

U.S. Department of Energy
Washington, D.C.

ORDER

DOE O 413.1

Approved: 12-6-95
Sunset Review: 12-6-97
Expires: 12-6-99

SUBJECT: MANAGEMENT CONTROL PROGRAM

1. OBJECTIVES. The Department's managers are accountable for the performance, productivity, operations, and integrity of their programs through the use of management controls. The objectives of the management control program are to:
 - a. Evaluate management controls using existing information and day-to-day knowledge to the maximum extent possible;
 - b. Provide reasonable assurance that the Department's programs are protected from waste, fraud and mismanagement;
 - c. Promote the open recognition of problems prior to identification by outside organizations;
 - d. Focus attention on correcting the most serious problems facing the Department and its component organizations; and
 - e. Report the Department's major problems and strategic plans for addressing them up through the Department's chain of command to the President and Congress.

2. CANCELLATION. The Order listed below is cancelled. Cancellation of an order does not, by itself, modify or otherwise affect any contractual obligation to comply with such an order. Cancelled orders which are incorporated by reference in a contract shall remain in effect until the contract is modified to delete the reference to the requirements in the cancelled orders.

DOE 1000.3B, MANAGEMENT CONTROL SYSTEMS MANUAL, of 7-5-88

3. APPLICABILITY.
 - a. DOE Elements. Except for the exclusions in paragraph 3c, this Order applies to all DOE Elements.

Distribution:
All Departmental Elements

Initiated By:
Office of Chief Financial Officer

b. Contractors.

- (1) Except for the exclusions in paragraph 3c, the Contractor Requirements Document (CRD), Attachment 1, sets forth requirements that are to be applied to the universe of contractors awarded contracts. Contractor compliance with the CRD will be required to the extent set forth in a contract. Contractors shall be directed to continue to comply with the requirements of the Order cancelled by this Order until their contracts are modified to delete the reference to the requirements of the canceled order.
 - (2) The Bartlesville Project Office, Environmental Managements Laboratory, Metaire Site Office, New Brunswick Laboratoty, and the Office of Scientific and Technical Information shall participate in the programs of the respective Departmental Elements to which they report.
- (c) The Bonneville Power Administration is exempt from the reporting requirements contained in this Order.

4. REQUIREMENTS.a. Heads of Departmental Elements shall:

- (1) Evaluate and annually report on the adequacy of their organization's management controls and financial management systems.
- (2) Correct reportable problems identified in their respective programs, administrative functions, and/or financial management systems in a timely and effective manner.
- (3) Consider reportable problems in the strategic planning and budgeting processes.
- (4) Appoint a Management Control Action Officer to serve as the principal point of contact for the Departmental Element in coordinating all planning, evaluating, and reporting related to the Management Control Program.

b. Chief Financial Officer shall:

- (1) Coordinate the Department's Management Control Program.
- (2) Oversee the process of evaluating and annual reporting on management controls and financial management systems.

c. Inspector General shall:

- (1) Review year-end assurance memorandums from Departmental Elements to ensure that previously detected waste and other problems are appropriately disclosed.
- (2) Provide independent written assurance to the Secretary annually on whether the evaluation of the Department's management controls has been carried out in a reasonable and prudent manner.

5. RESPONSIBILITIES.

a. Heads of Departmental Elements have the responsibility to:

- (1) Maintain stewardship of Federal resources and ensure they are used efficiently and effectively to achieve intended program results
- (2) Take systematic and proactive measures to establish cost-effective and appropriate management controls

b. Chief Financial Officer has the responsibility to ensure the Management Control Program is thorough, comprehensive, conducted in accordance with this Order, and considered in the budget process.

c. Inspector General has the responsibility to provide technical assistance in the evaluation and improvement of management controls.

d. Departmental Internal Control and Audit Review Council provides senior management oversight. Membership includes the Chief Financial Officer (Chairperson), the Inspector General, and Field and Headquarters Heads of Departmental Elements serving on a rotating basis; and a Special Assistant to the Secretary.

e. Management Control Advisory Council assists the Office of the Chief Financial Officer by representing Field and Headquarters working level views on the Management Control Program. Members include six Management Control Action Officers serving on an alternating schedule. It is chaired by the Director of the Compliance Division, Office of Compliance and Audit Liaison.

6. REFERENCES.

a. General Accounting Office "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2, Accounting; Title 6, Pay, Leave, and Allowances; and

Title 7, Fiscal Procedures which prescribes standards for internal management controls and financial systems operations.

