



U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Department of Energy's Efforts to
Meet Accountability and
Performance Reporting Objectives of
the American Recovery and
Reinvestment Act



OAS-RA-09-04

September 2009



Department of Energy
Washington, DC 20585

September 4, 2009

MEMORANDUM FOR THE SECRETARY

FROM:

Greg Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Special Report on the "Department of Energy's Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act"

BACKGROUND

The purpose of the American Recovery and Reinvestment Act of 2009 (Recovery Act) was to jumpstart the U.S. economy, create or save millions of jobs, spur technological advances in health and science, and invest in the Nation's energy future. The Department of Energy will receive an unprecedented \$38 billion in Recovery Act funding to support a variety of science, energy, and environmental initiatives. The Recovery Act requires transparency and accountability over these funds. To this end, the Office of Management and Budget (OMB) issued guidance requiring the Department to compile and report a wide variety of funding, accounting, and performance information.

The Department plans to leverage existing information systems to develop accounting and performance information that will be used by program managers and ultimately reported to Recovery.gov, the government-wide source of Recovery Act information, and to OMB. The Department's iManage iPortal, a system that aggregates information from a number of corporate systems, will serve as the main reporting gateway for accounting information. In addition, the Department plans to implement a methodology or system that will permit it to monitor information reported directly to OMB by prime funding recipients. Furthermore, performance measures or metrics that outline expected outcomes are being developed, with results ultimately to be reported in a recently developed Department-wide system.

Because of the significance of funds provided and their importance to strengthening the Nation's economy, we initiated this review to determine whether the Department had taken the steps necessary to ensure that Recovery Act funds can be appropriately tracked and are transparent to the public, and whether the benefits of the expenditures can be properly measured and reported clearly, accurately, and in a timely manner.

RESULTS OF REVIEW

Although not yet fully mature, we found that the Department's efforts to develop, refine, and apply the control structure needed to ensure accurate, timely, and reliable reporting to

be both proactive and positive. We did, however, identify certain issues relating to Recovery Act performance management, accounting and reporting accuracy, and timeliness that should be addressed and resolved. In particular, at the time of our review:

- Program officials had not yet determined whether existing information systems will be able to process anticipated transaction increases associated with the Recovery Act;
- System modifications made to the Department's performance management system to accommodate Recovery Act performance measures had not yet been fully tested and verified;
- The ability of prime and sub-recipients to properly segregate and report both accounting and performance information had not been determined;
- There was a lack of coordination between Headquarters organizations related to aspects of Recovery Act reporting. For example, we observed that the Offices of Fossil Energy and Program, Analysis and Evaluation were both involved in developing job creation estimates that could yield significantly different results; and,
- A significant portion (91 of 142, or 64 percent) of the performance measures developed for the Recovery Act activities were not quantifiable. In some instances, Project Operating Plans had not been finalized and we were not able to verify that all needed performance measures had been developed. Furthermore, the Department had not developed specific metrics to measure federal and contractor jobs creation and retention, an essential Recovery Act objective.

The Department had devoted a great deal of time and resources to identifying and mitigating Recovery Act-related risks. For example, the Department developed a risk assessment tool that is intended to assist programs in identifying risks that can prevent its Recovery Act projects from meeting their intended goals. We also found that program staff and management officials at multiple levels were actively engaged in designing Recovery Act-related control and accountability programs. These efforts ranged from updating existing information systems to developing matrices designed to ensure that all required reporting and performance elements were addressed. Each of these activities required substantial effort and was accomplished within a relatively short period. Further, we noted that the Office of the Chief Financial Officer had been instrumental in helping impacted program elements identify issues that could adversely affect the Department's ability to execute its accounting, reporting, and performance monitoring responsibilities.

While much has been done, additional work is necessary if the Department is to successfully manage Recovery Act-related risks. For example, as previously noted, OMB has issued guidance establishing Recovery Act monitoring and reporting requirements. This guidance, however, continues to evolve and the Department is

engaged in actively modifying systems and issuing new direction in response to these changes. Furthermore, we believe that in addition to current initiatives, there are other actions that could help enhance the Department's ongoing efforts. As such, our report contains a number of recommended activities that the Chief Financial Officer and cognizant program officials, in coordination with the Chief Information Officer, should take in this regard.

The need to report accurate and complete information to the public and OMB is a Recovery Act imperative. We are concerned that the Department's information systems supporting Recovery Act activities may be unable to handle significant increases in workload or provide appropriate mechanisms to ensure that funds are accurately tracked and reported. As discussed in our recent *Special Report on the American Recovery and Reinvestment Act at the Department of Energy* (OAS-RA-09-01, March 2009), without adequate accounting of funds that includes periodic evaluation of program results, taxpayers' confidence that Recovery Act projects are meeting intended goals may be eroded. Furthermore, the absence of adequate and quantifiable performance measures may limit the ability of the Department, OMB, and the public to accurately gauge the progress in achieving Recovery Act goals.

