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Report To The Chairman, Subcommittee On Environment, Energy, And Natural Resources, House Committee On Government Operations OF THE UNITED STATES

Major Financial Management Improvements Needed At Department Of Energy

GAO's review of several aspects of the Department of Energy's financial management activities disclosed significant weaknesses in each of the areas examined, including internal controls, cash and property management, and contract administration. The extent of the identified weaknesses makes the Department vulnerable to fraud, waste, and abuse, and unable to assure that its financial systems are producing reliable data. The Department has initiated corrective actions in the areas of weaknesses brought to its attention by GAO. However, much more needs to be done to improve financial management, particularly in the Department's field organizations. The report recommends specific corrective actions.

GAO/OCG-82-1
SEPTEMBER 15, 1982

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-208933

The Honorable Toby Moffett
Chairman, Subcommittee on Environment,
Energy, and Natural Resources
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your November 10, 1981, request, we reviewed selected areas of the Department of Energy's financial management. We examined internal controls, cash and property management, and contract administration, and found significant problems in each area. This report presents the results of our review, and concludes that a commitment from Energy's top management is needed to ensure that all the necessary corrective actions are taken.

As agreed with your office, we did not obtain written agency comments and the principal findings covered in the report were discussed with agency officials. Their comments are included in the report where appropriate. Also as arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time we will send copies to the Secretary of Energy and other interested parties, and make copies available to others upon request.

Sincerely yours,

Charles A. Bowsher

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CHAIRMAN,
SUBCOMMITTEE ON ENVIRONMENT,
ENERGY, AND NATURAL RESOURCES,
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

MAJOR FINANCIAL MANAGEMENT
IMPROVEMENTS NEEDED AT
DEPARTMENT OF ENERGY

D I G E S T

In response to a request by the Chairman, Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, the General Accounting Office reviewed several aspects of the Department of Energy's financial management. The review, which focused on internal controls, cash management, property management, and contract administration, disclosed significant deficiencies:

--Both the computerized and manual accounting controls at the headquarters and four field offices reviewed need improvement. Because of the weaknesses identified, GAO could not provide assurance of the reliability of the accounting systems' data.

--The Energy Department has not adequately monitored Government funds held by grantees and, contrary to Treasury regulations, large amounts of cash were provided to grantees before needed. Funds disbursed sooner than necessary can add to the amounts the Government must borrow and increase interest costs.

--The Department does not have an effective system for recording, managing, and disposing of Government property held by contractors. Numerous discrepancies exist between the amounts of property recorded by the accounting and procurement offices and by the individual contractors.

--Contracts for the Strategic Petroleum Reserve project need to be better administered particularly with regard to audit coverage of the contractors. Audits of several major cost-type contracts were not fully monitored to ensure adequate coverage, and the findings of some contract audits were not promptly resolved.

Tear Sheet (GAO/OCG-82-1)

ACCOUNTING SYSTEMS AND CONTROLS NEED STRENGTHENING

By law (31 U.S.C. 66a), agency heads are required to provide effective control over and accountability for all funds for which they are responsible. Internal controls are necessary to provide management with reasonable assurances that, among other things,

--financial and other resources are safeguarded from unauthorized use or disposition,

--financial records are accurate and reports are reliable, and

--resources are efficiently and effectively managed.

The computerized accounting system controls at all the locations reviewed--Energy headquarters, the Albuquerque, Chicago, and San Francisco Operations Offices, and the Office of Washington Financial Services--need to be improved. Examples of weaknesses GAO found include

--inadequate documentation for explaining complex data processing procedures and system reports and for facilitating system revisions,

--inadequate processing and security procedures for ensuring that data are protected and accurately and completely processed, and

--inadequate audit trails for verifying that data were processed as required.

In addition, procedural and systemic weaknessess exist in error control and correction which significantly increase the risk of erroneous data entering the Department's financial records and causing inaccurate reports. Many of these weaknesses require manual controls and excessive human intervention to partially overcome them. The Department is in varying stages of upgrading its accounting systems, but central coordination and guidance are needed to ensure that sound system development requirements are met.

The Department's manual accounting controls--those established outside of the computer environment--also need improvement. Although Energy has extensive written control procedures,

they are not always followed. GAO found deficiencies in controlling and recording obligations, disbursements, receivables, and collections. Similar weaknesses were found in previous GAO reviews conducted at other Energy field offices. Adherence to the required procedures and better internal audit coverage could have prevented or detected sooner many of these problems. (See pp. 6-34.)

ACTIONS ARE NEEDED TO CURTAIL PREMATURE CASH DISBURSEMENTS

GAO's review of grant funds management at Energy's Washington office and six field locations handling the bulk of its grants disclosed inadequate attention to cash management. In the 18 months ending March 31, 1982, grantees GAO reviewed received $22.9 million before the funds were needed. Some grantees held the funds for months, and the Department did not aggressively collect interest that some grantees earned on their excess funds.

The Department has taken some action to give greater emphasis to cash management, and has followed up to recover excess funds and interest earned that GAO identified. However, cash management practices need further strengthening. (See pp. 35-46.)

PROPERTY HELD BY CONTRACTORS IS NOT ADEQUATELY MANAGED

The Department of Energy does not have an effective system for recording, managing, and disposing of Government-owned property held at contractors' facilities. While written procedures require contractors to report the Government property they hold and the purchases they have made, the procedures have not been adequately and uniformly implemented. Further, no departmental controls are in place to ensure that property information is reported or recorded accurately. This, coupled with a lack of coordination between the offices responsible for recording and administering off-site contractor property, resulted in discrepancies at three agency locations of at least $187 million between the Department's accounting and procurement records, and considerable differences between agency and contractor records. Without accurate and complete records of property held by off-site contractors, the Department cannot be sure this Government-owned property is being accounted for and used as it should be. (See pp. 47-59.)

BETTER AUDIT AND CONTRACTOR MONITORING IS NEEDED AT STRATEGIC PETROLEUM RESERVE

GAO found several areas where the contracts for construction, maintenance, and operation of the Strategic Petroleum Reserve could have been better administered. (See pp. 60-65.) For example,

--audits of several major cost-type contracts were not fully monitored to ensure adequate coverage,

--findings of some contract audits were not promptly resolved, and

--contractor procurements did not always meet requirements concerning competitive bids and fair and reasonable prices.

The Department recently asked the Defense Contract Audit Agency (DCAA)--which provides audit services to Federal agencies--to increase the number of auditors reviewing contractors' activities. DCAA officials stated, however, that certain fundamental changes must be made in the way the Department deals with the contractors before added audit coverage would be worthwhile.

HEADQUARTERS/FIELD LINES OF AUTHORITY NEED IMPROVEMENT

Throughout the review GAO found instances of field units failing to follow prescribed procedures. GAO attributes this in part to the fact that Energy's headquarters functional managers, such as the controller and procurement director, do not have the authority to control the field staff who implement their functional requirements. In a September 3, 1981, report (EMD 81-97) GAO recommended that the Department revise its lines of authority to make field staff more accountable for adhering to prescribed procedures, but the recommendation was rejected. GAO believes that the findings in this report provide further evidence why the Department should implement the recommendation as a means of ensuring that the basic financial management requirements established by the Congress, GAO, the Office of Management and Budget, and the Department are met. (See pp. 66-68.)

ACTIONS ARE NEEDED TO IMPLEMENT THE FINANCIAL INTEGRITY ACT

The Department of Energy has made efforts to improve its financial management. GAO believes the Secretary of Energy needs to make substantial improvements to enable the Department to assess the adequacy of its internal controls. These improvements will place the Secretary in a better position to report to the Congress by December 1983 on the adequacy of internal controls as required by the recently enacted Federal Managers' Financial Integrity Act (Public Law 97-255).

RECOMMENDATIONS

To help ensure proper implementation of internal controls, development of sound accounting systems, and improvement of Energy's cash and property management, GAO recommends, among other things, that the Secretary of Energy

--establish a high-level task force to address the wide range of internal control and accounting system problems and ensure that GAO's recommended corrective actions are taken;

--ensure that Department-wide cash management policies and procedures are complied with at all Energy offices administering grants. Lines of responsibility should be clearly delineated and officials held accountable for adherence to the established procedures;

--undertake a one-time project Department-wide to identify all Government-owned property held by offsite contractors, including contracts that have expired but are not yet closed out.

GAO further recommends that to strengthen the Strategic Petroleum Reserve contract administration function the Secretary of Energy resolve the disagreement between the Strategic Petroleum Reserve Project Office and DCAA regarding audit coverage and audit recommendation followups.

Additional recommendations for improving internal controls, accounting systems development, cash

Tear Sheet

and property management, and the Strategic Petroleum Reserve contract administration function are detailed in the report. (See pp. 33-34, 45-46, 59, and 65.)

Finally, GAO recommends that the Secretary establish direct lines of authority between headquarters functional managers and field functional staffs, as GAO previously recommended.

AGENCY COMMENTS

As requested by the Chairman's office, GAO did not obtain official written agency comments. Principal findings were discussed with agency officials, who said corrective actions would be taken.

Contents

ABBREVIATIONS

DARTS	Department of Energy's Audit Report Tracking System
DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administrative Service
FIS	Financial Information System
FORS	Field Office Reporting System
GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
SPR	Strategic Petroleum Reserve

CHAPTER 1

INTRODUCTION

On November 12, 1981, the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, held a hearing on weaknesses in the Department of Energy's financial controls. The hearing resulted from a Subcommittee review of a number of aspects of Energy's accounting systems, internal control procedures, and procurement procedures, primarily at the headquarters level. At that hearing, the Comptroller General testified that we were particularly concerned about problems identified by the Subcommittee in the areas of grants, contracts, property, and internal controls in general. He announced that in response to the Subcommittee Chairman's request, a GAO task force had been established to further look into these problems Department-wide.

On March 31, 1982, the Subcommittee again held a hearing on the Energy Department's accounting and internal control systems, this time to receive our interim report. The Comptroller General testified that the task force had identified continuing weaknesses in internal control and financial management, including grant and contract administration. Many of the problems previously disclosed by the Subcommittee in the Department's headquarters operation were also found in the field operations. The areas most in need of improvement included

--internal controls over collections, receivables, and disbursements;

--management of grant funds; and

--contract administration practices.

The Comptroller General concluded that the task force would continue its efforts and make recommendations to assist the Department in correcting the problems identified.

This report concludes the work of the task force.

DEPARTMENT ORGANIZATION AND OPERATIONS

The Department of Energy was established on October 1, 1977, by the Department of Energy Organization Act (Public Law 95-91). The act transferred the functions and authorities of three agencies into one. These agencies were the Federal Energy Administration, the Federal Power Commission, and the Energy Research and Development Administration. The activities of certain groups in other agencies were also transferred into the new Department of Energy. These included functions and authorities from groups within the Interstate Commerce Commission and the Departments of the Interior,

Housing and Urban Development, and Defense. The act also established the Federal Energy Regulatory Commission as an independent regulatory agency within the Department.

Among the many responsibilities the act gave to the new Department are (1) achieving effective management of energy functions; (2) planning, coordinating, supporting, and managing a balanced and comprehensive energy research and development program; and (3) developing and commercializing the use of solar, geothermal, and other renewable energy technologies. To help carry out these responsibilities, the Department makes extensive use of contracts, cooperative agreements, interagency agreements, and grants.

Energy's organizational structure consists of a headquarters and a number of field offices, many of which were associated with the various predecessor agencies. The field units include operations offices, contractor-operated laboratories, production facilities, and power marketing administrations. The eight operations offices provide the formal link between headquarters, the field laboratories, and the other operating facilities. The Strategic Petroleum Reserve (SPR) Project Office was created in response to the Energy Policy and Conservation Act of 1975. The project, initiated as a result of the 1973-74 Arab oil embargo, involves the acquisition and underground storage of millions of barrels of oil.

The Department's organizational philosophy is characterized as centralized program management and decisionmaking, and decentralized execution for both program and functional activities. In this regard, financial management activities, such as internal controls and grant and contract administration, are subject to overall policy guidance and direction from Department headquarters, but are often administered individually by the field offices.

The Department had a reported obligation authority of more than $23 billion for fiscal 1982, including reimbursements and fund carryovers from earlier years. The bulk of the funds is used for grants and contracts, through which the Department carries out many of its programs. In fiscal 1981, it reported grant and contract obligations of $14.8 billion. The large volume of contract activity makes Energy one of the largest procuring agencies in the Federal Government.

MAGNITUDE OF ACCOUNTING OPERATIONS

The Department has a large, complex accounting operation. More than 80 entities throughout the country perform accounting functions and report summary data directly or indirectly through other field units to the Department's Financial Information System (FIS). FIS was first developed under the Atomic Energy Commission, and has continued to evolve as the various successor agencies have undergone reorganization. As appendix I shows, more than 20 major accounting systems consolidate data for input into FIS. In addition, more than 50 integrated contractor accounting systems provide

data for input to FIS. The contractors account for and report on Energy funds and the cost of operations under their contracts, in accordance with Energy accounting systems and procedures, and their accounts are integrated with the Department's. The contractors' accounting data are generally input into FIS through an electronic communications network. It is therefore somewhat misleading to refer to "the Department of Energy accounting system" because the accounting operation comprises numerous individual systems spread throughout the country.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our overall objective was to assess the Department's effectiveness in key areas of financial management, considering

--the diversity of the Department's activities and geographic locations and

--work already completed or underway by other GAO audit groups.

We chose to examine (1) internal accounting controls in general, (2) cash management over grant programs, (3) management of Government property held at contractors' facilities, and (4) the audit and closeout of expired grants and contracts. Because the Strategic Petroleum Reserve project represents such a huge Government investment, we also performed a limited evaluation of the project's contract administration, focusing primarily on the audit function. The large number of Department field units prohibited audit work at every office. The selection of locations for review was guided primarily by the magnitude of each field office's operations and the need to avoid duplication of ongoing audits. The review was performed in accordance with our current "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

Internal controls

We reviewed internal controls at headquarters and the Albuquerque, Chicago, and San Francisco Operations Offices and the Office of Washington Financial Services. The latter, although located in the Washington, D.C., area, acts in many ways as an operations office and is treated as such for purposes of discussion. References to the Albuquerque office in the report include the results of our work at the Los Alamos National Laboratory, which is under the jurisdiction of the Albuquerque Operations Office. Our reviews included the automated accounting systems at the four major locations, as well as the departmental Financial Information System. We also followed up on the findings of our earlier report 1/ on internal controls at the Oak Ridge and

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1/"Weaknesses in Internal Financial and Accounting Controls at the Department of Energy Accounting Stations," AFMD-81-106, Sept. 17, 1981.

Savannah River Operations Offices, Pittsburgh and Schenectady Naval Reactor Offices, the Clinch River Project Office, and the former Altanta Regional Office (now a support office).

We based the internal control evaluation on our guidelines designed to identify potential control problems, including the relative risk of unreliable data being processed by the automated accounting systems, and on interviews and discussions with accounting officials. When responses indicated potential weaknesses, we judgmentally selected transactions to determine if the weaknesses existed.

Cash management

Our primary objective in reviewing cash management was to determine whether the Department was effectively conforming to Treasury requirements and limiting the amounts of unneeded Government funds held by grantees. We examined the Department's cash management policies and procedures for grants and determined whether it was (1) establishing appropriate payment provisions at grant inception, (2) monitoring payment request and drawdown documents and periodic financial reports for evidence of excess cash being held by grantees, and (3) taking appropriate action when excess cash was identified. We also sought to determine on a Department-wide basis the extent to which payments were being made prior to grantees' immediate cash needs. This problem was first identified by the Subcommittee in a review of grants, primarily at headquarters.

We examined grants at six field locations--the Chicago, Oak Ridge, and San Francisco Operations Offices and the Atlanta, Dallas, and Kansas City Support Offices--as well as Washington, focusing primarily on active grants with relatively large dollar values. The type of information we reviewed at each location varied because of differences in level of grant activity, type of payment method, and amount of recordkeeping. Appendix II explains the selection criteria.

We reviewed applicable Energy, Treasury, and Office of Management and Budget (OMB) documents on grant administration and cash management; interviewed appropriate Energy procurement and finance officials to ascertain their cash management duties and responsibilities both agencywide and at each location; and examined individual grant and payment files to determine the adequacy and completeness of the financial data and look for evidence that the Department had been monitoring grantees' cash balances. We also talked to selected grantees to gain their perspective on dealing with the Department, verify some of the data they had reported, and discuss their understanding of their cash management responsibilities as conveyed by the Department. To determine whether grantees had excess cash, we compared periodic costs incurred and cash-on-hand reports from the grantees with other records of the cash the grantees received from the Department. We characterized as excess cash those amounts received that, according to data in the files, were not necessary for the grantees' immediate cash needs based on Treasury and Energy regulations.

Property

In reviewing property management, we sought to determine whether systems were in place to effectively manage, control, and account for Government-owned property held by offsite contractors. We were primarily concerned with property defined by the Department as capital equipment, which is non-real property with an acquisition value of $500 or more and an expected service life of more than 1 year. In our review, we

--discussed with responsible field and headquarters officials their property management and accounting practices;

--reviewed agency and contractor semiannual property reports; and

--examined the property management practices of judgmentally selected offsite contractors, including their acquisition, accounting, and reporting methods.

We performed our work at headquarters, at the Albuquerque, Chicago, Oak Ridge, and San Francisco Operations Offices, and at 27 contractor sites under the jurisdiction of those units.

Audit and closeout of grants and contracts

The objectives of the last major segment of our review were to

--determine the adequacy of the Department's procedures for closing out expired grants and contracts and

--evaluate the Department's effectiveness in recovering disallowed costs and resolving the other findings disclosed by audits of grants and contracts.

We reviewed files of selected grants and contracts to determine compliance with departmental closeout regulations, how long the instruments awaited closeout, and how complete closeout processes were relating to property disposition and final audits. We also examined records of unresolved audit findings and interviewed cognizant Department officials. This work was conducted at headquarters and at the same field offices covered in our property management review.

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As agreed with the Chairman's office, we did not obtain formal written agency comments. However, we presented our principal findings to officials at each of the field locations and also discussed them with headquarters officials. Their comments and our evaluation of those comments are included in this report where appropriate.

