assigns responsibility for internal control oversight to the Department of Energy Internal Control and Audit Review Council (DICARC);
- requires the Inspector General to verify DOE compliance with FMFIA requirements and provide assurance to the Secretary as to whether the internal control evaluation process in DOE was carried out reasonably and prudently; and
- establishes requirements and instructions for completing VAs and reporting to the Secretary on the status of internal controls in the various departmental elements.

The order presents a revised list of assessable units, increasing DOE's inventory from about 400 units in 1982 to about 500 units in 1984. DOE determines the number of assessable units by counting the programs and administrative functions implemented at headquarters and each field location.

The order also contains specific instructions on how to perform VAs and report on internal control weaknesses for DOE's annual report. Three optional questionnaires are provided in the order for managers to analyze the general control environment, inherent risk, and control safeguards in their units. OMB requires these analyses in assessing vulnerability to fraud, waste, and abuse. DOE managers and its integrated contractors used the draft guidance to perform the 1984 VAs.

In our first-year report, we found that DOE's VA instructions did not formally designate which managers should assess all its program and administrative ADP activities. We proposed that DOE formally designate who should perform ADP VAs. In response to our proposal, DOE's draft order requires all program managers with ADP applications and equipment to consider ADP in the VA.

Also, to assure more effective coverage of ADP actions, DOE issued ADP Internal Control Guidelines in August 1984. The guidelines are designed to improve evaluations of both general and application controls.¹ The guidelines also contain optional questionnaires for managers to analyze the general control environment and inherent risk, and perform a preliminary analysis of existing safeguards. In addition, the guidelines explain the differences between requirements to comply with an OMB circular² on ADP security and FMFIA. They also contain a

¹General controls cover functions such as organization and management, application systems design and development, and hardware and computer center operation. Application controls cover the quality of data origination, input, processing, and output.

²OMB Circular A-71 Transmittal Memorandum No. 1, Security of Federal Automated Information Systems, July 27, 1978.

list of ADP internal control techniques that can be used as a reference when conducting internal control reviews.

DOE had conducted 31 ICRs by the end of fiscal year 1984. Guidance for performing ICRs is being revised, but managers used draft guidelines issued by DOE in 1983. These guidelines complied with OMB requirements. The 31 ICRs were performed on assessable units DOE identified as having high or moderate vulnerability in the 1982 VAs. Recommendations from the 31 ICRs are logged and tracked in DOE's internal control tracking and follow-up system in headquarters. The system was recently expanded to track corrective actions identified through VAs and those associated with material weaknesses listed in the Secretary's annual FMFIA report to the President and the Congress.

On December 31, 1984, DOE issued its second annual report on the status of its internal controls. The report appeared to be based primarily on the results of VAs which were supposed to consider results from any pertinent management reports, audit reports, internal control reviews, and managers' knowledge of internal controls. Chapter 2 includes our assessment of the report's required reasonable assurance statement.

IMPROVEMENTS NEEDED IN THE VA PROCESS

Seventeen of the 28 VAs we reviewed appeared to comply with DOE guidelines. However, in 11 instances the VAs either appeared to rate risk too low or did not comply with one or more of DOE's requirements. As a result, these VAs may not have been reliable indicators of the assessable units' susceptibility to waste, loss, and abuse. Potentially needed internal control reviews may thus not have been scheduled or performed, and possible internal control weaknesses would not be identified and corrected.

Questionable validity of some VA ratings

After performing a VA, DOE managers rate the assessable unit as having high, moderate, or low vulnerability to waste, loss, unauthorized use, or misappropriation. The VA ratings for most of the assessable units we reviewed appeared to be reasonable. However, ratings for 2 of the 28 VAs appeared too low, in our opinion, raising questions about DOE's assessment of the program's or function's vulnerability. A VA rating represents the subjective judgment of the assessor, and as discussed later in this chapter, DOE needs to develop quality assurance criteria or procedures to better ensure the validity of VAs.

The OMB guidelines provide factors to consider in evaluating each of the three VA steps--general control environment, inherent risk, and preliminary evaluation of safeguards. The DOE order also provides managers questionnaires and forms for assessing the VA factors and identifies conditions that require high, moderate, or low ratings. The DOE criteria allow managers a significant amount of latitude in assessing their programs' vulnerability. For example, when analyzing inherent risk for the budget allocation factor, a small budget would result in a low risk value and a large budget in a high risk value. Determining whether a program's budget is small, moderate, or large is left to the assessor's discretion.

DOE offices generally completed the VA questionnaires and forms provided in the order, but based on our review of GAO and OIG reports and discussions with and documents obtained from OIG staff, we believe some VA ratings appeared too low.

For example, the Director of DOE's headquarters Telecommunication Division rated it low in vulnerability to fraud, waste, and abuse. According to auditors in DOE's Office of Inspector General, an internal report dated December 26, 1984, indicated deficiencies in division procedures used to procure a new telecommunications system at DOE headquarters estimated to cost about \$37 million over 10 years. OIG personnel discussed these deficiencies, including an incomplete needs assessment and cost analysis used to justify the new system, with the Telecommunications Division Director in October 1984. The Telecommunication VA also indicated an overall low risk value for prior audits and reviews, reflecting good audit coverage and few deficiencies. However, the division director told us that his program has received minimal audit coverage. We believe the minimal audit coverage and the deficiencies noted by the OIG raise questions about the appropriateness of the low rating DOE assigned to telecommunications.

Similarly, we question the low VA rating of DOE's Economic Regulatory Administration's compliance program, given the inherent risk of the program. The Administration, which is part of DOE, is responsible for enforcing regulations for alleged oil pricing violations that occurred between 1973 and 1981 and totaled billions of dollars. While the 1982 VA rating for the Administration's compliance program was moderate, the 1984 VA rating was downgraded to low. The basis for the change in the rating was, according to Administration officials, "a clearer understanding of the objective of the assessment process." The preparer of the VA thought that it was useless to perform an ICR to assess the controls for a unit that is being phased out in a few years and planned to recommend cancelling the scheduled ICR.

According to DOE's draft order and OMB guidelines, programs being phased out have a higher risk because resources may be inadequate, controls over such activities may not be developed, and personnel may lose interest and motivation. In addition,

the order contains factors on "special concerns" and "impact outside the agency" which managers should consider when rating a VA. In our opinion, applying the above factors to the Administration's VA would indicate moderate to high vulnerability. Regarding special concerns, the Congress has shown considerable interest in the program through congressional request for audit and other inquiries. Concerning impact outside DOE, the Administration's program enforcing oil pricing and allocation regulations has significant financial impact on major oil companies. When a program has such impact, it may be more susceptible to external pressures that might circumvent internal controls. In this regard there has been a criminal investigation of at least two Administration employees concerning the acceptance of bribes from oil company representatives.

The Administration's compliance program has had good audit coverage, which, by itself, would reflect low risk if action had been taken to correct identified weaknesses. But prior GAO and OIG audits disclosed several deficiencies on which the Administration has not taken corrective action. For example, a GAO report³ questioned whether the Administration has adequate assurance that the major oil refiners' alleged violations are equitably resolved, since the Administration did not maintain audit and compliance histories. The report recommended that DOE establish a case history of pricing violations to include all relevant data for each of the 12 major refiners with unresolved violations. DOE officials disagreed with the recommendation, and said that at this stage of the compliance program, compilation of a case development process would not add to the program's effectiveness. GAO believes that without the case history documentation, the Administration cannot trace the disposition of each alleged violation and demonstrate whether the disposition was fair and equitable.

We believe the program should not be rated low, considering the prior audits and management responsiveness risk factors that appear to have been inaccurately assessed. The preparer of the VA said he considered the GAO and OIG reports with open recommendations; however, no documentation was available to show how he considered them.

VAs do not always follow DOE requirements

We found that DOE managers did not always follow the DOE draft order requirements for VAs pertaining to

--evaluating compliance with GAO standards of internal control,

³Improvements Needed in the Department of Energy's Petroleum Pricing and Allocation Program, GAO/RCED-84-51, Apr. 18, 1984.

--directing integrated contractors to perform VAs and incorporating the contractors VA results in the assessable unit's VA, and

--considering ADP controls.

While we could not always determine the reasons for noncompliance, we believe it was caused in part by managers not having a clear understanding of the draft order requirements.

Need to ensure GAO standards of internal control are evaluated

One of the three steps required by OMB and DOE in conducting a VA is the preliminary evaluation of safeguards-- internal controls. This involves the manager evaluating the internal controls over a program or function. The OMB factors used to assess safeguards are the 12 GAO internal control standards listed in appendix II, which define the minimum level of quality acceptable for internal control systems in operation and constitute the criteria against which systems are to be evaluated.

