

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT OF
CHARLES A. BOWSER
COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE
SUBCOMMITTEE ON ENVIRONMENT, ENERGY, AND NATURAL RESOURCES
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON
THE DEPARTMENT OF ENERGY'S
ACCOUNTING AND INTERNAL CONTROL SYSTEMS

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO BE HERE TODAY TO DISCUSS ACCOUNTING AND FINANCIAL CONTROL SYSTEMS IN THE DEPARTMENT OF ENERGY. AT MY SEPTEMBER CONFIRMATION HEARING I STATED THAT AS COMPTROLLER GENERAL, I WOULD STRESS THE NEED TO DEVELOP AND MAINTAIN INTERNAL CONTROL SYSTEMS AND FINANCIAL MANAGEMENT REPORTING SYSTEMS THAT MEET THE NEEDS OF AGENCY MANAGEMENT. IT IS MY BELIEF THAT THERE IS NO REASON WHY THE GOVERNMENT SECTOR OF OUR ECONOMY CANNOT HAVE EFFICIENT AND EFFECTIVE MANAGEMENT AND INTERNAL CONTROL SYSTEMS, AND I FIRMLY BELIEVE THAT STRONG INTERNAL CONTROLS ARE THE BEST DETERRENT AGAINST FRAUD, WASTE, AND ABUSE IN GOVERNMENT PROGRAMS. IT IS GRATIFYING TO KNOW THAT THE NEED FOR GOOD ACCOUNTING SYSTEMS AND STRONG INTERNAL CONTROLS IS SHARED BY THIS SUBCOMMITTEE.

I AND MY STAFF HAVE REVIEWED YOUR OCTOBER 27, 1981, MEMORANDUM TO ME PRESENTING THE RESULTS OF YOUR SUBCOMMITTEE'S STUDY OF THE ENERGY DEPARTMENT'S FINANCIAL MANAGEMENT.



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YOUR MEMORANDUM IS A MOST COMPREHENSIVE STUDY OF THE AGENCY'S FINANCIAL MANAGEMENT AND CERTAINLY IDENTIFIES SERIOUS PROBLEMS WARRANTING FURTHER REVIEW. WE ARE PARTICULARLY CONCERNED ABOUT THE PROBLEMS IDENTIFIED IN THE AREAS OF GRANTS, CONTRACTS, PROPERTY, AND INTERNAL CONTROLS IN GENERAL.

\ WE RECOGNIZE THAT SINCE ITS INCEPTION IN 1977, THE DEPARTMENT HAS UNDERGONE MAJOR REORGANIZATIONS AND THE EXISTING ACCOUNTING SYSTEMS WERE, FOR THE MOST PART, INHERITED FROM THE VARIOUS AGENCIES, SUCH AS THE ENERGY RESEARCH AND DEVELOPMENT ADMINISTRATION AND SEVERAL DEPARTMENT OF THE INTERIOR AGENCIES THAT NOW MAKE UP THE DEPARTMENT. THESE MERGED ACCOUNTING SYSTEMS SOME OF WHICH WERE PREVIOUSLY APPROVED BY GAO HAVE NOT BEEN EFFECTIVE IN MEETING THE ENORMOUS REQUIREMENTS OF THE DEPARTMENT. NEXT TO THE DEPARTMENT OF DEFENSE, DOE HAS THE LARGEST PROCUREMENT BUDGET IN THE FEDERAL GOVERNMENT. DOE IS ACCOUNTABLE FOR MORE THAN \$17.5 BILLION IN PLANT, EQUIPMENT, AND OTHER PROPERTY. ALL TOO OFTEN WE FIND THAT ACCOUNTING SYSTEMS ARE RELIED UPON TO HANDLE FUNCTIONS THAT THEY WERE NOT DESIGNED TO PERFORM."