- b. Office of Management and Budget Circular A-123, revised, "Management Accountability and Control" of 6-21-95, which prescribes policies for establishing, evaluating, and reporting on agency management controls.
 - c. Office of Management and Budget Circular A-127, "Financial Management Systems," of 7-23-93, which prescribes policies for developing, operating, evaluating, and reporting on financial management systems.
 - d. Public Law 97-255, 31 United States Code 3512, Federal Managers' Financial Integrity Act of 1982, which requires establishing internal management controls in accordance with GAO standards; evaluating internal controls in accordance with Office of Management and Budget guidelines; and reporting annually by the Secretary to the President and Congress.
 - e. Public Law 81-784, Title I, Part II, Accounting and Auditing Act of 1950, as amended, sections 112 and 113, 31 United States Code 3512, which requires Federal departments to maintain effective systems of internal controls.
7. ASSISTANCE. For assistance, contact the Office of Chief Financial Officer, Office of Compliance and Audit Liaison at 301-903-2551.

BY ORDER OF THE SECRETARY OF ENERGY:



ARCHER L. DURHAM
Assistant Secretary for
Human Resources and Administration

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CHAPTER I

REQUIREMENTS OVERVIEW

The Management Control Program requires evaluations and reporting on problems identified in the Department's programs and administrative functions. The evaluations and reporting are accomplished through the following requirements:

1. A listing of the programs and administrative functions subject to the evaluation and reporting requirements contained in this Order shall be developed annually. Detailed requirements are included in Chapter II.
2. Summary Management Reviews of programs and administrative functions shall be conducted annually. Detailed requirements are contained in Chapter III.
3. Summary Financial Management System Reviews shall be conducted annually on financial management systems or system components contained in the Department of Energy Financial Management System Inventory. Detailed requirements are contained in Chapter IV.
4. Executive level summary action plans shall be developed to address reportable problems and financial system reportable nonconformances of concern to the next higher level of management. Detailed requirements are in Chapter V.
5. Annual assurance reports on reportable problems will be submitted up through the Department's reporting chain to the President and Congress. Detailed reporting requirements are included in Chapter VI.
6. Progress on correcting reportable problems and financial system nonconformances will be tracked. Detailed tracking requirements are included in Chapter VII.

CHAPTER II

IDENTIFYING PROGRAMS AND ADMINISTRATIVE FUNCTIONS

1. GENERAL. The programs and administrative functions subject to the Management Control Program's requirements, and the responsibility for their accomplishment, shall be identified annually.
2. APPLICABILITY OF THE EVALUATION AND REPORTING REQUIREMENTS. The following programs are subject to the requirements of this Order:
 - a. Headquarters programs with total obligational authority of \$10 million or more;
 - b. Headquarters organizations whose programs have obligational authority under \$10 million shall be treated as one program at the organizational level;
 - c. Field Programs with total direct and reimbursable obligational authority of \$5 million or more, for which the Field Element has programmatic responsibility and the overall DOE program is \$10 million;
 - d. Major administrative functions regardless of dollar threshold; and
 - e. Crosscutting and sensitive areas shall apply to all Departmental Elements regardless of funding.
3. LISTING OF PROGRAMS AND ADMINISTRATIVE FUNCTIONS. An annual listing shall identify the programs and administrative functions subject to current year evaluation and reporting.
 - a. The listing shall be developed by the Office of the Chief Financial Officer, in coordination with all Departmental Elements, using budget reports on current-year funding and unobligated carryover. Departmental Elements shall identify any sensitive programs that should be included regardless of funding.
 - b. Instructions accompanying the listing shall identify and define crosscutting and/or sensitive areas that also shall be considered by all Departmental Elements. In addition, as specific issues arise, new crosscutting or sensitive areas shall be issued as appropriate throughout the year.
 - c. Departmental Elements may internally realign the programs and administrative functions in the official listing provided they document that all items in the listing

are covered, ensure that all Budget and Reporting codes are covered, and develop a crosswalk between the official list and their list.

CHAPTER III

SUMMARY MANAGEMENT REVIEW

1. GENERAL. A Summary Management Review shall give an overall look at the operations under a manager's cognizance and provide a framework for identifying and summarizing inadequate management controls and reportable problems. Heads of Departmental Elements may perform the Summary Management Review in a manner that suits their method of operation. However, the appropriate responsible managers shall be involved to ensure that an adequate Summary Management Review is conducted.

During a Summary Management Review, managers shall:

- a. Consider existing information regarding the activities under their cognizance;
 - b. Consider underlying management principles included below;
 - c. Determine if there are problems which should be reported to the next higher level of management;
 - d. Develop plans for the actions they will take to correct the reportable problems identified; and
 - e. Document, in a short and succinct manner, the process used and the rationale for the conclusions reached.
2. CONSIDER EXISTING INFORMATION. The following types of information, as well as any other relevant information available to management, shall be considered. Not all of the types of information will be available to every organization; therefore, managers shall determine which items are applicable. Furthermore, if the available information is not sufficient, the Head of the Departmental Element should ensure that an appropriate evaluation is conducted to obtain the needed information.
 - a. Problems Reported Through this Process in Prior Year. Managers shall consider problems reported the previous year to determine their present status. Factors to consider are:
 - (1) Any changes that have impacted the nature of the problem;
 - (2) Whether critical milestones reported last year still appropriately describe the corrective actions to be taken and are on schedule; and

