



The Deputy Secretary of Energy
Washington, DC 20585
May 10, 2004

MEMORANDUM FOR UNDER SECRETARY FOR NUCLEAR SECURITY

ACTING UNDER SECRETARY FOR ENERGY,
SCIENCE AND ENVIRONMENT

DISTRIBUTION

FROM: KYLE E. McSLARROW 

SUBJECT: Fiscal Year (FY) 2004 Performance and Accountability
Reporting Guidance and Requirements

The purpose of this memorandum is to establish reporting requirements for the FY 2004 Performance and Accountability Report (PAR). The PAR streamlines and consolidates multiple statutory reporting requirements, including the reporting of performance results, audited financial statements, and the status of management controls.

This memorandum provides guidance on organizational responsibilities for input to the PAR. Detailed reporting instructions are available to your staff at the following website: www.mbe.doe.gov/progliaison/PAR.htm.

The due date has been accelerated by the Office of Management and Budget (OMB) to November 15, 2004. Meeting this deadline will require adhering to established departmental due dates and expediting your review of materials as requested throughout the year. A calendar of events that includes the due dates for major deliverables and a timeline for the FY 2004 reporting process is attached.

To meet the due date, we must have high quality and complete 3rd Quarter Draft PAR data to be issued on August 31, 2004. This version of the PAR report should reflect the final presentation of all information for FY 2004 and as such, the only changes anticipated after issuance of the 3rd Quarter Draft will be those related to:

- Updating performance and financial information to reflect final year-end numbers and results;
- Significant changes to correct any factual inaccuracies; and
- OMB and auditor requested changes.

In addition, any requested change to PAR information after issuance of this draft must be approved and submitted by the head of the cognizant Departmental Element. Changes from staff contacts will not be accepted. It is imperative that programs provide complete and accurate input for this version of the report before it is issued. Also, it is important to note that our audit firm will be basing much of its audit work on 3rd quarter information.

While we made progress in FY 2003, we must continue our efforts to improve the quality of our performance metrics, and we must institute tighter internal controls to ensure that all reported results are accurate and well documented for all quarters, not just at year-end. All Headquarters offices are encouraged to participate in the performance measurement and internal control training sponsored by the Office of Program Analysis and Evaluation to ensure that all requirements are met and that the reportable condition on performance metrics reporting is eliminated.

If you have any questions regarding this guidance, please direct them to Mr. John Newell, Director, Office of Program Liaison and Financial Analysis, at (301) 903-2551.

Attachment

cc: w/attachment:

Chairman, Federal Energy Regulatory Commission

Field Chief Financial Officers

Headquarters Resource Managers

Management Control Action Officers

Field Management Representation Letter Contacts

Performance Measure Contacts

Research and Development Contacts

Distribution

HQ Resource Managers

Director, Office of Resource Management, CI-3
Director, Office of Counterintelligence, CN-1
Director, Office of Economic Impact & Diversity, ED-1
Director, Office of Energy Assurance
Director, Office of Planning, Budget Formulation & Analysis, EE-3B
Dep. Assistant Secretary, Office of Planning & Administration, EH-7
Director, Office of Resource Management & Information Services, EI-20
Dep. Assistant Secretary, Office of Policy, Planning & Budget, EM-10
Director, Office of Intelligence, IN-1
Director, Office of Executive Operations & Support, ME-2.1
Associate Director, Office of Resource Management, SC-60
Director, Office of Budget and Financial Management, FE-3
General Counsel, GC-1
Director, Office of Management Operations, HG-10
Director, Office of Resource Management, PI-5
Assistant IG, Office of Resource Management, IG-10
Associate Director, Office of Resource Management, NE-10
Director, Office of Public Affairs, PA-1
Director, Office of Resource Management, SP-1.1
Director, Office of Program Management & Administration, RW-50
Director, Office of Legacy Management, LM-1
Director, Office of Records and Business Management, IM-10
Associate Administrator, Office of Management and Administration, NA-60

Field Chief Financial Officers

Chicago Operations Office	Idaho Operations Office
Oak Ridge Operations Office	Richland Operations Office
Savannah River Operations Office	Golden Field Office
Ohio Field Office	Pittsburgh Naval Reactors Office
Schenectady Naval Reactors Office	Strategic Petroleum Reserve Project Office
National Energy Technology Laboratory	Naval Petroleum Reserves, CUW
Southeastern Power Administration	Southwestern Power Administration
Western Area Power Admin	Office of River Protection
Capital Accounting Center	Director, Office of Field Financial Management, NNSA