Three VAs we reviewed did not document the evaluation of or address compliance with all GAO standards of internal control. These included two VAs in headquarters and one at SPRO. By not considering all the GAO standards, managers may not identify all existing internal control weaknesses.

For example, the headquarters Nuclear Waste Management Fuel Cycle program manager did not document the evaluation of GAO standards when conducting the VA. The internal control action officer for the Assistant Secretary for Nuclear Energy told us that compliance with GAO standards cannot be determined using DOE's questionnaire for assessing the standards until event cycles, control objectives, and control techniques are identified and documented. DOE's order requires all DOE offices to identify and document cycles, objectives, and techniques by March 31, 1986. The action officer further said that the five other headquarters' Nuclear Energy VAs did not evaluate compliance with GAO internal control standards. DOE officials said, in commenting on the draft report, that the "intent" of GAO standards was evaluated for all six headquarters' Nuclear Energy VAs. However, DOE said that four of the six VA's did not document the evaluations using the DOE questionnaire.

In two other examples, the Economic Regulatory Administration and the Telecommunication function at SPRO either did not document the evaluation of or did not address compliance with all GAO standards. The manager conducting the Telecommunication VA said he did not evaluate the control objectives, control techniques, and documentation standards because he did not understand the questions in DOE's VA questionnaire pertaining to the standards.

Need to ensure that managers
obtain and use VAs from
integrated contractors

DOE managers in two field offices did not involve integrated contractors in the VA process as required by DOE's order. The order requires that field offices direct integrated contractors to conduct VAs on their programs and administrative functions. Further, responsible field office managers are to review and approve contractor VAs and consolidate them with the DOE VA into a single assessment for the DOE field unit.

The Director of the Loan and Grants Division at the San Francisco Operations Office did not consolidate a contractor's VA into the State and Local Grants VA. The contractor, Rockwell International's Energy Technology and Engineering Center located in Canoga Park, California, performed a VA. However, the contractor's VA was not included by the director in performing the DOE program VA. The director said that she did not consider the contractor's role to be a significant part of the overall administration of the program. The contractor provided technical assistance and evaluated technical proposals for a \$4.9-million grant program.

DOE's order does not give managers the latitude to exclude the integrated contractors' VA results. Therefore, DOE managers should include the contractors' results in the overall VA when applicable. While conformance to policy is important, we also believe DOE should consider its integrated contractors in the FMFIA process because they spend about two-thirds of the agency's budget. Subsequent to our review, the Loan and Grants Division Director informed us that she had reconsidered the contractor's VA and that it did not add any information that would change the overall assessment of moderate.

In another case, a San Francisco manager did not direct his integrated contractors to conduct VAs. According to San Francisco's Director of Environmental Safety and Quality Assurance, he did not direct the program's four integrated contractors to conduct VAs because they had recently submitted detailed hazardous waste compliance reports. The DOE team conducting the VA based it on these contractors' reports and other data such as contractor appraisal reports, correspondence, and VA team members' personal knowledge of the integrated contractors' operations. We believe the program manager should direct integrated contractors to perform VAs until or unless DOE determines that the compliance reports or other information from contractors are suitable substitutes for VAs.

At the Albuquerque Operations Office, the manager who performed the Administrative ADP VA did not require Sandia National Laboratory, a major integrated contractor facility, to conduct separate evaluations of ADP general controls at its Livermore, California, and Albuquerque, New Mexico, computer facilities. The Sandia computers are used in almost every phase of weapon systems engineering research, design, and

development. The accuracy and reliability of these scientific computers and applications play a major role in producing weapons systems that meet the requirements of the military. The ADP operating expense for the two facilities was about \$39 million in fiscal year 1984.

General control evaluation in an ADP facility should assess internal controls such as the organization, management, and protection of the computer center; computer acquisition and hardware controls; and software design, development, and maintenance. Instead of doing this, Sandia National Laboratory conducted a single assessment of how all its assessable units, including ADP facilities, complied with the GAO internal control standards.

We believe this approach did not adequately assess the controls over the Laboratory's ADP facilities. The manager at the Albuquerque Operations Office performing the DOE assessment could not identify whether, or at which facilities, ADP internal control weaknesses were identified in the Laboratory's VA.

Need to better consider
ADP in VAs

DOE requires managers to evaluate ADP when performing VAs. Of the 28 VAs we reviewed, 17 assessable units were supported by ADP applications. We concluded that managers did not consider or adequately consider ADP in 5 of the 17 VAs. These DOE managers did not appear to have a clear understanding of how or what ADP to consider.

DOE depends heavily on ADP to carry out its missions and administrative functions. DOE has invested approximately \$900 million in computers. In fiscal year 1984, DOE's operating ADP budget was about \$550 million. The Department uses ADP to support major activities such as

- research and development, where much of the data is sensitive or classified and must be protected from accidental loss or unauthorized access and
- financial management, including the automation of activities to process, record, and control DOE's \$12.3 billion budget.

Therefore, we believe adequate controls over DOE's ADP activities are essential to assuring that the Department's internal accounting and administrative controls are working as intended.

DOE's draft internal control order requires all program managers with ADP applications and equipment to consider ADP, and it provides a questionnaire containing ADP issues to perform the assessment. While the questionnaire addresses both general

and application ADP controls, it does not group the two types of control questions by category. In addition, the questionnaire does not differentiate between on-line and batch operations,⁴ an important distinction to ensure proper control evaluation. We believe these deficiencies call into question the reliability of the questionnaire to accurately assess ADP.

DOE issued separate ADP internal control guidelines in August 1984, which describe types of ADP controls managers should consider in their evaluations. When fully implemented, we believe these guidelines will improve DOE's ADP coverage under FMFIA. However, the guidelines were issued too late to be effectively used in DOE's 1984 internal control evaluation process.

To illustrate some problems in how ADP was considered in the VA process, the SPRO managers conducting the design and construction VA did not evaluate ADP, although they use a computer to determine the relationship of oil drawdown capability at SPRO to factors such as the hours worked by maintenance crews. A SPRO official who helped perform the VA said that ADP items in the VA questionnaire apply to managers assessing controls that are "transaction oriented," such as in financial units that issue checks, and not to engineering units. We believe this unit has ADP applications and equipment that should have been evaluated in the VA.

In another instance, a SPRO manager inadequately considered internal controls for an ADP system being implemented. The manager who performed the VA relied on the operations and maintenance contractor's evaluation of controls without verifying the contractor's work. The contractor's assessment indicated no problems with the system. Subsequent to the VA, the manager told us in observing the contractor inputting information on the system, controls were not in place to assure that all information was actually entered.

At Albuquerque, a program manager did not perform a full ADP review on the microcomputers used by his unit. The microcomputers are used to track classified information on the quantity of components used in weapon systems. The manager said he did not assess the controls over them because they are not part of a central computer system. The DOE draft order, used by most managers in conducting VAs, discusses ADP generally in the context of large computers and does not specify review of microcomputers. While the ADP guidelines discuss both large and small computer users, the guidelines were not fully implemented,

⁴On-line processing occurs when the user has a computer terminal and may process transactions as they occur. Batch processing occurs when a number of transactions are collected and processed in the computer as a single unit.

so some confusion remained as to whether or how to assess microcomputers.

Corrective actions taken concerning microcomputers

Two of the three ADP ICRs we reviewed identified the use of microcomputers as an area lacking adequate controls. DOE estimates it will have \$121 million invested in microcomputer hardware and software by the end of fiscal year 1985, up from \$64 million at end of 1983. We found that DOE's management had limited information on the type and sensitivity of data processed on microcomputers, and on who is using these systems. We believe the agency should target the microcomputer issue in future evaluations due to DOE's growing use and dependence on microcomputers.

In April 1984, the House Appropriations Committee completed an ADP study in DOE and criticized its management and use of microcomputers. The Committee recommended that DOE place a moratorium on microcomputer acquisition until it developed better controls for acquiring and using microcomputers. Responding to the study, the DOE Director of Administration imposed a moratorium on procuring microcomputers and word processors until specific management strategies are prepared for managing and acquiring microcomputers and software, training users, and implementing internal controls.

In February 1985, DOE's Director of ADP Management took several actions to improve internal controls over small computers. The director issued an order requiring the implementation of proper safeguards to protect microcomputers against improper use, waste, and loss of data or unauthorized disclosure. Also, these systems have been brought under the purview of policies and procedures which govern large computer systems. In addition, the director issued new Security Guidelines for Microcomputers and Word Processors for each user organization to identify specific controls. In our opinion, this new guidance provides managers with needed instructions to properly evaluate their ADP controls, regardless of size or usage. As with the ADP guidelines, however, the success of the guidance will depend on how well it is implemented in DOE.