\ ALTHOUGH SOME OF THE PROBLEMS THAT THE SUBCOMMITTEE IS DISCUSSING TODAY CAN BE RELATED TO INTERNAL MANAGEMENT WEAKNESSES, OTHERS CAN BE RELATED TO WEAK ACCOUNTING AND INTERNAL CONTROL SYSTEMS. ACCOUNTING SYSTEMS THAT ARE NOT PROPERLY CONCEIVED, NOT SOUNDLY BASED, OR NOT EFFECTIVELY MONITORED CONTRIBUTE TO THESE PROBLEMS."

I WOULD LIKE TO BRIEFLY DISCUSS SOME OF OUR WORK THAT RELATES TO SOME OF THE PROBLEMS THE SUBCOMMITTEE STAFF UNCOVERED.

NEED TO IMPROVE CONTROLS
OVER DISBURSEMENTS

A SEPTEMBER 1981 REPORT TO THE SECRETARY OF ENERGY DISCLOSED WEAKNESSES IN INTERNAL FINANCIAL AND ACCOUNTING CONTROLS AT DEPARTMENT OF ENERGY ACCOUNTING STATIONS. WE POINTED OUT THAT DISBURSEMENTS WERE INADEQUATELY CONTROLLED IN SIX OF THE 10 DOE FIELD OFFICES WE VISITED. THESE CONTROL WEAKNESSES INCLUDED INADEQUATE REVIEW OF PAYMENT VOUCHERS; LOOSE CONTROLS OF GOVERNMENT TRANSPORTATION REQUESTS; AND LACK OF SEPARATION OF DUTIES RELATED TO PURCHASING, RECEIVING, AND PAYING FOR GOODS AND SERVICES.

THESE CONTROL WEAKNESSES LEAD TO THE DUPLICATE PAYMENT PROBLEMS THE SUBCOMMITTEE STAFF FOUND DURING ITS REVIEW. FOR EXAMPLE, OUR REVIEW DISCLOSED THAT A \$1.7-MILLION DEBT WAS PAID TWICE BECAUSE DISBURSEMENT PERSONNEL FAILED TO CHECK PAYMENT RECORDS SHOWING THAT THE ORIGINAL VOUCHER HAD ALREADY BEEN PAID. ALTHOUGH DEPARTMENT PERSONNEL SUBSEQUENTLY DISCOVERED THE DUPLICATE PAYMENT AND RECOVERED THE MONEY, THE ERROR WOULD NOT HAVE OCCURRED IF INTERNAL CONTROL PROCEDURES HAD BEEN FOLLOWED.

PROBLEMS RELATED TO OBLIGATIONS

IN A DECEMBER 1980 REPORT TO THE CHAIRMAN OF THE HOUSE SUBCOMMITTEE ON ENERGY AND POWER WE NOTED THAT DOE WAS REGULARLY ENTERING INTO CONTRACTS WITHOUT FIRST DETERMINING IF THE NECESSARY FUNDS WERE AVAILABLE. IN OUR REVIEW OF INTERNAL CONTROLS AT 10 DOE OFFICES WE FOUND SIMILAR PROBLEMS IN THREE OF THE OFFICES VISITED.

UNTIMELY CLOSEOUT OF
CONTRACTS AND GRANTS

IN OUR REVIEW OF DOE'S FINANCIAL AND ACCOUNTING CONTROLS, 90 PERCENT OF THE OFFICES WE VISITED DID NOT RECORD OR ADEQUATELY MONITOR THEIR ACCOUNTS RECEIVABLE. ONE CAUSE OF THIS FAILURE IS THE UNTIMELY CLOSEOUT OF GRANTS.

