

U S. DEPARTMENT OF ENERGY
OFFICE OF INSPECTOR GENERAL

MATTERS IDENTIFIED AT THE
SAVANNAH RIVER OPERATIONS OFFICE
DURING THE AUDIT OF THE DEPARTMENT'S CONSOLIDATED
FISCAL YEAR 1998 FINANCIAL STATEMENTS

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Oak Ridge, TN

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TABLE OF CONTENTS

	<u>Page</u>
OVERVIEW.....	1
Introduction and Objective.....	1
Scope and Methodology.....	1
Observations.....	2
DETAILS OF OBSERVATIONS	3

OVERVIEW

INTRODUCTION AND OBJECTIVE

The Government Management Reform Act of 1994 requires that audited financial statements covering all accounts and associated activities of the Department be submitted annually to the Office of Management and Budget. A Departmentwide audit of the consolidated Fiscal Year (FY) 1998 financial statements was conducted by examining internal controls, assessing compliance with laws and regulations, evaluating accounting transaction cycles, and testing selected account balances at various Department facilities.

The objective of the Departmentwide audit was to determine whether the Department's consolidated financial statements presented fairly, in all material respects, the financial position of the Department as of September 30, 1998 and 1997, and its consolidated net cost, changes in net position, budgetary resources, financing activities, and custodial activities for the fiscal years then ended in conformity with Federal accounting standards. Departmentwide issues are addressed in Audit Report No. IG-FS-99-01, issued February 25, 1999.

The purpose of this report is to inform Savannah River Operations Office's (Savannah River) management concerning matters that came to the attention of the Office of Inspector General during the audit at Savannah River and Westinghouse Savannah River Company (Westinghouse). Savannah River is responsible for the account balances entered into the Department's core accounting system (DISCAS).

SCOPE AND METHODOLOGY

The audit was conducted from May 1998 through January 1999 at Savannah River and Westinghouse. Specifically, we examined internal controls, assessed compliance with applicable laws and regulations, and selectively tested account balances reported to Departmental Headquarters as necessary to achieve the Departmentwide audit objective.

Audit work was performed in accordance with generally accepted Government auditing standards for financial audits. Since we relied on computer-generated data, we evaluated the general and application control environment of certain financial systems and evaluated the reliability of the data on a test basis.

Because the audit was limited, it would not necessarily disclose all the internal control weaknesses that may have existed. Furthermore, because of inherent limitations in any system of internal controls, errors or irregularities may occur and not be detected. The issues addressed in this report represent our observations of activities through the end of fieldwork on January 5, 1999. Projections of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

In addition to the audit work conducted by the Office of Inspector General, Westinghouse internal audit personnel reviewed the payroll cycle at Westinghouse. The results of the internal audit work were reported separately through internal audit's normal reporting process. Also, an independent public accounting firm reviewed Nuclear Materials Inventories, Pension and Other Post-Retirement Liabilities, Disbursements, and Finance.

The Office of Inspector General considered all findings generated as a result of these reviews when preparing the audit report on the Department's consolidated FY 1998 financial statements (Audit Report No. IG-FS-99-01) and the management report referred to in that report. The Office of Inspector General is addressing issues requiring local management attention in this report.

Savannah River management waived the exit conference.

OBSERVATIONS

At Savannah River and Westinghouse, we observed weaknesses in internal controls for computer systems, year-end reconciliation procedures, and active facility remediation data. Specifically, we found that although Westinghouse had implemented policies, procedures, and physical controls to protect computer programs and data files, certain vulnerabilities existed on selected systems and devices. We also found that certain discrepancies in year-end financial data were not detected and square footage information supporting the accrued liability for remediation of active facilities was inconsistent. We recommend that internal controls be strengthened in these areas. In addition, we observed that Savannah River had inadvertently excluded two segments from its allocation of indirect costs.

Management generally concurred with the findings and recommendations and has agreed to take corrective action.

Details of the observations and management's response start on page 3.

(Signed)
Office of Inspector General

DETAILS OF OBSERVATIONS

1. Site Computer Network

Westinghouse relies heavily on computer resources, including its computer network (SRSNET), to carry out its mission. The SRSNET consists of local area networks for operational and administrative functions. Federal and Departmental directives require that procedures be developed and implemented to prevent misuse and abuse of unclassified computer resources. These procedures should include access controls, such as passwords and user identifications, to protect these resources from unauthorized modification, loss, or disclosure. These procedures should also include practices to authorize, monitor, and review user access.

