



Department of Energy

Washington, DC 20585

November 13, 2006

MEMORANDUM FOR THE SECRETARY

FROM:

Gregory H. Friedman
Gregory H. Friedman
Inspector General

SUBJECT:

INFORMATION: Report on the Department of Energy's Fiscal Year 2006 Consolidated Balance Sheet

In response to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to audit the Department of Energy's Fiscal Year (FY) 2006 consolidated balance sheet. The contractor was engaged to audit only the balance sheet because a material weakness in financial control and reporting resulted in a disclaimer of opinion on the FY 2005 Audit of the Department's Consolidated Financial Statements.

KPMG LLP concluded that, except for the effects of not properly accounting for and reporting undelivered orders, the FY 2006 consolidated balance sheet presented fairly in all material respects the financial position of the Department. The weaknesses affecting undelivered orders were associated with the controls over the recording of obligations and the de-obligation of funds.

During FY 2006, the Department's Office of Chief Financial Officer made substantial progress in correcting a number of financial controls and reporting weaknesses that lead to the disclaimer of an audit opinion on the FY 2005 financial statements. Despite these efforts, the Department's accounting and reporting controls over obligations in FY 2006 were insufficient to prevent, detect or correct errors in a timely manner. In particular, significant differences associated with the conversion of data from the legacy accounting systems to the Standard Accounting and Reporting System (STARS) had not been resolved. Required reviews of certain obligations and undelivered order balances also had either not been performed or were not completely effective, resulting in balances that did not agree with supporting documents, obligations that remained unexpended for extended periods, and obligations with negative balances.

The audit, in addition, disclosed Departmental weaknesses in network and information systems and deficiencies in the performance measure reporting process. These weaknesses increased the risk that the Department's financial system and reported performance information may not be reliable. With respect to information systems, despite corrective actions by the Department in response to prior audit findings, network and other security weaknesses persist. Even though progress had been made, control weaknesses involving the review and approval of user access privileges, password security and the monitoring of networks for questionable activity continued to exist. Controls over performance measure reporting were also not entirely effective, providing certain information that was not consistent with actual performance and/or was not adequately supported.



With regard to the specific findings associated with undelivered orders, information systems and performance measures, the Department generally concurred and initiated or agreed to initiate corrective actions.

The preparation and audit of financial statements, it should be noted, involve many parties. The Department is responsible for preparing its consolidated financial statements and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the public accounting firm of KPMG LLP to conduct this audit. KPMG is responsible for reporting on the Department's consolidated balance sheet, applicable internal controls and compliance with laws, regulations, contracts and grant agreements. The Office of Inspector General monitored the contractor's progress, and reviewed the audit report and related documentation to ensure compliance with generally accepted Government Auditing Standards. The Office of Inspector General, however, did not prepare an independent report on the Department's consolidated balance sheet.

I would like to thank each of the Department elements for their courtesy and cooperation during the review.

Attachment

cc: Deputy Secretary (w/o attachment)
Under Secretary for Energy (w/o attachment)
Under Secretary for Science (w/o attachment)
Administrator, National Nuclear Security Administration (w/o attachment)
Chief of Staff (w/o attachment)
Chief Financial Officer

Audit Report: OAS-FS-07-02