CHAPTER 2

INTERNAL CONTROLS AND ACCOUNTING SYSTEMS SHOULD BE STRENGTHENED

Both the automated and manual accounting system controls at the Department of Energy headquarters and the four field offices we reviewed need improvement. Although the type and severity of the weaknesses vary by location, we found significant control problems at each. Based on this and earlier reviews, we have no assurance that similar weaknesses do not exist at other Energy offices. Because of these weaknesses, we could not assure ourselves of the reliability of the data produced by the Department's accounting system.

By law (31 U.S.C. 66a) agency heads are required to provide effective controls and accountability over all funds for which they are responsible. Many of the automated data processing systems reviewed are old, poorly documented, and/or not flexible enough to respond to changing financial reporting requirements. In addition, they often lack some of the key controls necessary to ensure accurate and timely processing of accounting data. Efforts are underway to improve existing automated systems or develop new ones at the various locations. However, better management and coordination among all offices and headquarters are needed to avoid duplication of effort, ensure sound development of systems, and minimize costs.

To compensate for the weaknesses in the automated systems and help ensure data processing integrity, extensive manual controls have been implemented. These mean inefficient operations because of the additional time and expense they require. In addition to the data processing deficiencies, we found several weaknesses in the manual controls over major accounting functions, including obligations, disbursements, receivables, and collections. We also found that internal audit coverage has been inadequate and most of the Department's accounting systems have not been submitted to the Comptroller General for approval. The deficiencies we noted in controls over cash and property are discussed in the following chapters because of their relationship to grant and contract administration.

Internal controls are necessary to provide management with reasonable assurance that

--financial and other resources are safeguarded from unauthorized use or disposition;

--transactions are executed in accordance with authorizations;

--financial records are accurate and reports are reliable;

--applicable laws, regulations, and policies are adhered to; and

--resources are efficiently and effectively managed.

An adequate system of internal controls has long been recognized as an indispensable part of sound financial management.

In reviewing the Department's internal controls, we did not attempt in all cases to determine whether the weaknesses identified resulted in financial discrepancies. However, internal controls are preventive as well as detective in nature and should be implemented regardless of whether actual losses or inaccuracies have occurred. This principle is implicit in recent actions taken by the Reagan Administration and in the Congress. In October 1981, the Office of Management and Budget issued Circular A-123 requiring all agencies to maintain adequate financial control systems and periodically assess their effectiveness. In addition, the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255) requires a written statement by agency heads attesting to the effectiveness of their agency's internal controls.

AUTOMATED ACCOUNTING SYSTEM CONTROLS NEED IMPROVEMENT

The data processing systems at all locations reviewed need major improvements to correct internal control weaknesses. Many weaknesses identified require inefficient manual controls and excessive human intervention, and reduce the effectiveness of the Department's financial reporting system. As a result, there is a high risk of data not being accurately and reliably processed. The absence of various controls to insure data accuracy and system reliability include

--poorly documented and inflexible systems,

--inadequate processing and security procedures, and

--inadequate audit trails.

These problems can be partially attributed to (1) old systems being adapted to meet changing requirements and (2) design deficiencies caused in part by past poor design practices. Energy is in varying stages of revising its systems to make them more efficient and improve controls.

The Department's system can be viewed as a number of decentralized divisions or branch offices with different and unique accounting systems reporting to a central office in a standardized format. As shown in appendix I, numerous entities perform one or more of the basic accounting functions and report summary data directly or indirectly to the departmental Financial Information System. The present system was developed for the Atomic Energy

Commission in the late 1960s, and has gone through many changes to accommodate significant growth in the scope of the organization for which it is now accounting.

Department-wide accounting system controls should be strengthened

We identified control deficiencies in the Department's Financial Information System. For example, procedural and system design weaknesses in error control and correction significantly increase the risk of erroneous data updating the permanent accounting records causing inaccurate reports. Although the Department has improved controls in this area, weaknesses still exist. The FIS documentation also needs improvement to ensure proper control over computer processing and appropriate interpretation and use of system reports. Compounding these problems is the fact that misclassified accounting data input from field offices may go undetected.

FIS is the single source for an overall financial picture of the Department, and produces numerous internal and external reports. Internal reports are produced for managers to use in monitoring obligations, cash balances, and budget variances, for example. External reports are for reporting to Congress and other Federal agencies, such as the Treasury and OMB. Despite the absolute necessity for the accuracy of FIS reports, controls to ensure timely processing and accurate reporting of accounting data are inadequate.

Poor system design weakens control over erroneous data

One major control weakness in the FIS general design makes it difficult to effectively control and monitor errors detected during processing. Erroneous data, even though detected, are accepted by the system for updating the Department's financial records. Properly designed automated systems should adequately control and monitor errors by: (1) preventing erroneous data from freely entering the system, (2) monitoring the status of error corrections across processing cycles, and (3) requiring explicit user action if a bona fide need arises to allow specific rejected data to enter the system's permanent records.

A common control technique that addresses this FIS design weakness is an error suspense file. All transactions determined to be in error by automated checks would be rejected from further processing and automatically controlled by being routed into the suspense file. The rejected data would be held in that file unless specific action was taken through transaction corrections or system overides to allow the data to update permanent records. The suspense file also would provide a basis for monitoring the status of rejected data and allow periodic analyses. Managers would then have the information they need to improve FIS processing by holding subordinates accountable for unacceptable delays in correcting data.

Weaknesses in error correction

FIS has computer programs that check data submitted by field units to ensure that certain criteria, such as valid accounting classification codes, are met. To expedite the process, the headquarters staff routinely corrects detected errors. For adequate controls we believe that all correction documents should have evidence of proper authorization and processing. We examined selected error correction documents for 3 months during fiscal 1981 and found inconsistencies in the correction procedures. For 2 months, we found instances where the error correction sheets prepared at headquarters did not show who authorized or prepared them. In addition, not all sheets showed that the corrections had been put into FIS. However, we found none of these deficiencies in the third month. To ensure the reliability of accounting data, the Department should require error corrections to be consistently and properly documented.

Early in our review, we also found that one of the FIS computer programs for editing (checking) the validity of accounting classification codes was being run after the permanent records were updated and the monthly accounting reports distributed. This practice can lead to erroneous data being left in the system uncorrected. We were later told by Department personnel that the procedure had been changed and all edits were being performed on transaction input data prior to updating the permanent records.

Failure to control accuracy and completeness of input data

We found that prescribed controls for ensuring the accuracy and completeness of data submitted for FIS input were not always followed. The Department's accounting handbook requires reporting units using telecommunications or magnetic tape to include trailer records with their monthly FIS input. Trailer records contain control totals, such as total debits, total credits, and record counts to ensure that data transmission is complete and accurate. However, we found that in one submission report nearly half of the reporting units did not comply with the requirement. Department personnel said that trailer records were unnecessary because of the high reliability of the data transmission system. However, we believe trailer records are necessary to verify that data were received as the sending units intended and to help establish the reliability of the data transmission system.

We also found that budget data entering FIS is not adequately controlled. We were told that, on at least two occasions, incorrect magnetic tapes containing budget data were inadvertently processed, resulting in erroneous reports. Tapes should carry internal labels that the system can compare with anticipated identifiers to ensure that the correct tape is processed. We were later informed by Department personnel that some, but not all, budget tapes now contain internal labels that are checked before processing.

Need for better documentation of FIS

Documentation describing FIS processing procedures and report content is not adequate. As a result, data processing problems may go undetected and financial reports may be misinterpreted. Documentation is a written description of the operations of an automated system and is essential to the system's proper utilization. Adequate documentation is also necessary to facilitate system audits and interpretation of reports.

The operation of FIS requires the proper execution of a complex sequence of automated tasks, which in turn requires knowledge of detailed information on such things as the sequence of computer programs and data files to be used. We found that the systems analysts had delegated this responsibility to an accounting technician. The technician was also responsible for reviewing highly technical system job logs to ensure that no problems occurred during processing. Because the system documentation did not include written instructions, the technician had to rely on oral directions. To provide sound control, oral instructions should only supplement written documents, rather than serve as the primary means of instruction. Otherwise, the possibility increases that processing problems will go undetected. The result could be erroneous reports and reprocessing of data with corresponding report distribution delays and operational inefficiencies.

We were told by Energy officials that FIS reports are generally difficult to understand. Therefore, we reviewed documentation covering the standard FIS reports and found that it does not meet the Federal Information Processing Standards Publication (FIPS Pub.) 38, "Guidelines for Documentation of Computer Programs and Automated Data Systems." This guidance recommends that report documentation should include for each information item a definition, data source, and any unusual characteristics affecting its interpretation. Although FIS documentation gives examples of reports, the user must determine the exact meaning of the report's contents. We believe better documentation would enhance the usefulness of the FIS reports to existing and potential users.

Inaccurate data sent to the central system

At all field locations visited we found erroneous accounting information had been submitted to FIS. In some cases FIS detected the errors; in other cases it could not. Regardless, the types of errors we found should have been detected and corrected at the field office before being sent to FIS. We believe it unreasonable to expect FIS to detect all the types of errors we identified.

All locations sent misclassified obligation information to FIS because of coding errors. FIS detected these errors only because the location had obligated funds in excess of its authorization for specific budget categories. Had these errors been associated with

budget categories that had adequate funds, FIS would not have detected them since they would have appeared valid to the system. Even though FIS identifies transactions that do not meet certain requirements, it is up to the field office to determine the specific reasons and initiate the necessary corrections.

We found the following examples of erroneous entries that cannot be detected by FIS:

--At San Francisco, obligations were improperly recorded as costs even though the goods or services had not been received. This applied to purchase orders, university contracts, and small grants, and resulted in the overstatement of costs reported to FIS. Further, this is not in accordance with departmental policy.

--At Washington, incorrect accounting information was transmitted to FIS. According to the Department's accounting principles and standards, long-lived property costing over $1,000 should be capitalized as an asset in the accounting records and depreciated over its useful life. Despite this requirement, computers costing about $1.1 million were purchased and recorded as current expenses. When we brought this matter to the Department's attention, we were told that action would be taken to correct the accounting records.

--At all locations visited, dual accounting records, both automated and manual, were maintained. Washington and San Francisco had unreconciled differences totaling more than $5 million between their manual records--considered the most accurate in Washington--and their automated records--those reported to FIS. Although officials at the locations told us the two sets of records were reconciled, the over $5 million in differences was not detected by that process. The officials said the records would be reconciled.

At Albuquerque, the audit trail was not sufficient to foster independent verifications of the accuracy and completeness of the accounting for all transactions. The accounting personnel routinely made undocumented changes to accounting information which is normally provided by program personnel. If done improperly, such changes could lead to inaccurate financial statements. The codes are important because they enable the Department to classify costs by program and determine whether actual expenditures are in accordance with congressional intent. The accounting officials said program personnel frequently entered erroneous accounting data on disbursement documents submitted for payment. Rather than returning the documents for correction and possibly delaying payment, the accounting personnel stated they routinely change the data before entering it into the automated system, and the source documents may or may not be changed to reflect what was actually entered on the computer records. The way the automated system summarized data precluded us from verifying the accounting official's assertions that

correct data were always entered. More important, the Department cannot readily assess whether correct data were always entered.

Inadequate documentation reduces control in field systems

We found system documentation to be generally inadequate at the four field locations reviewed. Each location we reviewed had its own unique accounting system and documentation was either unavailable or incomplete for many of them. One reason for this is that the systems have been revised over the years but the changes have not been properly documented. As previously mentioned, adequate documentation is necessary to (1) explain how complex sequences of automated tasks are executed, (2) understand the system's operation, (3) properly interpret system reports, and (4) facilitate efficient operations, audits, and other system checks and modifications. Good documentation increases the ease and accuracy of system maintenance and provides the basis for evaluating internal controls in the system.

The Albuquerque office revised its system in 1979 to replace manual posting machines, and most documentation requirements were bypassed since the revised system was intended to be temporary. Examples of documentation that was either not prepared or inadequate include user and data requirement documents and test results. Moreover, the system was not fully tested before implementation because of time constraints. An automated system should be fully tested, according to a plan prior to implementation, to ensure accurate and reliable processing. According to FIPS Pub. 38, the plan should contain detailed specifications, descriptions, and procedures for all tests, including test data reduction and evaluation criteria. In addition, a test analysis report should be prepared to document test results, present demonstrated capabilities and deficiencies for review, and provide the basis for a statement of the system's readiness for implementation. To minimize the risk of implementation failure and associated disruption to operations, users should insist that a system be thoroughly tested and certified as to its fitness for implementation.

At the Washington office, the general ledger system documentation has not been adequately updated for several years. Adequate documentation did not exist during our review for a key computer program crucial to general ledger processing. This program takes a single transaction and converts it into formal accounting entries. Because it has been modified many times and the changes have not been documented, the program is very difficult to understand even for analysts familiar with it. Lack of current documentation makes the system's audit trails very complex and difficult to follow, thereby diminishing the potential benefits of this control technique.

Computer processing controls and security procedures vary widely

Most of the locations reviewed had a number of inadequate processing controls and security procedures, with wide variances in the types of weaknesses among locations. Data processing controls help ensure the accuracy, completeness, and timeliness of data whil it is being processed by the computer. Of particular importance are controls over files and other systems that interface with one another. Further, controls over computer processing should be documented in written procedures.

At Albuquerque, we found that:

--Predetermined manual control totals, record counts, and run-to-run totals were not compared with data processing totals to ensure that all of the data were processed.

--Financial edit tables were poorly controlled. Undocumented changes were frequently made by several financial personnel. It was not possible to independently identify persons making changes or the frequency and nature of changes.

--Mass changes were made to principal computerized financial files without documenting the nature of the changes.

--Audit trails were inadequate. Transactions after entry coul be deleted or corrected without detection or notification.

--Automated edits and controls to prevent updates with erroneous data were routinely bypassed.

--Error corrections, except for some spot checks, were made without supervisory review.

--The input-output control branch did not examine financial data for completeness.

At Chicago, we found that:

--Label checking techniques were not used to process financial files on magnetic tapes. As previously mentioned, this can allow processing errors to occur.

--Tape library procedures were inadequate to control the issuance and storage of financial data.

--Computer programs were modified and placed into production without testing. Testing is necessary to ensure that change programs will perform properly without, for example, destroying financial files.

--Documentation over computer programs was inadequate, making the system difficult to maintain and increasing the risk of processing errors.

Collectively, such weaknesses create a high risk that data will not be processed accurately, completely, and reliably.

We also found several security procedure deficiencies at the Chicago office. For example:

--Safeguards were not adequate to prevent unauthorized disclosure, alteration, or destruction of data or damage to equipment.

--Unauthorized personnel were permitted in the computer room.

--Security over access to computer terminals was inadequate.

In addition, the Chicago and San Francisco offices had not performed a recent security analysis. OMB Circular A-71, Transmittal Memorandum No. 1, requires that each executive agency periodically conduct a risk analysis on the security of its computer center. Chicago plans to perform its risk analysis in January 1984. This target date was established after headquarters requested the office's timetable for complying with the OMB circular. The timing of this late action is significant because (1) the OMB requirements were set forth in July 1978 and (2) a Department order in March 1979 required this timetable to be established much earlier and for the location to have already started its review. Many of the problems we found could have been disclosed earlier, had the analysis been performed.

Extensive manual controls should be minimized

All locations visited relied on extensive manual systems and controls to help ensure data accuracy and reliability. Many of the manual controls utilized to compensate for computer system weaknesses could be automated. This reliance on manual controls places a greater emphasis on detective rather than preventive controls. Although both types of controls are needed, we believe proper preventive controls are more efficient in avoiding errors, fraud, and abuse. Manual controls that could be automated are generally less efficient, consistent, and effective than properly designed and implemented automated controls.

At one location, where the automated data are considered unreliable, a system of manual controls is used to verify and ensure that reporting is accurate. For example, one principal control used is a manual reconciliation of the automated accounting system data to manually prepared schedules of disbursements and collections using numerous computer reports. Also, a computer-generated listing of unpaid obligations is manually compared to contract payment files. An official estimated that 50 percent of one staffperson's time was spent reconciling the automated records to manual records. The system designer stated that system accuracy was achieved only through the manual checks.

Another location also depends heavily on manual controls to compensate for weaknesses in the automated system. For example,

when voucher examiners process an invoice they are supposed to, among other things, (1) reconcile the information contained in the contract file to the information in the automated records, (2) use the manual records in the contract file to determine if funds are available to pay the invoice, and (3) review information in the manual file to detect potential duplicate payments. After the initial review is performed, the voucher examiner's work is reviewed by two other people before payment is scheduled. When an invoice is scheduled for payment, one person performs the scheduling function while another verifies the information and uses manual records to recheck fund availability. A good automated system would (1) eliminate the need for extensive manual checks, therefore significantly reducing the time and money spent on these tasks, and (2) ensure that implemented controls are consistently followed. As discussed below, manual control procedures were not always followed.

Documentation and coding deficiencies significantly reduce system auditability

Although most locations had audit trails, they were difficult to follow and significantly reduced the system's auditability. An audit trail allows the path of a transaction or other activity to be traced to ensure that proper processing procedures were followed. This information is essential not only for auditors; it also provides management with a useful control tool. However, the audit trails we encountered were inadequate. They were either very difficult to follow, not fully documented, or both.

At the Washington office, audit trails existed that would allow an accounting entry to be traced to its source documentation and to all other related entries. However, the trails were very cumbersome and consisted of many time-consuming steps. Further, it is extremely difficult and, in some cases, not possible to identify specific types of transactions in the automated files. For example, the same transaction code was used for several different types of disbursement transactions, for current and prior year corrections to disbursement transactions, and for reallocation of disbursements between budget codes. Obligations had a similar problem. The same transaction code was used for obligations, deobligations, corrections, and adjustments. Thus, it was extremely difficult to determine from the automated records reliable data on the number and amount of such transactions. This information is essential to provide an adequate audit trail and allow differentiation among types and frequency of transactions for control purposes.

We found it difficult to follow audit trails at three of the four locations reviewed. As a result, there was no assurance of the reliability of the data.

Management of automated systems development needs improvement

All locations visited have identified weaknesses in their automated financial systems and are in various stages of improvement, with some locations planning to obtain new systems. However, we

found several locations were not following common system development practices. Strong management controls are needed during system design, development, and modification to ensure that systems (1) meet user requirements, (2) are economically developed, and (3) include appropriate internal controls. We believe the Department should require all locations to follow proper system development steps to avoid repeating past mistakes.

