

impact the Department's ability to fully implement the Circular. In particular, we noted that:

- Risk assessments were not always prepared in accordance with Department guidance; and,
- Supporting documentation describing certain controls and the results of testing had not been prepared or was not readily available.

Progress This Fiscal Year

The Department made substantial progress in implementing the requirements in the Circular during FY 2006. The Department established a Senior Assessment Team and organized a Senior Management Council at Headquarters to provide corporate governance and oversight. A Project Management Team was also established to manage the implementation of the program. The Department also established Site Assessment Teams to assess, document and test controls at the site, program and facility level. It also identified materiality levels and the major accounts targeted for assessment, developed and communicated requirements to Site Assessment Teams, and deployed the Assessment and Reporting Tool (AART) for tracking the efforts at the program and site office level.

Completing Risk Assessments:

The Department's A-123 implementation guidance developed by the Office of CFO identified 19 standard financial processes to be used during the FY 2006 internal control assessment effort. Using these standard processes, sites and program offices identified specific sub-processes – based on local operating procedures – on which to assess risk. Sites and program offices were to then identify one or more “inherent” risks associated with each sub-process and, as appropriate, assess each of the risks as high, moderate, or low. A basic assumption to be applied when determining “inherent risk” was that there was no consideration of the related or offsetting internal controls that may be in place to prevent or detect errors.

Based on an evaluation of a sample of assessments, completed by selected sites and programs, we determined that certain risk assessments were not performed in accordance with Departmental guidance. Specifically, the Office of Energy Efficiency and Renewable Energy incorrectly assessed “control” risk – the risk that the existing internal controls would not be effective – rather than inherent risk. While the Lawrence Livermore National Laboratory and Sandia National Laboratory properly identified one or more risks for each of their sub-processes, they did not assess each of the identified risks. Instead, they assessed the combined risk associated with a sub-process. A National Nuclear Security Administration (NNSA) official told us that they made a judgment to be more conservative in assessing risk at these two sites and that combining sub-processes resulted in more risk sets rated as high. The downstream effect of rating areas higher than necessary, however, is that unnecessary and costly controls may be put into place.

In responding to our report, the Department's A-123 Project Manager agreed with our observation that certain risk assessments did not comply with Department guidance. He added that the Department is considering a change to its guidance that would factor certain aspects of control risk into the risk assessment process.

Documenting Results

As noted by the Circular, internal controls and the results of testing should be adequately documented. OMB emphasizes that documents describing controls and supporting testing should be readily available for use or review. As specified in the Department's implementation guidance, site and program offices were to use the AART to, among other things, list the locations of specific documentation to support their assessment and testing efforts.

We found, however, that adequate supporting documentation had not always been prepared or was not readily available at the location described in the AART. For example, documentation to support testing of eight entity controls by the NNSA was not descriptive of the tests performed. Instead, it consisted of a single page of notes in bullet format from a discussion with an individual at Headquarters. Many of the bullets did not clearly describe the test results. At the Pacific Northwest National Laboratory (PNNL), more specific location descriptions were also needed. In particular, references to document locations were sometimes not specific, such as those that referred to documents of significant size – an Accounting Manual – rather than the specific control in question.

In responding to our report, an official from NNSA told us that many documents describing entity controls were inspected and that these documents were provided to our auditors. The documents provided, however, described the controls NNSA evaluated rather than the results of tests of these controls. According to the NNSA official, the only testing performed on the documents consisted of a single inquiry of an individual at Headquarters. Additionally, when we discussed the need for specific document locations with PNNL officials, they took action to add greater specificity in the AART.

Implementation and Monitoring


Overall, we concluded that the issues described above could impact the Department's implementation efforts. To its credit, the Office of CFO's Project Management Team has since provided additional training on risk assessment, documenting, evaluating and testing. These actions are positive steps that should, if properly implemented, help strengthen the Department's internal control assessment and testing process.

SUGGESTED ACTIONS

To address the issues outlined in our report, we suggested that the Office of Chief Financial Officer:

1. Determine whether additional clarifying guidance is needed and whether additional training on the preparation of risk assessments and supporting documentation is necessary; and,
2. Require sites or programs to revise their risk assessments and documentation as necessary to correct issues discovered during our review.

No formal recommendations are being made in this report, and a formal response is not required. We appreciate the cooperation of the various Departmental elements that provided information or assistance.



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Attachment

cc: Chief of Staff
Deputy Secretary
Administrator, National Nuclear Security Administration

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 2006 and January 2007.

We conducted interviews of officials in the Headquarters Office of Chief Financial Officer who were responsible for implementation and monitoring of the revised requirements; undertook site visits to the Richland Operations Office, the Pacific Northwest National Laboratory, the National Nuclear Security Administration Service Center, Sandia National Laboratory, Lawrence Livermore National Laboratory, and Argonne National Laboratory; conducted work at the Offices of Energy Efficiency and Renewable Energy, and Science; and reviewed internal control, test, and remediation documentation. We assessed the FY 2006 Performance and Accountability Report as it relates to OMB Circular No. A-123 to determine whether the results of site and program office evaluations were accurately reported. Also, we performed work to determine whether the Department developed corrective action plans for significant issues identified during its FY 2006 reporting process.

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 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.