This is the latest in a series of reports that focus on the Department's implementation of the Recovery Act. This report concentrates on the Department's Headquarters-managed systems for accounting for, reporting, and measuring Recovery Act-related performance. Separate reviews of efforts in the energy, science, and environmental areas are in process and will be reported under separate cover.

MANAGEMENT REACTION

Management generally concurred with the report's recommendations and agreed to take corrective action. In certain instances, management indicated that actions necessary to satisfy the intent of our recommendations had been completed. Management's comments are included in Appendix 3.

Attachment

cc: Deputy Secretary
Under Secretary of Energy
Under Secretary for Science
Administrator, National Nuclear Security Administration
Chief of Staff
Chief Financial Officer
Chief Information Officer

REPORT ON THE DEPARTMENT OF ENERGY'S EFFORTS TO MEET ACCOUNTABILITY AND PERFORMANCE REPORTING OBJECTIVES OF THE AMERICAN RECOVERY AND REINVESTMENT ACT

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RECOVERY ACT ACCOUNTING AND PERFORMANCE REPORTING

Background and Results

As part of the American Recovery and Reinvestment Act of 2009 (Recovery Act), the Department of Energy (Department or DOE) is required to compile various reports to submit to the Recovery.gov website maintained by the Recovery Accountability and Transparency Board. These include reports detailing funding notifications, obligations, outlays, and Agency-wide and Program-specific plans outlining projects and activities. To meet these requirements, the Department plans to leverage its corporate information systems and utilize iManage iPortal as the main reporting gateway for Department information. In addition, prime recipients of Recovery Act funds will be responsible for reporting information directly to the Office of Management and Budget (OMB), and government-wide systems will be utilized for reporting Recovery Act award-level information. Furthermore, performance measures that outline expected outcomes consistent with the intent and requirements of the Recovery Act must be developed as part of Agency-wide and Program-specific Recovery Plans.

Although not yet fully mature, we found that the Department's efforts to develop, refine, and apply internal controls to help ensure accurate, timely, and reliable reporting to be both proactive and positive. We did, however, identify various issues that could increase Recovery Act-related performance management, accounting and reporting accuracy, and timeliness risks. Without adequate accountability and reporting of Recovery Act funding use and results, the Department is at risk for potential fraud, waste, or abuse. To that end, we have recommended a number of actions the Department should take to address these challenges.

Impact of Recovery Act on Information Systems

To meet the requirements of the Recovery Act, the Department identified existing corporate systems that will be utilized to report Recovery Act information to OMB and Recovery.gov. While Department officials informed us that no new systems will be developed to support Recovery Act efforts, they had identified eight existing systems – some of them requiring modifications – to be used to track and report Recovery Act information. For example, data from the Standard Accounting and Reporting System (STARS) is being submitted as part of Weekly Financial and Activity Reports to provide a compilation of total obligations and gross outlays related to Recovery Act programs. In addition, the Strategic Integrated

Procurement Enterprise System (STRIPES) is being utilized as the Department's primary interface to collect and provide award-level reporting information on contracts to the government-wide Federal Procurement Data System-Next Generation and the Federal Assistance Awards Data System.

As part of its preliminary Recovery Act efforts, the Department identified which systems needed to be modified to meet tracking and reporting requirements, including STARS, STRIPES, the iManage Data Warehouse, and the Corporate Human Resource Information System (CHRIS). Officials informed us, however, that because these systems were upgraded with new hardware and software over the past several years, the existing flexibility of the systems resulted in the need to make very few changes. Although these actions should help alleviate potential issues, we believe that the ability of the Department's information systems to process the huge amount of Recovery Act data is a challenge that requires continued attention of senior Department officials.

Information System Risks and Program Mitigation Strategies

The influx of significant new funding presents a number of challenges and risks to the Department related to its use of corporate systems for managing Recovery Act programs. In particular, as a result of OMB mandates, the Department's information systems are required to:

- Have the capacity to handle the large number of additional Recovery Act transactions. For instance, officials informed us that up to 8,000 additional STRIPES transactions per year are expected, a significant increase over normal activities;
- Track and monitor detailed data supporting Recovery Act activities carried out by Departmental programs; and,
- Be capable of appropriately separating funding and program data supporting Recovery Act and non-Recovery Act functions.

