

February 8, 2001

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman (Signed)
Inspector General

SUBJECT: INFORMATION: Federal Managers' Financial Integrity Act Audit Report
Audit Report No.: CR-L-01-06

We reviewed the Department of Energy's (Department) progress in implementing the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The review was made to assist you in determining whether the evaluations of the systems of management, accounting, and administrative controls were carried out in a reasonable and prudent manner by the Department for Fiscal Year 2000.

The Department's evaluation of its control systems was examined for compliance with requirements of the FMFIA, the General Accounting Office's "Standards for Internal Control in the Federal Government," Office of Management and Budget Circulars A-123 and A-127, and Department of Energy Order 413.1, "Management Control Program." The results of the Department's evaluations of control systems have been included in the Performance and Accountability Report that is due no later than March 1, 2001. This report provides critical financial and program performance information in a single report as required by the Government Performance and Results Act of 1993, and it references our continuing concern with the challenges facing the Department in developing appropriate performance measures and in validating results in relation to those measures.

Our review was made in accordance with generally accepted Government auditing standards, which included tests of internal controls and compliance with laws and regulations to the extent necessary to satisfy the audit objective. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. We assessed the draft Performance and Accountability Report and Assurance Memoranda along with supporting documentation filed by selected Departmental organizations to determine whether the results of their evaluations were accurately reported. Follow-up work was also performed to determine what corrective actions the Department took on the problems reported in the previous fiscal year.

The objective of the FMFIA program is to ensure management controls are working effectively, and that Department programs and administrative functions are performed in an economic and efficient manner consistent with applicable laws. To ensure effective implementation of the program, senior management involvement in the performance of internal control evaluations and yearend reporting is necessary.

Overall, the Department has continued to carry out its internal control program mandated by the FMFIA. We noted, however, that the nexus between reportable problems identified by Field elements and Headquarters and Departmental challenges listed in the draft Performance and Accountability Report was not clearly indicated in all cases. Further, the timeliness of Headquarter's submissions of assurance memoranda continues to be a problem.

To strengthen the internal control environment, the Department, over the past several years, has been taking actions to protect the government's interest at contractor-operated facilities. These actions have included methods for motivating contractor performance and improving contractor accountability at such facilities. More recently, in March 2000 Congress established the National Nuclear Security Administration (NNSA) to provide more direct lines of accountability for the management and operation of the nation's nuclear weapons activities and the contractors that conduct those activities. As with the establishment of any new Government enterprise, especially one with such a significant mission, the Department faces a number of challenges associated with NNSA's creation.

We encourage vigilance by management during this transition period. In making the review we coordinated closely with the Department's Office of Chief Financial Officer. A summary of our observations and analysis is attached.

Attachment

cc: Under Secretary for Nuclear Security/Administrator for Nuclear Security
Chief Financial Officer

Federal Managers' Financial Integrity Act
Assurance Memorandum Observations Concerning
The Management Control Evaluations Process

The Department of Energy has conducted the required Federal Managers' Financial Integrity Act (FMFIA) evaluations and implemented Office of Management and Budget requirements. Generally, the results of management's evaluations were accurately reflected in the Assurance Memoranda of the Departmental elements. These evaluations were positive steps in establishing and maintaining a strong management control environment within the Department. However, ongoing organizational changes related to establishment of the National Nuclear Security Administration (NNSA) have had an effect on the internal control environment that cannot be fully evaluated at this time.

The results of our review on the Department's progress in correcting and identifying reportable problems and areas of concern are presented below.

PROGRESS

During Fiscal Year 2000, the Department continued to make progress in correcting previously reported problems and monitoring ongoing corrective actions. For example, the previously reportable problem of the operation of the Waste Isolation Pilot Plant has been removed from the list of Departmental challenges. This year, the Department took steps to better classify and categorize a number of reportable problems. The draft Performance and Accountability Report for Fiscal Year 2000 includes three new Departmental challenges - Managing Physical Assets, Information Technology, and Disruption in Energy Supplies. Reportable problems for Fiscal Years 1999 and 2000 are set forth in the Appendix.

