Department of Energy
Washington, DC 20585

November 14, 2005

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Report on the Department of Energy's Fiscal Year 2005 Consolidated Financial Statements

In response to requirements established by the Government Management Reform Act of 1994, the Office of Inspector General engaged the independent public accounting firm of KPMG LLP to perform the annual audit of the Department of Energy's consolidated financial statements. Audit work performed by the contract auditor identified significant deficiencies in financial management and reporting controls related to the Department's Fiscal Year 2005 consolidated financial statements. The Department's ability to prepare accurate consolidated financial statements and supporting documentation was affected by issues such as accounting for and monitoring obligations and funds control, accounting for accruals, reconciling payment information with the U.S. Treasury, reconciling integrated contractor trial balances, resolving various posting errors, and reconciling accounting system modules to the general ledger.

These reporting and control deficiencies were caused, in large part, by problems associated with the reorganization of the Department's accounting operations and circumstances surrounding the implementation of a new Department accounting system, the Standard Accounting and Reporting System. As with any large Federal agency, the deployment of a new accounting system is a challenging and daunting task. In spite of a significant effort by personnel in the Office of the Chief Financial Officer, a number of implementation problems had not been resolved by year-end and accounting officials lacked reporting and analysis tools necessary to prevent, detect, or correct problems or errors in a timely manner. Specifically, the Department was unable to correct the previously described weaknesses and could not provide a number of supporting documents required for audit. Because of these issues, it was impracticable for our independent public accounting firm to extend audit procedures sufficiently to determine the extent to which the Department's consolidated financial statements may have been affected by these conditions. As a consequence, a disclaimer of opinion was issued on the Department's Fiscal Year 2005 consolidated financial statements.

In addition to the financial management and reporting control issues noted above, a reportable condition related to unclassified information system security continued to exist. As identified in previous financial statement audit reports, the Department had weaknesses involving the review and approval of user access privileges, password security and

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monitoring of networks for questionable activity. The identified weaknesses and vulnerabilities increased the risk that malicious destruction or alteration of data or unauthorized processing could occur.

With regard to the findings related to financial management and reporting controls, and those concerning information security system weaknesses, the Department generally concurred and initiated or agreed to initiate specific corrective actions.

The preparation and audit of financial statements involve many parties. The Department is responsible for preparing its consolidated financial statements, and the Office of Inspector General is responsible for the audit. As previously stated, we contracted with the auditing firm of KPMG LLP to conduct the audit. KPMG is responsible for reporting on the Department's consolidated financial statements and reporting on applicable internal controls, and compliance with laws, regulations, contracts and grant agreements. The Office of Inspector General monitored the contractor's progress and reviewed the audit report and related documentation to ensure compliance with generally accepted Government auditing standards. Due to the problems disclosed previously, the Office of Inspector General substantially augmented the audit effort with Federal personnel. The Office of Inspector General, however, did not prepare an independent report on the Department's consolidated financial statements.

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

Attachment

cc: Deputy Secretary
Under Secretary for Energy, Science and Environment
Administrator, National Nuclear Security Administration
Chief of Staff
Chief Financial Officer

Audit Report: DOE/OAS-FS-06-01

http://www.cfo.doe.gov/progliaison/2005fr.pdf