- (3) Whether the root cause has been fixed for problems that are now considered closed.
 - b. Current Year Evaluations and Information. Managers shall consider available current-year information to determine whether any new potentially reportable problems have surfaced or any previously undetected reportable problems exist. Factors to consider are:
 - (1) Current year internal and external reviews, audits, appraisals and other types of evaluations and any problems that were disclosed;
 - (2) Activity reports and other existing mechanisms for reporting to management and any problems that were disclosed;
 - (3) Day-to-day knowledge of the program or administrative function that would indicate reportable problem(s) exist;
 - (4) Problems identified through ongoing quality-related initiatives;
 - (5) Problems uncovered by reviews or audits in other areas that may also exist in the program or administrative function being evaluated; and
 - (6) Information on the status of management and operating contractors' activities.
 - c. Strategic Plans, Budgets and Customer Needs. There are critical DOE processes and interests that shall be considered in determining whether reportable problems exist. These include the strategic plan, the budget, and the needs of customers. Factors to consider are:
 - (1) Difficulties in meeting the goals and/or objectives contained in the immediate organization's and/or the Department's Strategic Plan;
 - (2) Difficulties in achieving the performance measures or success indicators contained in the Strategic Plan;
 - (3) Problems for which funding has been requested and/or identified in the budget; and
 - (4) Problems in meeting customer needs
3. CONSIDER UNDERLYING MANAGEMENT PRINCIPLES. When conducting the Summary Management Review, managers shall consider the following underlying

principles which incorporate the General Accounting Office's Standards for Internal Controls in the Federal Government:

- a. Policies and objectives have been established and are understood and accepted. Management must set expectations for the organization before employees can do their jobs, satisfy their customers, and strive to improve the quality of their work. Specific policies and objectives reflecting requirements contained in applicable laws and regulations and the Departmental Element's mission, core values, and operating philosophy. Once these have been established, managers must take actions to ensure that employees share the organization's vision.
- b. Roles and responsibilities have been assigned and are understood and accepted. It is management's obligation to ensure that an organizational structure and delegations of authority are in place to support the accomplishment of the organization's mission and that employees understand what their responsibilities are. Before taking responsibility for their work, employees must possess knowledge of management's expectations, knowledge of why a task is being performed, and empowerment to carry out assigned tasks.
- c. Work is planned and controlled to ensure that objectives are met. Work must be carefully planned and controlled to ensure management's objectives are met. Needs must be thought out, organizational goals identified, lines of communication put in place, manpower and other resources provided, and accountability established. Management must also ensure that the right material, tools, and processes are in place and used appropriately.
- d. Employees are capable of performing their assigned tasks and are adequately supervised. Management must ensure that employees are capable of performing assigned tasks. Work assigned to employees should be equivalent to their skill levels. Employees should have appropriate education and training, including professional development and on-the-job training. Employees should be supervised to ensure they understand the specific tasks assigned to them and that the organization's work is successfully accomplished.
- e. Responsibilities for critical verifications and approvals are assigned to separate employees and/or organizations. Some critical tasks and work processes require verifications or approvals to ensure that the final product meets specifications or that strict operating requirements are adhered to. Management is responsible for assigning the responsibility for these critical verifications and approvals to employees and/or organizations that are separate from those performing the work.
- f. Decisions are based on accurate, up-to-date information. Decision-making must be based on accurate information that is available when needed. This requires that

significant events and relevant data be promptly and accurately documented, recorded, and distributed. Managers must also use information from other internal and external sources that could potentially affect their operations.

- g. Work is assessed to ensure it meets expectations. Employees must critically assess their efforts and determine if they have accomplished what they set out to do. In addition, a system of assessments must be established and implemented by management. In carrying out these assessments, work performance should be measured against defined standards and must be conducted by competent individuals with expertise in the subject area involved.
 - h. Problems are identified and corrected. Problems must be identified, documented, analyzed, resolved and followed up. Management must be committed to preventing problems, correcting them when identified, and improving quality. Managers should establish an environment where problems are viewed as opportunities for improvement.
4. DETERMINE IF THERE ARE REPORTABLE PROBLEMS. After considering day-to-day knowledge, existing information, and the underlying management principles, Heads of Departmental Elements shall determine whether any of the problems identified are reportable. Generally, if the problem would be of concern to the next higher level of management, it should be considered by the Head of the Departmental Element to be reportable. As problems are reported up, judgments of reportability are made by progressively senior individuals with a broader perspective on the Department's mission and function.