Numerous studies indicate FIS design weaknesses and difficulty meeting user requirements

Since the Department of Energy's creation in 1977, numerous studies have documented that FIS has both system weaknesses and continuous difficulties in meeting user needs. Recently, the Department began still another effort to determine if FIS is satisfying user requirements. Several attempts have been made to initiate a redesign of FIS to effectively support headquarters and program management financial information needs. However, the Department has been unable to follow through with a complete system development program.

In 1977, a consulting firm evaluated the FIS edit and validation procedures to determine the adequacy of system controls over rejected and erroneous transactions. The conclusion reached in the draft report was that the FIS system design did not provide adequate control over rejected or erroneous transactions affecting financial files. Although the consultant recommended minimal system modifications necessary to provide adequate controls, the changes would not improve edit processing inefficiencies. The overall recommendation was that, because of the possibility of developing a new financial system in the immediate future, the existing edit system should not be drastically revised at that time.

In 1979, a second consulting firm reviewed FIS to identify enhancement or redesign needs. Replacement reports were recommended for all FIS reports being produced at that time. Also, procedures to improve the quality, timeliness, certifiability, and usefulness of financial data available at headquarters were recommended. It was recognized that the number of new or significantly changed reports suggested the need for major enhancement or redesign of FIS. Regarding the FIS edit processing, careful consideration was to be given in the redesign to improving error detection and handling techniques for the data being input. This consultant also identified new data requirements not being collected at that time by any headquarters system.

In 1980, a followup report was issued which documented the procedures used within the branch that operated FIS and evaluated the reports being processed by that branch. This study noted several weaknesses, including (1) internal reports were usually too late to be useful for management decisions; (2) certain external reports, which contained data of possible use by Energy management, received only limited internal distribution; and (3) some users were unaware of the information available from FIS.

In 1981, a third consulting firm reviewed the functions within FIS. It was noted that, although FIS performs important agencywide accounting and financial reporting functions, no formal user requirement studies could be found for the system. Developed late in the 1960s to account for the operations of the Atomic Energy Commission, the system had been retained as a financial system through the Commission's evolution into the Energy Research and Development Administration and thence into the Department of Energy. The overall conclusion was that certain current users needed FIS reports earlier in the month. Steps were recommended to speed the processing and distribution of reports.

Although they have made some improvements after those studies, the Department has not followed through with a complete systems development effort.

User requirements are critical to the system development process

Determining data requirements is an important step in developing, expanding, or modifying an information system. If full participation of the system's current and potential users is not obtained, it is likely that the system will not produce complete and otherwise acceptable information for the users. The user requirements analysis defines the needs to be fulfilled and objectives to be met by the proposed system. It is critical to the development effort because it directs subsequent activities. These include: conceptual system design; feasibility study; cost-benefit analysis; system analysis, design, programming, and testing; and procedures preparation. We found that two field offices, Albuquerque and Chicago, were moving to replace their existing automated accounting systems. A third entity, the Department's Federal Energy Regulatory Commission, had already obtained a system and was modifying it for implementation. However, according to agency officials, none of these locations had performed a current user requirements analysis, which, as stated above, is a fundamental step for a successful system development effort. This analysis should result in a functional requirements document as described in the FIPS Pub. 38 guidelines for documenting automated systems. Because of the approach taken so far, we believe these system development efforts within the Department carry a high risk of failure.

Poor system development practices are evident in past experiences

Energy has a poor record in developing Department-wide automated systems. In May 1981, we reported that the Department had spent many years and millions of dollars trying to develop an automated system to support regulation of the energy industry. 1/ This

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1/"Millions Wasted Trying to Develop Major Energy Information System," AFMD-81-40, May 15, 1981.

effort was not successful due in part to the system development approach used. As required by the Department's organizational act, the Professional Audit Review Team conducts annual audits of the Energy Information Administration. In May 1982, they reported that certain user requirement studies had serious shortcomings and a systematic approach was needed to identify user needs in the development of new data systems. 1/ More recently, we reported that the Department's procurement management information system (1) did not meet user requirements, (2) had exceeded original cost estimates by 350 percent, and (3) may not be effective in meeting future needs. 2/

We found similar examples of poor system development practices at Energy's field locations. At the Washington office, two accounting subsystems required about 2 years of additional work after implementation to meet user requirements. A third subsystem never became fully operational. The cost of the additional development effort was not readily available because of inadequate records. The Washington office is now developing an automated accounting system; this time it appears to be following the proper systems development approach. The Department should make sure that adequate guidance and assistance are provided to Washington's development effort to minimize the risk of failure.

We found another example of poor system development practice at the San Francisco Operations Office. This field location has been developing for several years the Field Office Reporting System (FORS). FORS was originally conceived by Energy headquarters as a model system that could be adopted easily by various field offices. It was designed to perform accounting, budgeting, procurement, and other support functions. We were told the design of FORS was poorly handled--intended users were not adequately involved and differing procedures and activities of the various field offices were not sufficiently addressed in considering user requirements. As a result, FORS evolved into a system highly tailored to San Francisco's needs. Interest in FORS has revived recently; the Federal Energy Regulatory Commission is adopting it and other field locations are considering it. However, we found internal control weaknesses and implementation problems that should be pointed out to potential users. As discussed below, the Department should give special attention to the potentially wide distribution of FORS.

1/"Performance Evaluation of the Energy Information Administration, Department of Energy," PART-82-1, May 19, 1982.

2/"The Department of Energy's Procurement Information System: Expectations Have Not Been Realized," GAO/EMD-82-113, Sept. 3, 1982.

Special attention is needed when sharing existing systems

We believe that the concept of designing FORS as a pilot system and then exporting it to other users requires a high level of central coordination and direction and user involvement. Central coordination and direction are needed to ensure that potential users understand completely, beforehand, (1) the requirements they hope to meet through an automated system and (2) the system's limitations and implementation problems. This will minimize the risk of an office importing a system that cannot effectively and efficiently meet its needs. We identified the following internal control weaknesses in FORS:

--Documentation was incomplete for most system modules. Adequate documentation is needed to properly operate, maintain, and control an automated system.

--Terminal access controls are weak. They may not prevent unauthorized access to the system.

--System password protection is inadequate because users cannot independently control their passwords.

In addition to the above system weaknesses, we identified the following implementation problems that potential users should expect and plan for:

--Certain data input methods are not in compliance with departmental policy. For example, for some types of transactions, FORS records obligations as costs prior to receipt of goods or services. Also, at the time of our review, FORS could not record advances as assets. After bringing this to San Francisco's attention, an official stated advances would be recorded correctly.

--Edits cannot be easily modified to meet changing requirements because edit criteria are permanently coded within computer programs.

--The system is essentially hardware-dependent. Only with extensive conversion effort can FORS operate on a computer other than the one for which it was developed.

--Significant and lengthy technical training may be necessary to install and operate FORS. Users told us that their programers and analysts required 6 months to obtain a working knowledge of the FORS computer system environment.

--Extensive computer program modification may be necessary to meet local needs. At a minimum, new users will have to revise computer programs to remove all references to San Francisco. Also, additional data input methods may have to be programed to meet local accounting procedures.

--The data base must be loaded initially with accurate and complete financial information. According to Energy officials, many of San Francisco's accounting problems stem from the loading of erroneous data at the beginning of the FORS operation.

--Although one of the four major modules has been developed, San Francisco had not implemented it at the time of our review. Consequently, potential users may be adopting at least one unproven system component.

Also, we believe other issues will need to be resolved if FORS is adopted by other field offices. For example,

--Who will maintain FORS as it is currently designed for all user locations?

--Who will develop new modules as additional requirements arise?

--Who will determine which aspects of FORS should be kept frozen as the field office standard?

Better management needed to control systems development

The Department recognizes that organizational and procedural problems have hindered its past efforts to fulfill a central Energy oversight role. In December 1981, it reorganized to better address these problems. Oversight responsibility--formerly assigned within the Office of the Controller--was shifted to the Office of ADP Management, an office which has had responsibility for ADP hardware resources. This elevated the systems development oversight role organizationally and combined it with the closely related hardware function. However, the Office of ADP Management has made little progress toward meeting its new responsibilities.

As of late July 1982, the Office of ADP Management had not issued revised departmental orders for systems development policies and procedures. Also, an agency official stated that draft orders were not available for us. In addition, we found that the office has not played an active role in the efforts to implement San Francisco's system at other field locations or in the development of the Washington office's new accounting system. As discussed earlier, many problems should be addressed before FORS is allowed to spread throughout the Department. Although the Washington office has followed good practices in its current accounting system development effort, strong oversight is needed to make sure this continues and to avoid repeating past mistakes.

MANUAL CONTROLS NEED IMPROVEMENT

Manual internal controls refer to those safeguards established outside of the automated environment that help ensure accounting

accuracy and protect assets. Although the Department's stated manual control procedures were generally adequate they were not always followed. The control deficiencies reduce the reliability and effectiveness of the Department's financial reporting system and may keep the Department from achieving effective fund control and accountability as required by statute. The specific control weaknesses vary by location and fall into four broad areas: obligations, disbursements, receivables, and collections.

Obligations should be properly executed and promptly recorded

Obligation controls at three locations need improvement. These locations had weaknesses in documenting, recording, and/or monitoring obligations which could cause inaccuracies in the Federal Government's financial records and statements and possibly allow improper and illegal expenditures.

Obligations specify the amounts of orders placed, contracts awarded, services rendered, or other financial commitments made that will require cash outlays during the current or some future period. In our Policies and Procedures Manual for Guidance of Federal Agencies we emphasize that (1) agencies must determine that funds are available before committing the Government to an obligation and (2) obligations must be promptly recorded in agencies' financial records. These measures, which are incorporated in the Department's regulations, are necessary because:

--Failure to record an obligation can lead to overobligation of funds, which is specifically prohibited by the Anti-Deficiency Act (31 U.S.C. 665).

--The Department depends on the information recorded in the financial records to determine if funding ceilings have been exceeded. If an obligation is not recorded, this vital control is negated.

The San Francisco office did not consistently verify that funds were available before incurring obligations. More than 50 percent of the first-quarter fiscal 1982 transactions sampled did not have funds certified as available until after the obligation was incurred. This problem was also seen at the other locations, but to a lesser extent.

Obligations were not recorded when incurred

Three of the locations did not prepare obligation documents until after they had allowed contractors to incur the expenses. For example, in Washington we found that payments totaling more than $200,000 were made to a contractor for work performed prior to the preparation of obligation documents. An additional $599,000

in payments of this type were identified in San Francisco. This practice, known as predating contracts, was disclosed in one of our earlier reports on the Department. 1/

We also found that two of these three locations were not promptly recording other obligations, even though proper documents had been prepared. For example, in Chicago approximately 20 percent of the obligations during the first 4 months of fiscal 1982 were not recorded until a month after the obligation documents were prepared. Officials said the main reason was breakdowns of the automated funds control system during the first 3 months of the fiscal year.

Obligations should be reviewed for validity

Our manual (7 GAO 17.3) requires that unliquidated obligation documents--those on which full payment has not been made--should be reviewed at the end of each fiscal year. This review should (1) establish the validity of recorded obligations, (2) determine the continuing validity of older obligations, and (3) determine whether recently recorded obligations are valid. This requirement is based on 31 U.S.C. 200, which specifies that any financial statement submitted to the Congress should include only valid obligations. In addition, Energy's Controller instructed all field offices in March 1981 to review their unliquidated obligations--about $9 billion worth--to determine if they were still valid and, if not, to deobligate the unneeded funds. Until this memo was sent out, two locations we visited had not effectively reviewed their unliquidated obligations as required.

The San Francisco office began reviewing its unliquidated obligations shortly after our review began and was able to deobligate over $500,000. A review requested by headquarters in May 1982 pursuant to an earlier request by OMB identified an additional $600,000 that could be deobligated. It is important that the Department regularly review its unliquidated obligations because:

--Most of the Department's appropriated funds are available until expended. Therefore, any such funds deobligated can be used for other program purposes.

--Management and outside parties, such as the Congress, are provided with better information on the Department's true liabilities and the amount of funds committed to specific programs.

1/"Unauthorized Commitments: An Abuse of Contracting Authority In The Department of Energy," EMD-81-12, Dec. 4, 1980.

Apparent Anti-Deficiency Act violations should be promptly resolved

The Anti-Deficiency Act (31 U.S.C. 665) prohibits obligations or expenditures in excess of appropriations. The Department subdivides its appropriations into several allotments for different organizational units to control, which is provided for in the Act. Unless extenuating circumstances exist, the Department considers any actual obligation in excess of an allotment to be a violation of the statute. Violations are to be reported immediately to the President and the Congress. Although a number of apparent violations were identified for fiscal 1980 and 1981, at the time of our review the Department had yet to resolve all of them and determine whether actual violations had occurred.

The apparent overobligations identified by the Department for fiscal 1980 and their status as of July 1982 are shown below.

Fiscal 1980

	Total No.	Resolved No.	Resolved Amount	Unresolved No.	Unresolved Amount
Overobligation of appropriations	1	1	$ 55,467	-	-
Overobligation of allotments	19	17	9,605,287	2	$341,653
Total	20	18	$9,660,754	2	$341,653

Four of the resolved cases--the appropriation overobligation and three allotment overobligations for $437,738--were determined to be actual violations. At the time of our review, Energy planned to report these four cases in September 1982. The other resolved cases were found to be accounting or other type errors. The fiscal 1981 cases and their status as of July 1982 are:

Fiscal 1981

	Total No.	Resolved No.	Resolved Amount	Unresolved No.	Unresolved Amount
Overobligations of appropriations	4	1	$510,422,027	3	$1,299,984
Overobligations of allotments	15	3	4,788,671	12	3,927,306
Total	19	4	$515,210,698	15	$5,227,290

The resolved cases were attributed to accounting errors. These figures should not be compared to the fiscal 1980 statistics, which represent only those cases existing at the end of that fiscal year. Because the necessary reports were not readily available, we could not determine how many cases occurred during fiscal 1980 but were corrected by reallocation of funds or other means. The fiscal 1981 statistics, however, reflect all cases identified during the year.

The Department's slowness in investigating and resolving apparent violations is contrary to the Anti-Deficiency Act requirements as well as those of revised OMB Circular A-34, "Instructions on Budget Execution." Both require that violations be reported immediately. A system of prompt resolution is essential to allow management to determine whether actual violations occurred, identify the causes of any violations, and notify the Congress of spending problems. During our review, Department officials said they would give greater emphasis to resolving the apparent violations and that determinations should be made on the remaining cases by the end of calendar 1982.

Better controls are needed over disbursements

The Department's disbursing operations did not always meet GAO, Treasury, or even its own requirements for ensuring the propriety, accuracy, and legality of disbursements. As a result, disbursement activities did not conform to sound cash management practices, and Federal funds were exposed to loss, misuse, and inaccurate accounting. Again, the problems varied by location and frequently occurred because established controls were not followed.

Disbursements were not timed

Generally, none of the offices we visited timed their disbursements to coincide with invoice due dates. Many payments were made too late or too early, which can unnecessarily increase the Government's operating costs.

Treasury and Energy directives specify that agencies schedule the issuance and mailing of checks as close as possible to the due date of the invoice, contract, or other agreement. Early payments accelerate the flow of cash from the Treasury. This adds to the amounts Treasury must borrow, and increases interest costs. On the other hand, late payments preclude the Government from taking advantage of cash discounts offered for prompt payment and in the future may cause the Government to pay interest. The Prompt Payment Act (Public Law 97-177) mandates that, with some exceptions, agencies pay interest if a proper bill is not paid within 30 days.

The Albuquerque office frequently paid invoices 17 to 24 days early. About 10 percent, or $2.7 million, of disbursements sampled were made 17 to 24 days early. At three locations we also found late payments. For example, the San Francisco office paid more

than 120 invoices totaling $10.8 million an average of 78 days after receipt, or 48 days late. Although the payments may have been late for valid reasons, we could find no documentation in the accounting files to justify the lateness.

Payments were made without adequate review

At all the locations we visited, invoices were being paid without adequate review. Our manual (7 GAO 24.2) requires preaudits of vouchers before payment, including verification that (1) the amounts and accounting classifications on the voucher are accurate, (2) the vouchers were properly authorized and supported, and (3) the receipt of the goods or services is certified. Although the stated procedures at the various locations generally incorporated these requirements, they were not always followed.

For example, at Chicago none of 28 invoices paid to a contractor on a $13 million project showed signs that the totals had been verified for accuracy and adequacy of support. The responsible accounting technician told us that the totals on the invoices were assumed to be verified by the contract specialist. The responsible contract specialist said the totals were verified on a selected basis only and not on every invoice. As of May 27, 1982, approximately $12.8 million had been paid to the contractor on this project. However, a review of the supporting documentation for payments made by the contractor to subcontractors showed that about $300,000 was unsupported.

At Albuquerque, documentation was not maintained to show that preaudits were conducted. Appropriate records would help management ensure that preaudits are performed and affix individual responsibility for the steps performed. In addition, a sample of disbursement transactions showed that 18 percent did not have supporting documentation such as invoices in the file, a problem common to all of the locations we reviewed. For example,

--two payments totaling $806,000 lacked support for how the payment was determined,

--a payment of $45,000 lacked support for compliance with contract provisions, and

--multiple payments to construction contractors were made without original invoices.

One preaudit step is determining that payments do not duplicate one another. Our spot checks of freight payments at one location revealed numerous duplicate payments. We furnished responsible officials with a list of 71 possible duplicate payments for their review and they confirmed 54 duplicate payments totaling $10,136. Although the location had a procedure to check for duplicate freight payments, the procedure was not followed. Further,

to prevent duplicate payments, all documentation supporting a payment should be canceled by marking or perforating. None of the locations always canceled supporting voucher documentation. Ignoring this standard practice could allow the erroneous or deliberate recycling of an invoice and result in duplicate payments.

Better controls are needed over advances and receivables

The controls over advance payments and accounts receivable need improvement. We found that advances were not promptly and accurately recorded and monitored. At one location not all receivables were recorded in the accounting records. As a result, there was inaccurate accounting over advances and a lack of assurance that all amounts due the Government would be recovered.