As part of a proactive strategy to address Recovery Act requirements and related risks, responsible program officials had taken action to review and update information systems, as necessary. Specifically, the Department:

- Added storage and server capacity to a few corporate systems that will be used for tracking and reporting Recovery Act funds. During our review, officials noted that they expect to add additional capacity as needed in the future.
- Issued guidance and conducted testing related to newly created edit checks – automated controls designed to test the validity of data – in its procurement system. Specifically, the most recent *DOE Acquisition and Financial Assistance Implementation Guide*, issued on May 31, 2009, detailed the process for contracting officers to follow when procuring Recovery Act-related resources. In addition, Policy Flashes were issued to alert contracting officers of the edit checks and procedures. The Department also developed an edit check to help prevent the comingling of Recovery Act funds from normal appropriations. Program officials noted that this control was successfully tested in the STRIPES system by entering incorrect information, using mixed project codes (i.e. Recovery and non-Recovery Act), and entering incorrect project codes.
- Issued procurement guidance that instructed contracting officers not to combine Recovery Act and non-Recovery Act funding on a single requisition, even as separate line items. For example, the Department utilizes the Department of Treasury Automated Standard Application for Payments (ASAP) system for financial assistance agreements, which is unable to cost non-Recovery Act and Recovery Act funding separately. However, according to Department officials, the guidance and separate requisitions will help alleviate problems with recipient payments.
- Established new Treasury Appropriation Fund Symbols (TAFS) and codes for the projects submitted for funding under the Recovery Act to track and distinguish the Recovery Act data from

system to system. Currently, there are 18 TAFS and 163 project codes that will be used to track the funding and ensure linkage between project, performance, procurement, and financial data.

Remaining Information Systems Challenges

Although the Department had taken actions to update its information systems, several challenges require resolution to help ensure that Recovery Act goals and objectives can be satisfied. In particular:

- As more Recovery Act funds are spent, additional updates to systems may be required to accommodate the increased processing requirements. For instance, program officials informed us that they will not know whether current systems are capable of increased workloads until more transactions are processed by the systems.
- Testing of changes to information systems to accommodate expedited reporting timeframes required by the Recovery Act may be a challenge for various programs and prime recipients. For example, although Department officials reported that they had modified the Program Measure Manager (PMM) system to track Recovery Act performance measure data separately from other activities, they had not yet verified the effectiveness of the changes through system testing.
- As requirements for tracking and reporting data related to Recovery Act activities continue to evolve, Department officials expressed concern that systems maintained by prime recipients may not be capable of necessary modifications.

Recommended Actions

To address the risk that the Department's information systems will be unable to accommodate the additional requirements posed by the Recovery Act, the Department should:

1. Conduct formal testing of the systems that were modified and will be used for managing Recovery

Act efforts to help ensure their capabilities meet established objectives;

2. Share Recovery Act best practices among programs and continue to provide guidance and direction to programs and field sites regarding the Department's efforts to meet Recovery Act requirements; and,
3. Periodically test the output of its corporate systems to ensure that policy is adhered to and users are properly segregating Recovery Act transactions.

The actions described above, when completed, should help the Department address the risks associated with developing and maintaining information systems sufficient to meet Recovery Act goals and objectives.

Reporting Recovery Act Information

As part of the Recovery Act, agencies must meet seven requirements for reporting information to OMB and Recovery.gov, including Major Communications, Funding Notification Reports, Weekly Financial and Activity Reports, Agency-wide Recovery Act Plans, Program-specific Recovery Act Plans, Award-level Reporting, and Recipient Reporting. The Department is responsible for addressing six of the reporting requirements and recipients are responsible for meeting the remaining requirement. Department officials determined that the iManage iPortal will be used as the main gateway for the Department's reporting to Recovery.gov. Most information for the reports will be generated by corporate systems such as STARS and STRIPES, but will also be compiled through data calls and manual entry. Furthermore, the Department is responsible for continuing to enter award-level information (contracts and federal assistance) into existing government-wide systems, such as Federal Procurement Data System-Next Generation and Federal Assistance Awards Data System, which will then be transmitted to OMB and Recovery.gov.

In addition, prime recipients of Recovery Act awards and contracts will need to separately report information to FederalReporting.gov, a website maintained by OMB and used to collect information from prime recipients. The prime recipients of the Department's Recovery Act funding will begin to report information starting on October 10, 2009, and will continue to report information by every 10th workday after the end of each quarter. The recipients are

required to report on several different data elements including the total amount of Recovery Act funds received from the Department, the number of jobs created or retained with those funds, and a detailed list of all projects or activities for which funds were expended or obligated.

Recovery Act Reporting Risks and
Department Mitigation Strategies

The addition of new reporting requirements mandated by the Recovery Act presents the Department with various challenges not previously encountered during the management of its programs. Specifically, OMB guidance mandates that the Department:

- Ensure unprecedented transparency of program operations to the public by regularly reporting on the recipients of Recovery Act funds, including detailed reports such as the Weekly Financial and Activity Reports regarding obligation and outlay of funds;
- Develop formal documented plans for how Recovery Act funds will be applied and managed by the Department and program elements; and,
- Perform data quality reviews of recipient information such as comparing expenditures with Department award data to identify significant omissions and/or reporting errors.