The following guidance is provided to aid Heads of Departmental Elements in determining if a problem is reportable to the next higher level of management. Specifically, Heads of Departmental Elements shall consider whether the problem in their view:

- a. Substantially impairs the organization's mission;
- b. Violates significant statutory or regulatory requirements;
- c. Substantially weakens safeguards against waste, loss, unauthorized use, and misappropriation of funds or other assets;
- d. Results in a conflict of interest;
- e. Creates adverse publicity that affects the organization's credibility;

- f. Merits the attention of senior DOE management, the Secretary, Congressional Oversight Committees or the Executive Office of the President;
 - g. Exists in a majority of programs, administrative functions, and/or organizations and can cause harm, even though minor individually, because the aggregate is significant;
 - h. Risks or results in the actual loss of either \$10 million or 5% of the resources of a budget line item;
 - i. Could reflect adversely on the management integrity of the organization if not reported;
 - j. Endangers national security; and/or
 - k. Has received significant adverse audit coverage.
5. DEVELOP ACTION PLANS FOR REPORTABLE PROBLEMS IDENTIFIED. An action plan shall be developed for the actions the Departmental Element will take to correct each reportable problem identified. Instructions for completing the action plan are contained in Chapter V.
6. DOCUMENT THE SUMMARY MANAGEMENT REVIEW. Heads of Departmental Elements shall document the Summary Management Review in a short and succinct narrative that is sufficient to evidence:
- a. That a Summary Management Review was conducted;
 - b. What information was used to conduct the evaluation; and
 - c. The rationale for the conclusion reached.

Managers are encouraged to retain additional supporting documents (e.g. management reports, etc.) as part of the Summary Management Review documentation if they are critical to the conclusions reached and are not readily available otherwise. However, in determining the need for documentation, managers should keep in mind that they are not required to maintain exhaustive documentation and shall use their best judgement as to the minimum amount required to adequately support their evaluation and conclusions reached.

CHAPTER IV

SUMMARY FINANCIAL MANAGEMENT SYSTEM REVIEW

1. GENERAL. The Department is responsible for evaluating its financial management system to determine whether it conforms to the principles and standards established by the Comptroller General and the requirements of Office of Management and Budget Circular A-127. This evaluation is accomplished through the performance of two types of financial management system reviews:
 - a. Detailed Reviews. The detailed reviews shall be conducted on a five-year cyclical basis under the cognizance of the Department of Energy Chief Financial Officer.
 - b. Summary Financial Management System Reviews. The summary financial management system reviews shall be conducted annually (except for years in which detailed reviews are conducted) by Departmental Elements responsible for a financial management system or system component.

The remainder of this section contains requirements pertaining to the Summary Financial Management System Review.

2. PURPOSE. The purpose of the Summary Financial Management System Review is to give the manager an overall look at the financial system or system component under his or her cognizance and provide a framework for identifying and summarizing reportable nonconformances. Departmental Elements have the flexibility to perform the Summary Financial Management System Review in a manner that suits their method of operation. However, the appropriate financial and systems managers shall be involved to the extent required to ensure an adequate Summary Financial Management System Review is conducted.

During the Summary Financial Management System Review, managers shall:

- a. Consider the existing information they have at their disposal regarding their financial management system or system component;
- b. Determine whether the system complies with General Accounting Office and Office of Management and Budget requirements;
- c. Determine if there are nonconformances which should be reported to the next higher level of management;

- d. Develop plans for the actions they will take to correct the reportable nonconformances identified; and
 - e. Document, in a short and succinct manner, the process used and the rationale for conclusions reached.
3. DOE FINANCIAL MANAGEMENT SYSTEM INVENTORY. The Department shall review the following financial management systems and system components:
- a. Departmental Integrated Standardized Core Accounting System (DISCAS);
 - b. Financial Information System (FIS);
 - c. Departmental Funds Distribution System (FDS);
 - d. Financial Management System (FMS) of the Power Marketing Administrations;
 - e. Payroll/Personnel System (PAY/PERS); and
 - f. Departmental Budget Formulation System (BFS).

Departmental Elements shall evaluate only requirements under their control during the Summary Financial Management System Review. For example, Operations Offices and Field Elements would consider only those DISCAS requirements not controlled by headquarters.

4. CONSIDER EXISTING INFORMATION. In conducting the Summary Financial Management System Review, managers shall consider existing information at their disposal. Examples of sources of information are:
- a. Inspector General and/or General Accounting Office reviews;
 - b. Day-to-day knowledge;
 - c. Management reviews, including, but not limited to, computer security reviews and summary management reviews;
 - d. Financial statement audits;
 - e. Chief Financial Officer Financial Management 5-Year Plan and the Department's 5-Year Systems Development Plan;
 - f. Problems identified through ongoing quality-related initiatives;

- g. System change requests;
- h. Problem(s) identified by user groups or councils; and
- i. Prior Summary Financial Management System and detailed reviews.

If existing information is insufficient for an adequate evaluation, the manager shall utilize other techniques (e.g. financial analysis, questionnaires, transaction testing) to obtain the needed information.

