



Department of Energy

Washington, DC 20585

October 6, 2006

MEMORANDUM FOR FIELD CHIEF FINANCIAL OFFICERS

FROM: JOHN D. NEWELL *John Newell*
DIRECTOR, OFFICE OF INTERNAL REVIEW

SUBJECT: Implementation of the Corporate Financial Management Oversight
Planning and Reporting Program

The purpose of this memorandum is to launch the Chief Financial Officer's Corporate Financial Management Planning and Reporting Program. The goal of this program is to institute consistency in our approach to financial management oversight and provide a solid foundation for evaluating Department-wide core financial management activities. The program also serves as a critical component of the Chief Financial Officer's (CFO) strategy for meeting the requirements of DOE Order 523.1, *Financial Management Oversight*, and DOE Order 414.1C, *Quality Assurance*. I would like to thank you and your staffs for your support and input as we worked to finalize the requirements of this long-awaited program. All of your comments and suggestions have been evaluated and incorporated into the final documents as appropriate.

Attachment 1 to this memorandum is the Financial Management Oversight Planning and Reporting Model. This model provides for the development and submission of annual oversight plans, as well as annual reports on performance against prior year plans. Both the plan and report have been structured around the core financial management areas in the CFO Guide for Financial Management Oversight (September 2006 revision provided in Attachment 2) and were designed to facilitate cyclical risk-based oversight. Please note that neither the oversight guide nor the planning and reporting model are intended to generate new work activities; rather, they help document the core CFO responsibilities and identify how individual sites plan to accomplish those responsibilities.

Under the cyclical reporting schedule outlined in the model, plans for FY 2008 and future years are due in August. However, due to the timing of this guidance and to accommodate on-going financial statement remediation priorities, we are delaying the FY 2007 plans due date to December 15, 2006. Reporting on performance against the FY 2007 plan will be due December 1, 2007.

In the coming weeks, my staff will hold a teleconference to go over the program requirements and introduce your staff to the Financial Management Planning and Reporting Tool (FMPRT) developed to support this initiative. Please provide the name of a point of contact(s) for your planning and reporting effort to Dean.Childs@hq.doe.gov by no later than October 31, 2006, so that we may invite the appropriate participants.



If you have any questions regarding this effort, please contact me or Dean Childs at (202) 586-9672 or (301) 903-2560, respectively. Thanks again for your support as we work to make this important process a reality.

Attachments

- 1) **Planning and Reporting Model**
- 2) **Guide for Financial Management Oversight (September 2006)**
- 3) **DOE Order 523.1, *Financial Management Oversight***

**FINANCIAL MANAGEMENT OVERSIGHT
PLANNING AND REPORTING MODEL
September 2006**

Purpose

Over the last decade, the Department's financial management community has changed dramatically. Budget constraints, staffing shortages, reorganizations and other management initiatives created varied Field Chief Financial Officer (CFO) organizational structures and inconsistent approaches to meeting financial management responsibilities. This model provides a corporate planning and reporting process that will institute consistency in our approach to financial management oversight, provide a solid foundation for evaluating and reporting Department-wide financial management activities and focus our resources to ensure we meet our responsibilities under the CFO Act.

Process Summary

Field CFOs will prepare annual financial management oversight plans to identify future oversight activities and financial management oversight reports to summarize results of oversight activities actually completed in the prior year. Plans are structured around the objectives and core financial management oversight areas identified in the Chief Financial Officer's "Guide for Financial Management Oversight." Plans and reports will also incorporate financial management oversight activities of the site/facility management contractors (contractors) at each field organization. These contractors are responsible for the management and operation of Department-owned facilities and include management and operating, Federal Acquisition Regulation (FAR)-based, integrated and integrating contractors, etc. Plans will be risk-based and incorporate input/guidance from the Headquarters (HQ) CFO regarding areas of consideration for the next planning year. Reports will support corporate planning and provide a mechanism for quickly gauging the overall health of our oversight program complex-wide.

Planning Outline and Key Dates

- 1) HQ Provides Input/Guidance for Preparation of Field Plans (June 1)**
HQ will provide input/guidance for preparation of Field plans. This will include the identification of additional issues and assessment areas to consider in preparing local plans. This input may reflect areas of interest to the Office of Management and Budget (OMB), Congress, and other external entities, as well as best practices, vulnerabilities and other issues identified through flash reporting, HQ and field reviews, IG and GAO audits and other sources. Areas considered inherently high risk by Headquarters will be clearly identified.

- 2) Field Organizations Provide Subsequent Year Plans to HQ (August 15)**
Field plans should be prepared using the plan form and content (Attachment A) and submitted to HQ. Plans should include a profile of information on the site's financial management organization, resource issues, performance management activities and planned financial management oversight activities for the upcoming year. Plans will

address activities to oversee both Federal and contractor functions and will be based on current risk assessments.

Reporting Outline and Key Dates

1) Flash Reporting and Feedback (Continuous)

Throughout the year, Field organizations should institute “flash reporting” to the HQ CFO. This means providing notifications on significant financial management oversight issues that arise. This includes results of reviews that identify control issues that may be applicable at other sites, best practices and lessons learned that could benefit the Department through immediate dissemination; and other significant issues that affect the site’s ability to implement its plan as intended. Headquarters will share reported information with all sites as appropriate to ensure known issues are addressed corporately rather than piecemeal. In the future, Headquarters will establish regularly scheduled meetings for financial management organizations to share ideas, issues and concerns relative to financial management oversight.

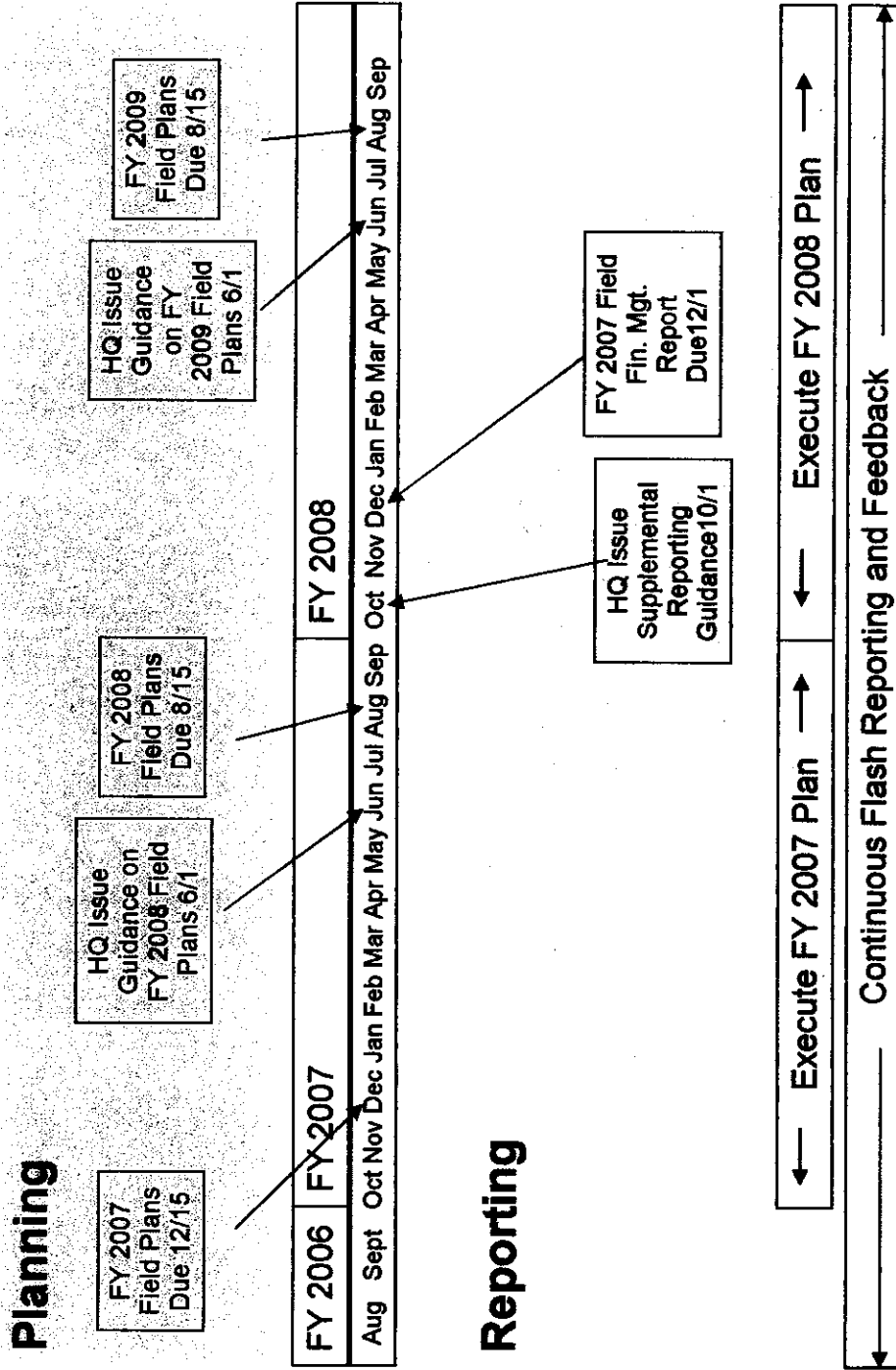
2) HQ Provides Supplemental Input/Guidance for Field Reports (Oct. 1)