Advances were not properly recorded

Two locations we reviewed were not properly recording advance payments made to grantees and contractors. Our manual (2 GAO 12.6) requires advances to be treated as assets, much like receivables. When the grantee or contractor incurs costs and performance occurs, an expenditure should be recorded and the asset account reduced accordingly. The two locations did not record all advances as assets but treated them as expenses. This practice reduces the visibility over advances and hampers monitoring efforts. After we brought this to the attention of one location, personnel identified more than $77 million worth of advances that had been written off as expenses.

Agency officials stated that one reason they did not record some advances was that they were made under the letter-of-credit method, where the grantee is supposed to draw only that money needed for incurred costs. We do not agree with that reasoning because, as shown in chapter 3, grantees may draw funds under a letter of credit without incurring expenses. For example, one grantee had an average excess cash balance of over $1 million between July 1981 and March 1982.

Advances to grantees and employees are not adequately monitored

OMB and Energy guidelines generally require grantees to submit cost reports at least quarterly. These reports are needed to determine whether advances are justified and being used. We found that the Department has not adequately implemented procedures to (1) ensure that cost reports are received and (2) determine if further advances are warranted based on grantees financial status. Furthermore, at least one of the locations visited did not have adequate information in their automated systems to determine advances associated with expired grants and contracts.

The Department and OMB guidelines require grantees to submit final cost reports 90 days after the grant expiration date unless it is extended. These final cost reports can be used to determine if any funds advanced should be repaid and/or if the advance should be recorded as an expense. Since at least one of Energy's automated accounting systems at the locations visited does not contain the expiration date, a very time-consuming manual effort could be required to determine which outstanding advances are associated with expired grants and contracts. The lack of an automated system for aging expired advances reduces the Department's monitoring capabilities.

The importance of a system to identify advances associated with expired grants and contracts is demonstrated by one contract reviewed. A headquarters contractor returned over $53,000 in unexpended contract advances in February 1982. These advances were associated with task orders that had expiration dates ranging from October 1976 to December 1980. The average time between the expiration date of all task orders under this contract and the final cost report was 27 months as of April 30, 1982, and several expired task orders did not have final cost reports. As of July 31, 1982, more than $110 million worth of advances were outstanding for grants and contracts according to the Washington office records.

Travel advances to employees at Chicago were also not effectively monitored. Our manual (7 GAO 25.6) provides that agency accounting systems include procedures for periodic review and analysis of outstanding travel advances. All advances determined to be in excess of immediate needs should be promptly recovered to to keep outstanding balances to a minimum. We found, however, that precise figures on travel advances were not readily determinable because of differences between the manual control records and the automated travel records. In some instances, the manual and automated records differed as to amount and effective date of the advances. In addition, we found that five employees had failed to repay outstanding advances before ending their employment with the Department. The San Francisco office also had terminated employees with outstanding travel advances.

Not all receivables were recorded

When audits and subsequent reviews of grants or contracts determine that Government funds were improperly spent, the costs are disallowed and therefore should be returned to the Government. Until returned, the disallowed costs should be recorded as receivables (2 GAO 12.4). However, Chicago had not recorded about $1.8 million in disallowed costs during the year ending March 31, 1982. Officials stated that they saw no need to record the receivables because the funds were repaid within the 30-day accounting cycle. Because there is no assurance that repayments will always be made within 30 days, the receivables should be recorded as required. For example, an October 1980 audit of a State grantee questioned nearly $2.5 million of the claimed costs. As of March 31,

1982, Energy and its grantee had agreed to reinstate $443,566 and disallow $19,665, with the disposition of the remaining $2 million yet to be determined. The $19,665 of disallowed costs were not recorded in the accounting records.

Better controls are needed over collections

The various Energy field offices receive funds through the mail from commercial as well as Federal sources. Our manual specifies that agencies' collections be promptly recorded, deposited, and adequately safeguarded. We found that one or more of these requirements had not been met at three of the locations.

Collections were not placed under immediate accounting control

Checks received through the mail or over the counter are inherently susceptible to loss, theft, or other misuse. Because of this, our manual (7 GAO 11) specifies that agency collections should be placed under appropriate accounting and physical controls as soon as they are received. Such controls should, among other things, provide for the checks to be immediately logged in and verified by an individual other than the one opening the mail. This establishes immediate control and, by reconciling deposit tickets to the mailroom log, provides a control to determine whether all receipts are subsequently processed and deposited. The checks should also be endorsed as payable to the agency.

Two locations did not promptly place their collections under accounting control. At one office we found more than $20,000 in checks received had been neither logged in nor endorsed. Daily receipts averaged about $78,000 from December 10, 1981, to February 26, 1982. These checks were stored overnight on a shelf that was located in an unsecure area. Adequate procedures to avoid such problems had been prescribed by the Department, but they were not followed. After we brought this to the attention of the local officials they stated the problems were corrected. At Chicago, checks were not promptly endorsed; they were not endorsed until the receiving unit forwarded them to another unit for deposit, a process that might take several days. Also, the logging-in process was not independently verified to ensure that all checks were properly recorded. Because established procedures were not followed, we could not verify that all money received by the locations was properly accounted for and deposited.

Collections were not deposited promptly

Agencies are required to deposit collections promptly. This increases the funds available to the Treasury and could reduce the amounts that must be borrowed. Additionally, keeping checks on hand for more than the minimum time necessary increases the potential for loss, theft, or misuse.

1982, Energy and its grantee had agreed to reinstate $443,566 and disallow $19,665, with the disposition of the remaining $2 million yet to be determined. The $19,665 of disallowed costs were not recorded in the accounting records.

Better controls are needed over collections

The various Energy field offices receive funds through the mail from commercial as well as Federal sources. Our manual specifies that agencies' collections be promptly recorded, deposited, and adequately safeguarded. We found that one or more of these requirements had not been met at three of the locations.

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According to standards in our manual (7 GAO 12.2), collections should be deposited daily, if possible. The Treasury Fiscal Requirements Manual (1 TFRM 6-8030) provides more specifics, stating that collections of $1,000 or more should be deposited daily but smaller collections may be accumulated and deposited when the total reaches $1,000. Still, deposits must be made at least weekly regardless of the amount accumulated. Departmental instructions generally incorporate these requirements.

Two locations were not promptly depositing their collections. In an analysis of selected non-Federal receipts at the San Francisco office, we found checks totaling more than $246,000 that were deposited 3 to 36 days late. Four of these checks, totaling more than $115,000 took 16 to 36 days to deposit. Although departmental procedures were adequate, they were not followed. At Chicago, 2 to 4 days frequently elapsed between receipt of the checks and preparation of the deposit tickets. Further delays were encountered when many checks--about $1 million worth annually--were mailed to the bank for deposit rather than sent by the available couriers. Ironically, couriers daily transmit payment documents to the Treasury.

INTERNAL CONTROL WEAKNESSES WERE FOUND BY PREVIOUS GAO STUDIES

Our earlier studies showed that internal control weaknesses are not confined to the locations discussed in this report. At the request of the Chairman, Permanent Subcommittee on Investigations, Senate Governmental Affairs Committee, we reviewed internal controls over selected functions at six of Energy's research laboratories (Sandia, Hanford, Argonne, Brookhaven, Fermi, and Oak Ridge) and four energy technology centers (Bartlesville, Laramie, Morgantown, and Pittsburgh). Numerous internal control weaknesses were found at both types of facilities. 1/ Major problem areas included inadequate controls over

--procurement, property, payroll, and foreign travel at the laboratories and

--property and small purchases at the energy technology centers.

In some cases, the control deficiencies identified had actually resulted in the waste and misuse of Federal funds and property. In others, the potential for waste and misuse existed because of the lack of sufficient controls over operations.

1/Comptroller General's testimony before the Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, July 27, 1982.

Our report 1/ on internal control weaknesses at 10 other Energy field offices, including the Oak Ridge and Savannah River Operations Offices, Clinch River Project Office, and the Pittsburgh and Schenectady Naval Reactor Offices, also outlined several instances where the prescribed control procedures were not being followed. Our limited review disclosed control deficiencies in receivables, collections, disbursements, and obligations. As the Department commented, the report disclosed no deficiencies in departmental accounting policy and procedures, but showed rather an apparent failure of the field offices to consistently meet the requirements. As part of this review, we followed up on the earlier report at 7 of the 10 locations previously reviewed and found that most, though not all, of the problems had been corrected.

INTERNAL AUDIT COVERAGE AND ORGANIZATION STRUCTURE ARE KEYS TO CONTROL PROBLEMS

In nearly any large accounting operation, even the most comprehensive control techniques may not be effective unless some means exists to verify that they are implemented and consistently followed. Verification can be accomplished through audits as well as through management's enforcement of control provisions. We found, however, that internal audit coverage at the locations we reviewed was extremely limited. Further, Energy's Inspector General has not performed internal control reviews of the automated financial systems and has done only limited work in automated systems design and development. We also noted that the Controller, who is responsible for prescribing the necessary controls, has little authority over their implementation in the field offices.

Adequate internal audit coverage could have detected most of the control deficiencies discussed earlier. In this and preceding reviews we have observed the need for increased internal audits. For example:

--None of the locations covered in this review have had internal control reviews in the last 2 years and one had not been examined since 1977.

--Seven of the 10 offices covered in our accounting station report had not had control procedures audits within the 3 years prior to our report.

--The laboratories and energy technology centers reviewed in a previous study had received little audit coverage by the Inspector General.

1/"Weaknesses In Internal Financial and Accounting Controls at Department of Energy Accounting Stations," AFMD-81-106, Sept. 17, 1981.

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According to Energy's Inspector General, limited staff resources have hampered the audit effort.

The Controller's lack of direct authority to force field offices to follow prescribed procedures is an inherent part of the Department's current organizational structure. The Controller can issue departmental orders specifying control procedures, but does not have authority to control the field staffs who must implement them. Instead, those staffs are under the control of various field and program managers. Of course, improved management practices in the field would help to negate this problem. This matter is discussed in more detail in chapter 6.

ACCOUNTING SYSTEMS SHOULD BE SUBMITTED FOR GAO APPROVAL

The Department has not had all of its accounting systems approved by the Comptroller General as required. Section 112(b) of the Budget and Accounting Procedures Act of 1950 requires the heads of executive agencies to develop accounting systems that conform to standards established by the Comptroller General, and to submit their accounting systems to us for approval. However, only two of the Department's systems has received approval in recent years, and that was in 1974. Two other systems were approved 30 years ago. Furthermore, the Department has submitted only one other system for approval and was unable to tell us (1) when the other 15 systems operated by Energy will be submitted and (2) when they will establish their submission dates.

Although the approval of a system does not ensure that sound procedures will be followed, it does ensure that good internal control procedures are developed and that the accounting systems are well documented. Furthermore, had the accounting systems at the locations we visited conformed to our standards, many of the control weaknesses discussed in this report should have been avoided.

ACTION IS NEEDED TO RESPOND FAVORABLY TO THE FINANCIAL INTEGRITY ACT

Because of the problems identified in this and earlier reports, we believe the Secretary of Energy needs to make substantial improvements to enable the Department to assess the adequacy of its internal controls. These improvements will place the Secretary in a better position to report on the adequacy of the Department's internal controls as required by the recently enacted Federal Managers' Financial Integrity Act (Public Law 97-255). This legislation requires the head of each executive agency to prepare:

--an annual statement of whether the agency's systems of internal accounting and administrative control fully comply with standards prescribed by the Comptroller General and

--a separate report on whether the agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General.

The first reports are to be prepared by December 31, 1983, and succeeding ones by December 31 of each succeeding year.

The Department has already taken some action in this regard. In April 1982, a Department Order, "Internal Control Systems" (DOE 1000.3) was issued. The order requires a self-assessment by managers of the adequacy of internal controls in programs and functions under their control, and a fiscal yearend status report to the Controller on the planned and actual control improvements. While this is a step in the right direction, more is needed to ensure that necessary improvements are made and to bring the accounting and control systems into compliance with the Comptroller General's principles and standards.

CONCLUSIONS

The Energy Department needs to improve its accounting system at headquarters and the locations we visited, particularly with regard to internal controls. During the course of our work, we observed several efforts to improve the Department's financial management. However, the control deficiencies we found require immediate attention. The problems vary by location, but in each case the need for improved control is apparent. The accounting operations are not as efficient as they could be because they now need extensive human intervention to compensate for the automated system weaknesses. It is also possible, in at least some instances, for these systems to feed erroneous data into the Department-wide accounting system. Because of inadequate audit trails, however, we cannot determine the extent to which this has actually occurred. Although Energy is in various stages of correcting the data processing deficiencies, care must be taken to ensure that proper system development techniques are followed and that all efforts are coordinated to minimize costs.

The Department-wide system also needs control improvements. Procedural and system weaknesses in error control and correction significantly increase the risk of erroneous data updating the system's permanent financial records, causing inaccurate reports. We also found several manual control weaknesses, some of which can have an impact on the accuracy of the accounting information. We must emphasize, however, that we did not find any major instances where the data were unreliable. A very expensive, time-consuming effort, including extensive reconciliation and analysis, would have been required for us to verify the data's reliability because of the control weaknesses identified.

The weaknesses identified in the manual controls, and to some extent in the automated controls, stem primarily from the failure to follow existing requirements, rather than the lack of directives on controls to be used. This problem has been recognized before

and will probably continue to exist unless given more emphasis by the agency's top management. Although increased internal audit coverage would be beneficial, a more crucial need is greater commitment on management's part to ensure the necessary corrective actions are taken and prescribed procedures are followed. We also believe that a procedure to hold the Department's field office managers more accountable for their internal control systems would be useful. Written certifications from those managers attesting to the effectiveness of their internal controls would provide the added accountability as well as help the Department in meeting the requirements of the Financial Integrity Act.

RECOMMENDATIONS

We recommend that the Secretary form a task force at the highest level in the organization to address the wide range of internal control weaknesses and financial management problems that have been identified. Establishment of a task force at this level is essential to demonstrate management commitment. At a minimum, the task force should be charged with seeing that the following actions are taken:

--Fix accountability within the organization for developing and maintaining systems capable of providing accurate and reliable data necessary for management decisions.

--Improve the reliability of FIS by (1) developing controls over data submission to ensure that all reporting units comply with departmental policy and appropriate automated controls over magnetic tape processing are used, (2) revising error detection and correction procedures and improve automated error controls over input data edit and validation processing, and (3) providing adequate system documentation to ensure proper system operation and maximum usefulness of reports.

--Make a current and complete determination of FIS user requirements and evaluate the adequacy of FIS in terms of meeting all user needs.

--Expedite the completion and approval of revised policies and procedures with which all Department entities must comply when developing automated information systems.

--Centrally control and coordinate all systems development efforts with Department-wide impact and require all Department entities to follow sound systems development practices.

--Evaluate the desirability of transporting FORS from the San Francisco office to other Energy locations, including the systems's (1) adequacy of internal controls, (2) suitability for transport, (3) quality of technical design, and (4) total life cycle costs to install, operate, and maintain.

--Develop and implement specific action plans and schedules for correcting the controls over obligations, disbursements, receivables, and collections.

To help ensure proper implementation of internal controls, we further recommend that the Secretary of Energy require the field office managers to submit periodic statements certifying whether prescribed internal control procedures are being followed and attesting to their effectiveness. This requirement should be met as part of managers' annual reports to the Controller under DOE Order 1000.3.

AGENCY COMMENTS AND OUR EVALUATION

Upon completion of our work, we presented our principal findings to officials at Energy headquarters. The officials reacted positively and promised corrective action. The Department's Controller noted, however, that it will be difficult to achieve completely effective financial management until the Department achieves organizational stability. As stated earlier, the Department and its predecessor agencies have undergone reorganizations under different administrations. President Reagan has proposed a reorganization of Federal energy activities and elimination of Energy as a Cabinet-level department.

We also presented our findings to officials in the field offices who generally agreed with them, and said that corrective action would be taken. However, the officials also frequently stated that our findings were neither significant nor material in amount, and did not support our conclusions.

Although viewed individually any one weakness at a single office may not have a significant impact on the Department's financial condition, in the aggregate the weaknesses are of sufficient magnitude to be detrimental to the Department's financial operations. In addition, we have long held that certain internal controls are necessary regardless of whether major losses or inaccuracies have occurred. The very purpose of a sound system of internal controls is to prevent such occurrences.

CHAPTER 3

ACTION IS NEEDED TO CONTROL UNNECESSARY CASH OUTLAYS IN GRANT PROGRAMS

Our review of grant fund management at Energy headquarters and six field offices disclosed inadequate attention to cash management responsibilities. As a result, large amounts of cash were provided to grant recipients prior to their immediate disbursement needs. Financial information in the grant files we reviewed showed that $22.9 million was prematurely paid to grantees. Further, the Department did not aggressively collect interest that some grantees earned on their excess funds. Funds disbursed by Federal agencies sooner than necessary can increase interest costs to the Federal Government.

The Department has taken some action to correct the problems we identified and has followed up, in some cases, to recover excess funds and interest earned by grantees. However, further strengthening of the Department's cash management practices is needed.

CASH MANAGEMENT FOR GRANT PROGRAMS IS IMPORTANT

Cash management is particularly important because of the large size of the Department's grant programs, and because the Department allows grantees to receive cash advances. During fiscal 1981, the Department awarded nearly 6,000 grants with total obligations of $665.7 million. Effective cash management is an especially appropriate topic for Federal attention today because of the high interest rates being paid on Federal borrowing and concern over current and probable future Federal budget deficits.

Prudent cash management can be a very effective tool for monitoring overall grant performance. For example, long lapses between fund requests could indicate slow grant progress. Continuous cash management need not take much time or resources if properly integrated into the Department's overall system of grant administration.

CASH MANAGEMENT CRITERIA AND RESPONSIBILITIES ARE DERIVED FROM OMB AND TREASURY

Government-wide criteria for grant cash management are derived from the following two sources:

--The Treasury Fiscal Requirements Manual prescribes criteria for cash management in general, including methods of payment, determination of excess cash, and disposition of interest earned on excess Federal funds.

--Office of Management and Budget Circulars A-102 and A-110 prescribe overall standards for grant administration, including the specific forms that can be used to obtain financial data and the frequency with which they can be used.

These documents are the basis for the Department's internal cash management and grant administration procedures.