5. COMPLIANCE WITH FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS.

The financial management system shall comply with applicable requirements contained in Title 2, Title 6, and Title 7 of the GAO Policies and Procedures Manual and OMB Circular A-127. To enable these requirements to be met, financial management systems must process and record financial events effectively and efficiently, and provide complete, timely, reliable and consistent information for decision makers and the public. Specific requirements call for:

- a. An agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger;
- b. Integrated financial management systems;
- c. Use of the Standard General Ledger (SGL) at the transaction level;
- d. Adherence to federal accounting standards;
- e. Timely, useful reports on financial information and performance measures;
- f. Budget preparation, execution and reporting in accordance with Office of Management and Budget;
- g. Adherence to design, development, operation and maintenance requirements;
- h. Incorporation of Computer Security Act requirements;
- i. Up-to-date systems documentation adequate to user needs;
- j. Appropriate internal controls;
- k. Training and user support services; and
- l. On-going maintenance for continued effective and efficient operations.

The Office of the Chief Financial Officer shall issue annual instructions on the specific requirements to be considered during the Summary Financial Management System Review.

6. IDENTIFY REPORTABLE NONCONFORMANCES. Heads of Departmental Elements shall judge whether any of the nonconformances identified are reportable. Generally, nonconformances that would be of concern to the next higher level of management are reportable. As nonconformances are reported up, judgements of reportability are made by progressively senior individuals.

The following is provided to aid Heads of Departmental Elements in determining if a nonconformance is reportable to the next higher level of management. Specifically, reportable nonconformances in a financial management system shall meet one or more of the following criteria:

- a. Merits the attention of senior management, the Chief Financial Officer and/or the Secretary;
- b. Prevents the financial system from achieving central control over financial transactions and resource balances;
- c. Results in significant adverse effect on external reporting and internal management decisions; and
- d. Prevents conformance of financial systems with the Financial Management System Requirements contained above in part 5.

In addition, if management has agreed to material weaknesses identified through audited financial statements, an action plan for those weaknesses shall be submitted with the assurance memorandum. Heads of Departmental Elements should bear in mind that the existence of a reportable nonconformance does not preclude the financial management system's overall conformance with General Accounting Office and Office of Management Budget requirements, so long as the nonconformances, when considered together, are not sufficiently serious to prevent reasonable assurance that the system as a whole complies with requirements.

7. DEVELOP ACTION PLANS FOR REPORTABLE NONCONFORMANCES IDENTIFIED. An action plan shall be submitted with the annual assurance memorandum for the correction of all reportable nonconformances. Instructions for preparing action plans are contained in Chapter V.

8. DOCUMENT THE SUMMARY FINANCIAL MANAGEMENT SYSTEM REVIEW PROCESS. Heads of Departmental Elements shall document the Summary Financial Management System Review in a short and succinct narrative sufficient to evidence:
 - a. That a Summary Financial Management System Review was conducted;
 - b. What information was used to conduct the evaluation; and
 - c. The rationale for the conclusion reached.

Managers are encouraged to retain additional supporting documents (e.g. management reports, etc.) as part of the Summary Financial Management System Review documentation if critical to the conclusions reached and not readily available otherwise. However, in determining the need for documentation, managers should keep in mind that they are not required to maintain exhaustive documentation and shall use their best judgement as to the minimum amount required to adequately support their evaluation and conclusions reached.

9. INTEGRATED MANAGEMENT AND OPERATING CONTRACTOR FINANCIAL MANAGEMENT SYSTEMS. Heads of Field Elements are responsible for approving integrated management and operating contractor financial management systems and practices necessary to carry out the Department's financial policy, principles and objectives.

CHAPTER V

ACTION PLANS

1. GENERAL. Action plans are used by Departmental Elements to describe their reportable problems and financial management system reportable nonconformances and the actions they plan to take to correct them. In addition, cognizant Headquarters organizations use the action plans to identify potential reportable problems or nonconformances in their year-end process, and they are considered for possible inclusion in the Secretary's report to the President and Congress.
2. PREPARATION OF ACTION PLANS. The action plans shall:
 - a. Concisely describe reportable problems or nonconformances, their root cause(s), and impact on the Department;
 - b. Consolidate related or similar problems within the same program and administrative function at the Departmental Element level;
 - c. Incorporate results of trend analyses performed to identify and correct systemic deficiencies;
 - d. Be prepared at the executive summary level, using existing information when available;
 - e. Identify corrective action critical milestones that portray broad, summary-level steps to rectify the problem, its root cause(s), and any systemic deficiencies identified through trend analysis;
 - f. Reflect only those actions to be taken by the Departmental Element reporting the problem;
 - g. Reflect critical milestones that are in line with the direction of the Departmental Element's vision and strategic plan; and
 - h. Be linked with the Departmental Element's budget to the extent additional resources are required.
3. REQUIRED FORMAT. Action plans shall include the categories detailed below. (See Attachment III for a sample action plan.)
 - a. Title. A brief statement naming the action plan.