IMPROVEMENTS NEEDED IN THE ICR PROCESS

DOE needs to improve its process for conducting internal control reviews to assure that (1) controls are properly evaluated by staff who understand the process, (2) all deficiencies are reported, and (3) the results are used in generating the Secretary's annual report. We examined 12 of 21 final or draft ICR reports and supporting documents at 5 locations. Our review showed that, while six tested and

evaluated internal controls as required by DOE and OMB, five⁵ others did not. In the latter five, DOE managers either did not or did not adequately

--evaluate control objectives;

--test control techniques; or

--explain, through documentation, the basis of evaluation results.

Both DOE and OMB require such evaluation and testing to determine if control objectives are relevant and control techniques are in place and working to achieve the objectives. As discussed later, documentation is also an important required part of an ICR.

Both OMB and DOE guidelines define an ICR as

"a detailed examination of a system of internal controls to determine whether adequate control measures exist and are implemented to prevent or detect the occurrence of potential risks in a cost-effective manner."

The guidelines outline a six-step approach to conducting an ICR, which include evaluating the internal controls within an event cycle and testing the internal control techniques to determine if controls are working as intended.

On an ICR of DOE's Technical Information Management Program at the Technical Information Center, Oak Ridge, Tennessee, program managers identified numerous event cycles, control objectives, and control techniques but did not use them in performing the ICR. The program is primarily responsible for the collection, processing, storage, and dissemination of all scientific and technical information generated from DOE's annual multi-billion dollar research and development investment.

According to a summary document on the ICR and the ICR team leader, DOE managers only identified event cycles, control objectives, and control techniques in the final stage of the review--after controls had been completely evaluated. DOE's draft order requires managers of all departmental assessable units to document cycles, objectives, and techniques by March 1986. However, DOE's ICR guidelines require managers to identify and evaluate cycles, objectives, and techniques for any unit on which an ICR is performed, even if this occurs prior to March 1986.

⁵The results of one ICR are excluded because we did not complete our analysis of it; however, reference is made to the ICR in other sections of the report as appropriate.

The ICR was to, among other things, determine the adequacy of internal controls over the receiving, processing, and disseminating of energy-related scientific and technical information. In evaluating this, DOE examined a random sample of 120 reports and publications to find errors in internal processing and/or processing time delays.

Instead of testing required control techniques, the managers developed a list of eight questions that they believed, if addressed, would provide the necessary information on the adequacy of internal controls to meet program objectives. Although some testing was done to answer the questions, the evaluation did not relate the testing to control objectives and techniques within any particular event cycle to determine how the cycle operates.

One event cycle, the distribution control system, addresses the dissemination of energy information. A control objective of this cycle is to prevent unauthorized access to restricted reports. One control technique for meeting the objective is that program officials approve recipients of classified reports in their program areas. However, the ICR report and documentation did not show whether program officials used this technique. While the ICR did not identify any internal control weaknesses and proper controls may, in fact, be in place and working, we believe DOE does not have that assurance through this ICR.

We also reviewed a draft ICR of DOE's headquarters Personnel Office. The personnel specialist performing the ICR told us he did not evaluate control objectives and test control techniques. The ICR addressed two event cycles--position management and classification, and employee relations. The personnel specialist said he did not follow DOE's ICR guidelines because he was not aware that they existed until after he completed the ICR. The specialist said his review consisted of interviews with managers responsible for the areas addressed by the ICR. The ICR disclosed some weaknesses and included a corrective action plan. Adherence to the ICR guidelines may have uncovered more weaknesses.⁶

We reviewed five ICRs where managers did not adequately document what they evaluated or tested as required by DOE's ICR

⁶In commenting on our draft report, DOE stated that during this ICR, some data were collected and records were spot-checked as part of the testing process. Also, the personnel specialist was provided a copy of the ICR guidelines when the report was drafted. We did not verify this information but will point out that if ICR guidelines were provided when the report was being written, they did not help the personnel specialist perform the ICR.

guidelines. The guidelines state that a permanent record of the ICR evaluation should be maintained to provide the basis for the ICR's conclusions and recommendations. OMB, in its August 1984 Questions and Answers pertaining to FMFIA, stated that documentation should contain sufficient detail to permit effective supervisory review and quality review by management. Documentation is also essential for independent third party reviews.

The DOE officials performing the ICR on San Francisco's Liquid Metal Fast Breeder Reactor (LMFBR) program did not adequately document testing of event cycles. The ICR addressed three event cycles: (1) beginning-of-year program guidance, (2) mid-year program assessment, and (3) end-of-year program assessment.

The ICR workpapers (materials backing up the ICR report) did not adequately document what testing, if any, the ICR reviewer performed. Documentation consisted of informal notes of information obtained through reviews of DOE funding and program guidance and interviews. The purpose and source of these notes were not annotated or explained, nor were conclusions on the results of testing clearly disclosed. While DOE's ICR guidelines accept interviews, observations, and reviews as forms of testing, they require documentation of the test procedures and results to support the ICR conclusions and recommendations. Because the person who conducted the ICR no longer works at San Francisco, we did not determine the amount of testing actually performed.

Two of the three ADP ICRs we reviewed also did not adequately test controls. ADP managers said that they did not extensively test ADP internal control techniques because of recent efforts to perform risk analyses in response to OMB Circular A-71. Risk analyses are conducted at computer installations to provide a measure of the relative vulnerabilities and threats to an installation. Risk analyses may involve some testing of controls, and managers should coordinate work under A-71 and FMFIA to avoid duplication as much as possible. However, DOE's A-71 reviews did not cover certain critical ADP controls, such as system design, development, and maintenance controls. These controls assure that new systems and modifications are properly authorized and approved, thoroughly tested before implemented, properly documented, and meet user requirements.

INCREASED FMFIA TRAINING NEEDED

DOE's internal control order assigns heads of departmental elements the responsibility to train their staff on the internal control evaluation process. We discussed training with 38 of the 40 program managers responsible for the 28 VAs and 12 ICRs we reviewed. Eleven of the managers told us that they did not receive any training on the internal control evaluation process.

For example, the official performing the headquarters personnel ICR said he did not receive any training. Also, he did not receive draft guidelines for performing ICRs until he had completed the review. As previously stated, we considered this ICR unreliable because control objectives were not identified and control techniques were not effectively tested.

Similarly, the manager performing the headquarters telecommunications VA said he received no training. While he believed he understood the process, we have taken exception to the telecommunication VA rating because known weaknesses in the procurement area were not adequately considered and audit coverage was not accurately identified.

The need for internal control training was recently cited by the Assistant Secretary for Defense Programs' internal control action officer. He sent a memorandum to program managers emphasizing the need to authorize internal control training and provided information on various training sessions available.

SUPERVISORY QUALITY ASSURANCE REVIEWS CAN BE IMPROVED

In addition to increasing training, DOE needs to improve its supervisory quality assurance reviews to ensure that VAs and ICRs are valid and conducted in accordance with DOE's order. The problems we found with VAs and ICRs support the need for better quality assurance.

In response to our first-year FMFIA report, DOE changed its order to assign responsibility for review and approval of VAs and ICRs to successively higher levels of management consistent with the program or administrative function's organizational structure. These officials are now responsible for evaluating adherence to prescribed internal control methodologies and attesting to the accuracy of the results.

In conducting our second-year FMFIA review, we found that DOE's quality assurance process for VAs is generally a review to assure that forms are filled out properly and support the VA's conclusion. The VA quality assurance process usually consisted of reviews by internal control oversight groups and internal control action officers to determine whether adequate documentation (such as questionnaires, forms, and summary reports) existed to support the VA conclusion. The process also consolidated subassessments into an overall VA for assessable units. Similarly, ICRs were reviewed to ensure that ICR reports conform to DOE's reporting format.

Despite the changes in DOE policy and the new procedures being implemented, the Department accepted VAs and ICRs that did not meet DOE and OMB guidelines. As stated earlier in this chapter, personnel performing VAs and ICRs in 1984 did not always comply with DOE's guidelines. Managers did not properly

apply the VA criteria, consider ADP, incorporate integrated contractor VA results, and evaluate compliance with GAO standards. In addition, some managers conducting ICRs did not comply with DOE's ICR guidelines. Managers reviewing VAs and ICRs in some cases appear to lack a clear understanding of DOE requirements, as well as criteria for reviewing VAs.

DOE recently developed a checklist for reviewing ICRs consisting of questions, such as whether control techniques are tested. Two ICRs at SPRO were redone after applying the review criteria. The Budget, Finance, Accounting and Funds Control ICR included in our review was, in our opinion, substantially improved. The ICR checklist was distributed to managers in June 1984. We believe it will help reviewers focus on the ICR requirements. There is no such checklist for reviewing VAs, but we believe VA reviewers could benefit from such guidance.