Management Control Action Officers

Deborah Bart, HG-50	George Dudley, IM-10
Jackie Chestnut, RW-54	Laura Brown, CI-03, PA-03
Dan Baur, CN-1	Myrna Turturro, ED-30
Dreda Perry, EE-62	Nancy Nicoletti/ Sharon Sutton, EI-30
Dave Anderson, EH-71	Jitendra Desai, EM-12
Chuck Roy, FE-3	Dan Bullington, GC-90
Richard Cronin/Steven Georing, HG-30/HG-20	Henry Kenchington, EA-1
Douglas Gillam, IG-12	Larry Cain, IN-1
Donna Gilbert, NE-10	Jon Mathis, PI-5
Sherri Bishop, SP-1.12	Janet Venneri, SC-62
Tony Carter, LM-1	Richard Speidel, NA-60
Frank Plata, ED-14	

J. Peter Johnson, OR
Richard Holten, RL
Freida Huckeba, Carlsbad
Ron Saylor, OH
Kirby Rothrock, NETL
Robert Roettele, SWPA
Janet Boulanger, NPR, CUW
Tammy Hairston, FE-47
Michael B. Bishop, SNR
Randy Kallauner, SPRO
James E. O'Connor, RP

Patricia Dillon, OAK
Marlenia Murray, SR
Marlys Kinsey, GO
Richard Anzures, RF
Joel Seymour/Sandra Dye, SEPA
James Fitzgerald, WAPA
Jack Nisbett, NPR, CA
Stanley R. Burinski, PNR
Pat Lahiff, NR-1
Rick Hoffman, SPRO, HQ, FE-46
Lisa Barbee, Yucca Mountain Site

Management Representation Letter Contacts

James Lester, AL
James Cotterell, ID
Nancy Fitchpatrick, OR
Kay Kuon, RL
Marlys Kinsey, GO
George Koch, RF
Joel Seymour, SEPA
James Fitzgerald, WAPA
Charles H. Robinson, Jr., SNR
Kim Davis, CR-52

Julie A. Cramer, CH
Tomi McDaniel, NV
Debra Hills, OAK
Marlenia Murray, SR
Ron Saylor, OH
Kirby Rothrock, NETL
Donna Short, SWPA
Stanley R. Burinski, PNR
William Gibson, SPRO
Jerry Dinan, BPA

R&D Contacts

Wolfe, Michael
Osik, Robin
Graham, Patricia
Wells, Isla
Budzich, Richard
Swiger, Brenda
Simon, Judith
Doug Alexander (BPA)
Cronin, Richard
Rudnick, Linda
Fox, Timothy

Dillard, Stephen
Jordan, Rosalie
Schrum, Barry
Mescher, Michael
Goodwin, Gwenne (EIA)
Brown, Laura
Gaspercrow, Lesley
Stewart, Errol
Sharpe, Deborah
Martin, Ivy
Vickers, Terrie

Performance Measures Contacts

Distribution to Contacts will be
made electronically by ME-20

DUE DATES FOR MAJOR DELIVERABLES
2004 PERFORMANCE AND ACCOUNTABILITY REPORT

Deliverable

Due Date

Research and Development Data

Headquarters (HQ) Elements and BPA submit Research & Development information

June 15, 2004

Status of Management Controls

Selected HQ Elements provide 3rd quarter updates of significant issue summaries

July 15, 2004

Heads of Field Elements report to Lead Program Secretarial Officers
(copies to Cognizant Secretarial Officers)

August 13, 2004

Heads of HQ Elements, including NNSA, report to Secretary

September 10, 2004

Performance Results

HQ Elements report 3rd quarter results achieved on goals and measures in performance plan

July 15, 2004

HQ Elements report final results achieved on goals and measures in performance plan

October 13, 2004

Management Representation Letters

Heads of Field Elements report to Lead Program Secretarial Officers and DOE
Chief Financial Officer (copies to Cognizant Secretarial Officers)

October 15, 2004

Headquarters Management Representation Letters to the Director of Office, Management,
and Budget/Chief Financial Officer