- b. Reportable Problem or Reportable Nonconformance. Indicate whether the action plan relates to a Reportable Problem or a Financial Management System Reportable Nonconformance.
- c. Headquarters Organization (Field only) and Program and Administrative Function. A statement identifying the cognizant Headquarters Organization and the Program and Administrative Function, consistent with the official List of Departmental Programs and Administrative Functions. Reportable problems in crosscutting areas shall identify the crosscutting area as the program and administrative function and the cognizant Headquarters Element with programmatic responsibility for correcting it.
- d. Description. A brief explanation describing the reportable problem or nonconformance, its impact on the program or administrative function, and the root cause(s).
- e. Assessment of Progress. A brief explanation of progress in implementing the milestones and alleviating the problem or nonconformance during the current reporting period. If the last critical milestone is not the closure date of the problem or nonconformance, the projected month and year for closure shall be indicated. Any slippage in critical milestone dates during the current reporting period shall be explained and the overall impact on the completion of the plan provided.
- f. Critical Milestones.
 - (1) Provide the key tasks and target dates representing broad events required to correct the problem, root cause(s) and systemic deficiencies.
 - (2) All critical milestones shall list an "Original Target Completion" date. This is the date included in the original action plan as the proposed completion of the milestone and shall stay the same through closure. A "Revised Target or Actual Completion" date shall be listed if:
 - (a) The milestone target completion date has been revised, in which case the most current date shall be listed; and/or
 - (b) The milestone has been completed, in which case the completion date shall be listed.

Critical milestones completed during the current year shall correspond with planned actions on the prior year plan.

- g. Success Indicators for Closed Action Plans. A statement provided only for those reportable problems or nonconformances that are being closed. Briefly describe the qualitative or quantitative success indicators used to show completed actions have eliminated the problem or nonconformance and its root cause(s).
- h. Name, Title, and Date. Provide the name and title of the manager responsible for reporting problems or nonconformances to the next higher level of management and the date the action plan was prepared or updated.

CHAPTER VI

REPORTING

1. GENERAL. Heads of Departmental Elements shall report annually on the management controls and financial management system(s) in their respective programs and administrative functions. The following shall be considered, where applicable, in preparing the annual report:
 - a. Current year Summary Management Review and related action plans;
 - b. Status of reportable problems identified in the prior year;
 - c. Status of actions taken to correct problems reported in the Secretary's prior year report;
 - d. Current Financial Management System Review and related action plans; and
 - e. Management and Operating contractors' management controls and financial management systems.

Headquarters annual assurance reports shall, if applicable, summarize Field and/or Headquarters reportable problems at the overall DOE level. The annual assurance reports shall not supercede, but shall build on, the reporting required under other Departmental programs.

2. REPORTING REQUIREMENTS. Departmental Elements' annual assurance reports shall include an assurance memorandum and action plans for correcting reportable problems and/or financial system reportable nonconformances. The Department of Energy Office of the Chief Financial Officer shall issue detailed reporting requirements annually that contain specific information on preparing the current year's report. These annual instructions will incorporate the Office of Management and Budget's current reporting requirements, specify current Department-wide areas of concern, provide current year report dates, and outline the language to be used in the annual assurance report. (See Attachment IV for a sample assurance memorandum.) The basic requirements are as follows:
 - a. Assurance Memorandum. The annual assurance memorandum is a high-level document that presents salient issues of concern to the next higher level of management and should be prepared in an executive summary fashion. It shall include the following:

- (1) A statement that management controls were reviewed using all known information, including assurances from management and operating contractors, and that underlying management principles incorporating the General Accounting Office's Standards for Internal Controls in the Federal Government were considered.
 - (2) A statement that current Department-wide areas of concern (identified annually in the reporting instructions issued by the Office of the Chief Financial Officer) have been considered and whether or not deficiencies were identified.
 - (3) A statement that there is or is not reasonable assurance that management controls were working effectively and programs and administrative functions were performed economically and efficiently consistent with applicable laws; property, funds and other resources were safeguarded; obligations and costs were proper; and accountability for assets was maintained.
 - (4) A statement that the financial management system does or does not comply with General Accounting Office and Office of Management and Budget requirements. (Only organizations with financial management systems should include this statement.) In addition, Departmental Elements with Management and Operating integrated contractors shall include a statement that the contractor financial management system does or does not conform to DOE requirements.
 - (5) An executive summary of the reportable problems contained in Action Plans attached to the assurance memo. If reportable problems are being closed, the letter shall also include a statement that actions taken have resolved the problem. Cognizant Headquarters Elements shall include a statement indicating concurrences with reportable problem closures reported by Field Elements.
 - (6) An optional brief summary of other significant issues facing the reporting Departmental Element. These are issues the Head of the Departmental Element believes should be raised to the next higher level of management but for which correction is outside the scope of their responsibility or operational authority.
- b. Action Plan(s). Plans for correcting reportable problems and financial management system reportable nonconformances identified in the Departmental Element's assurance memorandum shall be attached. The format and instructions for the Action Plan provided in Chapter V should be strictly adhered to.