In response to the unprecedented level of reporting requirements mandated by the Recovery Act, the Department had taken a number of actions to help ensure that it can accurately report information to the public regarding the operation and management of its programs, including activities carried out by prime recipients. Specifically, the Department:

- Developed a matrix that included all Recovery Act-required data elements for reporting and the systems and/or manual procedures that will provide needed information. For example, program officials determined that the Funding Notification reports – which detail all publicly announced award types including contracts, cooperative agreements, and

grants – would be developed utilizing information from the Procurement and Assistance Data System and STARS.

- Submitted several reports to OMB and Recovery.gov since February 2009, including Major Communications, Funding Notification reports, and Financial and Activity Reports. These reports detailed items of interest, publicly announced funding opportunities, and obligations and funding outlays to prime recipients.
- Developed Project Operating Plans (Operating Plans) for most of the projects that will be funded by the Recovery Act. Using these, the Department compiled and submitted its Agency-wide and Program-specific Recovery Plans to OMB.
- Assembled a Recovery Act Financial Assistance Working Group to discuss areas of concern related to Recovery Act reporting. For example, the group analyzed risks, controls, and potential process improvements related to advances using Recovery Act funding. The group then developed a risk mitigation plan, which detailed procedures to be followed to eliminate problems with advances to funding recipients. However, both the risk mitigation plan and the procedures remained in draft at the time of our review.

Remaining Recovery Act Reporting Challenges

While the Department had initiated actions to address the challenges associated with transparency and reporting requirements, our review identified a number of risk areas that will require additional or supplementary action to help ensure that the goals and objectives of the Recovery Act are satisfied. In particular:

- Absent implementation of the draft procedures for advances of funds to recipients, the Department may report inaccurate information on project progress due to the timing of Recovery Act requirements. Specifically, since the ASAP system used for paying invoices does not show advances, a Financial Status Report needs to be separately filed to show how much funding was taken for advances.

However, these reports are not required until 30 days after the month close, thus possibly creating a significant difference for quarterly reporting. While it does not currently present a problem, once the Recovery Act funding increases, the differences may become more significant and could impact the Recovery Act reporting. Finalizing and ensuring complete implementation of the Department's draft procedures should help remedy this issue.

- There was a lack of coordination between Headquarters organizations related to Recovery Act reporting. For example, the Office of Fossil Energy was actively working on developing estimates for jobs created and retained based on the funding for its projects. However, Office of Program Analysis and Evaluation (PA&E) officials informed us that they contracted with the University of Massachusetts to develop an overall job estimate for Department Recovery Act funding. PA&E officials noted that if OMB requires a job estimate from the Department, it would provide the job estimates and not solicit any input from officials from other programs. Despite these activities, both the PA&E and Fossil Energy officials were unaware of each others' efforts.
- Department officials have also expressed concern over whether they will have enough time and resources to conduct quarterly reviews of information reported to OMB by recipients. While OMB does not require the Department to conduct an extensive review of recipient information, it does require the Department to perform limited data quality reviews to identify significant omissions and/or reporting errors. At the time of our review, the Department was in the process of developing a quality assurance strategy for reviewing recipient information.
- Department officials indicated that they were concerned that contractors and other prime recipients may not have the capability to track and report the data necessary to meet Recovery Act requirements. For example, officials commented that certain recipients may not have the information

technology resources necessary to submit electronic information to meet Recovery Act reporting mandates.

Recommended Actions

To prepare for the unprecedented level of reporting requirements mandated by the Recovery Act and to address the risks we have identified in our report, the Department should take steps to:

4. Finalize and issue procedures for reporting advances under the Recovery Act;
5. Ensure adequate coordination among Headquarters organizations;
6. Develop a strategy for reviewing recipient information, to include a central office for collection and dissemination of data; and,
7. Determine whether any existing corporate systems will be leveraged for the collection of recipient information and, if so, ensure the process is documented and approved.

Taking actions such as these are essential to ensuring that the Department's programs and prime recipients report meaningful and accurate data to demonstrate progress made towards meeting the goals of the Recovery Act.

Recovery Act Performance Metrics

The Department is required to develop quantifiable performance measures that address the use of Recovery Act funds. These measures should include information such as the length of the period between measurements, the measurement methodology, and how the results will be made readily accessible to the public. In addition, the Recovery Act requires the Department to monitor the progress of program performance to identify areas of high risk or low performance and make any necessary changes.

The Recovery Act also requires all prime recipients to report on performance metrics, including those related to the creation and retention of jobs. The current OMB implementing guidance requires recipients to report job estimates for themselves, as well as sub-recipients and vendors. In addition, the Department is required to conduct

oversight on recipient reporting, including determining the completeness of performance metrics such as the number of jobs reported and progress made in other project areas.