October 25, 2004

KEY DATES

FY 2004 PERFORMANCE AND ACCOUNTABILITY REPORT

3rd QUARTER DRAFT

PERFORMANCE RESULTS

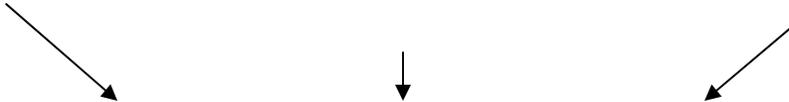
Select MD&A Perf. Meas.	6/27
3 rd Qtr Data in Joule	7/15
Draft MD&A input	7/31
Final 3 rd Quarter Input	8/25

MD&A / COORDINATION

Issue PAR Guidance	5/14*
Finalize '04 Format	5/28
Select Contractor	5/28
Field FMFIA Letters	8/13
Complete MD&A	8/26
Draft PAR Copy Ctr.	8/27

FINANCIAL STATEMENTS

Field Data Due	7/6
Prelim. PMA Data	7/15
1 st GC Rep Letter	7/15
Field Footnotes	7/20
Mgr'l. Cost Allocations	7/20
Final PMA Data	7/22
3 rd Qtr Internal Stmts.	7/31



ISSUE 3rd QUARTER DRAFT - 8/31

- Programs
- Deputy Secretary

Program Comments Due	9/15
Dep. Sec. Comments Due	9/15

*Detailed instructions available via website include guidance for FMFIA, Performance Measurement, Representation Letter, and Research and Development Information

KEY DATES

FY 2004 PERFORMANCE AND ACCOUNTABILITY REPORT

FINAL REPORT

PERFORMANCE RESULTS

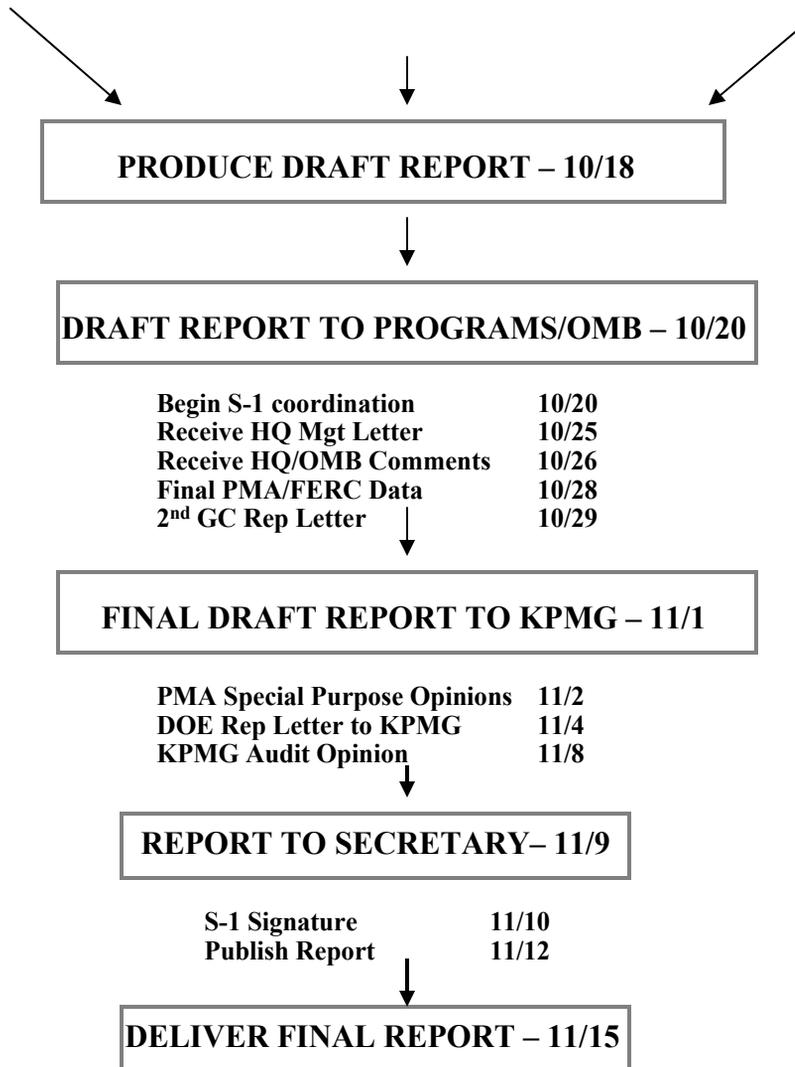
4 th Qtr Data in Joule	10/13
Validated Joule Data	10/15
Final MD&A/DPR Input	10/18