As needed, HQ will provide additional input/guidance for preparation of Field financial management oversight reports on activities completed in the prior year. This may include specific concerns, issues or areas of interest to OMB, Congress, and other external entities, as well as vulnerabilities and other issues identified in prior year plans, flash reporting, HQ and Field reviews, IG and GAO audits and other sources.

3) Field Organizations Provide Financial Management Oversight Reports (Dec. 1)

Field reports should be prepared using the report form and content (Attachment B) and should indicate financial management oversight activities completed against the prior year plan. Field reports should include any changes to profile information since submitting the Field plan, indicate actual performance against the prior year plan, highlight best practices and identify other issues that should be brought to the HQ CFO’s attention. A revised plan for the current year should also be attached if significant changes have occurred.

Planning and Reporting Cycle



Note: FY 2007 plans have been delayed to accommodate on-going remediation activities. Planning will revert to the standard cycle starting with the FY 2008 plan in August of 2007.

FINANCIAL MANAGEMENT OVERSIGHT PLAN FOR FISCAL YEAR 200X+1

This document includes [Field Organization]'s plan for implementing its financial management oversight responsibilities in accordance with the CFO Act, DOE policy, including DOE Order 523.1, and other applicable laws, regulations and guidelines.

Profile Information

Organization: [Provide a brief overview of your CFO/financial management organization including a discussion of how the organizational structure supports a financial review/oversight capability as required by DOE Order 520.1, *Office of Chief Financial Officer*, and DOE Order 523.1, *Financial Management Oversight*.]

Financial Management Oversight Resources: [Provide a summary of resources used to support financial management oversight functions. This should include not only staff dedicated to traditional financial review functions, but any related functions that support financial management oversight including: review, analysis, self-assessment, performance measurement, etc. Also identify any significant resource issues that affect your site's ability to meet its financial management oversight responsibilities, as well as a corrective plan to address these issues.]

Financial Management Oversight Performance Metrics: [Describe how performance metrics are used to measure effectiveness and efficiency of financial management activities. Identify financial management performance metrics utilized at the site to monitor both Federal and contractor performance. Provide brief discussions of performance against each metric.]

Risk Assessment Summary: [Briefly explain risk assessment process and summarize results of highest risk activities. An attachment to the plan may be included to provide more information on risk assessment activities.]

Plan

Summary of Planned Oversight Activities for Federal and Contractor Financial Management Functions (for Fiscal Year 200X+1): [Summarize planned activities to oversee both Federal and contractor financial management oversight functions for the plan year. Include key areas of focus, known vulnerabilities, risk assessments/risk mitigations, reliance on existing controls, barriers to performance and other issues driving planned activities for the year. This should be an executive level summary and should directly relate to the detailed tables in Attachment A1 and A2. For contractor activities, also specifically address plans and processes for providing input to internal audit plans and whether direct access to contractor accounting systems is maintained and used to monitor financial management activities.]

Oversight Plan of Federal and Contractor Financial Management Functions (for Fiscal Year 200X+1): [Using table in Attachment A1, prepare a detailed plan to address activities to oversee Federal and contractor financial management functions. As appropriate, plans should address each core oversight area and include:

- Risk (high, medium, low). Record risk based on risk assessment methodology.
- Cycle (monthly, quarterly, semi annual, annual, 2 yrs and 3 yrs).
- Last time the area was evaluated.
- Type of coverage planned. This should be identified in the specific year planned. Planned coverage in future years may also be identified to facilitate an out year planning process. Additional description should be provided for coverage identified as "O" or "Other."
- Planned timing for conducting the activity.
- Comments on oversight activities. These should include the driver for assessing the area; the rationale for areas not covered based on consideration of risk; known vulnerabilities or external criticisms; performance metrics utilized if applicable; and potential barriers.

Contractors' plans should include activities performed by the Federal staff, as well as contractor activities the site intends to rely on. Examples of responses for selected areas are included in Attachment A2.]

Financial Management Oversight Plan – FY 200X+1
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned 2006	2007	2008	Planned Timing	Comments
1. Financial Systems, Policies and Procedures:								
FFMIA and FMFIA Systems Review	M	Annual	2005	R	R	R	July	Previous review identified problems in ability to provide system reports in a timely manner.
CAS Disclosure Statement/Indirect Cost Rates	L		2004	R			October	Previous review of change to CAS Disclosure Statement was adequate.
2. Budget and Funds Control:								
Administrative Control of Funds	H		2002	R			Jan.-Feb	Review will focus on obligations against prior year appropriations in response to HQ emphasis on controls in this area.
	H	Annual	On-going	A	A	A	Monthly	Monthly analysis of funds control reports performed by site office and contractor.
Uncosted Obligations	H	Annual	2003	R and A			Oct – Nov	Annual review and analysis in response to HQ guidance.
Unpaid Obligations	M	Annual	2005	A	A	A		
Suspense Accounts	L	Annual	2005	A	A	A	Monthly	
Work-for-Others	L	2yrs	2003		R		Sept	
3. Management Controls:								

* Note: The layout of fields in the Financial Management Oversight Planning and Reporting Tool may vary slightly.

Financial Management Oversight Plan – FY 200X+1
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned			Planned Timing	Comments
				2006	2007	2008		
FMFIA Summary Management Review	M	Annual	2005	R	R	R	July	Previous review identified no problems.
4. Cost Accounting and Cost Management:								
Cost accruals and reversals	L	Semi-Annual	2004			SA	N/A	Comprehensive review in 2004 identified no vulnerabilities and strong controls. Based on limited risk, next assessment planned for 2008.
Financial Assistance Award Costing	L	Semi-Annual	2004	SA			March	A self-assessment will be conducted to evaluate local procedures for ensuring costs are obtained and recorded properly for grants programs. Self-assessment will include recording and reversal of accruals.
Project Costing	L	Semi-Annual	2004			SA		
Statement of Cost Incurred and Claimed	M	Annual	2005	R	R	R	Oct	Previous review identified questionable costs.
Functional Support Cost	M	Annual	2005	R	R	R	Nov-Dec	An annual review and certification of support costs by functional activity is required.
Biennial Pricing	L		2005			R		Prices of contractor materials and services will be reviewed and validated.

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Financial Management Oversight Plan – FY 200X+1
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned 2006	2007	2008	Planned Timing	Comments
5. Financial Reporting and Performance:								
Financial Statements and Audit Findings	H	Annual	2005		AU		May-Oct	Financial Statement audit is scheduled
LDRD Submission (Review and Certify)	L	Annual	2005	R	R	R		
6. Asset Management Systems:								
Receivables – aging and collection	M		On-going	PM and A	PM and SA	PM and A	Monthly	Metrics monitored and analyzed monthly. Self-assessment planned for FY 2007.
Purchase Card Program	H	Annual	2004	A	A	A		
Construction Work-In-Process	L		2004	A				
7. Liabilities:								
Erroneous Payments	H	Annual	On-going	A	A	A	Quarterly	Quarterly tracking and reporting to HQs.
			2004	O (HQ Site Visit)				HQ site visit will validate erroneous payments process.
Prompt Payment/Accounts Payable	L		2005	PM	PM	PM		
8. Internal Audit:								
Audit Plan	H		2005	R	R	R	July	Review of planned audit areas and activities.
Audit Report	H		2005	R	R	R	Feb.	Review of completed audit work.