CONCLUSIONS

DOE is making reasonable progress in implementing an internal control evaluation process which complies with OMB guidelines. The Department revised its internal control directive to implement DOE managers', OIG, and GAO recommendations on FMFIA's first-year implementation. More improvement, however, is still needed in the internal control evaluations.

Seventeen VAs and 6 ICRs included in our review were properly performed. However, we found 11 VAs where managers did not properly apply the VA criteria, consider ADP, incorporate integrated contractor VA results, and evaluate compliance with GAO standards. In addition, managers conducting five ICRs did not always comply with DOE's ICR guidelines. We believe the problems existed, in part, because managers lack a clear understanding of DOE requirements and some did not receive training on how to perform internal control evaluations. Also, we believe the lack of criteria for supervisory reviews of VAs, and ICRs until recently, contributed toward managers submitting VAs and ICRs that did not comply with DOE requirements.

RECOMMENDATIONS

To improve the FMFIA process at DOE, we recommend that the Secretary of Energy direct the Assistant Secretary for Management and Administration to

- ensure that managers are aware of the requirement to evaluate ADP internal controls and the guidance that is now available;
- train personnel to perform VAs and ICRs according to DOE requirements;

- require supervisory managers to perform quality assurance reviews of ICRs and certify they have assurance that the ICRs comply with OMB and DOE guidance (the existing ICR checklist, or something similar, could be used for this purpose); and
- establish guidelines for supervisory quality assurance reviews of completed VAs so that they are conducted according to DOE guidance and produce valid, consistent assessments.

AGENCY COMMENTS

DOE agreed, in its comments on our draft report, that it should ensure that managers are aware of requirements to evaluate ADP internal controls. In this regard, DOE stated that it has distributed and discussed guidance on ADP controls and subjected it to compliance reviews. (See app. III.) We will continue to monitor DOE's progress in this area to assure that effective implementation occurs.

DOE also agreed with our proposals to train personnel to perform VAs and ICRs according to DOE's requirements and establish guidelines for supervisory quality assurance reviews of completed VAs.

DOE disagreed with our proposal that managers should be required to use the ICR checklist to ensure that ICRs comply with OMB and DOE guidance. DOE believes the ICR checklist is limited in areas involving managerial judgment; however, DOE is willing to formally publish the checklist in the DOE order. DOE said that it will specify that the checklist is optional.

We continue to believe that DOE should establish a more rigorous requirement for supervisory reviews of ICRs. We believe DOE should establish, publish, and require managers to use a formal review process to assure ICRs are adequate evaluations of internal controls. We have clarified our position on this point.

CHAPTER 4

DOE NEEDS TO FULLY IMPLEMENT ITS FMFIA

ACCOUNTING SYSTEM EVALUATION PLAN

DOE has underway major projects to improve its accounting systems and is acting to correct a number of system deficiencies it has identified. DOE has also developed a good plan for reviewing its accounting systems. The plan provides for primary reviews by the officials directly responsible for each system in operation and secondary reviews and tests by independent reviewers.

DOE did not conduct secondary reviews and tests of most of its existing accounting systems because they are to be replaced by the end of 1985. These limitations were disclosed in DOE's second annual report to the President and the Congress. However, the report also stated that the results of DOE's evaluation work, along with assurances provided by managers, indicate that the systems are in general conformance with the Comptroller General's principles, standards, and related requirements.¹ The only material exception DOE reported was the lack of complete and current accounting systems documentation.

We believe that DOE has made progress in implementing the requirements of Section 4 of FMFIA during 1984 but is not yet in a position to state whether its systems are in general conformance with the Comptroller General's principles, standards, and related requirements. We agree with DOE's decision not to review and test systems that are to be replaced within a year. In our view, however, accounting systems must be reviewed and tested in operation to determine whether they are in conformance. As DOE's report acknowledges, DOE needs to document its systems and expand its system reviews, including testing.

In our opinion, there was a high level of top management commitment and involvement in efforts to develop improved

¹ The GAO Policy and Procedures Manual for Guidance of Federal Agencies contains the principles, standards, and related requirements to be observed by federal agencies. Specifically, title 2 prescribes the overall accounting principles and standards, while titles 4, 5, 6, and 7 specify requirements governing claims; transportation; pay, leave, and allowances; and fiscal procedures, respectively. Also, agency accounting systems must include internal controls that comply with the Comptroller General's internal control standards and related requirements, such as the Treasury Financial Manual and OMB circulars.

accounting systems and in the overall accounting system evaluation program. There was also extensive participation by the chief financial and accounting officials at regional operations offices and support from the Controller's Office and the Assistant Secretary for Management and Administration in the planning and implementation of the program. However, in addition to evaluating and testing the new systems after they are implemented, DOE needs to address the following matters:

- DOE planned several corrective actions but had not yet implemented a tracking system for monitoring implementation of those actions.
- DOE's integrated contractors, which expend and account for about two-thirds of DOE's fund resources, were not adequately included in the FMFIA process.
- DOE's accounting system review documents did not always describe the scope of the work conducted in accordance with DOE guidelines and provide evidence for statements of systems' conformance.

STATUS OF DOE'S ACCOUNTING SYSTEMS

In 1984 DOE's accounting system structure consisted primarily of a departmentwide Financial Information System (FIS), various payroll systems, the accounting systems of each of its eight regional operations offices and headquarters, five power marketing administration systems, and two naval reactor office systems. These systems processed, recorded, and controlled authorized funds in excess of \$20 billion in fiscal year 1984, including both 1984 DOE funding and carryover funds from previous years.

DOE is standardizing its operations offices' accounting systems, and as a result, the operations offices accounting systems and various payroll systems are undergoing significant changes. The primary system deficiency that DOE reported in 1984--that its accounting systems are not properly documented--should be corrected by requiring complete documentation and implementing the new accounting systems.

DOE's major accounting system initiatives are as follows:

- Departmental Integrated Standardized Core Accounting System (DISCAS). DOE is converting its operations offices' accounting systems to this new system in an effort to standardize and upgrade the systems, which accounted for \$17.1 billion annually. By the end of fiscal year 1984, DISCAS was implemented in three of DOE's operations offices and is currently scheduled to be implemented in the remaining five operations offices and the headquarters accounting operations office by December 31, 1985.

--Payroll/Personnel System (PAY/PERS). DOE is converting its existing payroll systems to an integrated personnel and payroll system. It will automate many of the manual functions performed by the various DOE personnel and payroll offices and will centralize all operations at DOE headquarters, thereby eliminating the need for the separate payroll systems that are currently operated by DOE organizational components. PAY/PERS has been implemented at the headquarters and Savannah River payroll offices. Implementation of the system at the remaining operations offices and the Bonneville Power Administration is currently scheduled to be completed by the end of October 1985.

CORRECTIVE ACTION BEING TAKEN,
BUT A MONITORING SYSTEM IS NEEDED

DOE identified about 100 accounting system deficiencies in 1984, in addition to the overall problem of inadequate systems documentation. Some of these problems were corrected before December 31, 1984. For example, DOE established an automated management information data base and relocated all grant accounting at the Richland Operations Office resulting in improved financial accounting for institutional conservation program grants.

DOE expects implementation of DISCAS and PAY/PERS to eliminate many of the other nonconformances and has developed action plans to correct the remainder within specified time frames. In the meantime, DOE needs to develop procedures for monitoring the planned corrective actions to ensure they are implemented and the problems corrected. Also, DOE needs to track any further deficiencies identified as DOE carries out its system evaluation plan.

Implementation of new systems
expected to correct deficiencies

The following are problems DOE intends to correct through DISCAS:

- the need to assure prompt and accurate recording of property; thereby providing accounting control which is currently lacking and
- the lack of adequate system support to assure prompt and accurate reporting of \$2.6 billion of receivables at headquarters.

Similarly, implementation of PAY/PERS as DOE's central payroll system is expected to address the lack of payroll system documentation and inadequate written procedures for payroll personnel and timekeepers.

Improvements are also planned for some other systems in DOE's accounting structure--power marketing and naval reactor offices. For example, the Bonneville Power Administration is implementing a new Financial Management Information System that is expected to correct the major deficiencies in the existing system. The naval reactor offices reported no system deficiencies.

Procedure needed to ensure
corrective actions are implemented

Although DOE systems managers are responsible for implementing planned corrective actions, DOE has not established a corrective action tracking system that will keep top management adequately informed of the progress being made toward correcting accounting system deficiencies. One of FMFIA's objectives is to have agencies identify their systems' deficiencies and correct them in a timely manner. Top management needs to know that this is being done, especially in DOE, where the accounting operations are scattered throughout the United States. Periodic status reports on corrective actions' implementation enhances management's ability to oversee and ensure that the identified problems have been corrected as scheduled.

We discussed this matter with the DOE Controller, who told us she will require system managers to report corrective action progress quarterly to the controller's office. The exact format and content have not been established.