MD&A / COORDINATION

Field FMFIA Letters	8/13
HQ FMFIA Letters	9/10
3 rd Qtr Comments	9/15*
DICARC Meeting	10/5
FMFIA Sign. Issues	10/12
Supp. Fin Info.	10/14
Field Rep Letters	10/15

FINANCIAL STATEMENTS

Prelim. Field Input	10/8
Final Field Data	10/14
Initial PMA/FERC Input	10/14
Allocate Mgr'l. Costs	10/15
HQ Adjustments	10/15
Field Footnotes	10/15



*Comments from Programs and Dep. Sec.

FY 2004
Performance & Accountability Report
Detailed Reporting Requirements

U.S. Department of Energy

**Performance and Accountability Reporting Guidance and Requirements
FY 2004**

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DUE DATES FOR MAJOR DELIVERABLES
2004 PERFORMANCE AND ACCOUNTABILITY REPORT

<u>Deliverable</u>	<u>Due Date</u>
Research and Development Data	
Headquarters (HQ) Elements and BPA submit Research & Development information	June 15, 2004
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Performance Results	
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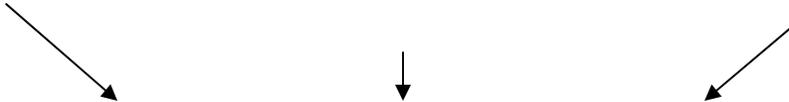
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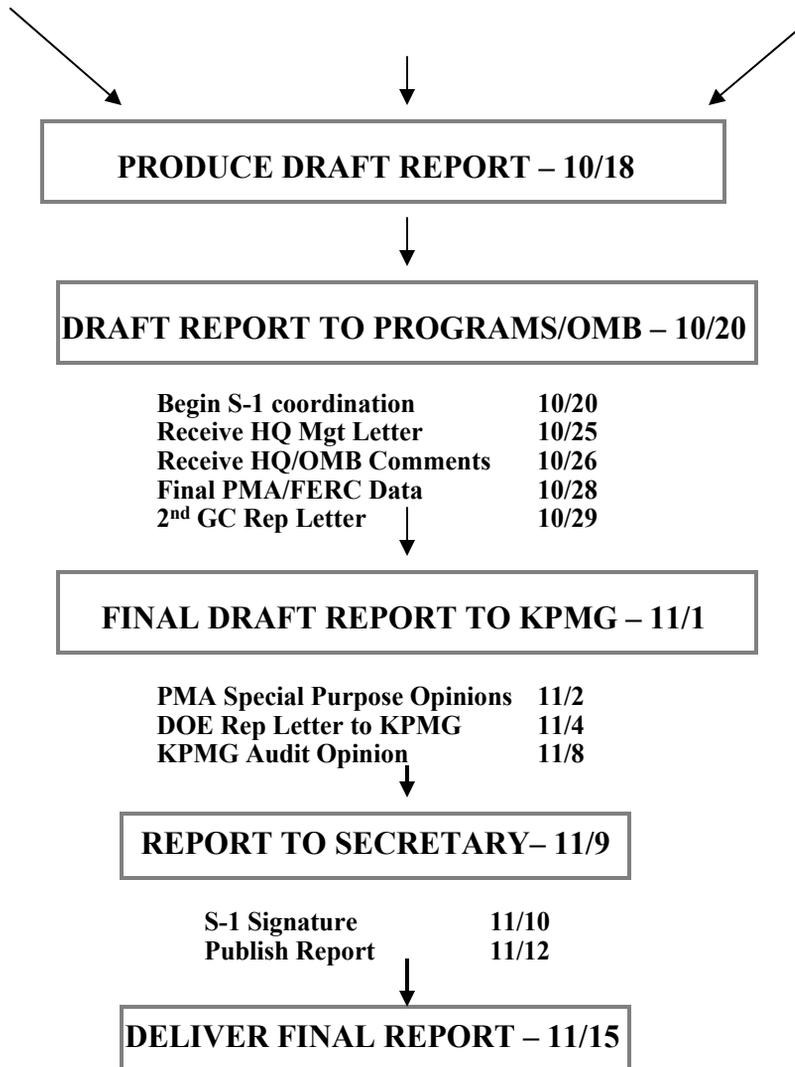
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FY 2004 PERFORMANCE REPORTING GUIDANCE