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Financial Management Oversight Plan – FY 200X+1
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned		Planned Timing	Comments
				2006	2007 2008		
Site Defined Areas:							

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**Financial Management Oversight Plan- FY 200X+1
Oversight of Contractor Financial Management Functions [Contractor Name]**

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned		Planned Timing	Comments
				2006	2007 2008		
1. Financial Systems, Policies and Procedures:							
Financial Mgmt. System Approval (Initial and Changes)	L		2003	R		October - December	Review of proposed system changes for the year by DCAA.
CAS Disclosure Statement/CAS Compliance	L		2003	AU (IG)		Jan - March	Requested IG review of significant changes to contractor disclosure statement. Review dependent upon IG agreement to include the review in their audit plan for the year. Otherwise, site will perform preliminary review of changes.
Review of Policies and Procedures	L		2004	AU		Feb.	Contractor internal audit will audit policies and procedures related to financial mgmt. to ensure compliance with laws, regulations and DOE orders.
2. Budget and Funds Control:							
Administrative Control of Funds	H	Annual	On-going	A	A	Monthly	Monthly review of funds control reports performed by site office and contractor.
Uncosted Obligations	M		2005	R	R	July-Aug	Perform review to evaluate/justify amounts.
Unpaid Obligations	M	Annual	2005	A	A	June	Analysis conducted to ensure proper management.
Suspense Accounts	M	Annual	On-going	A/PM	A/PM	Monthly	Monthly analysis of suspense for clearing.
Work-for-Others	L	Semi-Annual	2004		SA	Dec.	Cost transfers will be evaluated.

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Financial Management Oversight Plan– FY 200X+1
Oversight of Contractor Financial Management Functions [Contractor Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned			Planned Timing	Comments
				2006	2007	2008		
3. Management Controls:								
4. Cost Accounting and Cost Management:								
Cost accruals and reversals	L	Semi-Annual	2004		SA		April	IG audit evaluated controls over accruals and identified minor problems in documentation.
Financial Assistance Award Costing	L		2005	A	A	A	March	Analysis conducted to evaluate management of grant process.
Project Costing	M		2003	AU				GAO audit of construction work-in-process.
Statement of Costs Incurred and Claimed (SCIC)	M	Annual	2005	R	R	R	Oct. – Dec.	Annual CFO review of contractor statement of cost incurred and claimed required by chapter 4 of the DOE accounting handbook.
			2005	AU	AU	AU	Oct. – Dec.	Annual IG audit of SCIC.
Biennial Pricing	L	Semi-Annual	2004	SA			April	Contractor will perform self-assessment.
Overhead Rates and Allocations			2005	R			Dec.	Site office to review contractor submission.
Functional Support Cost (Review and Certify)	L		2005	R	R	R	Nov-Dec	Annual review and certification of support costs by functional activity is required.

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Financial Management Oversight Plan-- FY 200X+1
Oversight of Contractor Financial Management Functions [Contractor Name]

R = Review, A = Analysis, AU= Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Last Evaluated	Type of Coverage Planned 2006	2007	2008	Planned Timing	Comments
5. Financial Reporting and Performance:								
LDRD Submission (Review and Certify)	L	Annual	2005	R	R	R	Nov-Dec	Annual review conducted for certification.
6. Asset Management Systems:								
Receivables – aging and collection	L		2005		R			Annual financial statement audit evaluated controls over receivables, no material issues.
Purchase Card Program	H		2003	R				HQ review planned due to prior problems with appropriate use and delinquencies.
7. Liabilities:								
Erroneous Payments	H	Quarterly	On-going	A	A	A	Quarterly	Quarterly tracking and reporting to HQs
			2004	O (HQ Site Visit)				HQ site visit will validate erroneous payments process.
8. Internal Audit:								
Peer Review	L		2002		R			Peer reviews will be performed as required.
9. Site Defined Areas:								
Recording construction work-in-process (CWIP)	L		N/A	R			August	Project management review identified need to assess controls and processes for recording CWIP. Field CFO will perform review.

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Financial Management Oversight Plan- FY 200X+1
Oversight of Contractor Financial Management Functions [Contractor Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity Analysis of Contractor Data	Risk	Cycle	Last Evaluated	Type of Coverage Planned			Planned Timing	Comments
				2006	2007	2008		
	L	Annual	On-going	A	A	A	Monthly	Site will utilize access to contractor accounting system to randomly analyze various account balances, project costing, and other areas to identify trends, anomalies and other indicators that might identify potential vulnerabilities.

* Note: The layout of fields in the Financial Management Oversight Planning and Reporting Tool may vary slightly.

FINANCIAL MANAGEMENT OVERSIGHT REPORT FOR FISCAL YEAR 200X

This document includes [Field Organization]'s report on implementing its financial management oversight responsibilities in accordance with the CFO Act, DOE policy, and other applicable laws, regulations, and guidelines.

Summary Assessment of Performance Against Prior Year Oversight Plan (for FY 200X): [Provide a summary of performance against the prior year oversight plan. Include a summary of any significant issues or vulnerabilities identified, barriers to performance and actions to address any activities that were not completed as scheduled. This should be an executive level summary and should directly relate to the detailed report of financial management oversight activities completed. Each contractor under the site's cognizance should be addressed separately in the summary.]

Significant Financial Management Oversight Issues, Concerns and Barriers: [Identify any significant issues related to financial management facing the site. Describe issue as well as proposed next steps/corrective actions. Include any high-risk areas that have not received adequate coverage.]

Best Practices and Lessons Learned: [Identify any "Best Practices" and/or lessons learned identified through Federal and contractor financial management activities.]

Success Stories: [Utilize this section to promote financial management successes. Possible activities to address include newly implemented initiatives, cost savings generated, significant areas of improvement and other positive impacts from financial management activities. Exact content of this section is at the site's discretion; however, it is encouraged that each site take advantage of this opportunity to bring visibility to their accomplishments.]

Updates to Profile and Plan: [Identify any changes made to prior profile or plan and attach a revised plan to report as needed.]

Report of Federal and Contractor Financial Management Oversight Activities Against the Plan (for FY 200X): [Using tables in Attachment B1 and B2, prepare a detailed report to provide an assessment of performance against planned Federal and contractor activities for the fiscal year. As appropriate, report should address each oversight area and include:

- Risk (high, medium, low). Record risk based on risk assessment methodology.
- Cycle (monthly, quarterly, semi-annual, annual, 2 yrs and 3 yrs).
- Identification of whether the activity was scheduled in the planning process or unscheduled.

-Type of coverage conducted. Additional description should be provided for coverage identified as "O" or "Other."

-Indication of whether the scheduled activity was completed.

-Indication of whether the activity conducted identified any issues.

-Comments should be provided to describe any significant issues or vulnerabilities identified, barriers to performance, actions to address any activities that were not completed as scheduled, and rationale for areas not covered based on consideration of risk or reliance on existing controls or tools.

Examples of responses for selected areas are provided in Attachment B1 and B2.]

