

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL

REPORT ON MATTERS IDENTIFIED AT THE  
IDAHO OPERATIONS OFFICE  
DURING THE AUDIT OF THE DEPARTMENT OF ENERGY'S  
CONSOLIDATED FISCAL YEAR 1999 FINANCIAL STATEMENTS

Report Number: WR-FS-00-02  
Date of Issue: March 20, 2000

Western Regional Audit Office  
Albuquerque, New Mexico 87185

REPORT ON MATTERS IDENTIFIED AT THE  
IDAHO OPERATIONS OFFICE  
DURING THE AUDIT OF THE DEPARTMENT OF ENERGY'S  
CONSOLIDATED FISCAL YEAR 1999 FINANCIAL STATEMENTS

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY.....	1
PART I - APPROACH AND OVERVIEW.....	2
Introduction.....	2
Scope and Methodology.....	2
Observations.....	3
PART II - AUDIT RESULTS.....	4
Environmental Liabilities: Duplication of Costs for the Test Reactor Area.....	4

U.S. DEPARTMENT OF ENERGY  
OFFICE OF INSPECTOR GENERAL  
OFFICE OF AUDIT SERVICES  
WESTERN REGIONAL AUDIT OFFICE

REPORT ON MATTERS IDENTIFIED AT THE  
IDAHO OPERATIONS OFFICE  
DURING THE AUDIT OF THE DEPARTMENT OF ENERGY'S  
CONSOLIDATED FISCAL YEAR 1999 FINANCIAL STATEMENTS

Audit Report Number: WR-FS-00-02

SUMMARY

The Government Management Reform Act of 1994 requires that the Department of Energy (DOE) annually submit audited financial statements to the Office of Management and Budget (OMB). A departmentwide audit was conducted to determine whether there was reasonable assurance that DOE's consolidated Fiscal Year (FY) 1999 financial statements were free of material misstatements. We conducted a portion of the departmentwide audit at the Idaho Operations Office (Idaho) and its then management and operating contractor for the Idaho National Engineering and Environmental Laboratory (INEEL), Lockheed Martin Idaho Technologies Company (Lockheed).<sup>1</sup>

The audit at Idaho and Lockheed disclosed a duplication of costs in the Environmental Liabilities account. During FY 1999, Lockheed elected to reclassify costs for 28 facilities from one portion of the account to another. However, costs for only 20 of those facilities were removed from one portion of the account while costs for all 28 facilities were added to the other portion of the account. Thus, \$52.2 million of costs for eight facilities were duplicated in the account.

We recommended that Idaho adjust the account to eliminate the duplicated costs. Idaho agreed with the finding and recommendation and took corrective action to adjust the FY 1999 balance.

---

Office of Inspector General

---

<sup>1</sup> On October 1, 1999, Bechtel BWXT Idaho (Bechtel) replaced Lockheed as the management and operating contractor at the INEEL.

## PART I

### APPROACH AND OVERVIEW

#### INTRODUCTION

The Government Management Reform Act of 1994 requires that audited financial statements covering all accounts and associated activities of DOE be submitted annually to OMB. A departmentwide audit of the consolidated FY 1999 financial statements was conducted by examining internal controls, assessing compliance with laws and regulations, evaluating accounting transaction cycles, and testing selected account balances at various DOE facilities.

The objective of the departmentwide audit was to determine whether DOE's consolidated financial statements presented fairly, in all material respects, the financial position of DOE as of September 30, 1999 and 1998, and its consolidated net cost, changes in net position, budgetary resources, financing activities, and custodial activities for the fiscal years then ended in conformity with generally accepted accounting principles. Departmentwide issues are addressed in Audit Report No. DOE/IG-FS-00-01, issued February 17, 2000.

The purpose of this report is to inform Idaho management of matters that came to the attention of the Office of Inspector General (OIG) during the audit of Idaho and Lockheed. Idaho is responsible for the account balances entered into DOE's core accounting system.

#### SCOPE AND METHODOLOGY

The audit was conducted from June 1999 through January 2000 at Idaho and Lockheed in Idaho Falls, Idaho. Specifically, we examined internal controls, assessed compliance with laws and regulations, and selectively tested account balances reported to DOE Headquarters as necessary to achieve the departmentwide audit objective.

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

Because the audit was limited, it would not necessarily disclose all of the internal control weaknesses that may have existed. Furthermore, because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. The issues addressed in this report represent our observations of activities through the end of fieldwork on January 31, 2000. Projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the effectiveness of the design and operation of policies and procedures may deteriorate.

In addition to the audit work conducted by the OIG, an independent public accounting firm reviewed the Overview Cycle at Idaho, including expanded EDP procedures. The OIG considered all findings, generated as a result of the review, when preparing the departmentwide report and the management report referred to in that report. The OIG is addressing issues requiring local management attention in this report.

Idaho management waived the exit conference.

## OBSERVATIONS

We observed that Lockheed had duplicated \$52.2 million of environmental liabilities costs for eight facilities when it reclassified costs during FY 1999. Management concurred with the finding and recommendation and took corrective action to adjust the FY 1999 account balance.

Part II of this report provides additional details concerning the audit results and management's comments.

## PART II

### AUDIT RESULTS

#### Environmental Liabilities: Duplication of Costs for the Test Reactor Area

The Department's Environmental Liabilities account should be accurate. The account included, however, duplicate estimated costs for the decontamination and decommissioning (D&D) of eight facilities at the Test Reactor Area. This duplication of cost arose in 1999 when Lockheed elected to reclassify the costs for 28 facilities from one portion of the liability account to another. Lockheed correctly increased the receiving portion of the account for the costs of all 28 facilities. However, it decreased the other portion of the account for the costs of only 20 facilities. The net effect was to include \$52.2 million of D&D costs for eight facilities in both portions of the account, thereby overstating the environmental liability by that amount.<sup>2</sup>

#### Recommendation

We recommend that the Chief Financial and Administrative Officer, Idaho Operations Office, adjust the Environmental Liabilities account to eliminate the duplicated costs.

#### Management Comments

Management concurred with the finding and recommendation. On November 4, 1999, a post-closing "CP" adjusting entry was made, reducing the liability by \$52.2 million. Therefore, the updated financial statements as of September 30, 1999, present fairly the environmental liability at Idaho and no further action is needed.

#### Auditor Comments

Management's comments and corrective action are responsive to the finding and recommendation.

---

<sup>2</sup> Specifically, the Project Baseline Summary for ID-ER-110 was overstated by \$52.2 million.

## CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and therefore ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the audit would have been helpful to the reader in understanding this report?
2. What additional information related to findings and recommendations could have been included in this report to assist management in implementing corrective actions?
3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?
4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name \_\_\_\_\_ Date \_\_\_\_\_

Telephone \_\_\_\_\_ Organization \_\_\_\_\_

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)  
Department of Energy  
Washington, D.C. 20585

ATTN.: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Wilma Slaughter at (202) 586-1924.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Management and Administration Home Page  
<http://www.ig.doe.gov>

Your comments would be appreciated and can be provided on the Customer Response Form attached to the report.