(Headquarters Organizations Only)

Introduction

The Government Performance and Results Act of 1993 (GPRA) requires that the Department establish annual performance goals and then report the actual results achieved towards those goals. The Joule performance monitoring and reporting system contains the complete set of revised final goals and measures for fiscal year (FY) 2004. The program goals are arranged by strategic plan goals, which identify the resources and offices that are held accountable for results.

Your office must report on the status of your organization's FY 2004 performance measures four times during Fiscal Year 2004: 1st quarter results for October 1, 2003 through December 31, 2003 (by January 30, 2004), 2nd quarter results for January 1, 2004 through March 31, 2004 (by April 15, 2004), 3rd quarter results for April 1, 2004 through June 30, 2004 (by July 15, 2004), and annual results (October 1, 2003 through September 30, 2004) by October 15, 2004. The schedule for the FY 2004 Performance and Accountability Report (PAR) has been significantly compressed, and the Department must deliver to the auditors a ready-for-publication final draft PAR one month ahead of last year's schedule (i.e. October 15, 2004).

In order to avoid impacting the development schedule for the PAR, the auditors will use 3rd quarter data to begin their review. Therefore, offices should ensure that both the 3rd quarter and year-end information provided is **accurate, complete, and that adequate supporting documentation is available**. Before your office submits the performance results for your organization, it is essential that the performance information you report on your organization's annual targets is approved by your organization's senior leadership. In addition, you must maintain appropriate documentation on sources of data and information that you used to report performance results, and make this documentation available for audit on request. The Management Representation Letter that will be prepared as part of the FY 2004 audit includes an assertion by your Secretarial Officer concerning the integrity of the data.

Quality Standards for Reporting:

The overall quality of Department-wide performance measure reporting has, for several years, been identified as a Reportable Condition. While the Department has made significant progress to date, continued emphasis on accuracy, timeliness, and completeness is essential. In addition, it is crucial that the initial input into the Joule system does not contain the following:

1. Unclear, jargon-laden measures that do not always support agency objectives.
2. Performance assessments that are inconsistent with actual performance.
3. Insufficient explanations for shortfalls in performance.
4. Performance results that are not accurate and valid.

This will eliminate the need to rework submissions under a constrained time-frame and will ensure that the 3rd quarter results accurately reflect the performance of the programs when reviewed by the auditors.

The 4th quarter results and the Commentary and Plan of Action texts in Joule will be the fundamental input for the Department's performance in FY 2004. The Commentary must be in plain language and state precisely what was accomplished relative to the annual performance target. The Commentary should be brief (about 40-50 words). The use of acronyms is strongly discouraged, but if the use of an acronym cannot be avoided, then it must be spelled out with its first usage. Statements should be specific and reaffirm what was accomplished by repeating the words in the statement of the target when appropriate.

In the event that performance results cannot be determined by the reporting date because the data collection, analysis or supporting documentation is not complete, it is necessary to identify these items as "undetermined results" with an assessment (color coding) of "Red" in the Joule system. The Commentary must include a statement as to why the results are undetermined and when they are scheduled to be reported.

Accessing Joule:

The Joule system is a web-based performance reporting system for the Department's annual performance goals and measures contained in the Annual Performance Plan. Designated individuals within the Department's program offices have been provided with access privileges and training on entering and validating performance information in Joule. The Joule System Administrator, Lynette Walker, can be reached at (202) 586-2019 for additional information about accessing Joule. The URL address for Joule is: www.joule.doe.gov

The Office of Program Analysis and Evaluation (PA&E) is available to answer questions and assist you in preparing your submissions. If you require assistance, please contact:

Lynette Walker (ext. 6-2019) PA&E's Joule System Administrator, and for technical assistance with Joule;