To properly control the process, we believe management should have information on (1) the identified instances of nonconformance, (2) planned corrective actions, (3) the official responsible for implementation, and (4) scheduled completion dates. System deficiencies should be considered corrected only after top management is satisfied that the implemented corrective action has effectively corrected the identified problems. This should be verified by testing. Such information will give management a complete picture of the overall corrective action progress made between FMFIA reviews and provide much of the information needed for reporting under section 4 of the act.

DOE HAS A SOUND ACCOUNTING
SYSTEMS EVALUATION PLAN

Under section 4 of FMFIA, the Secretary of Energy is required to submit an annual statement to the President and the Congress on whether DOE's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General. We believe DOE developed a good overall plan to meet that requirement and prescribed procedures for (1) evaluating its accounting systems, (2) identifying and reporting on nonconformance with the Comptroller General's

requirements, and (3) implementing necessary actions to bring system deviations into conformance.

Accounting system managers were responsible for doing a first-level review of each system, based on familiarity with the system design and actual system in operation. Reviewers independent of the system manager were then to have conducted second-level reviews of the accounting systems. The purpose of this review is to sample the first review's claims of conformance, test transactions, document whether the system satisfactorily conforms, and write a conformance report.

In our view, the plan is a good approach to evaluating DOE's accounting systems, and when more fully implemented, should provide a basis for identifying system problems and reporting on the systems' conformance with the Comptroller General's principles, standards, and related requirements. We believe the development of the plan is indicative of management's commitment to the accounting system evaluation program. This was further evidenced by top officials' requests for briefings on our audit work and their expressed desire to promptly report and/or correct any deficiencies we found. In addition, the chief financial and accounting officials were directly involved in the initial system reviews at every location we visited. This included planning the reviews, completing questionnaires, and developing corrective action plans.

ADDITIONAL EVALUATION WORK IS NEEDED TO DETERMINE SYSTEMS CONFORMANCE

Although the Department has a sound accounting system evaluation plan, we do not believe that DOE yet had an adequate basis to state, as it did in its 1984 FMFIA report, that its systems generally conform to the Comptroller General's principles, standards, and related requirements. To determine whether a system conforms, we believe an agency needs to evaluate whether the system is designed to meet those requirements and to test whether the system is operating as designed. In an environment such as DOE's, in which headquarters management must depend on the officials' evaluations at several geographically dispersed locations, we also believe evaluations' results should be documented to support managers' conclusions, provide a basis for future reviews, and promote continuity.

Although DOE's plan provides for all of these measures, most of its accounting systems have not yet been tested, primarily because they are to be replaced in the near future. Also, DOE did not ensure adequate coverage of all its integrated contractors in its review work and did not maintain information to allow management to verify the scope and results of the reviews.

DOE deviated from its original plan

DOE's first-level review of each accounting system was conducted as called for in the DOE plan. However, we found the scope of the second-level reviews at the operations offices was so curtailed that the reviews do not yet meet DOE's testing and quality assurance objectives. Because the existing accounting systems at the operations offices are being replaced with DISCAS in the near future, DOE told us that they did not consider it cost-effective to use resources to further assess the conformance of systems soon to be discontinued--a decision with which we agree.

The second-level review was initially limited to systems already converted to DISCAS. DOE then further limited this approach to the San Francisco Operations Office. The primary reasons were that, of the three operations offices using DISCAS in fiscal year 1984, Idaho did not utilize all features of the system, Chicago was still undergoing operational changes as a result of the recent DISCAS implementation, while San Francisco's office had the most experience in operating the new system. DOE believes that this approach assesses how well DISCAS is operating when personnel are familiar with the system and operating it on a daily basis.

DOE acknowledges in its 1984 report that DISCAS's evaluation has limitations. For example, the number of transactions processed by the San Francisco Operations Office is considerably fewer than some other operations offices, particularly in headquarters. Also, the San Francisco Operations Office does not process all of the types of transactions processed throughout DOE, such as the cost accounting transactions needed by Oak Ridge to control and monitor the uranium enrichment activities and the transactions required by headquarters to account for consent orders and the Nuclear Waste Fund. Nonetheless, DOE believes that the review work conducted by its contractor, along with assurances from the responsible managers, provides an adequate basis for determining the operations office systems' conformance.

DOE takes a similar position on PAY/PERS, even though it had been implemented at only two locations by the end of fiscal year 1984. DOE believes the PAY/PERS system has been and continues to be subjected to extensive testing because of an extended implementation period. According to DOE, as part of ongoing system testing, instances of nonconformance with Comptroller General requirements are identified, analyzed, and corrected. Therefore, the second-level review was limited to the effectiveness and adequacy of controls over input to the system. DOE reported that the results of the second-level review indicate that, "in most respects," PAY/PERS conforms to the Comptroller General's principles, standards, and related requirements. The areas of significant nonconformance identified were lack of comprehensive operating procedures for

payroll personnel and timekeepers and automated system documentation.

Managers of DOE's other accounting systems (the five power marketing administrations and two naval reactor offices) were instructed to perform second reviews on their own and describe the scope of these reviews in their assurance memoranda to headquarters. However, the reviewers did not fully describe the scope of these reviews or what, if any, testing and quality assurance procedures were conducted.

To determine whether a financial system conforms to the principles, standards, and related requirements prescribed by the Comptroller General, the system in operation needs to be reviewed and tested. Although agency personnel may have extensive system knowledge, systems may operate differently than they believe. Therefore, testing should be done on critical aspects of the system, and may include

- interviewing persons who operate the system,
- observing operating procedures,
- examining system documentation,
- applying procedures to live transactions and comparing results,
- direct testing of computer-based systems by use of simulated transactions, and
- reviewing error reports and evaluating error followup procedures.

Tests should be designed to disclose whether valid transactions are processed properly and whether the system rejects invalid transactions. The tests should cover the entire transaction, from initial authorization through processing, posting to the accounts, and reporting. Accordingly, manual as well as automated operations should be included. In developing test plans, the results of any prior system testing should be considered.

This testing criteria has been adopted by OMB and included in Appendix H of its publication entitled Guidelines for Evaluating Financial Management/Accounting Systems (May 20, 1985). In determining the tests that would be appropriate for any system, it is important to keep in mind that in most cases, using transaction testing as the key, more than one of the above techniques are needed to test all important aspects of an accounting system.

We believe DOE's decision not to spend resources testing systems that are to be replaced was reasonable, but the fact remains that the systems to be replaced by DISCAS and PAY/PERS

were not tested in operation. Therefore, we do not believe the Secretary should have stated that the systems' conform. It would have been more accurate to have reported that the new systems will be tested as implemented in the coming year, and that the agency will report conformance, or lack thereof, at that time. Until its operating systems are reviewed in operation, including testing, DOE will not have a sufficient basis to report, as it did in 1984, that all its systems are in general conformance.

Need to ensure adequate coverage of integrated contractors

DOE's section 4 procedures require the operations offices to obtain assurances from integrated contractors that their accounting systems are in conformance with DOE and FMFIA requirements but do not specify how this is to be done. As a result, a wide variation occurred in how the operations offices attempted to meet this requirement, and some integrated contractors were completely omitted from the process. For example,

- Albuquerque mailed a copy of the DOE guidelines to its seven integrated contractors. The section 4 review team discussed the guidelines with each contractor's accounting representatives during a visit to the contractor's site. Subsequently, the contractors completed the questionnaire and submitted it to the operations office.
- Chicago requested its five integrated contractors to submit assurance memoranda. Although Chicago subsequently gave the integrated contractors copies of DOE's guidelines, it indicated that their use was optional, and the contractors were not required to provide DOE with any support for the assurance memoranda.
- Oak Ridge did not use the 1984 guidelines to review its six integrated contractors. Oak Ridge used 1983 FMFIA data which did not contain important changes that are in the 1984 guidelines. Two contractors, receiving over \$200 million in 1983, were omitted from the evaluation. DOE officials said these contractors will be included in 1985.

We believe DOE guidelines were not specific enough regarding coverage of integrated contractors, in part, because of uncertainty about the contractors' legal status under FMFIA. We have reviewed this matter and concluded that, while the act's requirements do not apply to private contractors, DOE must be able to assure that contractors are properly using DOE's funds--which represent about two-thirds of DOE's budget. Therefore, we concur with DOE's decision to include the integrated contractors as an integral part of its FMFIA review.

As discussed in chapter 2, in its fiscal year 1983 FMFIA report, DOE reported the need to increase independent coverage of integrated contractors. DOE requires OIG to review and approve the contractors' annual vouchers. While DOE is hiring independent public accountants to audit the contractors by the end of 1985, DOE's second annual report stated that,

"[d]ue to the lack of adequate resources, independent financial and compliance audits of these contractors is virtually nonexistent. This lack of independent audit coverage may affect those Departmental officials who must attest and certify to the reliability of DOE's financial systems in compliance with the requirements of the Federal Managers' Financial Integrity Act."