We reviewed the automated system security control environment for SRSNET and selected devices including information systems that process financial data for preparation of the Department's financial statements. We found that although Westinghouse had implemented policies, procedures, and physical controls to protect computer programs and data files, certain vulnerabilities existed on selected systems and devices. This condition resulted because Westinghouse had not implemented sufficient controls to prevent unauthorized access to selected systems and devices. As a result, there is an increased risk of unauthorized access to the SRSNET.

Recommendation

We recommend that the Manager, Savannah River Operations Office, direct Westinghouse to improve security controls for accessing its computer network.

Management Response

Management generally agreed with the finding and recommendation and indicated that action had been taken to address the finding and prevent recurrences.

Auditor Comment

The comments provided are responsive to the intent of our recommendation.

2. Year End Reconciliations

The Department's Accounting Handbook states that each field element independently monitors and controls the activities that affect their accounts. To ensure the accuracy of the Department's financial data, each operations/field office needs to assess the reliability and accuracy of the financial data reported by the Department for their office. We observed instances when Savannah River did not detect that the totals recorded in DISCAS were not in agreement with the amounts reported in the financial statements produced by the Headquarters MARS-based system. Specifically, for account 3896 - *Funded Environmental Liabilities*, DISCAS recorded the FY 1998 balance as \$135 million and the MARS-based system reported the balance as \$289 million, a difference of \$154 million. For account 3996 - *Environmental Liabilities*, DISCAS recorded the FY 1998 balance as \$28,255 million and the MARS-based system reported the balance as \$28,759 million, a difference of \$504 million. Savannah River had not performed a reconciliation between the DISCAS trial balance and the amounts reported in the financial statements produced by the Headquarters MARS-based system. As a result, Savannah River did not notify Headquarters that the financial statement data produced by the MARS-based system were inaccurate.

Recommendation

We recommend that the Manager, Savannah River Operations Office, incorporate into the annual year-end process the reconciliation of the DISCAS trial balance with the financial statement data produced from the MARS-based system.

Management Response

Management concurred with the recommendation and agreed to establish a year-end closing routine that would require reconciliations of the generated financial statements to the DISCAS trial balance.

Auditor Comment

Management's action was responsive to the finding and recommendation.

3. Remediation of Active Facilities

The Department's accrued liability for active facilities represents anticipated remediation costs for facilities that are conducting ongoing operations but will ultimately require stabilization, deactivation, and decommissioning. The field offices provide Departmental Headquarters with estimated data detailed by facility type and footprint (number of floors and square footage). From this data, the Department generates its accrued liability for remediation of active facilities. As of September 30, 1998, the Department's accrued liability for active facilities was about \$20 billion.

Savannah River used its Facility Information Management System (FIMS) to develop the active facility data provided to Headquarters. While verifying the square footage used to develop the data, we found several databases that contained inconsistent square footage information. As a result, there is an increased risk of misstatements in the Department's active facility liability.

Recommendation

The Manager, Savannah River Operations Office, should institute internal controls to ensure that square footage data is accurate and consistent.

Management Response

Management concurred with the recommendation and stated that a management task team is developing methodology to insure that a single database feeds facility information to all affected site systems.

Auditor Comment

The planned action is responsive to the intent of the recommendation.

4. Allocation Of Indirect Costs

In its FY 1998 allocation of indirect costs, Savannah River inadvertently excluded two responsibility segments from its calculation. In one case, costs of about \$31.5 million for responsibility segment 08940 (“Other Programs”) were not allocated to other responsibility segments. In the other case, costs of about \$5.6 million for budget and reporting code WN were not included in the cost allocation base. As a result, the allocation of indirect costs was inaccurate.

Recommendation

We recommend that the Manager, Savannah River Operations office, revise the indirect cost allocation to include the two segments that had been omitted.

Management Response

Management concurred with the finding and recommendation. The FY 1998 managerial cost allocation was revised and resubmitted to Departmental Headquarters in December 1998.

Auditor Comments

Management’s action was responsive to the finding and recommendation and no further action is required.

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