

# Memorandum

DATE: March 6, 2009

Audit Report Number: OAS-L-09-06

REPLY TO

ATTN OF: IG-30 (A08FN005)

SUBJECT: Audit Report on "Federal Managers' Financial Integrity Act"

TO: Chief Financial Officer, CF-1

The Federal Managers' Financial Integrity Act (FMFIA) of 1982 requires agency heads to provide an annual assurance statement on whether internal control and financial systems provide reasonable assurance that the integrity of Federal programs and operations is protected. In response, the Department of Energy (Department) developed a program for evaluating the adequacy of its internal controls and determining whether they conform to the principles and standards established by the Office of Management and Budget and the Government Accountability Office. The results of these evaluations and other information provided by senior management are used to determine whether there are any material weaknesses.

As a result of its evaluation of internal controls, the Department identified several control problems and the related actions it is taking to mitigate them. Our most recent Special Report: *Management Challenges at the Department of Energy* (DOE/IG-0808, December 2008) incorporates most of the issues identified by the Department and more fully describes our views on its most serious challenges and efforts to address them. We conducted this review of selected aspects of the Department's implementation of FMFIA to determine whether its Fiscal Year (FY) 2008 evaluation of internal controls was carried out in a reasonable and prudent manner and adequately disclosed detected waste or other reportable problems.

## RESULTS OF AUDIT

Overall, the Department's FY 2008 FMFIA evaluation was carried out in a reasonable manner and generally disclosed known reportable problems and action plans. Consistent with our suggested action from last year, we noted that the Naval Petroleum Reserve conducted its required financial management system review. We also found that instructions issued by the Office of Chief Financial Officer (OCFO) on behalf of the Departmental Internal Control and Audit Review Council eliminated the requirement that Departmental elements submit action plans for assigned Leadership Challenges with their FY 2008 FMFIA Assurance Memoranda. Elimination of this requirement resolved the Leadership Challenge issue we reported in recent years.

Our review, however, found that some Departmental elements continue to employ practices that do not fully comply with established policies and guidelines. Specifically, over half the elements – 22 of 39 – did not submit their Assurance Memoranda in time to meet established deadlines. Additionally, five Headquarters elements and three field elements did not incorporate all disclosures and statements required in Assurance Memoranda.

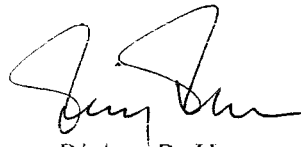
A number of these omissions from the various Assurance Memoranda were not discovered by the existing quality assurance process. As part of the Department's FMFIA evaluation, the OCFO conducted quality assurance reviews of FMFIA Assurance Memoranda to ensure that reporting requirements under the Departmental directive were met. However, given the deficiencies we found and our assessment of the OCFO quality assurance process, we determined that a more complete and comprehensive review is necessary. A more robust quality assurance process could help eliminate most of the problems noted above.

### SUGGESTED ACTIONS

Current Department policies and guidelines clearly delineate management's responsibilities for establishing and maintaining adequate internal control programs. Where there is recurring nonconformance, additional direction may be necessary to ensure compliance with established requirements. Accordingly, we suggest that the Office of Chief Financial Officer:

1. Work with heads of Department elements to emphasize the necessity for complying with the Department's internal control program requirements related to the accuracy, timeliness, and completeness of Assurance Memoranda; and.
2. Enhance its quality assurance process to ensure that instances of nonconformance with Department's internal control program requirements are corrected in a timely manner.

No recommendations are being made in this report and a formal response is not required. We appreciate the cooperation of the Office of Chief Financial Officer during our review.



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

Attachment

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

## SCOPE AND METHODOLOGY

The Department's evaluation of its internal controls was examined for compliance with the Federal Managers' Financial Integrity Act (FMFIA) of 1982, the Government Accountability Office's "Standards for Internal Control in the Federal Government," Office of Management and Budget Circular Nos A-123 and A-127, and Department Order 413.1A, "Management Control Program. "The results of the Department's evaluation of internal controls are included in the Department's FY 2008 Agency Financial Report.

Our 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 regarding the FMFIA reporting 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 assessed the FY 2008 Agency Financial Report as it relates to FMFIA, along with supporting documentation filed by selected Departmental organizations, to determine whether the results of their evaluations were accurately reported. Also, we performed work to determine whether the Department developed corrective action plans for control weaknesses identified during its FY 2008 FMFIA reporting process. 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.