- Dick Rock (ext. 6-5371) For reporting on NNSA (DP/NA);
- Mike Scott (ext. 6-6289) For reporting on NE measures;
- Aileen Alex (ext. 6-4255) For reporting on Directed Stockpile Work, NR, and NN measures;
- Kevin Shaw (ext. 6-5068) For reporting on SC measures;
- Sal Golub (ext. 6-4043) For reporting on RW measures;
- Jeff Newsome (ext. 6-4052) For reporting on CIO, PMA, EIA, and ME measures;
- Mel Frank (ext. 6-5519) For reporting on EM, LM/WT measures;
- Kristin Draude (ext. 6-5963) For reporting on FE measures;
- Patrick Holman (ext. 6-7016) For reporting on EH measures;
- Kelly Greene (ext. 6-8303) For reporting on SO measures;
- Debbie Dayton (ext. 6-8278) For reporting on EE measures; and
- Connie Flohr (ext. 6-5134) For reporting on TD measures.

REPORTING ON THE STATUS OF MANAGEMENT CONTROLS

(Field and Headquarters Reporting Elements, including the National Nuclear Security Administration)

The Federal Managers' Financial Integrity Act (FMFIA) and related Office of Management and Budget (OMB) guidance require the Department to establish and maintain a management control program and to report annually on management controls to the President and Congress.

To support Departmental reporting, Heads of Departmental Elements, including the National Nuclear Security Administration (NNSA), are required to report on the status of their organizations' management controls, including reportable problems identified and progress made in correcting prior reportable problems. As in the past, the Heads of Field Elements are required to report to the respective Lead Program Secretarial Officer, with official copies simultaneously provided to the Cognizant Secretarial Officer(s). Heads of Headquarters Elements and NNSA report to the Secretary, and if applicable, through the appropriate Under Secretary. The reports must cover the management controls in place for all programs and administrative functions under his or her cognizance. It is the responsibility of each organization to ensure that its report covers all activities within the organization's purview, including the cross-cutting areas of (1) environmental management, (2) nuclear safety management, and (3) non-nuclear safety management.

The report should be based on the results of existing reviews and day-to-day knowledge of the organization's operations. Because significant realignments and cutback activities increase the risk that deviations from established policy will occur, special consideration should be given to the impact these have on management controls. The report is also required to consider the following:

1. Department of Energy (DOE) Order 413.1A, "Management Control Program." Available electronically at <http://www.mbe.doe.gov/progliaison/DOEO4131a.pdf>. The Order contains requirements for reporting annually on the status of management controls and for conducting Summary Management Reviews and Summary Financial Management System Reviews for organizations with financial management systems.
2. The Department of Energy FY 2003 Performance and Accountability Report. Available electronically at <http://www.mbe.doe.gov/progliaison/par2003.htm>. The Secretary's FMFIA Report to the President and Congress was integrated into the Department's FY 2003 Performance and Accountability Report. The FY 2003 Performance and Accountability Report identified the most serious problems facing DOE as Significant Issues (previously referred to as Departmental Challenges) under the FMFIA program and described actions taken and remaining to remove the deficiencies. Significant Issues were reported in the following nine

areas: Environmental Cleanup, Nuclear Waste Disposal, Information Technology Management, Oversight of Contractors, Security, Project Management, Human Capital Management, Safety and Health, and Stockpile Stewardship. Each office should review the FY 2003 Performance and Accountability Report and ensure that careful consideration is given to evaluating controls related to the nine Significant Issues. In addition, offices with responsibility for correcting the Significant Issues should provide an updated status of actions taken and planned and determine if additional action steps are appropriate. Action plans for FY 2003 Significant Issues are included in Attachment C-3. Specific actions that are planned for completion in FY 2004 are also included as actions in the FY 2005 Annual Performance Plan.

3. Inspector General (IG) Memorandum on IG Audit Reports and Chief Financial Officer (CFO) Memorandum on General Accounting Office (GAO) Audit Reports. These two memoranda are to be issued annually by May 31st to provide information on the IG and GAO audit reports that have been issued during the year. The contact for the Inspector General memorandum is Doug Gilliam at 202-586-5013. The contact for the CFO memorandum is Merley Lewis at 202-586-3469. These Inspector General and GAO audit reports should be carefully considered when preparing your report. Any areas that are the subject of significant adverse audit coverage should be included in your assurance memorandum.