Financial Management Oversight Report Against Plan - FY 200X
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Scheduled=S Unscheduled=U	Type of Coverage	Activity Complete (Y/N)	Issues Identified (Y/N)	Comments
1. Financial Systems, Policies and Procedures:							
FFMIA and FMFIA Systems Review	M	Annual	U	AU (IG)	Y	N	Annual audit did not identify findings.
CAS Disclosure Statement/Indirect Cost Rates	L	Annual	S	R	Y	N	Changes submitted to CAS Disclosure Statement and Indirect Cost Rates were reviewed and are adequate.
2. Budget and Funds Control:							
Administrative Control of Funds	H	Monthly	S	A	Y	N	Completed monthly funds control analysis.
			S	O (HQ Survey)	Y	N	Completed Department-wide survey at HQ request. Identified need to formalize controls for obligation of funds against prior period appropriations. Corrective actions have been implemented.
Uncosted Obligations	L	Annual	S	R	Y	N	Review provided justification for balances.
Unpaid Obligations	M		S	A	Y	N	Budget analysis was completed and no findings.
Suspense Accounts	M		S	A	Y	N	Monthly analysis of suspense activity.
Work-for-Others	L	Annual	S	R	N	N/A	Replaced by external review by the IG.
3. Management Controls:							
FMFIA Summary Management Review	M	Annual	U	AU (IG)	Y	N	Annual audit did not identify findings.
4. Cost Accounting and Cost Management:							
Cost accruals and reversals	L	2yrs	U	N/A			Review in 2004 identified no issues and strong control environment. Based on limited risk, next review expected in 2008.
Financial Assistance Award Costing	L		S	R	Y	Y	Documentation issues identified at Field locations.
Project Costing	M		S	AU	Y	Y	GAO audit identified minor issues with project mgmt.
Statement of Cost Incurred and Claimed	M	Annual	S	R	Y	Y	Questionable costs were identified by the review in the area of related party transactions.

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Financial Management Oversight Report Against Plan - FY 200X
Oversight of Federal Financial Management Functions [Field Office Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area:	Risk	Cycle	Scheduled=S Unscheduled=U	Type of Coverage	Activity Complete (Y/N)	Issues Identified (Y/N)	Comments
Oversight Activity	L	Annual	S	R	Y	N	Review and certification were conducted and no issues identified.
Functional Support Cost	L	Annual	S	R	Y	N	Pricing review did not identify any material problems.
Biennial Pricing	L	Annual	S	R	Y	N	
5. Financial Reporting and Performance:							
Financial Statements and Audit Findings	M	Annual	S	AU	Y	Y	Issues with documentation of environmental liabilities.
LDRD Submission (Review and Certify)	L	Annual	S	R	Y	N	Review and certification did not identify any issues.
6. Asset Management Systems:							
Receivables – aging and collection	H		S	PM	Y	N	
Purchase Card Program	H		S	SA	N	N/A	Replaced by External Review by IG
	H		U	AU (IG)	Y	Y	Approving Official Controls.
7. Liabilities:							
Erroneous Payments	L	Annual	S	A/PM	Y	N	Analysis and performance measure indicate green status.
Prompt Payment/Accounts Payable	L	Annual	S	A/PM	Y	Y	Analysis indicates payments issues related to implementation of new financial management system.
8. Internal Audit:							
Audit Plan	H		S	R	Y	Y	Field review identified additional audit areas.
Audit Report	H		S	R	Y	N	Audit activities were completed as planned.
9. Site Defined Areas:							
General Plant Projects	L	Annual	S	A	Y	N	No issues identified in accounting for projects.

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Financial Management Oversight Report Against Plan - FY 200X
Contractor Financial Management Functions [Contractor Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Scheduled=S Unscheduled=U	Type of Coverage	Activity Complete (Y/N)	Issued Identified (Y/N)	Comments
1. Financial Systems, Policies and Procedures:							
Financial Mgmt. System Approval (Initial and Changes)	L	3yrs	S	R	Y	N	Performed initial review to support contracting officer approval of accounting system for new contractor. No issues were identified.
CAS Disclosure Statement/CAS Compliance	L	Annual	S	AU (IG Review)	N	N	Review of changes to CAS statement was not performed by IG due to other priorities. IG committed to review in 2006.
2. Budget and Funds Control:							
Administrative Control of Funds	L	Monthly	S	A	Y	N	Monthly analysis.
Uncosted Obligations	L	Annual	S	R	Y	N	Review identified adequate justifications for balances.
Unpaid Obligations			S	A	Y	N	Only minor anomalies were identified.
Suspense Accounts	M	Annual	S	R	Y	Y	Review identified the need to increase level of detail for monthly analysis of contractor suspense items. Corrective actions have been implemented.
Work-for-Others	L		U	N/A			GAO work in this area indicated a low risk.
3. Management Controls:							
4. Cost Accounting and Cost Management:							
Cost accruals and reversals	L	3yrs	S	SA	Y	N	Self assessment indicated improvements needed in the documentation area of recording accruals.
Financial Assistance Award Costing	L	2yrs	U	N/A			Audit work in this area indicated a low risk.
Project Costing	M	2yrs	U	N/A			Project management review conducted in 2005 identified

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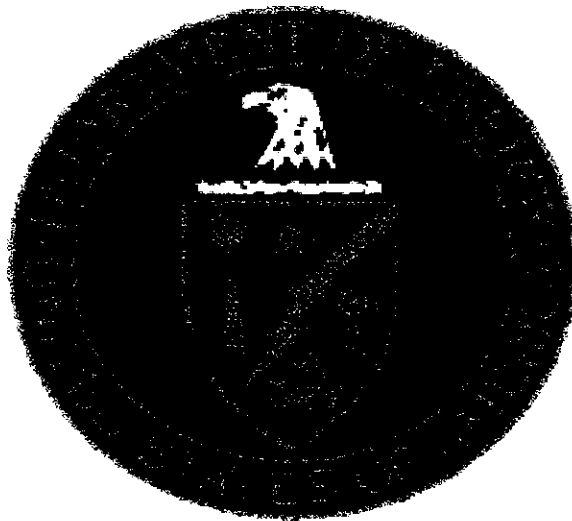
Financial Management Oversight Report Against Plan - FY 200X
Contractor Financial Management Functions [Contractor Name]

R = Review, A = Analysis, AU=Audit, PM = Performance Measure, SA = Self-Asses., O = Other, N/A = No Activity Planned

Core Area: Oversight Activity	Risk	Cycle	Scheduled=S Unscheduled=U	Type of Coverage	Activity Complete (Y/N)	Issued Identified (Y/N)	Comments
Statement of Costs Incurred and Claimed	H	Annual	S	R	Y	Y	findings in cost transfers and corrective actions were taken. CFO review identified \$10,000 in questioned costs to be considered by contracting officer. In addition, IG did not sign statement due to the need for additional internal audit work. CO, CFO and IG are resolving.
Biennial Pricing	L	2yrs	U	N/A			No issues identified in prior review.
Overhead Rates and Allocations			U	N/A			HQ review did not identify issues in 2005.
Functional Support Cost Submissions (Review and Certify)	M	Annual	S	R	Y	Y	Review identified issues in calculated cost savings. Savings were adjusted and submission was certified as required.
5. Financial Reporting and Performance:							
LDRD Submissions (Review and Certify)	L	Annual	U	O (HQ Review w)	Y	Y	Review identified incomplete compliance with DOE requirements for notifications to other agencies on LDRD charges. Corrective actions were taken.
6. Asset Management Systems:							
Receivables - aging and collection	M	Annual	S	A/P M	Y	Y	Controls need to be improved to ensure proper aging of accounts. Review planned for 2007.
Purchase Card Program	H		U	N/A			HQ review in 2002 indicated a low risk in this area.
7. Liabilities:							
Erroneous Payments	M	Annual	S	A	Y	N	Payment percentage is under the OMB target.
8. Internal Audit:							
Peer Review	L		U	N/A			Peer review did not identify any material issues.
Site Defined Areas:							

* Note: The layout of fields in the Financial Management Oversight Planning and Reporting Tool may vary slightly.

GUIDE FOR FINANCIAL MANAGEMENT OVERSIGHT



**U.S. DEPARTMENT OF ENERGY
Office of Chief Financial Officer**

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This guide describes suggested, non-mandatory approaches for meeting existing requirements. This guide is not to be construed as establishing formal requirements in performing any audit or appraisal.

GUIDE FOR FINANCIAL MANAGEMENT OVERSIGHT

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GUIDE FOR FINANCIAL MANAGEMENT OVERSIGHT

I. INTRODUCTION

Changes in various laws and guidance have expanded the requirements of Department of Energy (DOE) managers and the DOE financial management community dramatically. At the same time, budget constraints have decreased resources available to ensure adequate financial management oversight. For example, the Government Performance and Results Act (GPRA) and the Government Management Reform Act (GMRA) seek to make government more effective and responsive. As a result, more emphasis has been placed on performance measurement and results have been increasingly relied upon to drive contractor accountability. However, in adopting this general philosophy, the Chief Financial Officer (CFO) must ensure that actions also meet legal responsibilities to provide financial management oversight under the CFO Act.