Performance Measure Risks and
Associated Mitigation Strategies

The addition of new programs and projects presents challenges to the Department in developing performance measures that meet the goals of the Recovery Act. In particular, OMB mandated the Department develop performance measures that:

- Correspond to the funding, intent, and requirements of the Recovery Act;
- Are quantifiable, outcome-oriented, and specify the length of the period between measurements (e.g., monthly, quarterly), the measurement methodology, and how the results will be made readily accessible to the public; and,
- Can be validated by the Department's programs and contain documentation supporting the results.

In support of its Recovery Act strategy, the Department had taken a number of actions to help ensure that it can accurately measure the progress of programs and projects funded by the Recovery Act. Specifically:

- At the time of our review, the Department had prepared high-level performance measures for at least 142 of the 163 Recovery Act-funded projects.
- The Department hired independent consultants to review its performance measures to ensure consistency across the programs. Specifically, the consultants were reviewing each of the Operating Plans to ensure that performance measures were meeting the intent of the Recovery Act and were quantifiable and measurable. The Department plans to use the results of the review to modify the Operating Plans, as necessary.
- Performance measures will be tracked in the Department's PMM system. The Department plans to report the results to the public at the end of Fiscal

Year (FY) 2009 in conjunction with the results for the performance measures related to its annual budget. Also, unlike prior reporting systems, the PMM system will provide for external reporting to the general public.

Remaining Performance Metrics Challenges

The Department had initiated various actions to address the challenges associated with developing appropriate performance metrics. Our review, however, identified a number of risk areas that should be effectively managed to meet the goals and objectives of the Recovery Act. In particular:

- The Department had not finalized all of the Operating Plans and many were still being reviewed by consultants. We were not able to verify that all of the Operating Plans contained performance measures that corresponded to the Recovery Act. Furthermore, the Department has not developed specific measures for federal and contractor jobs created and retained.
- At the time of our review, we found that 91 of 142 (64 percent) measures were not quantifiable. For example, the Office of Energy Efficiency and Renewable Energy had a performance measure to initiate a pilot effort using new and innovative approaches to make low-income homes more energy efficient to expand the traditional weatherization program. However, we found no metrics related to how many homes will be included in the pilot or how long the pilot phase will last.
- Although the results are not being reported yet, a prior year report on the Department's Financial Statements disclosed that the performance reporting process had not ensured that reported performance information reflected actual performance and was adequately supported by documentation. Furthermore, as noted in our recent *Audit Report on Controls over the U.S. Department of Energy's Performance Measures* (OAS-L-09-14, July 2009), we found minor inaccuracies and inconsistencies in

the reporting of performance information that could negatively impact stakeholders' reliance on reported results.

Recommended Actions

To meet the requirements mandated by the Recovery Act and to address the risks to performance reporting we have identified in our report, the Department should:

8. Finalize all Operating Plans to include measures that are quantifiable and can be used to measure progress towards meeting the requirements of the Recovery Act and OMB mandates;
9. Develop performance measures for federal and contractor jobs created and retained; and,
10. Ensure that established policy and guidance is fully implemented for reporting performance and validating results.

Controls such as these are essential to establishing performance metrics that can serve as a mechanism to monitor performance and ensure accountability.

Potential Impacts

Absent action to address the challenges noted during our review, the Department may be unable to report accurate and complete Recovery Act information to OMB and the public. The Department's information systems supporting Recovery Act activities may also be unable to accommodate significant increases in workload or provide appropriate mechanisms to ensure that funds are accurately tracked and reported. In addition, as previously reported in our recent *Special Report on the American Recovery and Reinvestment Act at the Department of Energy* (OAS-RA-09-01, March 2009), without adequate accounting of funds that includes periodic evaluation of results, taxpayers' confidence that Recovery Act projects are meeting intended goals may be eroded. Furthermore, the absence of complete, adequate, and quantifiable performance measures may inhibit the ability of the Department, OMB, and the public to accurately gauge the progress in achieving Recovery Act goals.

MANAGEMENT REACTION

Management concurred with 8 out of 10 recommendations made in the report. Management indicated that action had been taken or was currently underway to address many of the issues identified during our review. However, management partially disagreed with two of the recommendations in the report.

In response to recommendation eight, management agreed that the Operating Plans should contain performance measures; however, management disagreed with our assertion that it did not comply with all Recovery Act and OMB mandates. Officials commented that Operating Plans were developed to be used as a management tool and were not required by the Recovery Act. Management stated that the Recovery Act requires Program-specific Recovery Plan metrics, which had been provided to OMB.

Management also partially concurred with recommendation nine to develop performance measures for federal and contractor jobs created and retained. Officials stated that OMB does not require agencies to report or measure federal jobs created under the Recovery Act. However, the Department is currently tracking federal employees hired to conduct Recovery Act work and/or paid with Recovery Act funds.