Guidance for determining which problems and financial management system nonconformances should be reported are contained in Chapters III and IV, respectively.

- c. Office of the Chief Financial Officer shall review Departmental Elements' assurance reports to ensure reporting requirements in this Order are followed.

CHAPTER VII

TRACKING

1. GENERAL. Departmental Elements and the Chief Financial Officer shall track all reportable problems identified during the year-end evaluation and reporting process to monitor and report progress on the correction of the Department's problems and nonconformances.
2. TRACKING REQUIREMENTS. Action Plans for all reportable problems and nonconformances shall be tracked through completion and validated to ensure intended results have been achieved. The Department's management control tracking program is two pronged as described below:
 - a. Departmental Elements shall locally track all reportable problems and reportable nonconformances. Actions shall be tracked through completion and validation that actions have produced intended results. If reportable problems are identified by management and operating contractors, Departmental Elements may rely on the management and operating contractors' systems to track problems and nonconformances if the contractor has adequate procedures in place to ensure adequate tracking occurs through closure.
 - b. The Office of the Chief Financial Officer shall track Departmental problems reported by the Secretary in the Annual Report to the President. Mid-year updated Action Plans will be requested from the Heads of Departmental Elements for problems contained in the Secretary's report.

CONTRACTOR REQUIREMENTS DOCUMENT
DOE O 413.1, MANAGEMENT CONTROL PROGRAM

The Contractor shall consider all existing information and report annually to the appropriate Head of a Departmental Element on the status of their management control systems and financial management systems. Significant problems the Department needs to be aware of, which meet any of the following criteria shall be reported:

1. Substantially impairs the organization's mission;
2. Violates significant statutory or regulatory requirements;
3. Substantially weakens safeguards against waste, loss, unauthorized use, and misappropriation of funds or other assets;
4. Results in a conflict of interest;
5. Creates adverse publicity that affects the organization's credibility;
6. Merits the attention of senior DOE management, the Secretary, Congressional Committees or the Executive Office of the President;
7. Exists in a majority of programs, administrative functions, and/or organizations and can cause harm, even though minor individually, because the aggregate is significant;
8. Risks or results in the actual loss of either \$10 million or 5% of the resources of a budget line item;
9. Could reflect adversely on management integrity if not reported;
10. Endangers national security;
11. Has received significant adverse audit coverage; and/or
12. Significantly impairs the ability to meet DOE financial management systems requirements.

DEFINITIONS

1. Action Plans describe reportable problems or reportable financial management system nonconformances, their root cause(s), and the actions planned for correcting them.
2. Assurance Report is an annual report from Heads of Departmental Elements on the status of management controls and financial management system(s) within their respective programs and administrative functions.
3. Financial Management Systems are systems -- both manual and automated -- used to collect, classify, analyze, and report data for financial decision making; process, control, and account for financial transactions and resources; formulate and execute the budget; and generate financial information in support of the Department's mission.
4. Listing of Program and Administrative Functions identifies the programs and administrative functions subject to evaluation and reporting.
5. Management Controls (internal controls) are the organization, procedures and methods managers use to achieve their goals. They include processes for planning, organizing, directing, and controlling operations. Management controls are designed to reasonably assure that programs achieve intended results; resources are used consistent with DOE's mission and are protected from waste, loss, unauthorized use, and misappropriation; laws and regulations are followed; and decisions are based on reliable data. Management controls apply to all programs and administrative functions.
6. Reportable Problem is a problem that generally would be of concern to the next higher level of management. Chapter III contains specific criteria to aid managers in determining whether a problem is reportable.
7. Reportable Nonconformance is a financial management system nonconformance with Office of Management and Budget and General Accounting Office requirements that is of concern to the next higher level of management. Chapter IV contains specific criteria to aid managers in determining whether a nonconformance is reportable.
8. Responsible Manager is a manager responsible for a specific program or administrative function.
9. Summary Management Review is an annual evaluation of a Departmental Element's programs and administrative functions based on day-to-day knowledge and existing evaluations. It is an overall look at an operation and provides a framework for identifying and summarizing inadequate management controls and reportable problems.

10. Summary Financial Management Review is an annual evaluation of the Departmental Element's financial management system to determine if it conforms to Comptroller General and Office of Management and Budget requirements.