To satisfy these requirements while ensuring adherence to the CFO Act, and other financial management legislation, it was recognized that a consistent, comprehensive, but flexible approach to conducting financial management oversight was needed. To address these issues, the Office of the Chief Financial Officer partnered with the DOE Federal and contractor financial management community to identify core financial management oversight responsibilities and develop innovative solutions for meeting our requirements. This guide is a product of that effort.

II. PURPOSE

The overarching purpose of this guide is to provide a comprehensive model of effective financial management oversight that, when implemented, will give DOE's Headquarters CFO, Field managers, and cognizant Field Chief Financial Officers or equivalents (FCFO/E) assurance that DOE has a sound, responsive, and economical financial management oversight program. It is intended to assist managers in carrying out their financial management oversight responsibilities under the CFO Act and sets forth a flexible approach that each Field organization may use to design its own financial management oversight program. This guide does not establish any new requirements. It does, however, suggest procedures and methods for meeting existing requirements for financial management oversight.

Key purposes of the guide are to

- Provide high-level objectives for financial management oversight;
- Identify a variety of methods and tools that may be used to accomplish the established oversight objectives; and

Note: DOE guides provide supplemental information for fulfilling requirements contained in rules, orders, notices, and regulatory standards. Guides are also used to identify government and non-government standards and methods that DOE finds acceptable for implementing the Department's requirements. Guides are not substitutes for requirements, nor do they replace technical standards, which are used to describe established practices and procedures for implementing requirements.

- Identify core financial management areas that should be considered in developing local oversight strategies.

III. OBJECTIVES OF SOUND FINANCIAL MANAGEMENT OVERSIGHT

The five major objectives of sound financial management oversight are described below. Successful accomplishment of each of these objectives should provide management assurance that there is a sound financial management program in place that provides for accountability and informed management decision making. All of the elements of this concept are necessary to ensure effective financial management oversight. Elimination or insufficient performance of any element will result in a less than effective financial management oversight program.

Objective 1. Ensure that Systems Provide Information for Managing Resources to Accomplish Program Goals

Systems must be in place for providing management with timely insight into trends and financial results to ensure that program priorities are achieved within provided funding levels. Effective systems are essential to support decision making and to provide accurate, reliable information against which performance may be measured.

Objective 2. Provide Accurate and Relevant Financial Reporting to Customers

It is paramount that all levels of DOE management have current, accurate and relevant financial data for sound decision making. In addition, this information must be presented in a useful format that addresses the needs of individual managers. Financial information is essential to planning, real-time decision making and assessing program performance.

Objective 3. Assess Adherence to Laws, Regulations, and Financial Contract Clauses

It is essential that DOE make sure all applicable laws and regulations are carried out and all applicable standard financial management contract clauses are incorporated into contracts to ensure responsible use of taxpayer dollars and protection of DOE's assets against fraud, waste, abuse and mismanagement. This is critical to enforce accountability for financial integrity, performance and stewardship. The assessment of risk is critical for focusing oversight activities on areas of high and low vulnerability in a thoughtful, effective manner.

Objective 4. Assess Effective and Efficient Use of Government Resources

DOE must ensure that resources are being used economically and efficiently. Oversight processes must be established to help optimize the value received from the use of Federal resources.

Objective 5. Evaluate and Assess Effectiveness of Financial Planning

DOE needs to make sure that resources are available to meet mission requirements. Therefore, budgets must be formulated with programmatic insight that results in justifiable requests for resources to satisfy mission needs.

IV. METHODS AVAILABLE TO OVERSEE FINANCIAL AREAS AND ACCOMPLISH OBJECTIVES

Effective financial management oversight programs utilize a variety of methods to accomplish program objectives. The following nine mechanisms for achieving financial management oversight are standard:

Risk Assessments

Risk assessments should provide a ranking of financial management activities in relative priority, relating the risk posed to the entire financial management organization, based on management's qualitative judgment. The ranking provides a corporate statement of responsibility and risks, and establishes priority for the analyses, evaluations and reviews of financial management areas and the associated management control systems. Effective programs typically perform a new risk assessment or update an existing risk assessment annually.

Financial Analyses

Financial analyses provide a systematic methodology for looking at financial data and reports to identify trends, potential problems, or deficiencies for follow-up, and to evaluate data integrity. Financial analysis includes trending, benchmarking, data mining and other techniques that provide management with financial information that is useful for planning or for identifying areas in need of additional management emphasis or review. For example, financial analysis of unobligated balances, obligations and costs might identify cost overruns and suspense account balances.

Contractor Operational Awareness

Operational awareness is the day-to-day involvement with contractor activities that enables DOE to determine how well the contractor is performing to meet the requirements of the contract. Factors influencing the degree of operational awareness include the nature of the work, the type of contract and the contractor's past performance. Specific activities constituting an ongoing operational awareness process should be defined and understood by Field organization management and its contractors. Examples of operational awareness activities that can be used to achieve effective financial management are provided in Section V, Core Financial Management Areas and Oversight Activities.

Partnerships Between the Contractor and Cognizant DOE Office

An effective program is built upon open communication, partnership and trust at all levels—from the Headquarters CFO and program offices to the FCFO/E offices and the contractors. This coordination and cooperation is necessary to ensure the mutual understanding of required performance.

Performance Objectives/Measures

The use of performance-based oversight and management is an effective method for keeping apprised of progress toward intended results. This concept is results-oriented, focusing on agreed-to, predetermined performance objectives, measures, goals and expectations. Performance is evaluated based upon the level of performance demonstrated against the stated

expectations. Emphasis should be placed on critical performance objectives and areas of needed improvement.

Self-Assessments

Reliance may be placed on self-assessments when financial management systems are judged to be reliable, the risk level is low and past performance has been good.

Internal Reviews

Depending upon the circumstances, reviews can vary in scope from brief fact-finding assessments to extensive, detailed reviews. Normally, reviews should be performed when management has identified a high-risk area, problems are suspected or have been identified, additional information is needed to determine the extent of the problems and to develop corrective actions, areas have been identified as being of high interest by the Administration or Congress, or management has directed the performance of a review.

External Reviews

Reliable audit, inspection, investigation, and evaluation reports are also used in evaluating financial management performance. External reviews can sometimes be used in lieu of DOE analyses or reviews depending upon their scope and applicability.

Surveys

Surveys can provide a valuable mechanism for expanding oversight effectiveness at minimal cost. Surveys can be used to cover broad or specific areas and can help identify problems, evaluate the scope of problems, or address a variety of other oversight needs.

V. CORE FINANCIAL MANAGEMENT AREAS AND OVERSIGHT ACTIVITIES

This section describes core financial management areas that should be considered in developing oversight strategies and activities that may be used to accomplish the oversight objectives for each core financial management area. Responsibility for the areas described in this section generally resides with the FCFO/E. However, within some organizations, some of these activities and functions may be performed by the Headquarters CFO, or may be under the cognizance of site office managers or the site procurement office.

Financial Systems, Policies and Procedures

Financial systems, policies and procedures include manual and automated systems and subsystems, policies, procedures and controls used to (a) capture, record, summarize and report financial information related to the authorization of resources; incurrence of liabilities; collection and receipt of revenue; disbursement of funds; control and accountability over assets, costs and appropriated funds; distribution of costs; development, and issuance of reports on the financial status of assets, costs, liabilities and appropriated funds; the financial results of program and administrative operations; and (b) account for DOE-owned assets in their custody, including adequately safeguarding such assets against fraud, waste, abuse, unauthorized use, misappropriation and mismanagement. Reliable financial systems are

necessary in order to move toward performance-based oversight (see, *Accounting Handbook*, Chapter 4, “Accounting Systems and Organization”).