AREAS OF CONCERN

NNSA Implementation

In March 2000, NNSA was established as a semi-autonomous agency within the Department. Pursuant to the National Defense Authorization Act for Fiscal Year 2000, NNSA is to provide clear and direct lines of accountability and responsibility for the management and operation of the nation's nuclear weapons, naval reactors, and nuclear nonproliferation activities. The creation of NNSA presents the Department with a number of challenges that include formalizing organizational responsibilities and authorities, and resolving cross-cutting funding issues to ensure program integration and effectiveness.

Contract Management

Contract Management has been a concern for many years. Beginning in the mid-1990's the Department initiated several efforts to increase its contractors' performance and accountability to ensure prudent expenditures. Contract reform initiatives included the adoption of performance-based contracts that emphasized results and incentives that increased available fees dramatically.

Based on reviews conducted since 1994, many of the Department's contract reform goals have not yet been achieved. These reviews have disclosed systemic weaknesses in the way incentives have been administered. The Department's major contractors' fees have risen dramatically without a commensurate increase in financial risk. In addition, many support services contracted out were not economical to the Government. In our judgment, additional opportunities are available for the Department to improve contracting practices of its major contractors.

Defense Facilities Modernization (Managing Physical Assets)

For several years the Office of Inspector General (OIG) has reported that the condition of the Department's infrastructure was inadequate and deteriorating faster than had been originally anticipated. Recent audits have led us to conclude that the problem has become more severe. For example, we recently reported that some Stockpile Stewardship Plan milestones and goals have slipped, restoration costs have increased, and planned nuclear weapons work to assure reliability was at risk. Without specific performance measures or goals to guide resolution of these facility problems, restoration of these important physical assets will continue to be delayed.

Identification of Management Challenges

The FMFIA process is predicated on identification of Department vulnerabilities at the field or component level. This year, however, two reportable problems now in the draft Performance and Accountability Report were not considered as Departmental Challenges by officials responsible for the management of the program. Instead, they were added at the end of the FMFIA process by senior Department officials in consultation with the OIG. Both of these issues – disruption in energy supplies and contract management – were of sufficient significance to have been recognized in the earliest stages of the FMFIA process.

Timeliness of Assurance Memoranda

Seventeen of 28 Headquarters offices did not submit Assurance Memoranda by the established due date, and 12 of those were 2 or more weeks late. Environmental Management, one of the largest programs, submitted its memorandum more than a month late. Because there are key milestones in the process to provide senior management with complete information, and the Assurance Memoranda serve as a basis for the Secretary's Accountability Report to the President, these delays were significant. Although the FMFIA process is challenging and some late submissions were expected, timely submission continues to be a concern. In our opinion, these delays hinder the Department's overall assessment of its internal control structure and the implementation of corrective actions.

APPENDIX

Comparison of Reportable Problems

FY 1999 Reportable Problems

1. Surplus Fissile Materials
2. Environmental Compliance
3. Waste Isolation Pilot Plant
4. Nuclear Waste Disposal
5. Safety and Health
6. Contract Management
7. Project Management
8. Inadequate Audit Coverage
9. Security (Includes the prior challenge--Unclassified Computer Security)
10. Mission Critical Staffing (Previously Workforce Planning emerging issue)

FY 1999 Reportable Nonconformance

Financial Management System Improvements (Previously a reportable problem)

Proposed FY 2000 Reportable Problems (Draft Performance and Accountability Report)

1. Environmental Compliance
2. Surplus Fissile Materials
3. Nuclear Waste Disposal
4. Safety and Health
5. Project Management
6. Security
7. Mission Critical Staffing
8. Information Technology
9. Disruption in Energy Supplies (Energy Technology)
10. Managing Physical Assets (Defense Facilities Modernization)
11. Contract Management
12. Inadequate Audit Coverage

Emerging Issues

NNSA Implementation