ACTION PLAN

Page 1 of 2

ACTION PLAN
AAA Operations Office
September 30, 1994

TITLE: DOE Property Improperly Managed at XYZ Corporation

ACTION PLAN: REPORTABLE PROBLEM: X REPORTABLE NONCONFORMANCE:

HQ ORGANIZATION: HR PROGRAM & ADMIN. FUNCTION: Control Of Personal Property

DESCRIPTION: The XYZ Corporation is managing substantial DOE property in meeting its mission as a support contractor for environmental cleanup activities. A site visit by HQ Program Team found substantial mismanagement in XYZ's handling of excess property putting at risk millions of dollars from the sale of such property. The team found storage facilities in an unprotected manner with property located in these facilities exposed to the elements for long periods of time while it was awaiting disposition. The property totaling \$27 million, included computers, office furniture, vehicles, construction equipment, tools and other materials stored on outside pallets or in semi-enclosed igloos. This problem resulted from the Operations Office's lack of adequate oversight of contractor personal property management systems. Despite the fact that the Operations Office has processes in place to monitor contractor property management practices, these processes have not functioned effectively. In addition, the contractor was not held accountable for loss, damaged, unauthorized use, or improper disposal of government owned property.

ASSESSMENT OF PROGRESS: Progress on the fourth milestone slipped by four months to allow for the Manager and XYZ CEO to meet and discuss the new indices that will measure XYZ's compliance with new procedures. This plan is now considered closed, all critical milestones have been completed.

<u>CRITICAL MILESTONES:</u>	<u>ORIGINAL TARGET COMPLETION MONTH/YEAR</u>	<u>REVISED TARGET OR ACTUAL MONTH/YEAR</u>
1. The XYZ Corporation will be directed to take immediate action to mitigate exposure to excess property in its possession awaiting disposition	6/92	8/92

	<u>ORIGINAL TARGET COMPLETION MONTH/YEAR</u>	<u>REVISED TARGET OR ACTUAL COMPLETION MONTH/YEAR</u>
<u>CRITICAL MILESTONES:</u>		
2. AAA Operations Office Property Management will conduct a wall-to-wall review of XYZ Corporation excess property accountability, procedures and practices for the purpose of determining improvements needed in XYZ's property management policies and practices.	1/93	1/93
3. AAA Operations Office Property Management Division will develop oversight practices acceptable to the HQ's Program team and to the Operation Office Manager. Once approved these practices will be implemented.	1/93	1/93
4. AAA Operation Office Property Management Division will establish indices to measure (1) how well property available for excess is being protected from the elements, and (2) that maximum revenue is being received for the excess property.	2/94	6/94

SUCCESS INDICATORS FOR CLOSED CORRECTIVE ACTION PLANS:

Is plan closed Yes No, not applicable.

XYZ Corporation's DOE managed property held for excess disposition is properly accounted for, stored adequately, and sold for maximum return of its value. A review of the sale to estimated property value ratio is high or close to 1.

NAME: _____
TITLE: _____
DATE: _____

MEMORANDUM

MEMORANDUM FOR THE SECRETARY OR OTHER APPROPRIATE OFFICIAL

FROM: HEAD OF DEPARTMENTAL ELEMENT

SUBJECT: Management Control and Financial Management System Review

In accordance with the Federal Managers' Financial Integrity Act, I have completed a summary management review of the management controls for the (name of Departmental Element) in effect as of the fiscal year ending September 30, __. The review was performed in conformity with Departmental guidelines and accordingly included a review of whether the management controls were in compliance with underlying management principles which incorporate the General Accounting Office's Standards for Internal Controls in the Federal Government. The review included the consideration of the results of audit reports, internal management reviews, assurances from management and operating contractors under my cognizance, and all other known information. In addition, our review considered the areas of (1) environmental management, (2) nuclear safety management, (3) non-nuclear safety management, (4) safeguards and security and no problems were identified. The results of the review indicate there is (is not) reasonable assurance that the management controls were working effectively and that program and administrative functions were performed in an economical and efficient manner consistent with applicable laws; property, funds and other resources were safeguarded against waste, waste, loss, unauthorized use or misappropriation; obligations and costs were proper; and accountability for assets was maintained. The concept of reasonable assurance recognizes that management controls must be cost effective, and there is always some potential for errors or irregularities to go undetected.

The above review did, however, (did not) disclose the following (any) reportable problems.

An evaluation of the financial management system for the (name of Departmental Element) has also been conducted in accordance with DOE guidelines. The results of the review indicate that the system generally conforms (does not conform) with the principles and standards developed by the Comptroller General as implemented by OMB and with the requirements issued by the Joint Financial Management Improvement Program. In addition, the financial management systems of management and operating contractors under my cognizance are in conformance with DOE accounting policies and procedures.

The financial management systems evaluation did (did not) disclose the following (any) financial management system reportable nonconformances.

(OPTIONAL SECTION) The review also disclosed the following issues facing my organization. Correction of these issues is outside the scope of my Departmental Element's responsibility or operational authority and therefore, I have attached no action plans.

Attachment A of this report contains the plans and schedule for correcting reportable problems of the management control system and reportable nonconformances of the financial management system.