Oversight Activities

- a) Maintain Awareness of Contractor Financial Management System Controls. DOE O 413.1A, *Management Control Program*, requires heads of field organizations to be responsible for ensuring that major contractors’ financial management systems and practices are acceptable for carrying out the Department’s financial policies, principles and objectives. To meet this requirement, the FCFO/E should review plans for field element and DOE contractor financial management systems for compliance with cost accounting standards, policies and procedures promulgated by the CFO, OMB, Congress and other regulatory entities. A fundamental element in reviewing site/facility management contractor financial management systems is the “Cost Accounting Standards” (CAS) disclosure statement, which details cost accounting practices. Site/facility management contractors submit proposed disclosure statements and revisions (generally performed annually) to the FCFO/E, through the contracting officer. To ensure that site/facility management contractors comply with CAS as prescribed in Chapter 4 of the DOE *Accounting Handbook*, FCFO/E should review the disclosure statement and any proposed revisions for conformance with CAS and generally accepted accounting principles and advise the contracting officer regarding the adequacy of these statements, including indirect rate provisions and calculations. To adequately carry out these responsibilities, the FCFO/E should possess a detailed understanding and continued awareness of the DOE and contractor automated financial systems and their integration with management controls, such as approved policies and procedures. This understanding and awareness can be accomplished through operational awareness, analyses, systems reviews, routine meetings, briefings and reviews of financial reports. This routine interaction is necessary to assure that any changes to operations have not adversely impacted the integrity of financial data. If feasible, the FCFO/E should maintain access to the site/facility management contractor’s accounting system(s) to enhance ongoing operational awareness.

- b) Perform Contract Administration of Financial Activities. The FCFO/E should ensure adherence to all standard DOE acquisition regulation financial management clauses included in major facility management contracts. Certain items, such as the Automated Standard Application for Payment (ASAP) form 1031 method of contract finance, should be coordinated with the Headquarters Office of Financial Policy prior to implementation.

Budgeting and Funds Control

Budgeting consists of policies, procedures and practices used to formally integrate plans with programs through the process of identifying, prioritizing and allocating resource requirements to programs approved in the planning process. Budgeting also includes financial management activities associated with validation of funding requirements, including overhead; review of budget requests during the budget process; distribution of funds authorized and appropriated by Congress, including reimbursable work; management of carryover balances; and performance measurement of the funded scope of work. In addition, budgeting consists of the

systems and procedures used to support the development of baselines for program and project management (see DOE Order 130.1, "Budget Formulation").

Funds control consists of systems, policies, practices and procedures for ensuring that funds are managed in accordance with the terms of the contract and applicable Federal legislation and policies to preclude discrepancies, such as unauthorized expenditures of funds and project cost overruns. Violation of legislated controls over the use of funds can result in severe legal penalties for individuals responsible for such violations. Funds control includes cost transfers, suspense accounts, and other activities and accounts affecting funds control. It also includes controls over work for others. Work for others refers to work or services performed, or to be performed, for another Federal or non-Federal customer. DOE is compensated by a specific type of offsetting collection, known as a reimbursement, which may be credited as authorized by law to the appropriation or fund account of DOE. Reimbursable work or services performed by DOE are financed by funds of the ordering Federal customer or by cash advances from a non-Federal customer (see *Accounting Handbook*, Chapter 2, "Administrative Control of Funds;" Chapter 5, "Accounting for Obligations;" and Chapter 13, "Reimbursable Work, Revenues, and Other Collections;" also see DOE Order 135.1, "Budget Execution—Funds Distribution and Control" and DOE Manual 135.1-1, *Budget Execution Manual*).

Oversight Activities

- a) **Monitor and Evaluate Budget Activities.** The FCFO/E must monitor budget execution for programs, projects, and, in some cases, individual orders to ensure resources are being expended as planned and in accordance with legal and administrative limitations. They also have responsibilities for ensuring that controls are in place and that funds are expended in accordance with legal authorities. To carry out these responsibilities, the FCFO/E should perform sufficient oversight activities to provide assurance that relevant laws and regulations pertaining to financial and budget activities are being followed. Certain laws, such as the Anti-Deficiency Act, have serious penalties for Federal employees whose actions are in violation of their provisions.
 1. The FCFO/E should determine the effective use of budget resources by evaluating actual versus planned expenditures and variances between applied and actual indirect costs. They should also perform analyses of uncosted balances, commitments (when applicable), and supplemental data reported such as functional costs and manpower. Internal controls over systems and processes used to provide budget estimates should also be evaluated. The FCFO/E should partner with functional and program managers to ensure that limited financial resources are allocated in order of priority and that these resource allocations are used for their intended purposes. [Note: Due to recent reorganizations, some of these budget activities may reside in Headquarters.]
 2. The FCFO/E must ensure that funds availability is being certified in accordance with applicable policy and work is not initiated in advance of receiving a budgetary resource. Federal law prohibits performing work for private parties and

certain governmental entities in the absence of advance funding. Departmental policy also prohibits the initiation of work in advance of receiving a valid budgetary resource. This is an inherently governmental responsibility under the Anti-Deficiency Act and other related statutes, which prohibit starting or continuing in-house work if funding is not available. The FCFO/E must also review and validate the use of operating funds for capital acquisitions to ensure that such projects meet the demanding criteria for expense funding. The FCFO/E should take measures to ensure that contractors follow the appropriate legal provisions and that costs are disallowed when contractors perform work without proper authorization and funding. Properly carrying out this responsibility is vital for protecting the taxpayers' interests and reducing the probability of fraud, waste and abuse.

3. The FCFO/E should partner with technical organizations in work authorization and change control systems. Work authorization and change control systems are highly interrelated with the funds distribution and control process. Working in concert, they ensure appropriately categorized and authorized work is accomplished within funding limits. For change control systems, the FCFO/E should evaluate changes in scope and funding needs. Both analyses are done in conjunction with the appropriate program management.

Management Controls

Management controls—organization, policies, and procedures—are tools to help program and financial managers achieve results and safeguard the integrity of their programs (see DOE Order 413.1A, “Management Control Program”).

Oversight Activities

- a) Administer Federal Managers' Financial Integrity Act (FMFIA). Heads of Departmental organizations are required to report annually on the management controls and financial management system(s) in their respective programs and administrative functions. This information is reported through the issuance of an annual assurance memorandum that typically includes current reportable problems and status updates of previously reported problems. Those FCFO/Es with responsibility for overall FMFIA administration should ensure that managers perform the necessary analyses or reviews to adequately report as required by the Act, and that any necessary assurances are provided from major facilities management contractors under their cognizance (see DOE Order 413.1A, “Management Control Program”).
- b) Conduct OMB Circular A-123 Assessments. Heads of Departmental elements and field managers are required to evaluate internal controls over financial reporting and provide assurances on those controls annually in accordance with OMB Circular A-123 and DOE requirements. Assessments should be conducted in accordance with annual guidance from the Office of CFO and DOE “Quick Start” implementation guides. FCFO/Es are permanently responsible for coordinating field assessments, including contractors under their cognizance.

- c) Conduct Periodic Surveys and Risk Assessments. The FCFO/E should conduct periodic surveys to evaluate implementation of financial management processes, identify and correct inconsistencies in DOE's financial management, identify best practices, identify potential vulnerabilities and assist in evaluating risk. FCFO/Es should also conduct periodic risk assessments of financial activities. These risk assessments should focus effort on the vital control systems needed for effective financial management. They also provide a ranking of financial management activities in relative priority, relating the risk posed to the entire financial management organization, based on management's qualitative judgment. The ranking provides a corporate statement of responsibility and risks, and establishes priority for the evaluation of management control systems.
- d) Analyze Results of Internal and External Financial Audits/Review Follow-Up. The FCFO/E should regularly communicate the relevant findings, recommendations and corrective action status to the cognizant contracting officer and appropriate senior management. This analysis work provides an understanding of the overall health of the contractor's financial processes, and reinforces accountability for audit follow-up and resolution. The FCFO/E should use a tracking system to analyze and trend results of corrective action plans for addressing audit and review findings.
- e) Analyze Results of Contractor Self-Assessments. The FCFO/E should analyze results of any self-assessments of financial functions performed by contractors. Self-assessment results should be validated to the extent necessary to ensure reliability.