Therefore, the lack of audit and review coverage that caused DOE to disclaim an opinion on its accounting systems' conformance in 1983 still exists.

System evaluations should be documented

According to DOE's guidelines, each accounting system must be evaluated, the scope of the accounting system evaluation must be included as a part of each conformance report, and must be documented. However, DOE's instructions do not specify the level of detail to be contained in the scope statement or the review documentation. Consequently, we found discrepancies in how the accounting systems assurance statements described the scope of the evaluations performed, and the documentation used to support the evaluation results.

We agree with DOE that the scope, methodology, and results of accounting system evaluations should be documented. An important purpose of documentation that fully supports evaluation objectives and findings is that it provides managers with a means to assess the extent and quality of the work performed. Although the amount of detail needed is often a matter of judgment, it should be of sufficient depth to allow managers to understand the evaluation and determine how the conclusions regarding the system were reached. We recognize that this may initially require additional time, but such documentation can serve as a base on which to build future reviews, thereby saving time and promoting continuity from one evaluation cycle to the next.

The scope of DOE's review activities at the operations offices, the power marketing group, and the naval reactor offices was not adequately described. For example, none of the operations offices we reviewed specified which integrated contractors were included in its review. At Chicago, the scope of the review was described as covering the accounting system of the Chicago Operations Office but did not include its five integrated contractors. At Oak Ridge, the scope was defined as

the accounting system of the Oak Ridge Operations Office as it currently functions, including systems of the Strategic Petroleum Reserve and all integrated contractors. However, as mentioned earlier, we found two integrated contractors at Oak Ridge that were not included in the review. The San Francisco Operations Office scope statement included the accounting systems at the major integrated contractors and the San Francisco payroll system. However, it did not mention that one of its integrated contractors was not reviewed because it was considered too small to have a material effect on the results of the review.

Similarly, the evaluations did not provide descriptions of the procedures used to evaluate the systems and how results were determined. For instance, at the Albuquerque Operations Office, review team members told us that they did not document any of the section 4 review work they had performed. Also, the Chicago Operations Office did not document key areas of their review, such as whether prior audit reports were considered, how corrective actions were monitored, and what specific accounting activities they considered in their review.

CONCLUSIONS

DOE is implementing changes it believes will result in upgrading and improving its accounting systems. Also, top management has demonstrated commitment to FMFIA objectives. These efforts will have to be sustained to adequately implement the new systems and to evaluate them in operation to assure the systems conform to the Comptroller General's principles, standards, and related requirements. Overall, we believe the agency is on the right track and has developed a sound approach for evaluating its systems. Developing a system to monitor and track planned corrective actions in a timely and effective manner will help top management to be better able to gauge progress.

Although DOE has made progress in implementing section 4 of the FMFIA, including developing a plan for reviewing its accounting systems, we do not believe the agency is in a position, as it reported for 1984, to state whether its systems are in conformance with the Comptroller General's principles, standards, and related requirements. Also, to improve the quality of its accounting systems' evaluations, DOE's guidelines for accounting systems conformance reviews need to be clarified on (1) documentation of scope and results of accounting systems reviews and (2) review coverage of integrated contractors.

Before the Secretary can report compliance for DOE's accounting systems, we believe the new accounting and payroll systems must be substantially implemented and tested and all the accounting systems evaluated according to the DOE plan. Therefore, we believe DOE should have disclaimed an opinion on its accounting systems compliance.

RECOMMENDATIONS

We recommend that the Secretary of Energy direct the Assistant Secretary for Management and Administration to

- implement a corrective action tracking system that will report to management whether implementation of planned corrective action of identified system deficiencies has been effective;
- clarify guidance regarding coverage of integrated contractors to assure that funds are properly accounted for and controlled; and
- clarify accounting system review guidelines to specify the types of documentation needed for the scope and results of the reviews.

Further, until a more adequate basis has been developed, with accounting systems reviewed in operation to include testing, we recommend that the Secretary not report general conformance with the Comptroller General's principles, standards, and related requirements. The Secretary should (1) list in the FMFIA annual report those systems that he is not yet in a position to report on conformance and (2) report on any systems that he has a basis to determine conformance.

AGENCY COMMENTS

DOE agreed, in commenting on our draft report, with our recommendation to clarify accounting system review guidelines. DOE stated that such clarification should be completed for the next review period.

DOE also agreed in principle with our recommendation not to report general conformance with the Comptroller General's principles, standards, and related requirements until a more adequate basis, through testing, has been developed. However, the agency reiterated why further tests were not conducted and stated that the results of the limited testing and "other assurances provided indicated that the Department's accounting systems were in general compliance with the Comptroller General's principles and standards . . ." DOE said that it is successfully meeting its schedule to replace its financial systems and that it will perform more testing for future FMFIA reports.

We do not agree that the testing DOE performed in 1984 was sufficient to indicate whether or not DOE's accounting systems were in conformance with the Comptroller General's principles, standards, and related requirements. DOE tested its new accounting system at only one location, although it had been implemented at three. The remaining five field locations and DOE's largest accounting office in headquarters were still operating under other accounting systems, which were not subject

to quality assurance procedures or testing. We continue to believe DOE should not have reported that its accounting systems conform to the Comptroller General's principles, standards, and related requirements because its systems were not sufficiently tested.

DOE disagreed with our recommendation to implement a corrective action tracking system to inform management whether correction of accounting system deficiencies has been effective. The Department said, in its comments to the draft report, that it already has an effective tracking process which requires system managers to report quarterly on the progress of corrective actions. DOE informed us, at the completion of our audit work, of its intention to implement quarterly progress reports by systems managers on the progress of corrective actions. If fully implemented and operating as planned, we believe this system should be adequate to address our concerns.

DOE also disagreed with our proposal to adequately cover its integrated contractors' accounting systems under FMFIA, saying that the contractors are not legally required to comply with the act's requirements. Our proposal was based upon DOE's section 4 procedures, which require the operations offices to obtain assurances from integrated contractors that their accounting systems are in conformance with DOE and FMFIA requirements. The procedures do not specify how this is to be done, and we found that two contractors, receiving over \$200 million in 1983, were omitted from evaluations.

In commenting on the draft report, DOE stated that its contractors

"will no longer follow the same [accounting system review] process used for DOE accounting systems. However, [DOE] offices with contractor responsibility will make sufficient assessment of internal controls and accounting systems locally to ensure the integrity of their operations."

Although contractors may not be legally required to comply with FMFIA, we believe DOE should provide reasonable assurances that pertinent internal control objectives are met, or explain satisfactorily how the act's objectives are otherwise to be met concerning the activities managed by these private organizations.

We are concerned that any new DOE process for assuring coverage of integrated contractors' funding will have the same flaw as the process we reviewed--that DOE guidance is not specific enough regarding coverage of integrated contractors. We have clarified our position to more clearly state our belief that DOE should clarify its guidance concerning treatment of integrated contractors under FMFIA to assure that all DOE funds are properly accounted for and controlled.

CHAPTER 5

LOOKING TO THE FUTURE--SOME OBSERVATIONS

In the 3 years since enactment of FMFIA, DOE has accomplished a great deal in implementing the law. In previous chapters, we reported on some weaknesses and made recommendations for improvement. This chapter presents some additional observations and issues that DOE should consider in its future efforts in implementing FMFIA.

EVALUATING INTERNAL CONTROLS AS PART OF THE REGULAR MANAGEMENT PROCESS

We believe that DOE has established a sound process for implementing FMFIA, which is largely separate from DOE's traditional management processes. Each year DOE managers are required to evaluate their internal controls for the Secretary's annual report. This takes time and resources, often producing information duplicative of other management evaluations done for other purposes.

Some DOE offices have attempted to combine the requirements of FMFIA with existing management review processes. During our review, one of these had progressed far enough for us to evaluate it. The headquarters Office of Personnel is working to incorporate the essential requirements of an internal control review into its existing Personnel Management Evaluation. This is a management review conducted by personnel specialists from headquarters to assure that the personnel offices comply with the rules and regulations governing the personnel function in DOE. By inserting the necessary steps for an internal control review (i.e., identification of control objectives and techniques and testing the techniques), the office should be able to accomplish the goals of both types of reviews, while keeping time and resource expenditures and paperwork production to a minimum.

We encourage DOE to seek out ways to incorporate the process of assuring the adequacy of its internal controls into its regular management review processes. Although its FMFIA compliance process is now generally distinct from other management tools, we believe it need not be. Existing management review processes could, with proper oversight, be modified to incorporate internal control requirements. Managers already familiar with the known processes may find it easier to accept and use internal control information generated in this manner.

