University of California

Additional audit procedures for the Department of Energy Labs

April 10, 2003
DOE Labs

Background

• Due to discoveries of inappropriate transactions at the Los Alamos Lab, management of the University as well as external agencies have undertaken studies of the organizational structure and controls related to the labs

• In the current year, expanded procedures are recommended to complement but not duplicate the work already completed.

• All labs currently have studies and audits in-process by the Inspector General, GAO, external firms (PwC and E&Y) and at LLNL internal audit.
Special studies and audits by the Inspector General, PwC and E&Y at the Los Alamos lab include:

- review of controls and transactions for the procurement card program
- an organizational study of the financial structure, including controls review over payroll, inventory, cash and banking
- a property management study and physical inventory and a review of the procurement function controls and
- allowable costs

Many of these studies and audits are recently issued or still in process and as such, corrective actions are not yet complete.
Special studies and audits by the Inspector General, E&Y and internal audit of both Berkeley and Livermore include:

- property management
- sensitive property
- purchase card
- controls review over major cycles (Livermore only)

In addition, KPMG and GAO will visit all the Labs to perform reviews of selected control cycles.
Observations:

- Given the issues which arose at Los Alamos, there are likely high expectations relative to corrective actions at Los Alamos as well as not having similar issues at the other labs.

- While the ultimate dollar amount of inappropriate transactions is immaterial relative to purchases, controls at Los Alamos were not strong, and there are high expectations of controls at all labs given the stewardship associated with federal funds.

- Due to the fact that many of the studies and audits at the labs are currently in process, there is little to be gained by duplicating procedures in these areas until corrective actions are taken.
Recommended procedures include the following areas:

- Expanded review of balance sheet accounts at all labs - currently there is not full coverage in this area since the balance sheet is not consolidated in the University’s financial statements.

- Review of corrective actions taken for Los Alamos in the areas of:
  - pcard
  - procurement
  - organizational study of the financial structure including controls review
  - property management structure
• Review of results of IG or internal audits at Livermore and Berkeley in areas of property management, sensitive property, pcard transactions and review of corrective actions