AUDITOR COMMENTS

Management's comments and planned actions are responsive to our recommendations. We modified recommendation eight to address management's comments. In particular, while we agree that Operating Plans were not required by the Recovery Act, they should contain detailed performance measures that can be used for tracking progress towards meeting Recovery Act objectives. We also continue to recommend that the Department develop performance measures for federal and contractor jobs created and retained. Although we agree that OMB does not require the Department to report on federal jobs creation, the Department should measure its progress in this area as the creation of jobs is one of the primary goals of the Recovery Act.

Appendix 1

- OBJECTIVE** To determine whether the Department of Energy (Department) is ensuring that funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act) are appropriately tracked and transparent to the public, and whether the benefits of the funds are reported clearly, accurately, and in a timely manner.
- SCOPE** This audit was performed between March and August 2009 at Department Headquarters in Washington, D.C., and Germantown, Maryland, and the National Energy Technology Laboratory in Pittsburgh, Pennsylvania.
- METHODOLOGY** To accomplish the audit objective, we:
- Reviewed applicable laws, directives, and guidance pertaining to Recovery Act implementation, including Office of Management and Budget (OMB) M-09-10 , *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*; M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*; and, M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*;
 - Obtained documentation and held discussions with federal and contractor personnel to discuss what systems were used for Recovery Act tracking and reporting and whether any changes were made to the systems;
 - Determined what controls were in place in the information systems to prohibit comingling of Recovery and non-Recovery Act funds;
 - Determined the Department's process for reporting Recovery Act information to OMB and the public; and,
 - Verified whether performance measures and metrics were in place, or in development, for all Recovery Act funds and determined the process used by the Department to validate the performance metrics results.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those

standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives. Because our review was limited, it would not necessarily have disclosed all internal deficiencies that may have existed at the time of our audit. This review of the Department's Recovery Act performance measures included certain aspects of compliance with the Government Performance and Results Act of 1993, as necessary, to accomplish the objective. We addressed the reliability of computer-processed data which we determined to be critical to achieving our audit objective.

Management waived an exit conference.

RELATED REPORTS

Office of Inspector General Reports

- *Controls over the U.S. Department of Energy's Performance Measures* (OAS-L-09-14, July 2009). This audit revealed that, in spite of specific quality and supporting information standards, certain sites and program elements had not completely resolved problems with documentation used to support reported performance results. Specifically, for some of the tested measures, supporting documentation differed from or did not adequately support information reported in the Annual Performance Report. For most of the measures, the differences noted were individually immaterial and did not have an impact on whether or not an associated goal was achieved. However, given the increasing emphasis on accountability and transparency associated with the American Recovery and Reinvestment Act of 2009 (Recovery Act) they do, in aggregate, represent issues that are worthy of correction.
- *The American Recovery and Reinvestment Act at the Department of Energy* (OAS-RA-09-01, March 2009). This report informed the Department of Energy's (Department) leadership of the risks that it should consider as stimulus activities progress. Specifically, the report identified specific risks discovered during past reviews and investigations in areas such as fund accountability and reporting, grant and cooperative agreement execution, contract management, and the management of loan guarantee efforts. The report also provides the Department with "lessons learned" and suggests approaches for reducing the risks associated with the Recovery Act funding. Suggested actions are included that should be considered during Recovery Act planning and program execution to help reduce the likelihood that historical problems will recur. The report also describes the Department's initial efforts to identify risks and to develop strategies to help ensure that the Recovery Act goals and objectives are satisfied and outlines the OIG's risk-based approach to oversight and planned means of satisfying our Recovery Act review and investigative responsibilities.
- *Report on the Department of Energy's Fiscal Year 2006 Consolidated Balance Sheet* (OAS-FS-07-02, November 2006). This report indicated that the Department's performance reporting process does not always ensure that reported performance information reflects actual performance and is adequately supported. Specifically, the report identified 2 of 29 annual performance targets or performance measures selected were incorrectly reported. In addition, the Department was unable to provide underlying data to support the reported performance results for an additional 4 of the 29 annual performance measures tested.

Government Accountability Office Reports

- *GAO's Efforts to Work with the Accountability Community to Help Ensure Effective and Efficient Oversight* (GAO-09-672T, May 2009). GAO has been coordinating efforts with the Recovery Accountability and Transparency Board, the Inspectors General (IGs), OMB, and state and local government auditors to help ensure effective

Appendix 2 (continued)

and efficient oversight of Recovery Act funds. GAO regularly coordinates with individual Inspectors General, and participates in discussions with state and local organizations. Teams working in the states collected documents from and interviewed State Auditors, Controllers, and Treasurers; state Inspectors General; and other key audit community stakeholders to determine how they planned to conduct oversight of Recovery Act funds. GAO also maintains a fraud reporting service, which has recently generated more than 25 allegations of misuse of Recovery and other federal funds. These allegations are currently under review by the forensic audit team.

