

Memorandum

DATE: February 26, 2009

Audit Report Number: OAS-L-09-05

REPLY TO

ATTN OF: IG-30 (A08FN009)

SUBJECT: Report on "The Department of Energy's Implementation of Revised OMB Circular No. A-123"

TO: Chief Financial Officer, CF-1

INTRODUCTION AND OBJECTIVE

The Office of Management and Budget's (OMB) revised Circular No. A-123 (A-123) requires Federal agencies to assess, document and test their internal controls over financial reporting and prepare an annual assurance statement on the operating effectiveness of those controls. In Fiscal Year (FY) 2006, the Department of Energy (Department) began a three year phased approach to implement A-123 and, in FY 2008 it completed its third and final phase of implementation.

Our prior reviews of the first and second phases of the Department's implementation of A-123 found that the Department was making good progress and that it properly disclosed that its implementation was a work in process. For these years, the Department reported the limited scope of its internal control assessment and qualified its assurance statement to reflect a planned completion date of FY 2008. Our FY 2007 review also disclosed that, late in the year, the Office of Finance and Accounting within the Office of Chief Financial Officer (OCFO) added a substantial number of processes to its internal control assessment activities, including processes associated with the reporting of environmental liabilities. The Office of Finance and Accounting concluded that these processes were high risk, and planned to complete their documentation, evaluation and testing in FY 2008. We conducted this review to determine whether the final phase of the Department's implementation of A-123 conformed to established requirements.

CONCLUSION AND OBSERVATIONS

Our FY 2008 review concluded that the Department's assessment, documentation and testing of internal controls over financial reporting as of June 30, 2008, generally conformed to the requirements established by OMB. In its FY 2008 Agency Financial Report Management Assurances, the Department reported that it had completed its baseline assessment and evaluation of internal controls that was initiated in FY 2006 and provided reasonable assurance that controls were working effectively.

Our review disclosed that while the Department completed its baseline assessment and evaluation of internal controls, minor documentation issues existed for testing and remediation performed during the final phase of implementation.

Specifically, documentation was not provided to adequately support either tests performed, existence or quality of control documents, and/or corrective actions taken for a number of controls reviewed at the National Energy Technology Laboratory (NETL). In addition, NETL and the National Nuclear Security Administration (NNSA) Service Center documented remediation efforts in the Department's tracking system, also known as the Assessment and Reporting Tool, rather than the Department's recommended corrective action plan format. The Department's preferred format includes approvals and other tracking information that provide a more robust audit trail. An official from the OCFO believed that additional clarity in its documentation guidance could help eliminate these problems in the future.

With respect to the processes added to the original baseline assessment by the Office of Finance and Accounting, we found additional issues associated with the documentation of corrective actions. In particular, while the Office of Finance and Accounting had completed testing of the majority of the controls that it added in late FY 2007 and thereafter, it had not prepared corrective action plans for most of the controls requiring remediation.

We found nothing to indicate that the internal control assessment and test work at these sites was incomplete. Instead, the issues we found related primarily to the extent to which the work was properly documented. We view the completeness of documentation as an important part of a successful A-123 program. Accordingly, we offer the following suggestions:

SUGGESTED ACTIONS

1. NETL should ensure that documentation supporting all control test work performed and corrective actions taken is prepared and maintained to be readily available in support of external review/audit;
2. The Headquarters A-123 Project Management Team should clarify documentation guidance to help ensure that local corrective action plans contain sufficient and consistent information to demonstrate/validate the actions taken; and,
3. The Office of Finance and Accounting, NETL and the NNSA Service Center should use the corrective action plan formats/criteria prescribed by the A-123 Project Management Team to document future remediation of control deficiencies.

No formal recommendations are being made in this report and a formal response is not required.

We appreciate the cooperation of your staff and the various Departmental elements that provided information or assistance.

A handwritten signature in black ink, appearing to read "Rickey R. Hass". The signature is stylized with a large initial "R" and a long horizontal stroke.

Rickey R. Hass
Deputy Inspector General
for Audit Services
Office of Inspector General

Attachment

cc: Administrator, National Nuclear Security Administration
Office of the Under Secretary of Energy
Acting Director, Office of Science
Chief of Staff

SCOPE AND METHODOLOGY

We examined the Department's implementation of the revised OMB Circular No. A-123, Appendix A, regarding evaluation of and reporting on internal controls. The evaluation was performed between July 2008 and February 2009.

We conducted interviews of officials in the Headquarters Office of Chief Financial Officer who were responsible for implementation and monitoring of the revised requirements; reviewed the Office of Chief Financial Officer at Headquarters; undertook site visits to the NNSA Service Center, the Los Alamos National Laboratory, the National Energy Technology Laboratory, the East Tennessee Technology Park, and the Oak Ridge Financial Service Center. We assessed the FY 2008 Agency Financial Report as it relates to OMB Circular No. A-123 to determine whether the results of site and program office evaluations were accurately reported.

Our limited review was made in accordance with generally accepted Government auditing standards and included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy our objective. Accordingly, we assessed internal controls related to the implementation process. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our evaluation. We did not rely on computer-processed data to accomplish our audit objective. We discussed the results of our review with management, who agreed with the issues we reported.