Cost Accounting and Cost Management

Cost accounting and control includes the systems for accumulating, distributing, and accounting for costs and the policies, practices and procedures for managing costs. It includes the material and service pricing area that consists of policies, procedures and practices used to determine the cost of services and/or materials furnished to others outside DOE so that full cost recovery is achieved (see DOE Order 522.1, "Pricing of Departmental Materials and Services"). It also includes functional support costs and related-party transactions. Support costs are incurred for functions that must be performed to enable DOE sites to accomplish their direct mission activities. Related-party transactions include, but are not limited to, transactions between the following:

- A contractor and its parent;
- A contractor and other subsidiaries of a common parent;
- A contractor and trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by, or under, the trusteeship of the contractor's management; and
- A contractor and its principal owners, management or members of their immediate families and affiliates.

Oversight Activities

- a) Annual Statement of Cost Incurred and Claimed. Most major facility management contractors are required to submit an annual statement of cost incurred and claimed. In accordance with Chapter 4, page 4(2) (b) (2), of the DOE *Accounting Handbook*,

FCFO/Es must attest that “the contractor has established a system of accounting ... controls adequate to minimize the risk of incurring unallowable or unreasonable costs.” The attestation statement does not constitute final approval or settlement of costs. Sufficient review work should be performed to support this attestation.

- b) Biennial Pricing Reviews. DOE’s contractors that provide materials and services to non-DOE entities must develop prices for these materials and services. FCFO/Es should review and validate prices to ensure they conform to the requirements of OMB Circular A-25, “User Charges,” DOE pricing policy, and other legislative authority as applicable. Biennial pricing reviews are a requirement of the CFO Act. In order to satisfy the biennial pricing review requirement, the reviews are conducted over recurring 2-year cycles. In the absence of existing reviews and reports that can be used to satisfy the requirement, reviews must be conducted (see DOE Order 522.1, Attachment 5, “Activities Requiring Biennial Pricing Review”) for each of the following activities:
1. Sale of products,
 2. Sale of nuclear materials,
 3. Rents and services,
 4. Reimbursable Work-for-Others Program,
 5. Cooperative work agreements,
 6. Technology transfers (CRADAs-Cooperative Research and Development Agreements),
 7. Royalties, and
 8. Related-party transactions.
- c) Indirect Cost Rates. At each major DOE contracted operation, millions of dollars of indirect costs are allocated to final cost objectives. DOE contractors develop and use prospective recovery rates for allocation of these indirect costs in accordance with their disclosed cost accounting practices. The FCFO/E must analyze the components of indirect costs and evaluate the allocation method employed in indirect cost distribution to assure that such costs are properly estimated and allocated, laws governing augmentation of appropriations are complied with, and direct/indirect costs are being accounted for properly. Based on the analysis and evaluation, FCFO/Es then advise the contracting officer regarding the adequacy of indirect rate provisions and calculations.
- d) Trend and Analyze Costs. The FCFO/E should trend and analyze selected costs (such as inventory, travel, training, equipment and overtime), to determine whether costs are prudent, consistent with predetermined plans or agreements, or whether there are any anomalies requiring attention. Some DOE field organizations perform this activity through receipt of recurring supplemental reports; others acquire the information through direct access to contractor financial systems.
- e) Conduct Special Cost Studies/Analyses. The FCFO/E should conduct management-directed and self-initiated special cost studies and analyses. These studies/analyses evaluate requirements and related costs. The results are used to make appropriate

recommendations to management. Examples include product-related studies, resource studies and cost-benefit analyses.

- f) Validate Selected Contractor Make vs. Buy Decisions. It is important for the FCFO/E to verify data and computations regarding high-visibility, high-impact make vs. buy decisions. As necessary, the FCFO/E should analyze all cost elements of the related estimates to determine accuracy, allocability, reasonableness and completeness. In addition, the FCFO/E may provide an independent opinion on potential unidentified contingencies.

Financial Reporting and Performance

The financial reporting function consists of the policies, procedures and practices used to formally communicate and deliver official planning, budgetary, financial performance, operating and proprietary financial information regarding past, current and future events in support of DOE (including the National Nuclear Security Administration (NNSA) programs) to both internal and external groups. This includes DOE's financial statements and findings noted during the financial statement audit.

Oversight Activities

- a) Assess Contractor Financial Performance and Assist in the Award Fee Process. The FCFO/E must ensure that fees paid to contractors are based on authorized, agreed upon scope and volume of work. The FCFO/E should work with contractors to develop appropriate and effective financial performance measures and evaluate and assess contractor financial performance as part of the award fee process. DOE contracts with award fee provisions require assessment and analysis of contractor performance. Although procurement has primary responsibility, the FCFO/E should assist (as appropriate) in assuring that reported performance is accurate and in accordance with negotiated fee- and performance-based incentive provisions. Whenever DOE organizations establish contractor incentive fees, the FCFO/E should ensure claimed benefits and cost savings are computed using official accounting records. Fees paid to DOE major facility management contractors are determined by the cognizant DOE contracting officer. The available fee is based on the anticipated scope of work, performance risk and actual performance. The FCFO/E should assist the contracting officer, as appropriate, in determining the fee basis and in ensuring the fee paid to the contractor is based on an authorized, agreed upon scope and volume of work.
- b) Provide Other Required Certifications. The FCFO/E must provide the certifications required for laboratory-directed, plant-directed or site-directed research and development information submitted for DOE's annual report to Congress. The FCFO/E also must provide certifications required for reporting in response to the FMFIA, the support cost by functional activity, and the annual Financial Management Service (FMS) Form 2108 Year End Closing Statement. In addition, other information may require certification as requested by the Headquarters CFO.

- c) Analyze Financial Operations and Accounting Reports. To provide DOE management with meaningful financial information (e.g., functional costs), the FCFO/E should conduct ongoing analyses of contractor financial results. Program staff and senior management at DOE field organizations require insightful, objective financial information to effectively manage and carry out their program responsibilities. This need is fulfilled through periodic briefings, executive-level financial reporting, graphical analyses and other tools. To provide DOE management with meaningful financial information, FCFO/E personnel should conduct ongoing analyses of contractor financial results. The primary purpose of analyzing financial operations is to disclose any unusual trends or unacceptable conditions, such as unusual growth in construction work-in-progress or extraordinary increases in liability accounts that may impact management's ability to perform their mission or may affect the financial statements. In addition, an annual audit of the financial statements is required by the CFO Act.

- d) Partner with Contractors to Develop Agreed-Upon Financial Management Performance Measures. The FCFO/E should partner with integrated contractors and the cognizant contracting officer to develop agreed upon financial management performance measures in support of the DOE's performance-based management initiatives. These measures should focus on activities that are critical, high risk or areas in need of improvement. They should also support measures established by OMB, the Treasury Department and DOE as required or as appropriate.

- e) Conduct Periodic Liaison Meetings with Contractors. The FCFO/E should conduct periodic liaison meetings with contractors. These interactions are a key component in providing the basis for a comprehensive and complete evaluation of contractor financial management performance. They also assist in gaining the integrated, operational understanding of the effectiveness of the contractor's financial management processes and results of operations. The frequency of visits should take into account the level of risk associated with the contractor's financial operations, the integrity of contractor-provided data, and the total costs incurred by the contractor. Depending on the urgency of issues needing resolution, these visits can be performed effectively through face-to-face interaction, videoconferences or teleconferences.

Asset Management Systems

Asset management systems consist of the policies, procedures and practices to acquire, process, control, safeguard and account for DOE-owned assets and to collect, classify, record, process and report financial data relating to such DOE-owned assets. Asset management systems include: cash, accounts receivable, inventories, property (both real and personal) and construction work in progress (see *Accounting Handbook*, Chapters 6, "Cash;" 7, "Advances and Prepaid Expenses and Other Assets;" 8, "Receivables;" 9, "Accounting for Inventory and Related Property;" and 10, "Plant and Capital Equipment"). This area also includes patent and royalty assets that should be separately accounted for and safeguarded as income and/or expenses are recognized.

Oversight Activities

- a) Partner with Contractor and Headquarters to Monitor Financial Status and Timely Close-Out of Completed Projects/Activities/Contracts. Processing financial closure activities related to completed projects, contracts and other work tasking is critical to providing accurate, up-to-date financial results. These activities are critical to releasing unexpended funds or identifying previously unknown funding shortfalls and to ensure timely and accurate capitalization of assets. The FCFO/E should work with other appropriate field organization personnel to ensure that financial closeout activities are performed in accordance with DOE policy and in a timely manner.