IN A NOVEMBER 1979 REPORT TO THE CHAIRMAN OF THE HOUSE SUBCOMMITTEE ON ENERGY AND POWER, PROBLEMS THAT DOE WAS EXPERIENCING IN AWARDING AND ADMINISTERING CONTRACTS WERE DISCUSSED. FOR EXAMPLE, DOE PROCUREMENT REGULATIONS ESTABLISHED A STANDARD THAT CONTRACTS SHOULD BE CLOSED OUT IN 3 MONTHS FOR PURCHASE ORDERS, 6 MONTHS FOR FIRM FIXED PRICE CONTRACTS, AND 20 MONTHS FOR ALL OTHER CONTRACTS. A LISTING PREPARED BY THE HEADQUARTERS PROCUREMENT OFFICE SHOWED MORE THAN 2,500 EXPIRED HEADQUARTERS CONTRACTS WHICH HAD NOT BEEN CLOSED OUT AS OF MARCH 13, 1979. THESE CONTRACTS HAD A FACE VALUE OF OVER \$3 BILLION. THERE WERE 867 CONTRACTS ON THE LIST THAT WERE 20 OR MORE MONTHS OLD; 237 OF THESE WERE BETWEEN 3 AND 5 YEARS OLD; AND ANOTHER 19 WERE MORE THAN 5 YEARS OLD. PROCUREMENT OFFICIALS ESTIMATED THAT ALL 2,500 CONTRACTS SHOULD HAVE BEEN CLOSED OUT IN 20 MONTHS.

ALTHOUGH DOE ATTEMPTED TO REDUCE THE BACKLOG IT APPEARS, BASED ON THE DEPARTMENT'S FIGURE, THAT TIMELY CLOSEOUTS OF CONTRACTS AND GRANTS IS STILL A PROBLEM.

BECAUSE CONTRACTS AND GRANTS ARE NOT BEING CLOSED OUT IN A TIMELY MANNER, FUNDS WHICH MAY BE DUE THE GOVERNMENT HAVE NOT BEEN IDENTIFIED, RECORDED, OR COLLECTED.

SUMMARY

THESE EXAMPLES AND THE INVESTIGATIVE REPORT PREPARED BY THE SUBCOMMITTEE STAFF DO NOT OFFER MUCH COMFORT TO THOSE WHO WANT AND NEED TO KNOW WHETHER GOVERNMENT FUNDS ARE HANDLED PROPERLY AND WHETHER THE PROGRAMS AUTHORIZED AND FUNDED WERE ADMINISTERED ECONOMICALLY AND EFFICIENTLY. WE SHOULD EXPECT BETTER, HOWEVER, AND I AM HOPEFUL THAT THOSE ENTRUSTED WITH THE RESPONSIBILITY FOR MANAGING PUBLIC PROGRAMS IN THE DEPARTMENT OF ENERGY AND THE GOVERNMENT AS A WHOLE, WILL GIVE ADEQUATE PRIORITY AND FULL COMMITMENT TO ASSURING STRONG INTERNAL CONTROLS AND EFFECTIVE FINANCIAL MANAGEMENT SYSTEMS. YOU CAN BE ASSURED THAT WE WILL DO OUR VERY BEST TO CONTRIBUTE TO THIS ENDEAVOR. IN THIS REGARD, I HAVE ESTABLISHED A TASK FORCE TO CONDUCT A BROAD-BASED REVIEW OF THE FINANCIAL MANAGEMENT PROBLEMS AT THE DEPARTMENT. THE TASK FORCE WILL WORK CLOSELY WITH THE INSPECTOR GENERAL TO AVOID ANY DUPLICATION OF AUDIT EFFORTS. IN GENERAL, I HAVE CHARGED THE TASK FORCE TO CONCENTRATE ON THE AREAS OF GRANTS, CONTRACTS PROPERTY, AND INTERNAL CONTROLS, INCLUDING THE CORRECTIVE ACTIONS ENERGY NEEDS TO PUT ITS FINANCIAL HOUSE IN ORDER.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED STATEMENT. I WILL BE PLEASED TO RESPOND TO ANY QUESTIONS YOU OR ANY MEMBERS OF THE SUBCOMMITTEE MAY HAVE.