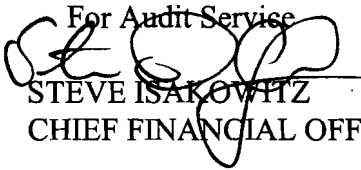
- *As Initial Implementation Unfolds in States and Localities, Continued Attention to Accountability Issues is Essential* (GAO-09-580, April 2009). The Government Accountability Office (GAO) describes selected states' and localities' (1) uses of and planning of Recovery Act funds; (2) accountability approaches; and, (3) plans to evaluate the impact of funds received. GAO's work is focused on 16 states and the District of Columbia. States are undertaking planning activities to identify projects, obtain approval at the state and federal level, and move them to contracting and implementation. Before they can expend Recovery Act funds, states must reach agreement on the specific projects; as of April 16, 2009, 2 of the 16 states had agreements covering more than 50 percent of their states' apportioned funds, and three states did not have agreement on any projects. GAO found that the selected states and the District are taking various approaches to ensuring that internal controls manage risk up-front; they are assessing known risks and developing plans to address those risks. Officials in 9 of the 16 states and the District expressed concern about determining the jobs created and retained under the Recovery Act, as well as methodologies that can be used for estimation of each.



Department of Energy
Washington, DC 20585

August 27, 2009

MEMORANDUM FOR: Rickey R. Hass
Deputy Inspector General
For Audit Service

FROM: 
STEVE ISAKOWITZ
CHIEF FINANCIAL OFFICER

SUBJECT: Comments to Draft Report – “The Department of Energy’s Efforts to Meet Accountability and Performance Reporting Objectives of the American Recovery and Reinvestment Act”

Thank you for the opportunity to review and comment on the subject draft report. As your report noted, the Department has taken a positive and proactive approach to meeting accountability and performance reporting requirements for its Recovery Act programs. The attachment discusses the specific actions relevant to individual recommendations that the Department is taking or plans to take to ensure compliance with Recovery Act accountability and performance reporting objectives. While we have concurred with most of your recommendations, we found that many of the actions necessary to implement the report’s recommendations were underway during the course of the IG audit and thus have already been initiated or completed.

The attached comments have been reviewed and approved by the Recovery Act team, the Chief Information Officer, the Office of the Under Secretary of Energy, and the Office of Management.

Attachment



**Response to
Inspector General Draft Report
A09RA003- Draft Report “The Department of Energy’s Efforts to Meet Accountability and Performance
Reporting Objectives of the American Recovery and Reinvestment Act (ARRA)”**

To address the risk that the Department’s information systems will be unable to accommodate the additional requirements posed by the Recovery Act, the Department should:

Recommendation 1

Conduct formal testing of the systems that were modified and will be used for managing for managing Recovery Act efforts to help ensure their capabilities meet established objectives.

Management Decision

Concur.

The Department will continue to follow its documented Configuration Management procedures for each operational system to verify modifications made to satisfy the defined requirements and to maintain the integrity of the production operational environment. These procedures were followed for any modifications made the systems to accommodate Recovery Act requirements. Procedures for the STARS system are reviewed as part of the annual financial statement audit. The configuration management testing procedures for the STRIPES system are reviewed annually as part of the Certification and Accreditation process.

Recipients of Recovery Act funds are required to report directly to OMB through centrally-managed systems. Recipient information will be uploaded into the DOE iManage iPortal system after the data is reported to OMB. The Office of the CFO will conduct additional capacity testing of this system by September 15 to assess its ability to handle large amounts of recipient data reported to OMB.

Estimated Date: September 15

Recommendation 2

Share Recovery Act best practices among programs and continue to provide guidance and direction to programs and field sites regarding the Department’s efforts to meet Recovery Act requirements

Management Decision

Concur.

The Department has established multiple processes for providing guidance and direction to programs and field sites for Recovery Act requirements. Ongoing efforts include reviewing project plans and program reporting, monthly forums sponsored by the Office of the CFO, and training on performance metrics relating to the Recovery Act. Furthermore, the Office of the CFO plans to provide guidance shortly describing the processes by which it will evaluate the quality of the data provided by recipients in accordance with Recovery Act programs. All of these processes are potential forums for sharing best practices as they are identified. Additionally, the Office of the CFO will make available Recovery Act best practices and guidance to all program offices via the iPortal online community, which acts as a central repository for Recovery Act reporting, guidance and best practices.

We consider this recommendation to be closed.

Recommendation 3

Periodically test the output of its corporate systems to ensure that policy is adhered to and users are properly segregating Recovery Act transactions.

Management Decision

Concur.

The CFO does not establish policy or functional/operational procedures; however, the coding structure for the Recovery Act transactions makes it very easy to produce output that clearly shows Recovery activities. For the STRIPES system, the Office of Procurement and Assistance Management conducts ongoing reviews of the information output from STRIPES as part of its data quality program.
We consider this recommendation to be closed.