Liabilities and Payments

The liabilities area consists of the policies, procedures and practices used to identify, record and report those activities that create a present or future claim on DOE resources (see *Accounting Handbook*, Chapter 11, "Liabilities"). Payments consist of the systems, policies, practices and procedures for making payments for goods and services to ensure that valid invoices and claims are paid in a timely manner, cost beneficial discounts are taken, and erroneous and duplicate payments are prevented. This area also includes payments for payroll, travel and other miscellaneous items. The payroll area, a function that DOE has outsourced, comprises the policies, procedures and practices to process, control and account for payments in exchange for services performed, payments to taxing authorities and others for amounts withheld, and employer contributions. Areas include time and attendance, payroll processing and labor cost distribution. Travel consists of the policies, procedures and practices for managing activities associated with permanent change of station, foreign travel, temporary duty and local travel (see *Accounting Handbook*, Chapter 16, "Payroll Accounting;" Chapter 6, "Cash;" Treasury Financial Manual (1 TFM 4 and 1 TFM 6-8040.10); and DOE Order 522.1A, "Travel Policy and Procedures"). This area also includes erroneous payments and the internal controls and procedures related to preventing, reviewing, and reporting these payments.

Internal Audit

The internal audit area consists of the policies, procedures and practices used by the contractor to perform comprehensive reviews and appraisals of the full scope of the contractor's diverse operations as a service to management (see DOE Order 224.2, "Auditing of Programs and Operations").

Oversight Activities

- a) Internal Audit Function. DOE uses a tri-party cooperative audit strategy-involving the Field organization, the Office of Inspector General (OIG), and the contractor's internal audit staff. The strategy is aimed at improving overall audit coverage by using all available resources and ensuring that DOE reviews, external audits and contractor internal audits are conducted through a fully integrated audit plan. This increased reliance on contractor internal audit groups by DOE makes it imperative that the FCFO/E assess the audit work they perform. The FCFO/E should, at a minimum, ensure audits focus on areas of greatest risk and that internal audits are conducted in conformance with Generally Accepted Government Auditing Standards (applicable auditing standards) and verify achievement of independent, supportable conclusions.

Also, this work should include review of audit plans and tracking of the audit plan progress to aid in evaluating performance of internal audit functions by the contractor.

APPENDIX A

FINANCIAL MANAGEMENT LEGAL REQUIREMENTS AND REGULATORY GUIDANCE

The financial management arena is subject to a variety of laws and regulatory guidance, such as public law and Federal financial management regulations. Additionally, DOE has internally mandated policies, procedures and guides. This appendix describes the legal and regulatory environment, which includes but is not limited to the following Acts and cost accounting standards.

FEDERAL LEGISLATION

The **Chief Financial Officers Act of 1990** requires agency CFOs to:

- Provide for improvement of systems of accounting, financial management and internal controls to assure the issuance of reliable financial information and to deter fraud, waste and abuse of government resources;
- Report directly to the head of the agency regarding financial management matters;
- Oversee all financial management activities relating to the programs and operations of the agency;
- Develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which provides for (1) complete, reliable, consistent and timely information; (2) the development and reporting of cost information; (3) the integration of accounting and budgeting information; and (4) the systematic measurement of performance;
- Implement agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control;
- Monitor the financial execution of the budget of the agency in relation to actual expenditures, and prepare and submit timely performance reports to the head of the agency;
- Perform biennial pricing reviews for fees, royalties, rents and other charges imposed by the agency for services and items of value it provides; and
- Prepare and submit to the OMB director, a financial statement for the preceding fiscal year.

The **Anti-Deficiency Act** states that:

- An officer or employee of the U.S. Government may neither make nor authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.
- An officer or employee of the U.S. Government may not involve the government in a contract or obligation for the payment of money before an appropriation is made, unless authorized by law.

- An officer or employee of the U.S. Government may not accept voluntary services for the government or employ personal services exceeding that authorized by law, except for emergencies involving the safety of human life or the protection of property.
- Violations of this act will be reported immediately to the president and Congress with relevant facts and a statement of action taken.

The **Federal Managers' Financial Integrity Act (FMFIA) of 1982** requires that the head of each agency conduct an evaluation in accordance with guidelines and prepare a statement concerning the agency's system of internal accounting and administrative controls of each executive agency. The requirements of this act include providing reasonable assurance that

- Obligations and costs are in compliance with applicable law;
- Funds, property and other assets are adequately safeguarded against waste, loss, unauthorized use or misappropriation;
- Revenues and expenditures are properly recorded to provide for reliable financial reporting and maintenance of accountability over assets;
- Resolution of audit findings is prompt; and
- An annual evaluation of the agency's systems of internal accounting and administrative controls is performed and includes any identified material weaknesses and their commensurate corrective action plans.

The **Government Performance and Results Act (GPRA) of 1993** provides for the establishment of strategic planning and performance measurement. The Act requires agencies to have submitted 5-year strategic plans to OMB and Congress by September 30, 1997, concurrent with transmittal of fiscal year 1999 budget requests. These 5-year strategic plans are to be updated at least every three years and shall include the following:

- A comprehensive mission statement covering the major functions and operations of the agency;
- General and outcome-related goals and objectives for the major functions and operations of the agency;
- A plan for achieving the goals and objectives that includes a description of the operating processes, skills and technology, and resources required to meet the goals and objectives;
- A basis for comparing actual program results with the established program goals;
- A description of the process to verify and validate measured values;
- Identification of barriers to achievement of the goals and objectives; and
- A description of the program evaluations used in establishing or revising general goals and objectives, as well as a schedule for future program evaluations.

The **Government Management Reform Act of 1994 (GMRA)** requires that the head of each executive agency prepare and submit to the Director, OMB, an audited financial statement for the preceding fiscal year, reflecting (1) the overall financial position and (2) results of operations.

The **Debt Collection Improvement Act of 1996** requires that all Federal payments be made electronically.

The purpose of the **Federal Financial Management Improvement Act (FFMIA) of 1996** is to:

- Provide for consistency of accounting by an agency from one fiscal year to the next, and to provide uniform accounting standards throughout the Federal government;
- Require Federal financial management systems to support full disclosure of Federal financial data, including the full cost of Federal programs and activities, to the citizens, Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits;
- Increase the accountability and credibility of Federal financial management;
- Improve performance, productivity, and efficiency of Federal government financial management;
- Establish financial management systems to support controlling the cost of Federal government; and
- Increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

COST ACCOUNTING STANDARDS

Cost Accounting Standards Board requires certain contractors and subcontractors to comply with cost accounting standards (CAS), as well as to disclose their practices in writing and follow them consistently.

OMB Circular A-127, “Financial Management Systems,” (Revised 12/19/2004) states that financial and program managers are accountable for financial results of actions taken, control over the Federal government’s financial resources, and protection of Federal assets. Specific requirements of this circular include the following:

- Each agency shall maintain a single, integrated financial system;
- Financial systems must be designed in a manner consistent with the U.S. government Standard General Ledger, and capable of tracking specific program expenditures;
- Integrated financial management systems must possess (1) common data elements, (2) common transaction processing, (3) consistent internal controls, and (4) efficient transaction entry; and
- Agency financial management systems shall be able to produce financial information required to measure program performance, and support budgeting, program management and financial statement presentation.

OMB Circular A-123, “Management Accountability and Control,” (Revised 12/21/2004) states that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, and complying with applicable laws. The Circular requires agencies and individual Federal managers to take systematic and proactive measures to:

- Develop and implement cost-effective management controls for results-oriented management;
- Assess the adequacy of management controls in Federal programs and operations;
- Identify needed improvements;
- Take corresponding corrective action; and

- Report annually on management controls.

OMB Circular A-25, “User Charges,” (9/8/1993) establishes Federal policy regarding fees assessed for government services and for sale or use of government goods or resources. It provides information on the scope and types of activities subject to user charges and on the basis upon which user charges are to be set. Finally, it provides guidance for agency implementation of charges and the disposition of collections.

OMB Circular A-50, “Audit Follow-up,” (9/29/1982) provides the policies and procedures for use by executive agencies when considering reports issued by the OIGs, other executive branch audit organizations, the GAO, and non-Federal auditors where following up is necessary.

APPENDIX B

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