Energy's Accounting Practices and Procedures Handbook and its Financial Assistance Procedures Manual, contain agency procedures for cash management and grant administration, respectively. The Department's written procedures are consistent with Treasury and OMB requirements in the cash management areas we reviewed.

In accordance with Treasury requirements, Energy uses two basic methods of funding grant recipients--letters of credit and direct payment. Under a letter of credit, the grantee can request funds directly from the Treasury or a Federal Reserve Bank without approval from the Department. A letter of credit will generally be used if the grant is at least $120,000 and the Department expects the grant to last at least 1 year. Grantees not under a letter of credit must apply directly to the Department for payment, either on an advance or reimbursement basis.

CASH MANAGEMENT RESPONSIBILITIES WERE NOT EFFECTIVELY IMPLEMENTED

Overall, we found the Department's grant cash management to be inadequate. We reviewed $220.2 million in drawdowns or payments made between October 1, 1980, and March 31, 1982, at seven Energy locations. At least $22.9 million had been paid by the Department or drawn by the grantee prior to immediate cash disbursement needs. All of this amount does not reflect cash currently in the possession of recipients; rather, it generally represents cash that departmental files showed was not immediately expended upon receipt, as required by the Department's procedures.

While Department-wide financial and procurement procedures set cash management criteria, we found a general failure to adequately implement these procedures at the locations we reviewed. Major deficiencies we found include the following:

--Inappropriate payment methods used.

--Required financial reports not submitted accurately and promptly by grantees.

--Financial data submissions not examined and appropriate action not taken to recover excess amounts plus any interest earned.

TABLE 1

SCHEDULE OF EXCESS CASH PROVIDED TO FUNDING RECIPIENTS BEYOND THEIR IMMEDIATE NEEDS

	Direct Payments			Letters of Credit		
Location	Number of instruments reviewed	Total payments reviewed	Amount identified as excess	Number of instruments reviewed	Total payments reviewed	Amount identified as excess
Atlanta	-	-	-	45	$ 36,230,751	$ 4,599,673
Chicago	48	$ 3,259,562	(a)	70	b/ 60,730,409	b/ 6,714,903
Dallas	14	2,567,247	$ 741,780	2	3,063,693	1,133,964
Washington	62	57,791,128	5,072,914	27	4,237,704	645,939
Kansas City	14	3,247,576	613,664	1	1,721,847	447,112
Oak Ridge	21	6,287,057	34,909	13	22,839,595	207,149
San Francisco	14	2,576,085	1,024,428	20	15,627,451	1,687,354
Total	173	$75,728,655	$7,487,695	178	$144,451,450	$15,436,094
Direct payments and letters of credit combined	351	$220,180,105	$22,923,789			

a/File information was insufficient to make a determination.

b/Amounts may be understated due to inadequate file data.

As table 1 indicates, we reviewed 351 instruments--178 letters of credit and 173 direct payment grants. During the period we analyzed, $220.2 million in payments were made to recipients included in our review, which led to the excess amounts we have reported. While many recipients did eventually spend the excess funds, some maintained excessive cash balances for months; a few earned interest on their excess funds. The locations we visited accounted for slightly over 80 percent of Energy's grant awards during fiscal 1981.

The fact that departmental files indicated that grantees had excess cash does not necessarily mean Energy could have recovered that amount from the grantee. By the time the Department learns of any excess funds, the grantee may have already spent the amount because most of the data are collected after events have occurred. Our statistics are important, however, as evidence that the Department is not following appropriate procedures for monitoring such balances and preventing future excesses.

Payment methods were inappropriate

Inappropriate payment methods can lead to excess cash if the grant recipient obtains funds more quickly than they are spent. We found routine instances of large advances being provided without justification at Energy's Washington, Chicago, and San Francisco offices. As a result of our review, the Department issued instructions designed to prevent large routine advances in the future, but we found that several such advances were made anyway.

At the Washington office, information developed by the Subcommittee for its November 1981 hearing revealed that the Department was routinely authorizing advances on grants according to a predetermined formula--usually 60 percent was advanced at the time of the grant award, and 25 to 35 percent was provided when requested by the grantee.

At Chicago and San Francisco, we found that, for a type of procurement instrument known as a special research contract, the Department was advancing 45 percent of the total amount at award and an additional 45 percent when requested by the grantee. These contracts are treated like grants, in that funds can be advanced to the recipients. In February 1982, the Department issued a memorandum stating that such routine advances should not continue, but we found that San Francisco made several advances after the memorandum was issued.

Because of Energy's actions during our review to stop large routine advances, we did not record any excess cash situations created by a formula advance because such advances were in accordance with accepted departmental practice at the time. We did record as excess cash amounts subsequently reported by grantees as not yet spent because Energy and Treasury requirements are clear on what to do when a grantee withdraws funds in excess of immediate disbursement needs.

Required financial reports were missing

A problem we encountered at several locations was the lack of complete information in the files to determine a recipient's financial status. The absence of required financial reports indicates that Energy has not adequately monitored such reports to make sure they are received promptly and regularly. Without such reports, the Department cannot fulfill its cash management responsibilities. Also, at one location financial reports were on file but not in the office that had cash management responsibility.

Actions taken by Energy's Washington office after the Subcommittee's March 31, 1982, hearing is evidence of the magnitude of problems we found with missing reports. To follow up on the examples of excess cash that we reported at the hearing, procurement officials in Washington first had to write to about half its grantees requesting copies of recent financial reports that should have already been in the grant files.

Similar problems of lack of information existed at Chicago, Dallas, and Kansas City. At Chicago, we were unable to determine whether any excess cash existed for almost half the grant files we reviewed because of missing financial reports. A Department official there agreed that the reports should have been in the files. Their absence prevented Chicago from adequately monitoring the cash balances of the grantees involved. Our review of grant files in Dallas and Kansas City also revealed missing financial status reports.

At San Francisco, we located most of the required financial reports for one program, but they were not being maintained by the officials who had ultimate cash management responsibilities, and so were not being monitored for excess cash balances. Seven out of nine finance office files we reviewed for one grant program did not contain recent required financial status reports.

Available data were not monitored and appropriate actions were not taken

Even in those instances when the financial data in Energy's files were adequate to determine whether excess cash existed, we found that the Department was generally not systematically monitoring the available data. The $22.9 million we identified was based on data found in the files; with proper monitoring the excess cash could have been discovered and acted upon by the Department. Again, the Department would not necessarily have been able to recover the entire amount because the excess cash situations may not be identified until after the funds have been spent. In such circumstances, however, the Department can warn the grantees not to allow excess cash to accumulate in the future, and can suspend letters of credit or put the grantee on reimbursable funding if abuses continue. When excess cash was identified by Energy, appropriate action was not always taken to promptly recover the

excess amounts or interest earned. In some cases, the financial data were not organized so that effective cash management could take place.

Monitoring a recipient's Federal cash position

Monitoring a grantee's Federal cash balance involves analyzing periodic financial reports, drawdown or payment requests, and other available information to determine whether the timing of payments and grantee expenditures is reasonable. Effective monitoring requires a close working relationship among (1) the project officer responsible for overseeing grantee performance, (2) the contract officer administratively responsible for the grant, and (3) the finance officer responsible for paying the grantee.

The manner in which the Department monitors cash balances depends on the method of payment. Under a letter of credit, Energy monitors drawdowns by the grantee on an after-the-fact basis. When grantees receive direct payments, the Department can examine financial data in the grant files and compare this information with the payment requests to help determine whether a request for cash is proper.

The financial forms and documents Energy uses are specifically authorized by OMB Circulars A-102 and A-110. The circulars limit the frequency with which an agency can require periodic financial reports to generally no more than quarterly. To get more complete and timely data on cash status from grantees, some Energy offices have adopted a form periodically used by the Treasury to monitor Federal agency cash management performance.

This form, called a "Status of Federal Funds Report," is a monthly report listing Federal funds received and spent daily. The form has been a useful tool enabling Energy to obtain more detailed data on grantees' cash balances than could be obtained otherwise. The Department has also used this form successfully in some instances to identify and recover excess cash. However, it is not listed in the OMB circulars as an approved form, so the Department cannot officially sanction its use or require that grantees submit it regularly. Energy recently sought OMB's permission to use this form as needed. OMB rejected the request due to the added reporting burden it placed on the grantees, and suggested that alternative means might be used to better control grantees' cash requirements. We are recommending that Energy reopen this issue (see p. 46).

Identified problems were not corrected

We found several instances in which Energy offices failed to take proper corrective action when cash management deficiencies were identified. In response to a headquarters directive, the Atlanta office conducted a review in 1981 of its letters of credit

to identify excess cash. About $624,000 was identified, but the office took no action to recover the funds. In another instance, San Francisco recovered $200,000 from one grantee, but did not take aggressive recovery action against another grantee. This grantee drew down over $275,000 in May 1981 while still holding a balance of more than $133,000 from a previous drawdown. In June, the grantee stated its intention to repay the excess funds, but in July it still had close to $168,000 on hand. The grantee had not paid back any excess funds and still held about $78,000 at the end of October 1981.

In another example, the Washington office made an erroneous payment to a grantee of $1.96 million, and then did not take appropriate and timely action to recover the excess funds or the interest subsequently earned by the grantee. The error occurred in August 1980, and the Department contacted the grantee a month later to recover the excess funds. The grantee did not comply, however, and the Department did not follow up. In April 1981 the grantee still had $1.16 million on hand and had earned $135,000 in interest; still the Department took no action. A year later, after we brought this situation to Energy's attention, the grantee finally paid back over $240,000 in earned interest.

Treasury regulations and the OMB circulars require that all interest earned shall be promptly returned to the Federal program agency. An exception is that interest earned by States and their instrumentalities does not have to be returned, in accordance with section 203 of the Intergovernmental Cooperation Act of 1968 (42 U.S.C. 4213).

Poor recordkeeping hampers effective cash management

Some letter-of-credit files in San Francisco and Washington were organized in such a manner as to preclude effective cash management. Financial records in San Francisco containing more than one grant under a letter of credit do not have consolidated data on amounts drawn down for each grant. Such data are maintained in individual grant program files, with the result that letter-of-credit financial records do not contain complete data on cash balances.

Two large letter-of-credit files maintained in Washington, each with obligations of more than $50 million, had so many drawdowns occurring and such incomplete cost records that the Department was unable to determine the current cash balances. Both are unusual cases, since one consists of 27 grants and contracts while the other has only one contract with 67 separate task orders drawn against it. After our inquiries into these two letters of credit, Energy expedited action to straighten out their financial status.

GREATER ATTENTION NEEDS TO BE FOCUSED ON CASH MANAGEMENT

The deficiencies we have noted in the Department's overall monitoring of cash balances have been caused mainly by the low priority assigned to cash management, compounded by a lack of staff knowledge of and a failure to follow established procedures. Grant recipients also need a better understanding of their responsibilities.

Cash management receives low priority

Cash management has received low priority Department-wide. As a part of overall grant administration, cash management has been secondary; primary emphasis has been on placing grant and contract money as quickly as possible, with less concern given to looking after the money once it has been awarded.

The Director, Office of Procurement and Assistance Management stated that, in the past, the Department has stressed grant and contract placement because of its desire to help solve quickly the Nation's energy problems. He stated that, as a result of current reduced national concern about energy problems, fewer new grants and contracts will be awarded, and greater emphasis will be placed on grant administration, including cash management.

Officials we interviewed at Energy field locations recognized their responsibility for cash management, but comments we received about lack of staff and little training in cash management confirmed our view of its low priority.

Improper procedures were followed by both agency and grantees

Both Energy officials and the recipients of departmental funds, in a number of instances, either lacked knowledge of how to implement established cash management procedures or failed to comply with these procedures. Limited discussions we had with recipients of Energy funds disclosed they often lack knowledge of what the Department was expecting from them. We also found instances in which officials with cash management responsibilities did not follow departmental procedures. Effective cash management requires that staff know how to implement appropriate procedures and that grantees meet their responsibilities.

The instructions grantees receive from the Department on how to properly fill out appropriate forms and request funds vary from office to office. No central departmental guidance or instructions cover this issue. Consequently, some grantees have attended letter-of-credit instruction seminars, others have received only verbal instructions from Energy staff over the telephone, while others simply received forms in the mail. The forms supplied do

not address excess cash other than mentioning the phrase "immediate disbursement needs." No definition is provided. Not surprisingly, the Department exhibits a variety of cash management practices.

At San Francisco, where officials depend on grantees to determine their own cash needs, our review of 16 advance payments showed that only 3 were for less than a 30-day supply; 9 were from 90 days up to 182 days. San Francisco disbursed more than $1.4 million through 13 payments where advances were requested for periods longer than 30 days. More than $942,000 of this amount proved to be in excess of the recipients' immediate needs.

Similar situations existed at other locations. One grantee paid by the Dallas office defined immediate disbursement needs as a 60-day supply of funds. At Kansas City, two grantees considered 6 months as their immediate needs, and one of these grantees stated he was not aware of any specific responsibilities except to spend the funds on the grant program.

The extent of excess cash we identified, along with inaccuracies we noted in documents submitted by grantees, indicates a need for better awareness by grantees of their cash management responsibilities. One State receiving funds under a letter of credit reported no excess cash to the Department, but other documents we obtained from the State showed cash balances consistently exceeding $500,000 over a 9-month period, with a high balance of $3.7 million. The reason for the discrepancy was that the State reported to the Department vouchers approved for payment, not actual cash balances. Other letters of credit we reviewed showed recurring negative cash balances. Either the information was incorrect, or the recipient did not understand the proper use of the letter of credit. Energy officials monitoring letters of credit in the Washington office stated that some recipients, when contacted because of questions about data submitted, replied that they had not received proper guidance on completing the required forms when the letter of credit was issued.

We noted a variety of practices followed by Energy staff that were not consistent with Department procedures. At Dallas, requests for advances or reimbursements received only cursory cash management screening--generally limited to a determination that funds were available to pay the grantee. Oak Ridge was incorrectly using forms for reimbursing grantees, and Atlanta made adjustments to apparently incorrect periodic financial reports without bothering to contact the grantee.

THE DEPARTMENT HAS RECENTLY ATTEMPTED TO CORRECT CASH MANAGEMENT PROBLEMS

Since our review began, the Department has taken some agency-wide actions which, if properly implemented, should strengthen its cash management capabilities. Besides eliminating routine formula advances, the Department has followed up on excess cash examples

reported at the March 31, 1982, hearing, and emphasized cash management more in its internal procedures and grant training courses. Initiatives have also been taken at a few Energy field offices to generally develop and implement more precise cash management instructions.

Department-wide actions

Energy took action after the March 31, 1982, hearing to correct some of the problems we identified, and also has emphasized cash management in changes made to its accounting handbook, its Financial Assistance Procedures Manual, and in grant training programs recently conducted. Results obtained by Energy from a limited followup after the hearing included (1) suspending a State's letter of credit and recovering $500,000 in excess funds and (2) recovering several hundred thousand dollars of excess cash and interest earned from grants administered at Energy headquarters.

Additional actions taken by the Department include issuance of its Financial Assistance Procedures Manual in final form in June 1982, containing a discussion of cash management procedures that had not been included in an earlier draft version, and issuance of a revised chapter on cash management for the accounting handbook. Grant training recently conducted at headquarters and seven operations offices included case studies and discussions of Energy's cash management responsibilities. Staff in both Atlanta and Oak Ridge commented that this has been the only training received recently.

Local initiatives

The Department has also taken actions at Washington and some other locations to strengthen cash management practices. The Washington procurement staff reviewed more than 200 existing grants and revised payment and reporting provisions where appropriate. A focal point was established to ensure that Energy receives required reports from grantees. In addition, an initiative is underto better coordinate and define the role and responsibilities of the procurement and finance staffs in cash management. Finance officials informed us that they now have developed written procedures for reviewing grantee payment requests. Initiatives taken at other locations include a change in letter-of-credit payment procedures at Atlanta and a change in the routing of periodic financial status reports at San Francisco.

An exception to our general observation of inadequate systematic monitoring is a Washington office group that is responsible for monitoring letters of credit. We found evidence of contact with the recipients to request missing reports, question data submitted, instruct them in proper letter-of-credit procedures, and request the return of excess funds. Before this effort began during 1981, letters of credit were not being monitored at all.

CONCLUSIONS

Energy has not been effectively administering its cash management responsibilities regarding payments made to grantees, resulting in large amounts of cash being provided to recipients prior to their immediate disbursement needs. While Departmentwide cash management procedures set forth general cash management criteria, such procedures were not always understood or implemented fully by staff with cash management responsibilities. This situation in turn led to grantees sometimes failing to comply with or be aware of departmental cash management criteria. That we found problems at seven locations, representing 80 percent of Energy's recent grant award activity, leads us to conclude that Departmentwide corrective action is needed.

Energy has taken some recent actions to strengthen its cash management, but the actions have generally been to make Departmentwide procedures more visible and have not adequately addressed how such procedures are to be carried out in practice. While the grant training course is helping to better educate staff in applying cash management procedures at the operating level, specific instructions are needed for all the Department's offices to follow. Such instructions would supplement and reinforce existing grant training and serve as a guide for future actions. The exercise underway in Washington to better define and coordinate the responsibilities of the procurement and finance offices is a step in the right direction.

The Department has had unsuccessful discussions with OMB about obtaining more detailed and timely financial data from grantees. The magnitude of Energy's premature disbursements indicates the need for better monitoring and illustrates the value to the Government of more effective cash management. We believe the issue needs further debate between OMB and Energy.

Grantees also need to become more aware of what Energy expects from them. Standardized instructions to grantees describing their cash management responsibilities would help make the Department's subsequent cash monitoring activity easier and more effective.

RECOMMENDATIONS

We recommend that the Secretary of Energy:

--Ensure that Department-wide cash management policies and procedures are complied with at all Energy offices administering grants. In this regard, lines of responsibility should be clearly delineated and officials held accountable for adherence to the established procedures. Each Energy office should adopt stronger techniques to follow in monitoring grantee cash balances, and in ensuring that timely and accurate financial information is maintained.

--Provide more specific instructions to existing and future grantees, informing them precisely of their cash management responsibilities, emphasizing that disbursements are to be made only to meet immediate program needs, and reaffirming that all excess cash or earned interest is to be returned to the Department.

--Initiate further action with OMB to obtain approval of needed forms and procedures that would enable the Department to better carry out its cash management responsibilities.