To prepare for the unprecedented level of reporting requirements mandated by the Recovery Act, and to address the risks we have identified in our report, the Department should take steps to:

Recommendation 4

Finalize and issue procedures for reporting advances under the Recovery Act.

Management Decision

Concur.

The accruals risk mitigation plan was finalized on August 12, 2009. The accrual methodology for each grant will consider the need for recording adjustments to reflect advance funding, if applicable.

Estimated Date: FY 2009 year-end accrual adjustments for ARRA-funded grants will be completed in mid-October 2009.

Recommendation 5

Ensure adequate coordination among Headquarters organizations.

Management Decision

Concur.

The Office of the CFO is conducting training classes for Recovery Act programs and discussing our performance metrics policy in the monthly PA&E Forum. Performance representatives from all DOE programs and offices participate in this forum.

Estimated Date: September 15, 2009

Recommendation 6

Develop a strategy for reviewing recipient information, to include a central office for collection and dissemination of data.

Management Decision

Concur.

The Office of the CFO plans to provide guidance shortly describing the processes by which it will evaluate the quality of the data provided by recipients. Before the guidance can be finalized, DOE and OMB must resolve information technology issues to allow DOE to download information from the FederalReporting.gov website.

Estimated Date: September 15, 2009

Recommendation 7

Determine whether any existing corporate systems will be leveraged for the collection of recipient information and, if so, ensure the process is documented and approved.

Management Decision

Concur.

Existing corporate systems will be leveraged as necessary to support the Department's requirements relating to Recovery Act Report, but current policies from the Office of Management and Budget require recipients to report directly to OMB through its government-wide web site. The CFO can easily make determinations regarding the use of "corporate" systems because they are all part of iManage, and any such determination would be approved and documented as appropriate.

We consider this recommendation to be closed.

To meet the requirements mandated by the Recovery Act and to address the risks to performance reporting we have identified in our report, the Department should:

Recommendation 8

Finalize all Operating Plans to include measures that are quantifiable and satisfy the requirements of the Recovery Act and OMB mandates.

Management Decision

Non-concur (compliance with Recovery Act and OMB mandates)

The Department currently complies with all Recovery Act and OMB mandates relating to performance measures. The Office of the CFO disagrees with the implication in the IG report that the Project Operating Plans (POP) need to have quantifiable metrics in order to meet Recovery Act and OMB mandates. Project Operating Plans were established by the Department and are not required by the Recovery Act. Rather, the Recovery Act requires Program Specific Recovery Plan (PSRP) metrics.

Concur (quantifiable performance metrics)

The Department concurs with the IG's recommendation that the Project Operating Plans have quantifiable performance measures. The operating plans have three types of performance measures— project level, Secretary goal level, and national level. The Office of the CFO is reviewing those metrics to make sure they are quantifiable and are tracked in the Performance Measure Manager (PMM) tool for reporting. Moreover, the Office of the CFO is pursuing additional mechanisms for tracking the schedule, cost, and performance of individual projects.

Currently, the Office of the CFO anticipates that 80% of the performance metrics will be finalized by the end of the fiscal year. The remaining performance metrics cannot be finalized until the underlying project plans and funding are fully determined.

Estimated Date: September 30

Recommendation 9

Develop performance measures for Federal and contractor jobs created and retained.

Management Decision

Partial Concur

The Office of Management and Budget (OMB) does not require agencies to report or measure federal jobs created under the Recovery Act. OMB Guidance related to jobs reporting to FederalReporting.gov also exempts Federal agencies. However, the HR offices are currently recording any Federal employee who is hired into the Department to do Recovery Act work and/or paid with Recovery Act funds. The Department tracks such employees with one of two codes: those paid from Recovery Act dollars and those paid from base funding, but doing work related to the Recovery Act. The Department cannot track hiring by project code as many of those hired will work on multiple projects. Program Offices have also identified human capital requirements in the Project Operating Plans, as well as pre-award Resources Loaded Schedules for select projects. The Department is using this information to help track human capital requirements and our efforts to obtain staff quickly enough to meet requirements. The Department is exploring if there are better options to track human capital requirements to execute Recovery Act programs.

We consider this recommendation to be closed.

Recommendation 10

Ensure that established policy and guidance is fully implemented for reporting performance and validating results.

Management Decision

Concur

The Office of the CFO is working with the Department's program offices to reinforce the current performance metrics policy for reporting and validating performance results. The Performance Measure Manager system has been modified to include all required documentation for tracking performance metrics and results for metrics related to Recovery Act programs. Additionally, the Office of the CFO is pursuing additional mechanisms for tracking performance results of individual Recovery Act projects.

We consider this recommendation to be closed.

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