The key concept, in our opinion, is that managers should be able to use data developed from any source to improve controls and reduce risk to fraud, waste, and abuse. Managers may be more committed to FMFIA's concepts and actively seek to identify and correct internal control problems if FMFIA's burdens are

reduced by combining the process with known and accepted review processes.

COMMITMENT TO FMFIA

Commitment is an important factor in determining the success of the FMFIA process in DOE as well as other federal agencies. Although we did not seek to measure commitment during our review, we observed the attitudes of DOE managers toward implementing the act for their programs or operations. Some managers were more willing than others to evaluate the effectiveness of their internal controls. This willingness, or commitment as we refer to it in this report, was expressed in terms of seeking and applying training in FMFIA evaluations, seeking or providing technical assistance to other managers, and being willing to spend the resources to produce high quality VAs and ICRs. On the other hand, some managers saw FMFIA implementation as a time-consuming and resource-intensive process, which provided little benefit.

We believe top management in DOE is committed to FMFIA, as evidenced by detailed agency guidance, memoranda supporting the act from top officials, and efforts to streamline and improve the process. In our opinion, this top level commitment is responsible for the progress achieved so far in DOE. While commitment varied between and even among the DOE offices we reviewed, our general impression based on our discussions was that when first-line managers (those responsible for conducting VAs) were committed, the process worked better. Commitment generally appeared to be greater where managers understood FMFIA's concepts and applied them to their organizations. Understanding generally came through formal training and guidance provided by qualified individuals or groups.

INCREASING FMFIA BENEFITS

One of our overall observations was that, so far, DOE's FMFIA process does not appear to identify many new weaknesses. We frequently encountered VA and ICR recommendations that were the same as, or similar to, recommendations in recent GAO, OIG, and other management review reports. The VAs and ICRs we reviewed contained few disclosures of internal control weaknesses not previously reported to management. In our opinion, this raises questions concerning the impact of DOE's FMFIA work to date. We believe more improvement can occur if managers actively seek to analyze their internal controls and identify and implement corrective actions.

Compounding this situation is that DOE's draft order allows managers to identify weaknesses and take corrective action from a VA instead of scheduling an ICR. DOE is holding 32 of its 1982 scheduled ICRs in abeyance pending the outcome of the 1984 VAs. If suitable corrective action is scheduled or taken from VAs, ICRs may be canceled.

As a result, DOE may be in a "catch-22" situation. VAs are not designed to be an indepth review of internal controls, but only to identify vulnerability to fraud, waste, and abuse through a brief analysis of the general control environment, inherent risk, and existing safeguards. Weaknesses known through GAO and OIG reports are part of this analysis and managers should take action to correct open GAO and OIG recommendations. By citing these corrective actions, managers can cancel a scheduled ICR. Even though the Assistant Secretary for Management and Administration must approve a cancellation request, the decision to cancel a scheduled ICR should be made carefully to ensure the continued evaluation of internal controls in these units and provide a stronger basis for reasonable assurance.

- - - -

In summary, we believe that DOE has benefited from its FMFIA implementation in the form of improved internal controls and an enhanced awareness of the importance of the internal controls in DOE's overall operations. However, more can be achieved. While progress has been made on correcting material weaknesses, often these problems were known before the FMFIA process was established. We also believe DOE has conducted relatively few ICRs, thereby limiting its opportunity to identify and correct previously unknown internal control weaknesses.

We encourage DOE to continue considering ways in which the FMFIA process can be more effective in the Department. By working to incorporate FMFIA requirements into the regular management review process and getting more line managers committed to the concepts of internal control, we believe DOE can further improve its already established track record of achieving FMFIA's goal of reduced fraud, waste, abuse, and mismanagement in the government.

VAS AND ICRS GAO REVIEWED

VAs:

Headquarters

1. Defense Waste and Byproducts Management
 - Resource Management
 - Transuranic Waste Treatment Facilities
 - Defense Waste processing Facility
 - Operations and Traffic
 - R&D and Byproducts
 - Waste Isolation Pilot Plant
2. Economic Regulatory Administration
3. Nuclear Waste Management Fuel Cycle
4. In-House Energy Management
5. Management and Technical Assistance/Office of Minority Impact
6. Telecommunications

San Francisco

7. State and Local Grants
8. Environmental Protection of the Health and Safety of the Public
9. Geothermal Program
10. ADP

Albuquerque

11. Contracting, Procurement, and Personal Property
 - Contracting and Procurement
 - Personal Property
 - Contracts and Industrial Relations
12. Administrative Services
 - Mail Services
 - Graphic Arts and Printing
13. Small, Disadvantaged, and Women-Owned Business and Labor Surplus Areas
14. Magnetic Fusion

15. Weapons Program
16. Safeguards and Security
17. ADP

Nevada

18. Environmental Protection of the Health and Safety of the Public
19. Finance and Accounting
 - Contractor Accounting and Contract Finance Accounting Reports
 - Collections, Disbursements, and Funds
20. Real Property Management and Facility Utilization
21. Small, Disadvantaged, and Women-Owned Business and Labor Surplus Areas
22. ADP
23. Telecommunications

Strategic Petroleum Reserve

24. Personal Property
25. Real Property Management and Facility Utilization
26. Design and Construction
27. Telecommunications
28. Safeguards and Security of Classified Documents

ICRs:

Headquarters

1. Technical Information Management Program
2. Personnel

San Francisco

3. Disbursements
4. Liquid Metal Fast Breeder Reactor Program (LMFBR Program)

5. Sacramento Municipal Utility District Photovoltaic Project (SMUD Project)

6. Administrative ADP

Albuquerque

7. Cash Disbursements

8. Payroll

Nevada

9. Nuclear Waste Fund

10. Microcomputers

Strategic Petroleum Reserve

11. Budget, Finance, Accounting, and Funds Control

12. ADP Management

COMPTROLLER GENERAL'S
INTERNAL CONTROL STANDARDS

General standards

- Reasonable assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.
- Supportive attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.
- Competent personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.
- Control objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.
- Control techniques. Internal control systems are to be effective and efficient in accomplishing their internal control objectives.

Specific standards

- Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
- Recording of transactions and events. Transactions and other significant events are to be promptly recorded and properly classified.
- Execution of transactions and events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
- Separation of duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
- Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.

--Access to and accountability for resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Audit resolution standard

--Prompt resolution of audit findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

ADVANCE COMMENTS FROM THE
DEPARTMENT OF ENERGY

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



Department of Energy
Washington, D.C. 20585

AUG 15 1985

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

Dear Mr. Peach:

The Department of Energy (DOE) appreciates the opportunity to review and comment on the General Accounting Office (GAO) draft report entitled "The Department of Energy's Second-Year Implementation of the Federal Managers' Financial Integrity Act" (FMFIA).

The following are the Department's comments on each of the recommendations presented in the draft report.

Recommendation:

See
comment 1.

"... that the Secretary of Energy not report that he has reasonable assurance that DOE's internal controls meet the objectives of FMFIA until more testing, through internal control reviews (ICRs) or adequate substitute reviews, takes place."

Comment:

The Department disagrees with the recommendation. It is the Department's position that the results of its internal control evaluation program provided reasonable assurance that the objectives of the FMFIA were met. While ICRs are important, they are only one aspect of the Department's internal control evaluation program. The assurance provided by the Secretary was based upon the results of vulnerability assessments, internal control reviews, GAO, Inspector General and internal audit reports, and other management evaluations. Additional support was provided by assurances from every senior official within the Department, an elaborate quality assurance and review process, as well as an independent assessment performed by the Inspector General. The Department believes the totality of this internal control evaluation program provides the necessary support for the assurances contained in the Secretary's report.

The Department believes that GAO should recognize the problems presented to Federal Agencies when they must report against such a vague concept as reasonable assurance. In this particular case, the nature and extent of internal control testing required to achieve reasonable assurance is not defined. Recognizing that adequate internal control systems should provide reasonable, but not necessarily absolute assurance that the objectives of the Act were met, the Department based its annual report on the "sum and substance" of all that was known regarding the adequacy of its internal controls. In the absence of a better definition, the Department believes its internal control evaluation program represents a good faith effort to comply with the requirements of the Act.

While the Department agrees that additional internal control testing would be beneficial, we do not agree that limited numbers of internal control reviews were performed nor do we agree that reliance on other management evaluations was inappropriate. As of September 30, 1984, the Department had initiated 77 internal control reviews of which 31 had been completed. (As of June 30, 1985, an additional 40 ICRs have been completed.) Given the resources necessary to conduct an internal control review, we believe this represents a considerable effort in the area of testing. More importantly, the Department has established strong management review processes which are designed to test and verify the effectiveness of nearly every aspect of the Department's operations. These reviews are particularly comprehensive in the high risk areas of Project Management, Procurement, Personnel, Accounting, Security, ADP, Environment, Safety and Health, etc. The results of these reviews are certainly a contributing factor to the Department's overall opinion on the adequacy of its internal control systems. It should be noted that these management evaluations and internal control reviews are in addition to the numerous GAO, Inspector General and internal audits performed which provide for additional testing of internal controls. In summary, the Department believes that its internal control evaluation programs incorporate sufficient testing to support the assurances provided in the Secretary's annual report.