CHAPTER 4

ENERGY DOES NOT ADEQUATELY CONTROL OFFSITE CONTRACTOR PROPERTY AND TAKES EXCESSIVE TIME TO CLOSE OUT CONTRACTS AND GRANTS

The Secretary of Energy has primary responsibility for managing Government-owned property in the possession of Department of Energy offsite contractors. 1/ However, the Department does not have an effective system for recording, managing, and disposing of this property. While Energy's procedures require contractors to report the Government property they hold and the purchases they have made, the procedures have not been adequately and uniformly implemented. Further, there are no departmental controls to ensure that property information is recorded accurately. This, coupled with a lack of coordination between the Department units responsible for recording and administering offsite contractor property, resulted in discrepancies of at least $187 million at 3 locations between the Department's accounting and procurement records, and considerable differences between Department and contractor records. By not having accurate and complete records of property held by offsite contractors, the Department lacks assurance that this Government-owned property is being accounted for and used properly.

These weaknesses in accounting for property further hinder the Department's already inadequate excess property system. The accounting records do not accurately show the property contractors hold, and the procedures for dealing with property that contractors no longer need are inadequate to ensure that the property is transferred or disposed of in a manner that protects Energy's interest and investment.

In addition, Energy's contract closeout process, which ensures final property disposal, takes a long time to complete, and a continued effort must be made to reduce the large backlog of expired contracts and ensure proper management and disposal of property.

1/Offsite contractors are private sector businesses that do work for Energy at privately owned research, development, or manufacturing facilities. Frequently, these contractors acquire or are provided with property they need to carry out their contractual commitments. The property is paid for by the Government and accordingly is owned by it. Offsite contractors are to be distinguished from so-called GOCO's--Government-owned, contractor operated organizations. The latter are businesses that contract with Energy to manage Government-owned facilities.

Energy recognized that significant problems existed in managing offsite contractor property as long ago as 1979, when an inspector general review 1/ drew attention to the matter. In addition, the Comptroller General testified that the Department also has weak property controls at selected national laboratories and energy technology centers 2/. Since then, the Department has established criteria and procedures to increase agency control in this area. However, we believe Energy can still do more to improve its control over property.

PROPERTY REGULATIONS AND FEDERAL POLICY GOVERN MANAGING AND ACCOUNTING FOR CONTRACTOR PROPERTY

Department of Energy procurement offices should manage property in accordance with property regulation DOE-PMR 109-60, "Management of Government Property in the Possession of Offsite Contractors," which specifies that the contractor is directly responsible and accountable for all Government property in its possession or control in accordance with the contract provisions. The contractor must safeguard and maintain the property, and submit reports to Energy semiannually, showing the number and value of property items in various departmental asset categories acquired, held, or disposed of during the period. This semiannual report is an important source of information for Department records on offsite contractor property. The regulation, in conformance with Federal practice, requires the contractor to maintain detailed inventory records of Government-owned property. In this review, we were primarily concerned with property defined by the regulation as capital equipment, which is non-real property with an acquisition value of $500 or more and an expected service life of more than 1 year, regardless of the funding type used in the purchase.

The GAO Manual (2 GAO 12.5) requires Federal agencies to maintain records and related procedures to account for Government property they are responsible for. The Department implements this accounting requirement through its Accounting Practices and Procedures Handbook, Chapter VI, Plant and Equipment. This document requires that records be maintained to accurately reflect the agency's assets, including those provided to offsite contractors. Accordingly,

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1/"Management of Government-owned Property Held by Department of Energy Offsite Contractors," IGA 79-6, Dec. 28, 1979.

2/Comptroller General's testimony before the Permanent Subcommittee on Investigations, Senate Committee on Governmental Affairs, July 27, 1982.

the Controller's office maintains the official records of agency assets, with subsidiary records maintained by contractors.

Although three of the five Department offices we visited maintained records in both the procurement and accounting groups to comply with the requirements of the documents discussed above, we did not determine the accuracy of either set.

LACK OF COORDINATION IS CAUSING INACCURATE AND INCONSISTENT PROPERTY RECORDS

Energy does not effectively coordinate the information maintained within its accounting and procurement offices. As a result, we found Department procurement and accounting records of offsite contractor property differed by more than $187 million as of March, 1982, at three offices where we observed two sets of property records. This happened despite the January 1980 establishment of uniform contractor reporting requirements by the Department. The differences are shown as follows:

Office (note a)	Amounts		
	Procurement	Accounting	Gross differences (note b)
	(millions)		
Oak Ridge	$24.1	$10.4	$17.3
San Francisco	48.5	54.7	28.0
Washington	184.0	143.6	142.4
			$187.7

a/The Albuquerque and Chicago Operations Offices have been omitted because no procurement records of property are kept. We found, however, that major discrepancies exist at both offices between contractor and departmental accounting records. (See pp. 51-52)

b/"Gross differences" represent the sum of the differences between the accounting and procurement records on an individual contract basis.

We found that differences in the two sets of records existed because the Department's offices vary in the way they choose to record property, depending on the type of funding used to make the purchase. Differences also occurred because property information was not effectively communicated between the two offices, causing one office to carry erroneous property information. These differences, however, may or may not represent lost or missing property.

The Department's offices vary in the types of information they use to record offsite contractor property. Two types of Department

funding, operating funds and plant and capital equipment funds, are used by contractors to purchase property where title vests in the Government. Because some Department accounting offices treat these purchases differently, agencywide property data is not consistent and does not accurately reflect the amount of property Energy owns.

All the departmental procurement offices we visited require contractors to submit semiannual reports. Normally, this report also goes to the accounting offices. However, while one accounting office relies totally on this information its their records, others use additional sources of information, such as monthly payment vouchers. For example, the Washington accounting office picks up monthly property purchases made with plant and capital equipment funds, but not operating fund property purchases unless it is specifically noted on the approved voucher. Information from semiannual reports is used to update the property data for contractors using operating funds. However, the office does not update data on contractors using plant and capital equipment funds because the semiannual report is several months out of date when the Department receives it.

Of the offices that maintain records in both accounting and procurement offices, none routinely reconciled procurement with accounting property records. The San Francisco office is attempting to reconcile the number of contractors on procurement and accounting property records as a result of our review. However, the effort will not include property amounts. There were no checks in the various systems to assure that semiannual reports were not lost between the two offices, or that property data was entered into the system correctly.

Procurement and accounting records also differed because other transactions, such as property disposal, property transfers to the contractor, or contract transfer, were not effectively communicated between the two offices. In some cases, the accounting office did not receive notification of these changes and continued to carry erroneous data, even though procurement officials claimed the reports had been sent. For example, the Washington office had a gross difference between accounting and procurement records of $142 million. We found that part of this discrepancy occurred because eight contracts, with property valued at $39.9 million, had been transferred to other Energy offices for administration. The accounting records of the original administrative office (Washington), however, still carried the property amounts. Another 17 contracts, with property valued at $5.7 million, had been closed out and retired by the procurement office, which meant all property had been disposed of. Nevertheless, the accounting office still carried the property on its books.

In addition to differences that result from information not adequately communicated between procurement and accounting offices,

the Oak Ridge accounting office does not record any property purchased with operating funds unless specifically told to do so by procurement personnel. At this office, six contracts, with property worth about $2 million, were not on accounting records because the contract administrator had not identified the property as Government-owned. Also, $5.6 million worth of property associated with pilot or demonstration projects (funded entirely with operating funds) was not capitalized, recorded, or tracked by that accounting office. Oak Ridge officials have recently informed us that, as a result of our review, they have changed their procedures and now record property purchased with operating funds.

LOSS OF CONTROL IS DUE TO LACK OF REPORTING REQUIREMENT ENFORCEMENT

The Department of Energy has not adequately enforced the reporting requirements of its property regulation, which has allowed some contractors to ignore the requirement or not report accurately on the amount of Government-owned property they hold. As a result, Energy's property records are not accurate and, more important, the Department cannot control the property those contractors possess. Further, delegating contracts to other Government agencies for property administration did not ensure proper recordkeeping or property management.

Contractor property reports are not accurate

The Department does not routinely verify the accuracy of contractor property reports. As a result, Energy records may not reflect actual contractor property and control may be lost. The Department's property regulation does not require contract specialists to routinely visit contractors and inspect or test Government-owned property inventories. Recently, when a contract specialist voluntarily conducted an inspection, he found the contractor had purchased a $154,000 gas and power turbine in 1978. Although acquired with Energy funds, the turbine had never been reported to the Department because it would eventually become part of a larger, more complex generator. The turbine has since been integrated into the usable generator system for another $703,000 and should be reported in the contractor's next semiannual report.

The lack of accurate reporting is ultimately reflected in the Department's property records, which are not accurate. For example, at the Albuquerque procurement office, we requested the office to obtain property inventories from all active offsite contractors. Out of 108 requests, 74 contractors responded, disclosing differences of about $2 million between Energy and contractor property records. Of the 74 responses, only three reported the same amount of property as the Albuquerque procurement office had recorded. One contractor reported almost $1 million more in property than Energy was aware of. This property may never have been controlled by the agency if our review had not revealed it.

The Chicago office also requested property reports from all offsite contractors in March 1980. The contractors reported only $64.3 million in property, while the Department had $158.1 million on its accounting records--a difference of $93.8 million. When we informed the Chicago office of these discrepancies, agency officials claimed that they could account for a large portion of the difference through monthly accounting reports from five contractors that they knew had not filed property reports. The total differences, however, have not yet been reconciled.

The Department's property regulation provides for a check on property actually held by the contractor through its requirement for periodic physical inventories. Contractors must conduct inventories every two years and provide Energy with a signed statement showing inventory agreement or discrepancies with official records. During our review, we found such statements only in some of the San Francisco contract files. However, even in these instances, Department officials did not follow up when discrepancies were reported. By not enforcing this requirement, the Department loses one of the few controls it has over contractors in managing Government-owned property.

Contractors also may not be aware of their responsibilities under the Department's property regulation or may not take those responsibilities seriously. One contractor we visited had more than $1 million in property under two Department contracts, although the semiannual reports listed only $26,000. A contractor official was unconcerned about the accuracy of the report and could not remember when a physical inventory had last taken place. At another contractor, an official told us that he was familiar with the property regulation. Nevertheless, he did not submit an inventory list to the Department when the contract expired, as the regulation required.

Delegation does not ensure proper property management

The responsibility for ensuring that reporting requirements are met, along with all other property administration functions, are usually delegated by the Department to other Federal agencies, such as the Defense Contract Administration Service (DCAS) or the Office of Naval Research (ONR). These organizations periodically visit the contractors and, among other things, test the inventory of Government-owned property. Although copies of contractor property reviews are supposed to be forwarded to the Department's contract specialist, we found that only the San Francisco office had any reports on file. We were able to obtain copies of the reports on selected Energy contracts from DCAS, which performs the reviews annually.

However, in some cases where the reviews cited the contractor for unsatisfactory property performance, no followup was made by the Department to get the contractors to improve. This may have

been due to a lack of knowledge concerning the contractor's performance where the Department did not receive the review reports. In two instances, DCAS repeatedly found Energy contractors to have an unsatisfactory property control system. Nevertheless, the Department continued to do business with the contractors.

ACTION WAS TAKEN TO INCREASE CONTROL AND IMPROVE ACCURACY OF AGENCY RECORDS

The Washington procurement office recently initiated two new procedures which, when implemented in tandem, should dramatically increase both control over contractor purchases of property and the office's ability to maintain accurate, up-to-date records on contractor property. One of these procedures requires that all new contracts or modifications must contain a list of authorized property to be purchased under the contract. The other is a new billing procedure whereby contractors must identify individually on the monthly payment voucher all capital equipment items purchased. Then, when the voucher is reviewed by the contracting officer prior to approval for payment, a check can be made as to whether the property purchased was authorized in the contract. The contract specialist must then update the property record for the contract.

The advantage of this system is that the contracting officer can disapprove payment for unauthorized property purchases and has greater assurance that the contractor is not buying more than is required. The agency also has a means of establishing exactly how much property the contractor should be accountable for and can verify the accuracy of the contractors' semiannual reports.

However, while the procurement office is required to update its contractor property records from the monthly vouchers, a similar procedure has not been established in the accounting office. To correct this, the accounting office first needs to instruct personnel to record property identified on invoices, regardless of the accounting code specified on the approved voucher. Secondly, program and procurement personnel should ensure that the proper accounting codes, which identify property, are written into both obligation and payment documents.

Since the 1979 inspector general's report concerning management of Government property being held by offsite contractors, the Department has been aware that improvements are needed. It has taken some actions Departmentwide to improve property management, including:

--Establishing DOE-PMR 109-60, which defines contractor responsibilities concerning property management and requires semiannual reporting of Government-owned property.

--Studying the problems inherent in the Department's property management systems, especially from the accounting standpoint. Although the Department has identified problems in this area, we could find few actions yet taken to correct them.

--Developing a 3-day property management training course to be given eventually to all Energy contract specialists. The training manual from this course is now a handbook for contracting officers and staff which contains comprehensive information on their duties and responsibilities to control Energy contractor property. Because the handbook was issued only recently (April 1982), we could not assess the impact it will have on Energy's control of property. However, we are aware that the handbook has been distributed to Energy offices only as an information document; local distribution and implementation will depend on priorities set at local levels.

Agency officials at the Albuquerque procurement office believe that current practices are adequate for the control of offsite contractor property. They feel the amount of money invested in such property is not significant enough to warrant changes in the system. We disagree, particularly since the amount of property controlled by the Albuquerque office is in the millions of dollars. Also, as previously mentioned, the exact amount of property could not be determined because of inadequate recordkeeping.

CONTROLS OVER CONTRACTOR PROPERTY DISPOSAL ARE INADEQUATE

Energy's property disposal system is lengthy, cumbersome, and inadequate to meet contractor needs. The agency does not routinely inform contractors about how they should dispose of Government-owned property, which results in property being kept when no longer needed, potential misuse or loss of property, or inefficient disposal through cannibalization. Inadequate disposal also prevents the agency from reusing, instead of purchasing, new property.

The Department's contractors should dispose of Government-owned property through a series of steps. After getting permission and instructions from the Energy contracting officer, the contractor prepares excess property listings and mails them to about 240 departmental and contractor locations. If the property is identified as being needed by any of those locations within 30 days, the contracting officer authorizes transfer of the property. If no request for the property is made in that time, the General Services Administration is informed that property is available for disposal. If the General Services Administration cannot dispose of the property within 60 days, it may be sold as scrap, donated, or abandoned. If property administration has been delegated to DCAS or another agency, all requests and authorizations must go through that agency.

Contractors do not know disposal requirements

Contractors are not routinely informed of disposal procedures unless they specifically ask for instructions. One contractor whose operations we reviewed kept all Government-owned property without attempting to dispose of it because a final cost audit had not been performed. This contractor had such equipment as drilling pipe, electronic monitoring devices, and a pickup truck from several expired Energy contracts sitting idle while they may have been useful elsewhere. Another contractor maintained a large inventory of Government-owned equipment in commercial storage while trying repeatedly to obtain disposal information from the Department. When a DCAS property administrator took over the contract, the property was quickly disposed of through Department of Defense channels, bypassing the Energy system entirely. During visits to other contractors, we found they retained useable property because the Department had not provided them with disposal information.

Another problem with the Energy system is its dependence on the knowledge of reviewers of the disposal information. In order to have property redistributed to another offsite contractor, a contract specialist must be aware of the other contractors' property needs and must carefully review each excess property form. When the specialist identifies a match between excess property and contractor needs, transfer orders can be given. However, such a review is often haphazard, if it takes place at all. Procurement officials told us the reports were rarely reviewed by contract specalists before authorizations were made for new purchases. Although we were told that Energy technical personnel are much more familiar with contractor property needs than procurement personnel, technical people do not get copies of the excess property forms.

Disposal of excess Government-owned property is further hindered by the lack of accurate records kept by the Department. As discussed in previous sections, Energy procurement offices often do not know which contractors have Government-owned property and which do not. Although the property regulation requires that all contractors submit property inventory lists to the Department as soon as the contract expires, we found few contractors who actually did so. Without accurate records for disposal, the Department cannot effectively redistribute property.

Energy will soon change its property disposal system

As of October 1, 1982, the Department will institute a new property disposal system that is designed to correct deficiencies in the current system. Funds were allocated for the system as a direct result of our review. The new system will require contractors to prepare a single list of excess property and submit it to an Energy office in Washington. That office will enter all excess property data into a computer, which will then generate a monthly

alphabetical catalog. The catalog will be distributed to the approximately 240 addressees who currently receive the excess property lists. Requests for excess property will be processed through the central office. All other procedures will remain the same.

Department officials told us they would consider allowing technical personnel to review the catalog in order to improve redistribution of property. However, they said printing costs may prevent the agency from providing copies to all of them.

Full implementation of the new system is expected by January 1983. We believe that it should improve the Department's ability to reutilize its property. However, some problems--particularly those caused by the lack of accurate property records--will remain.

Disposition of major Energy facilities is ineffective

Energy does not have procedures for disposing of major facilities constructed as pilot projects for its energy programs. We identified at least 14 of these projects in the Department, 4 of which are now undergoing disposal. The lack of adequate disposal procedures resulted in a major facility being rendered useless for its original purpose and possibly for any follow-on purpose. The cannibalization of the plant and equipment will probably result in the facility being disposed of as scrap, and may result in a much smaller return of funds to the Government than could have been realized.

One case we observed involved a lignite gasification pilot plant, operated for Energy from 1972 until October 1977. The Department attempted to transfer the plant to the General Services Administration for disposition in February 1981 but, due to incorrect completion of excess property forms, it was not transferred until December 1981. Although officials could not explain why no attempt at transfer was made for 3-1/2 years, the agency spent $1.1 million to provide security and maintenance during that period. Also, many integral parts of the plant, including the main control computer, high pressure valves, and pipes connecting parts of the plant, were classified as excess personal property, making the remaining plant useless for its original purpose. Because the Department allowed these items of equipment to be removed, the plant cannot be put back into operation without incurring major costs. Consequently, the plant may have to be sold for scrap value, despite the fact that two private companies and two State universities were interested in obtaining it as a facility.