Finally, the Department's internal control evaluation program resulted in the identification of five material internal control weaknesses all of which were reported, along with their corrective action plans, in the Secretary's report. Given these results and the fact that GAO states they did not identify any weaknesses that were not reported by the Department, we believe that GAO's recommendation is based upon relatively minor deficiencies in the FMFIA process and not on additional weaknesses found that were not reported. Since the Department is reviewed by its own internal review groups, the Inspector General and GAO on an ongoing basis, and the fact that none of these activities have disclosed additional weaknesses which should have been reported, we believe the Department did have an adequate basis for stating that its internal controls met the Act's objectives.

Recommendation:

See
comment 1. "... track internal control recommendations until managers submit documented evidence that the corrective actions have been implemented."

Comment:

The Department disagrees with the recommendation. It is the Department's position that a requirement to submit documentation in support of completed corrective actions is neither practicable nor necessary. Basically, corrective actions for relatively minor internal control deficiencies are tracked at the local level while corrective actions on "material internal control weaknesses" are tracked at the Departmental level. At the local level, the Department relies on the senior official in charge to correct internal control deficiencies. Many of these corrective actions result in improved practices which can be evidenced only at the implementing office. GAO's examples of prematurely closed reports are misleading and do not indicate a need for submission of documentation to support the closing of corrective action plans. In accordance with the intent of the FMFIA, the Department relies upon self assessments performed by individual managers and the voluntary disclosure and correction of internal control deficiencies. Elaborate tracking and documentation requirements imposed by Headquarters would only frustrate the Department's effort to fully implement the Act.

On the Departmental level, the corrective actions tracked are highly aggregated and represent major Departmental efforts. These actions include such items as organizational changes, out-year budget requests, construction projects and cyclical multi-year reviews. The Department believes that its current practice of relying on status reports from Heads of Departmental Elements and the corresponding evaluation of progress through its normal management processes is better than requiring large amounts of documentation to be supplied to the internal control tracking system manager.

In summary, the Department relies upon progress reports from senior officials and its normal management processes to ensure that internal control deficiencies are corrected. Further assurances as to the completeness of corrective actions are provided through reviews conducted by GAO, the Inspector General and the Office of Compliance Programs. Therefore, it is the Department's position that a requirement to submit documentation for completed corrective actions would be burdensome, paperwork intensive and without benefit to DOE as a whole.

Recommendation:

See
comment 2. "... Ensure that managers are aware of the requirement to evaluate ADP internal controls and the guidance that is now available."

Comment:

Actions to implement the recommendation have been completed. The Department's internal control order has been expanded to clearly require that all programs or administrative functions that use ADP applications or dedicated ADP equipment include them when conducting internal control evaluations. In support of this policy, the Department has also published DOE/MA-0165, ADP Internal Control Guidelines and DOE/MA-0185, Security Guidelines for Microcomputers and Word Processors. These documents have been distributed throughout the Department, discussed at the Department's recent Internal Control Evaluation Conference, and have been and will continue to be the subject of compliance reviews.

Recommendation:

See
comment 2. "... Train personnel to perform vulnerability assessments (VAs) and ICRs according to DOE requirements."

Comment:

The Department agrees with the recommendation. Since passage of the FMFIA, Department-wide training on the performance of VAs and ICRs has been conducted. This training has been supplemented by annual internal control conferences during which internal control action officers have received additional training. The Department recognizes the importance of internal control training and will continue its efforts to provide quality training as well as to enforce currently established training requirements.

Recommendation:

See
comment 2. "... Require reviewing managers to use the ICR quality assurance checklist to ensure that ICRs comply with OMB and DOE guidance."

Comment:

The Department disagrees with the recommendation. The Department does not believe it is necessary to require reviewing managers to fill out a quality assurance checklist as we have found the use of checklists to be extremely limited in areas involving managerial judgment. As noted in the report, the Department has developed and distributed an ICR quality assurance checklist. There is no objection to formally publishing the checklist as part of the Department's internal control directive. However, in an effort to reduce paperwork and to encourage managers to focus on the substance rather than the mechanics of an ICR, the order will specify that use of the questionnaire is optional.

Recommendation:

See comment 2. "... Establish guidelines for supervisory quality assurance reviews of completed VAs so that they are conducted according to DOE guidance and produce valid, consistent assessments."

Comment:

The Department agrees with the recommendation. As with the ICR quality assurance checklist, the Department has no objection to publishing, as part of its internal control directive, an optional questionnaire for performing quality assurance reviews on vulnerability assessments.

Recommendation:

See comment 3. "... implement a corrective action tracking system (for accounting systems) that will report to management whether implementation of planned corrective action of identified system deficiencies has been effective."

Comment:

The Department disagrees with the recommendation. The Department has an effective tracking process for accounting systems deficiencies which requires system managers to report quarterly on the progress of corrective actions. Because of the relatively small number and expected short duration of systems deficiencies, it is not considered advantageous to merge this process with the audit report or internal control tracking system.

Recommendation:

See comment 3. "... adequately cover integrated contractors (accounting systems)."

Comment:

The Department disagrees with the recommendation. Apparently, the recommendation stems from deficiencies found in the performance and documentation of accounting system conformance reviews performed by the Department's integrated contractors. However, these reviews were performed outside of the purview of the FMFIA. This position is consistent with a GAO legal opinion that "the Financial Integrity Act only applies to executive agencies," and "does not impose requirements on a private organization." Therefore, DOE integrated contractors will no longer follow the same process used for DOE accounting systems. However, offices with contractor responsibility will make sufficient assessment of internal controls and accounting systems locally to assure the integrity of their operations.

Recommendation:

See
comment 3. "... clarify accounting system review guidelines to specify the types of documentation needed for the scope and results of the review."

Comment:

The Department agrees with the recommendation. DOE's guidelines for accounting systems reviews, like those of GAO and OMB, are still in an evolutionary process. The Department expects to clarify and refine its guidelines in all significant areas for the next review period.

Recommendation:

See
comment 3. "... until a more adequate basis has been developed, with accounting systems reviewed in operation to include testing, we recommend that the Secretary not report general conformance with the Comptroller General's principles, standards, and related requirements."

Comment:

The Department agrees with the recommendation in principle. The Secretary's 1984 report fully explained that the testing of existing accounting and payroll systems was limited because these systems were scheduled to be replaced by DISCAS and PAY/PERS. GAO agrees with the Department's position that it would not have been a cost effective use of resources to further assess the conformance of systems that were to be discontinued. However, in 1984, reviews were conducted on all of the Department's accounting systems to determine compliance with the Comptroller General's principles and standards. Additionally, testing was conducted on the most representative installation of DISCAS and on those areas of PAY/PERS not being tested as part of the implementation process. Again, the limitations on the operational testing of replacement systems were fully explained in the annual report. The Secretary's report stated that the results of these evaluations and other assurances provided indicated that the Department's accounting systems were in general compliance with the Comptroller General's principles and standards with the exception of complete and current documentation. This was a factual representation. The Department, however, agrees with GAO's position that further testing of the systems in operation would provide a more adequate basis for the Secretary's report.

The Department is successfully meeting its schedule to replace financial systems with DISCAS and PAY/PERS and, since these replacement systems are currently operational at more sites, the Department will be able to perform more testing. The results of this expanded effort will be carefully considered in future reports issued by the Department.

DOE hopes that these comments will be helpful to GAO in their preparation of the final report.



Martha O. Hesse
Assistant Secretary
Management and Administration

The following are GAO's comments on the Department of Energy's letter dated August 15, 1985.

GAO COMMENTS

1. Discussed in Agency Comments section, Ch. 2.
2. Discussed in Agency Comments section, Ch. 3.
3. Discussed in Agency Comments section, Ch. 4.

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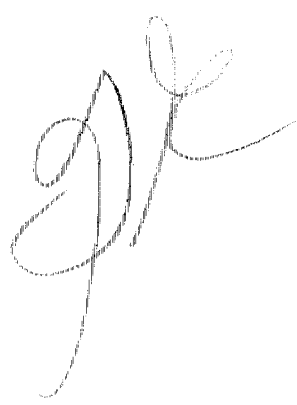
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A handwritten signature or set of initials, possibly 'gjk', written in dark ink. The letters are cursive and somewhat stylized.