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Energy officials in one office downplayed the lack of day-to-day control of offsite property on the basis that property would

ultimately be accounted for and reconciled against Department records when contract closeout occurs. The closing of contracts is not an effective means to identify and account for property, particularly since we found an average of 11 months elapsed before the Department initiated the closeout process in the instances we reviewed, during which the potential for property loss, misuse, and deterioration continued. Prompt contract closeout is not a substitute for effective property management, but prompt closeouts can strengthen an already effective property management system.

CONTINUED EMPHASIS IS NEEDED ON CLOSING AND AUDITING CONTRACTS AND GRANTS

Prompt closeout of expired contracts and grants is important to ensure that contractual terms have been satisfied and that unexpended funds and residual property are recovered. Although the Department's goal is to close all contracts within 20 months of expiration, our review of selected contracts disclosed that closeouts are averaging over 30 months. In the past, contract and grant closeouts have not had a high priority in the agency. Recent programs have been established to reduce the backlog of completed grants. The Department needs to continue its emphasis to prevent newly expiring grants and contracts from adding to the backlog.

Contract and grant closeouts are backlogged

Energy currently has an unreasonably large backlog of contracts and grants awaiting closeout. We visited six Energy procurement offices and found a backlog of about 6,900 contracts and grants which expired on or before December 31, 1981, with face values totaling about $6.5 billion. Of these, about 32 percent had been expired for over 24 months, some for as long as 118 months. The Department is currently attempting to reduce this backlog.

In response to our review, in February 1982, the Department requested that all agency procurement offices submit plans containing closeout objectives to significantly reduce the backlog of expired contracts and grants on hand as of June 30, 1981. According to the plans, most offices will clear their backlog by March 1983. However, contracts and grants continue to expire and continually add to the backlog.

Contract closeouts are delayed

The Department relies primarily on other Federal audit organizations, such as the Defense Contract Audit Agency (DCAA) to audit its contracts. According to DCAA officials, the agency gives no preference to Energy contracts, and performs the Energy audits in the same time frame as Department of Defense contracts. Recently, DCAA increased the time allowed for performing final audits from 20 to 36 months after contract expirations. Therefore, in closing its contracts, Energy could experience increasing delays which it cannot control.

Resolution of audit findings can also be time consuming. OMB Circular A-73 states that any findings of a final contract audit must be resolved within 6 months of the audit issue date. On March 31, 1982, the Department had 478 audits in which questioned costs were not finally cleared, which indicated as much as $31.9 million was potentially owed Energy. These costs will either be reinstated (found to be allowable) or disallowed. Of these audits, about 45 percent were 6 or more months old with questioned contract costs of about $14.4 million. In many cases at the locations we reviewed, Energy was attempting resolution; it had either requested the contractors' responses to the audit report or had received and was analyzing the responses. In some instances, the Department had not yet reviewed the audit report.

The Department should continue to emphasize reducing its backlog of expired grants and contracts. Efforts should be made at all procurement offices to prevent future increased backlogs of expired contracts.

CONCLUSIONS

The Department of Energy needs to improve its control over property held by offsite contractors. While the Department's property regulation substantially increased the information concerning Government-owned property that Energy receives, it is not being consistently implemented agencywide. Information on property is not always accurately recorded in procurement or accounting records. Energy needs to better define what property it will account for and manage through its procurement offices. As long as varying interpretations are allowed as to what constitutes Government-owned property, property records in both procurement and accounting offices will continue to differ by substantial amounts. Overall, the Department does not know how much Government-owned property is held by the various contractors.

Some Energy offices have established procedures for ensuring that property is accurately reported and recorded. However, implementation of these procedures may not be as comprehensive as necessary. Steps should be taken to expand some of these procedures to ensure better control over property. By doing this, Energy will not only improve its management of property being used by contractors but will also develop a sound data base for efficient and timely disposal of property when it is no longer needed.

Energy officials at one location downplayed the lack of property control by countering that all property was recovered at the time of closeout. This is not an effective management technique, particularly in light of Department delays in initiating closeouts. Because Energy has not initiated closeouts promptly, it takes longer to get audits conducted and resolved and, in the meantime, some

property may go unused, be lost, or deteriorate. In addition, funds that could be made available for reobligation may remain committed unnecessarily.

RECOMMENDATIONS

We recommend that the Secretary of Energy

--Undertake a one-time project Departmentwide to identify all Government-owned property held by offsite contractors, including contracts that have expired but are not yet closed out.

--Clarify existing procedures concerning the accounting treatment of property purchased with Energy operating funds and plant and capital equipment funds, to ensure uniform accounting throughout the Department.

--Establish procedures to require that property requirements be listed in individual contracts and that procurement offices verify subsequent property purchases against these lists.

--Establish procedures to require that monthly payment vouchers submitted by contractors itemize all property purchases, categorized by Energy funding and asset type, and that accounting and procurement offices record the information accordingly, regardless of funding type.

--Establish procedures to require a periodic reconciliation of procurement and accounting records at each operations office.

--Establish procedures for the timely disposal of property associated with major Energy facilities, such as pilot plants and demonstration projects.

--Ensure that contractors are notified of property disposal procedures at the time of contract award.

--Require contracting officers to see that contractors meet all property reporting requirements within the allotted time.

--Require more effective coordination with DCAS property administrators to assure that all property reviews are communicated to Energy officials.

CHAPTER 5

BETTER AUDIT AND CONTRACTOR MONITORING NEEDED AT THE STRATEGIC PETROLEUM RESERVE

We found several areas where the contracts for the construction, maintenance, and operation of the Strategic Petroleum Reserve could have been better administered. For example,

--audits of several major cost-type contracts were not fully monitored to ensure adequate coverage,

--findings of some contract audits were not promptly resolved, and

--contractor procurements did not always meet requirements concerning competitive bids to obtain fair and reasonable prices.

The Department recently asked the Defense Contract Audit Agency, which provides audit services, to increase the number of auditors reviewing contractors' activities. DCAA officials, however, stated that certain fundamental changes must be made in the way the Department deals with the contractors before added audit coverage would be worthwhile. Although the Department has taken some corrective action on the problems we identified, it is essential that all of these matters be quickly resolved to help minimize the Government's costs.

The contractors handle the construction, maintenance, and operation of the SPR. The Department's SPR project office in New Orleans, Louisiana, is responsible for monitoring the cost and the contractors' performance. Funds appropriated or requested for development of storage facilities and operations from fiscal 1976 through fiscal 1983 total about $1.9 billion, and $1.4 billion of those costs have already been incurred.

AUDIT COVERAGE SHOULD BE EXPANDED AND MORE CLOSELY MONITORED

The cost-type contracts the Department has used for the construction and operation of the SPR provide for the contractors to be paid for all allowable costs incurred. To ensure that contractors' costs are proper and within the terms of the contract, the Department relies on DCAA for audit services. Despite the importance of that function, at the beginning of our work neither the Department nor DCAA could

--readily identify the portion of incurred costs that had not been audited or

--determine the extent of audit coverage required.

We later made a formal request for this information to DCAA, which estimated that about $361 million of costs incurred by three major contractors had not been audited as of June 30, 1982. In February 1981, project office officials in New Orleans recognized that numerous areas required additional auditing and requested that DCAA increase the number of auditors assigned to the SPR. Because DCAA could not comply with the request due to staffing limitations, the project office officials advised the SPR headquarters of their needs and suggested that budget resources be shifted to allow DCAA to provide the necessary support. The Department did little until May 1982, when it asked DCAA to provide 10 additional auditors.

Areas were cited by Energy as needing more audit coverage

In its request, the Department cited the following major areas as requiring enhanced audit support:

--A backlog of unaudited, incurred costs for two major contracts.

--Letter-of-credit accounts and associated disbursements.

--Contractors' cost management, reports, and systems.

--Cost analyses of contractor proposals.

--Definitization of overhead rates for all major contracts.

The Department estimated that the need for additional support would continue for approximately 5 years.

DCAA has cited unfavorable audit conditions

DCAA officials cited several factors that contribute to an unfavorable audit environment at the SPR, including weak contractor internal control systems, poor purchasing procedures, and a high turnover of contractor personnel. In its July 1982 response to the Department's request for additional auditors, DCAA noted additional problems, including the following:

--Although Energy officials have noted that the letter-of-credit method of contract financing renders the Government extremely vulnerable to unreasonable disbursements, as well as to contractor recovery of unallowable or unallocable costs, new SPR contracts continue to provide for letter-of-credit financing.

--DCAA has expended considerable audit resources in the area of contractors' cost management, reports, and systems. Yet the issued reports, which disclose significant contractor system deficiencies in these critically important areas, have yet to be fully resolved by Energy contracting officials.

The DCAA Director also stressed the need for (1) timely and effective action on audit recommendations and (2) tighter program office control over contractors, particularly in the subcontracting and purchasing systems areas. DCAA concluded that no amount of additional audit effort can "plug up the hole" caused by weak contractor financial management systems and a lack of resolution of reported problem areas by the Department.

MORE PROMPT AND COMPLETE FOLLOWUP OF AUDIT FINDINGS IS NEEDED

It is the responsibility of agency management to act on auditors' recommendations and recover any improperly spent funds that are reported. Failure to promptly follow up on audit reports and recover misspent funds can result in financial losses and wasted audit resources. Before we received DCAA's comments on audit resolution, we made our own evaluation. We found that, although the Department adopted procedures requiring audits to be acted on in a timely and proper manner, the procedures were not consistently followed at the SPR.

Department Order 2300.1, Audit Compliance and Followup (Dec. 5, 1980), established the Department of Energy Audit Report Tracking System (DARTS). The order requires that specific action plans be developed for implementing accepted recommendations and that audit reports be entered into DARTS for monitoring until open audit issues are closed. The order also emphasizes the need for prompt and proper action on audit recommendations and findings, and that audit followup is an integral part of management.

During our review, a project office official stated that their followup process for DCAA audit findings was weak. Also, officials stated that none of the reports was entered into DARTS before April 1982. We reviewed the actions taken in response to 13 audit reports issued on three of the principal SPR contractors and found that the time required to complete action on the reports ranged from 31 to 443 days for an average of 172 days. Six audit reports for which complete action had not been taken at the time of our review showed that, from their issuance dates to June 10, 1982, their average age was 256 days, ranging from 168 to 376 days. Those reports questioned about $1 million of contractor costs. In one instance, about 5 months elapsed before SPR officials referred the audit report to the responsible contractor. The report included a recommendation for action by the contractor, but another 3 months passed before action was initiated.

After we brought these matters to their attention, project office officials stated that procedures had been changed to provide for (1) input of audit reports into DARTS and (2) preparation of action plans to implement audit recommendations.

INSPECTOR GENERAL SHOULD MONITOR COVERAGE AND FOLLOW UP ON AUDIT RECOMMENDATIONS

A possible contributing factor to the audit coverage and resolution problems is the Office of Inspector General's (OIG's) lack of cognizance over SPR audits performed by DCAA. An objective of the Inspector General Act of 1978 was to allow audit functions to be centralized under one office in various agencies. Among other things, inspectors general are responsible for conducting and supervising audits and investigations of agency programs and operations. The Department's OIG has a small staff at the Strategic Petroleum Reserve, but DCAA operates independently and reports directly to project office personnel.

According to the Department's Inspector General, his office is not responsible for the sufficiency and type of audit coverage or the resolution of DCAA's audit findings at the SPR. In May 1982, the Department made the Inspector General a member of the Department's Audit Review Council. The Council is responsible for reviewing and overseeing departmental audit compliance and followup management. Although this appointment should help the situation, we believe the Department's Inspector General should also periodically assess the adequacy of audit coverage and actions taken on audit findings. This effort could help the Council discharge its responsibilities as well as avoid recurrence of existing problems.

CONTRACTOR PROCUREMENT NEEDS BETTER MONITORING

As part of the contracting process, contractors submit their proposed procurement systems for approval by the project office. Although these systems generally provide for using competitive bids wherever possible to obtain fair and reasonable prices, our limited review of selected procurements (purchase orders for the acquisition of goods and services) made by three principal SPR contractors indicated that this requirement was not always met.

Some files contained no evidence of competition or price quotes

Of the more than $794 million in costs incurred by the three contractors, an estimated $94 million related to about 56,000 purchase orders. The purpose of the requirement for competitive bids (or at least obtaining a variety of price quotes) is to ensure that excessive costs are not incurred. Two contractors' procurement systems specified this requirement for procurements over $500; the third required competitive bids for procurements of over $100. Project office officials stated that purchases of $25,000 or more and their supporting documentation are reviewed to ensure that bids or quotes were obtained. We reviewed purchase orders for lesser amounts and found some cases where there was no evidence of competition for items on which competition is normally feasible. Specifically, we reviewed the canceled checks of the three contractors for

2 test months and selected 392 procurements totaling $2.7 million for review. Our review disclosed 37 procurements totaling $193,000 with no evidence in the files of competition or price quotes being obtained. Project office officials questioned the significance of the findings and stated that: the bulk of the funds paid to contractors does not apply to the types of purchase orders we reviewed; their own analyses showed competition took place in the majority of large purchases; our sample of transactions was too small; and the contractors probably just did not document the files properly.

We believe the failure to obtain bids or price quotes is generally unwarranted and in contradiction of the contractors' procurement regulations, which recognize that competition is desirable and promotes the opportunity to obtain the most reasonable prices. As long as the requirements exist, they should be enforced, especially when considering the large amounts spent through purchase orders. It is possible that the contractors, whose representatives generally agreed with our findings, obtained bids and simply failed to include the information in the files. However, closer monitoring of procurements by the Department could have disclosed this problem as well as instances of actual noncompetitive procurements. By doing so, fuller contractor compliance with their procedures would have been prompted and some assurances would have been provided that goods and services were obtained at fair and reasonable prices. Furthermore, in light of the problems identified with audit coverage, we did not deem it necessary to sample a large number of transactions to illustrate lack of compliance with procurement policies. In addition, GAO will be undertaking a larger scale survey of procurement practices at the SPR.

Inspector General has conducted fraud investigations

Work by the Department's OIG provides further support for the need for closer monitoring of contractor activity. According to the Inspector General, his office opened 25 investigations at the SPR during 1980 and 1981. Many of the cases involve allegations of contractual fraud. Fifteen of the cases had been closed at the time of our review, and four had been referred to the U.S. attorney. It should be noted that a closed case does not necessarily mean that fraud has or has not occurred. Rather, in many cases, it means that either sufficient evidence to develop a case for forwarding to the U.S. attorney could not be developed or, for various reasons, the U.S. attorney declined prosecution. For example, in one recently closed case, a subcontractor reconditioned five Department-owned drill bits and sold them back to the Department for $10,700, which approximates the price for new bits. Although 395 drill bits costing $500,000 were involved, the property records were so bad that investigation could not determine whether substantive fraud had occurred.

CONCLUSIONS

The Department's use of high-risk, cost-type contracts at the SPR, along with inadequately monitored audit coverage and contractor procurements, can result in cost increases. It is clear that DCAA and the Department must resolve their differences to improve the audit effort and ensure that the Government's interest is adequately protected.

The OIG can also serve a useful purpose in monitoring the audit coverage and followup efforts. Periodic assessments by the OIG could provide an independent view of whether the audit program is fully effective. Some means of spot checking contractor procurements under $25,000 would also be helpful in ensuring compliance with procurement regulations. The need for action is especially important considering the hundreds of millions of dollars to be paid to contractors before the SPR is completed. The cost of phase III alone, which is just beginning and includes construction of another oil storage site, is estimated to be about $1 billion.

RECOMMENDATIONS

To strengthen certain aspects of the SPR contract administration, we recommend that the Secretary of Energy

--lead a cooperative effort with the DCAA Director to resolve the disagreement between the SPR project office and DCAA regarding audit coverage and audit recommendation followups,

--determine the status of incurred cost audits, make any necessary improvements to enhance the audit environment, and provide adequate coverage of contractors as agreed with DCAA,

--take more timely and complete action on all appropriate audit recommendations,

--require the Department's Inspector General to periodically report on the adequacy of audit coverage of SPR activities and actions taken on audit findings, and

--strengthen the monitoring of contractors' procurement activities and compliance with procurement requirements.

CHAPTER 6

REVISED HEADQUARTERS/FIELD LINES OF AUTHORITY ARE NEEDED TO IMPROVE FINANCIAL MANAGEMENT

Throughout this report, we have cited instances of field units failing to follow prescribed procedures. We attribute this in part to the fact that, under Energy's current structure, headquarters functional managers, such as the controller and procurement director, do not have the authority to control the field staff who implement their functional requirements. In a prior report 1/ we recommended that the Department revise its lines of authority to make field staff more accountable for adhering to prescribed procedures, but the Department disagreed with the recommendation. Nonetheless, we believe that the findings in this report demonstrate that the Department should reconsider the recommendation as a means of ensuring that the basic financial management requirements established by the Congress, GAO, and the Department are met.

FUNCTIONAL RESPONSIBILITIES CAN CONFLICT WITH PROGRAM RESPONSIBILITIES

Our earlier report recognized that, like any Government agency, Energy has functional responsibilities which are as important as, but often conflict with, program responsibilities. These responsibilities include adhering to sound accounting and procurement practices, and preventing and detecting fraud and abuse. Because of the potential for conflict between functional and program goals and objectives, functional offices often are and should be independent of program offices. The Department's headquarters organization generally reflects this basic precept; however, in the field most functional offices report to the field office managers on the program--not the functional--side of the organization structure. While there are exceptions, headquarters functional office managers generally do not have direct line authority over functional staff in the field. The report concluded that this structure tends to impede the independence of functional activities in the field and, on occasion, hinder the Department's ability to effectively carry out its functional responsibilities. The findings presented in this report provide a good illustration of that problem.

As discussed in chapters 2, 3, and 4 of this report, we found weaknesses in virtually all major aspects of internal control. Frequently, the weaknesses resulted from the Department's prescribed procedures not being followed, particularly at field installations. As discussed earlier in this report, major corrective

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1/"A New Headquarters/Field Structure Could Provide a Better Framework for Improving Department of Energy Operations," EMD 81-97, Sept. 3, 1981.

actions were taken at the Department's Office of Washington Financial Services and in the headquarters procurement office during the course of our review. Many of these actions were taken within a short time frame of having been brought to the Department's attention. We attribute this in part to the organizational structure, since the Assistant Secretary for Management and Administration has direct authority over these offices. While some corrective actions have been taken in the Department's field organizations, the actions taken are inadequate and fall short of those corrective actions taken or underway in Washington.

In this report we have demonstrated, in the procurement and financial operation of the Department, that corrective actions have not been as effective in the field offices as they have in headquarters. Thus, we still believe, as previously reported, that giving headquarters managers direct lines of authority over their respective field staffs could provide a framework for getting

--a better staff assignment mechanism in the field,

--more consistent implementation of departmental requirements, and

--better evaluation of functional activities and staff performance and control to take corrective actions.

In our earlier report we recognized that implementing the recommendations required to give headquarters managers direct lines of authority over their respective field staffs would constitute a major reorganization for the Department. We also recognized that a reorganization of this magnitude will be time consuming and difficult.

While the concept of providing direct lines of authority between headquarters and field staffs is relatively simple, implementing this concept will be complex. We noted that our recommendations could be implemented a number of ways, ranging from phasing in the new structure on a program-by-program or field office basis, to the most drastic action of changing the entire organization simultaneously. Thus, we said that the Secretary may wish to establish a task force to evaluate all such options and then develop an implementation plan.

Energy disagreed when we recommended this action in our prior report. The Department's basic disagreements were:

--Our questionnaire methodology failed to provide valid data on which to base an analysis.

--The recommendations were inconsistent with the Department's decentralization efforts; to implement the recommendations Energy would have to reverse its decentralization policy and centralize program management and execution in headquarters.

--The recommended organization structure would fragment program accountability.

--Staffing resources would have to increase significantly.

--The relationship between Energy and Government-owned, contractor-operated facilities would be adversely affected.

Our report provided a detailed explanation of Energy's comments in each of these areas as well as our evaluation of these comments. (See app. I of EMD 81-97, Sept. 3, 1981.) We disagreed with the Department's comments on these issues. Briefly stated, we noted that our questionnaire had been pretested and revised after consultation with Energy officials. The questionnaire was prepared and the responses analyzed by our staff and an expert in organization design and theory. We did not recommend that Energy abandon its decentralization effort; rather we suggested decentralization under a different organization structure. Moreover, we believe that under the recommended organization structure, program accountability would be enhanced without a concomitant increase in staffing resources. Finally, we believe that relationships with Government-owned, contractor-operated facilities would not be adversely affected because new roles would likely be developed to fulfill this responsibility, as needed.

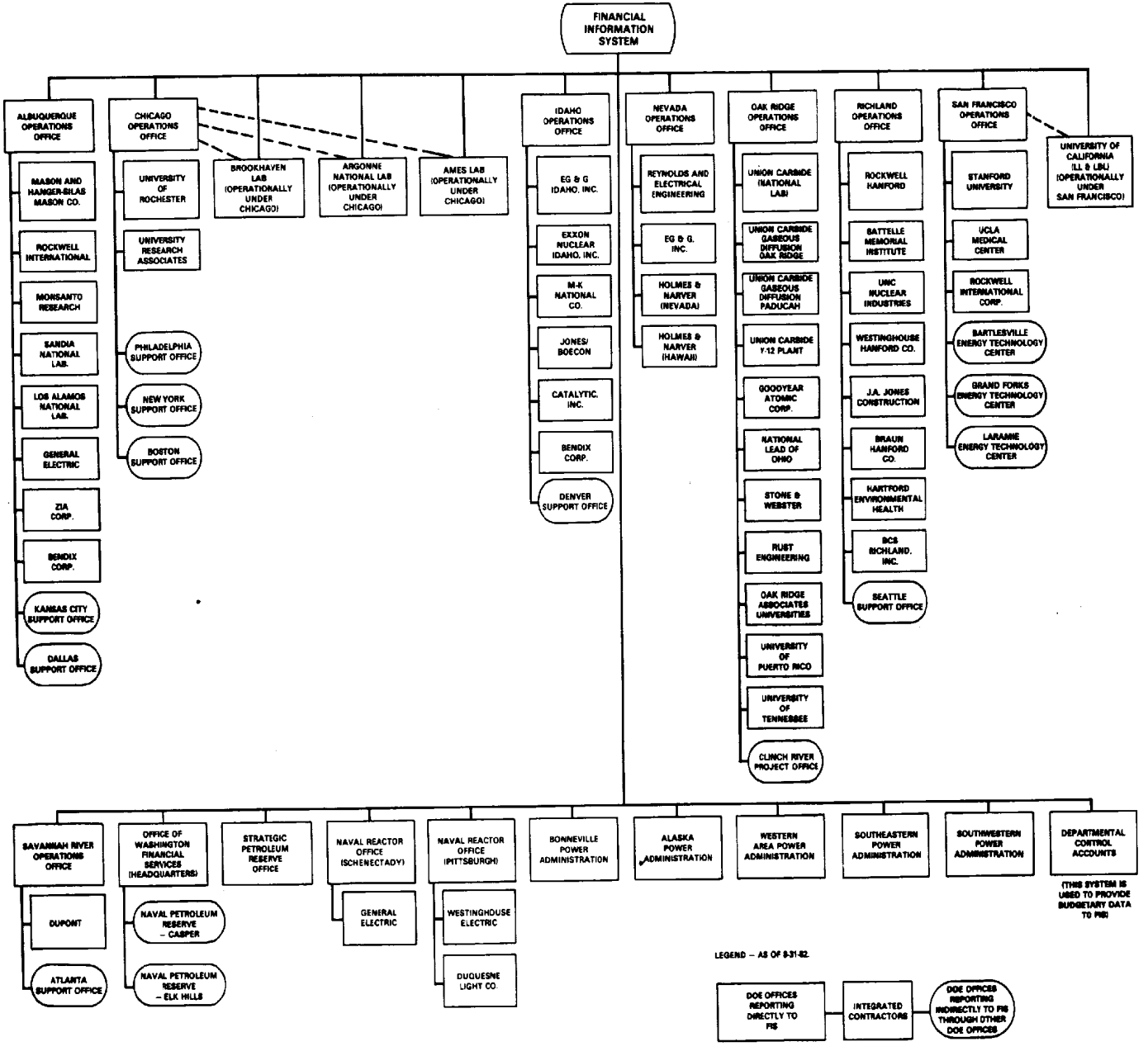
Consistent with our views discussed above, it is important that the Department delineate lines of responsibility and fix accountability within the organization for adherence to established procedures. Separate recommendations along these lines are included in chapters 2, 3, and 4 of the report.

RECOMMENDATION TO THE SECRETARY

We recommend that the Secretary reconsider our earlier recommendations on this issue, with particular emphasis on giving direct line authority to the headquarters functional office managers over all their respective field functional office staffs. In exercising this authority, headquarters functional office managers should ensure that the independence of functional offices is maintained in headquarters and in the field so that they can effectively carry out their missions; and program Assistant Secretary-level managers receive functional support for actions that are considered critical for meeting established goals and objectives. The Secretary should create, to the extent practicable, dedicated functional support staff for each program Assistant Secretary-level manager.

APPENDIX I

ACCOUNTING ENTITIES REPORTING TO THE DEPARTMENT OF ENERGY'S FINANCIAL INFORMATION SYSTEM (FIS)



SELECTION METHODOLOGY AND EVALUATION CRITERIA

FOR REVIEW OF ENERGY DEPARTMENT

GRANT FUND MANAGEMENT

We used the same methodology and criteria to select the grant records we reviewed at the Washington office and the six field locations. The Department provided us with a list of active grants at each location. We examined selected grant records to determine the adequacy and completeness of the financial data in the files; we also looked for evidence that Energy had been monitoring the cash balances of the grantees and taking corrective action where problems were observed.

We selected larger dollar value grants to review--those with obligations of $120,000 or more--because of the greater likelihood of excess cash existing in amounts large enough for Energy to pursue recovery. Also, to gain a representative grantee payment history we reviewed only grants that had received at least $50,000 in payments from the Department. On grants of $120,000 or more, Energy allows payments to be made either through a letter of credit or by direct payment from the Department. Since Energy has separate instructions for and generally maintains separate files on direct payment grants and letters of credit, we selected samples of each payment method for review.

At each location, several factors influenced the number of grant instruments reviewed for each payment method, including the total volume of grants and the predominant payment method the Department used. With two exceptions we made either a 100-percent sample or a representative sample of both types of payment methods. First, we examined all the letter-of-credit files covering more than one grant each, because such letters of credit are more difficult to monitor and thus more susceptible to the accumulation of excess cash. Secondly, we also judgmentally selected additional direct payment grants to review at San Francisco and the Washington office to ensure a cross section of the various types of Energy programs and grantees. Additional grants were selected depending on their size, age and activity, and type of grantee (nonprofit, State, or individual).

Our analysis of selected letters of credit and direct payment grants consisted of a comparison of periodic costs incurred and cash on hand, as reported by the grantee 1/ with records of amounts received from the Department. Since some letters of credit had been in effect for a number of years, we limited our review to payments received during the 12 months between April 1, 1981, and March 31, 1982. For direct payment grants, we examined all financial data

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1/In a few cases the letters of credit we reviewed included some contracts as well as grants.

in the files, but generally did not question transactions made before October 1, 1980.

CRITERIA FOR DETERMINING EXCESS CASH

Treasury regulations require that cash disbursements be made in accordance with the immediate cash requirements of the recipient organization. Treasury has not specifically defined "immediate disbursement needs," but states that excess funds should be returned except when

--the excess funds will be spent by the recipient within 7 calendar days, or

--the excess funds are less than $10,000 and will be spent within 30 calendar days.

Because of the ease with which grantees can obtain funds under letters of credit, Energy defines "immediate disbursement needs" as no more than a 3-day supply of cash on hand.

We determined excess cash using Energy and Treasury criteria, modified slightly. We added 2 days to Energy's 3-day criterion for cash held by letter-of-credit recipients. By adopting a 5-day criterion, we took into account possible weekends during which grantees would not be expected to spend grant funds.

For direct payment grants we adopted a 15-day criterion to recognize the added time it takes to receive payments under this method. To develop a more complete picture of the grantee's financial status, in some cases we supplemented the data in Energy's files with information obtained either directly from the grantee or from other sources.

We characterized as excess cash those amounts received that, according to the data in the files, were not subsequently spent within our modified time frames. Due to frequent gaps in the Department's file data, we could not always assess a grantee's cash position at any one point. When in doubt, we took a conservative approach in determining amounts of cash available to the grantee in excess of its immediate disbursement needs. For example, if a grantee under a letter of credit received $100,000 in January and then filed a report in June showing $20,000 still on hand, we reported excess cash of only $20,000 although it is unlikely that the $80,000 had been spent within 5 days of the January drawdown.

Our analysis and computation of excess cash is not intended to be a total reconstruction of the cash positions of the grantees over the entire period of our analysis. Depending on the data contained in the files, we were not always able to develop a complete picture of the cash status of each grantee. Our computations of excess cash were based on those circumstances where sufficient data existed for us to confidently determine that a grantee possessed

cash excess to immediate needs. In some cases we were able to conclude that excess cash existed but were not able to determine the exact amount. In other instances, we could not completely match up costs incurred with amounts obtained from Energy, but could employ alternative analytical techniques using information in the files or obtained from the grantee to conclude that excess cash existed.

APPENDIX III

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NINETY-SEVENTH CONGRESS

Congress of the United States

House of Representatives

ENVIRONMENT, ENERGY, AND NATURAL RESOURCES
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B-371-B-C
WASHINGTON, D.C. 20515

MEMORANDUM

DATE: November 10, 1981

TO: Charles A. Bowsher
Comptroller General
General Accounting Office

FROM: Chairman Toby Moffett
Subcommittee on Environment, Energy and Natural Resources

SUBJECT: Review of DOE Accounting and Financial Controls System

The responsibilities of the Subcommittee include the duty to oversee "The overall economy and efficiency of Government operations and activities, including Federal procurement" relative to a number of Federal agencies, including the Department of Energy (DOE).

The competence and professionalism of DOE has been a matter of concern to Members of both parties throughout the Department's history. That concern in conjunction with DOE's approximate twelve billion dollar a year budget and heavy reliance on outside contractors persuaded me of the need to review DOE financial and budgetary controls. Such a study was especially appropriate at this time given current budgetary restraints. Accordingly, the Subcommittee staff, pursuant to my direction, has been reviewing DOE's financial control system. The review sought to determine the adequacy of the Department's financial controls in preventing waste, fraud and abuse. Throughout this review the Subcommittee was assisted by persons from the General Accounting Office (GAO), who worked under my direction.

The staff investigation included a review of many thousands of internal DOE documents and records of financial transactions plus interviews with dozens of present and former DOE officials. The staff had neither the time, nor the resources to review DOE's entire financial control system. As a consequence, the staff conducted in-depth reviews of selected areas of that system. That case history approach revealed major problems in practically every area that was examined. Based on

that review I am persuaded that DOE's entire financial house is in disarray and that the Department clearly cannot effectively control the spending and collection of billions of dollars and the management of nearly a billion dollars in government property. The staff review in my judgment requires that:

(1) GAO undertake a full scale review of DOE's financial operation. That audit should pay for itself many times over in terms of money recovered by the Federal government. Indeed, DOE itself in following up on a portion of the Subcommittee's work is in the process of recovering millions of dollars in overpayments to DOE contractors.

(2) DOE's Office of Inspector General review in-depth the specific problem areas identified by the Subcommittee staff. The Inspector General should take personal responsibility for monitoring the Department's efforts to remedy those problems.

(3) With DOE no longer interested for philosophical reasons in playing a major role in the nation's energy affairs, Secretary of Energy James B. Edwards should devote a major portion of his time to managing the internal affairs of the Department.

The findings of the Subcommittee staff are detailed in subsequent sections. Briefly stated those staff findings include the following:

(1) DOE's existing accounting systems were transferred from its predecessor agencies and have not been updated to meet the needs of a Department with a $12 billion a year budget. DOE officials acknowledge the weaknesses of those former systems. As a result, DOE is unable to identify cumulative spending for major Departmental projects and programs.

(2) DOE's internal financial controls are inadequate and provide substantial opportunities for waste, fraud and abuse.

(3) Numerous reports prepared by DOE and by outside consultants, costing millions of dollars, have consistently documented the weaknesses in DOE's accounting procedures.

(4) Next to the Department of Defense, DOE has the largest procurement budget in the Federal government. DOE controls over payments to contractors are so loose, that in a recent eight months period contractors voluntarily returned close to $500,000 in overpayments received from DOE.

(5) According to DOE records assembled and reviewed for the first time by DOE at the Subcommittee's request, DOE contractors and grantees received $41.4 million in reported overpayments in fiscal 1979 and $85.6 million in fiscal 1980. Reported overpayments in fiscal 1981 are in excess of $25.5 million. Reported overpayments for purchase orders totalled $7.5 million in fiscal 1979, $9.6 million in fiscal 1980 and $8.4 million plus in fiscal 1981. DOE closed its financial books in fiscal 1979 and 1980 without determining the validity of those overpayments.

(6) Many of the overpayments shown on DOE's books do not represent actual overpayments but are the result of accounting and bookkeeping errors. An undetermined millions of dollars in actual overpayments has occurred, however. DOE for the first time, following the Subcommittee's lead, is attempting to check out all reported overpayments.

(7) Contrary to Office and Management (OMB) regulations prohibiting outside contractors from performing basic government functions, DOE in the midst of the Subcommittee investigation, hired a private consulting firm to seek to balance some of its books.

(8) Contrary to statutory and regulatory requirements, DOE has only recently reviewed its outstanding contractual obligations. Thus, DOE does not know the extent of its indebtedness to outside parties. This limited review has uncovered a substantial amount of funds which have been incorrectly identified as obligations.

(9) Internal reports obtained by the Subcommittee indicate that DOE's official financial reporting system used by DOE's managers to assess the proper execution of Congressional appropriations and the adequacy of the Department's internal financial controls, has an unacceptable rate of reporting errors and incorrect financial information. By DOE's own admission, this system "has not produced accurate and timely reports since the inception of DOE in 1977."

APPENDIX III

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(10) DOE's administrative control of funds, which is designed to assure that funds are spent for the purposes dictated by Congress in appropriations measures, is deficient. DOE frequently overspends in certain areas, while underspending in others, contrary to Congressional intent.

(11) DOE has been deliquent in pursuing possible criminal, civil and administrative violations by DOE officials with spending authority. As of the end of fiscal 1981, DOE had not reviewed all reported fiscal 1980 overspending violations.

(12) DOE's field offices, which administer a substantial portion of the Department's programs employ lax and loose accounting procedures. A recent GAO survey of field offices' accounting practices found "weaknesses in internal controls over accounts receivables, collections, disbursements, imprest funds and obligations... Furthermore, there was a lack of audits of internal control procedures and a general absence of local operating instructions." 1 /

(13) DOE's grants program is administered contrary to OMB regulation regarding the granting of cash advances at an estimated $8.6 million annual loss to the government in added borrowing costs. Accounts receivable in this area are improperly recorded in DOE's books and mandatory spending reports from grantees are not received.

(14) DOE regulations require that all grants be closed out within nine months after termination. Despite that requirement, DOE records show that over 2000 grants totalling $209 million have not been closed out within the requisite nine months.

(15) DOE does not have proper control over tens of millions of dollars of government owned property in the possession of outside contractors. DOE officials informed the Subcommittee staff that an outside contractor has now been hired to determine which contractors have government property in their possession.

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1 / September 17, 1981 letter to Secretary of Energy James B. Edwards from W.D. Campbell, Acting Director, Accounting and Financial Management Division, GAO.

APPENDIX III

(16) DOE has a substantial number of contracts involving government property awaiting close out. Many of these contracts expired three to four years ago and DOE's accounting records do not indicate what has happened to the government owned property that had been acquired by those contractors.

(17) The effectiveness of DOE's Controllers Office has been hindered by constant staff turnover and the arbitrary and the capricious assignment of personnel. Selected personnel actions examined by the staff may have violated applicable civil service rules and regulations. High level DOE officials have recently begun to concern themselves with the arbitrary and meanspirited personnel actions of certain DOE managers. One of those officials was removed from all-supervisory work for that reason. He subsequently received a $4,000 cash bonus for outstanding performance.

Attached is a summarization of the staff's review of DOE's accounting and financial control system. I would appreciate your reviewing that report to determine what actions should be taken by GAO pursuant to its statutory responsibilities to oversee DOE's accounting and financial control systems.

(905064/300552)

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