4. Audit of the Department of Energy's FY 2003 Consolidated Financial Statements. Last year, the IG contracted with the accounting firm of KPMG LLP to conduct the audit of the Department's consolidated financial statements. Careful consideration should be given to findings issued at both the Departmental and local levels as a result of the FY 2003 audit. At the Departmental level, the auditors identified two reportable conditions in the Department's system of internal controls: 1) improve unclassified network and information systems security; and, 2) improve performance measurement reporting at the Department to satisfy the requirements of the Government Management Reform Act. In addition, the auditors identified a number of conditions that they did not consider to be reportable at the Departmental level. These were communicated to the appropriate Heads of Field Elements in separate management-level reports. Although the audit recommendations made in the management-level reports were not considered "reportable" for the Department, they are designed to strengthen internal controls and improve operating efficiencies. Therefore, if a management-level report was issued to your organization, these conditions should warrant the same consideration as reportable conditions identified at the Departmental level for purposes of preparing your assurance memorandum. The KPMG audit report can be found on page 365 of the Financial Results section of the Department of Energy FY 2003 Performance and Accountability Report.

Year-end reports from Heads of Field Elements are to be submitted by August 13, 2004. Reports submitted by Field Elements should reflect the status of management controls as

of the date of signature. Reports from Headquarters, including NNSA, cover Headquarters operations, summarize any Field issues that should be reported to the Secretary, and are due by September 10, 2004. Headquarters reports should reflect the status of management controls as of the date of signature.

Specific reporting instructions to be utilized in the preparation and submission of the year-end reports follow. Attachment C-1 includes process instructions to be used, and Attachment C-2 includes financial management system requirements that Departmental Elements with financial management systems or system components are to use when conducting a Summary Financial Management System Review.

Any questions on these instructions should be directed to Mindy Bledsoe, Program Liaison and Financial Analysis on 301-903-2553.

2004 MANAGEMENT CONTROL PROGRAM REPORT INSTRUCTIONS

1. 3rd QUARTER DRAFT OF THE PERFORMANCE AND ACCOUNTABILITY REPORT (PAR)

Headquarters organizations responsible for Departmental Significant Issues should provide updates to “Actions Taken and Remaining” and “Expected Completion” sections of significant issue action plans, if applicable (see Attachment C-4). This information will be included as part of the 3rd Quarter draft of the PAR. Updates must reflect information as of June 30, 2004 and must be provided via e-mail to Beverly.pershing@hq.doe.gov by July 15, 2004.

2. YEAR-END REPORT PROCESS INSTRUCTIONS

- a. Heads of Field Elements should submit assurance reports covering their program and administrative functions, financial management systems or system components, and the activities of Site/Facility Management Contractors (e.g., management and operating contractors, management and integrating contractors, and environmental restoration management contractors), if applicable. It is ultimately the responsibility of the Head of the Field Element to assure that site/facility management contractors under their purview are performing duties for the Department consistent with applicable laws and have sufficient management controls in place to safeguard government resources against waste, loss and unauthorized use. Site/facility management contractors are not required to perform summary management reviews or summary financial management system reviews in order to provide the necessary assurance; however, these site/facility management contractors should rely on existing internal and external reviews and day-to-day knowledge in order to provide assurances to the respective Head of Field Element. It is paramount that Field Elements receive assurances from all site/facility management contractors in order to adequately provide reasonable assurance that management controls are operating efficiently and effectively for their site.

Operations and Field Office reports are to be addressed to the Lead Program Secretarial Officer with official copies provided to the Cognizant Secretarial Officer(s). Power Marketing Administration reports are to be addressed to the Secretary. Heads of Field Elements assurance memoranda are due August 13, 2004 and should reflect the status of management controls as of the date of signature.

- b. Heads of Headquarters Elements and NNSA submit assurance memoranda covering their programs and administrative functions and, if applicable, summarizing Field and/or Headquarters reportable problems at the overall Departmental level (for example, the Assistant Secretary for Environmental Management summarizes all environmental compliance problems for the Department). Those Headquarters organizations responsible for a financial management system or system component must also summarize the results of the summary financial management system review(s) (see Attachment C-2 and DOE Order 413.1, Chapter IV). In addition, Headquarters Elements are requested to update the action plans for the Significant Issues that are contained in Attachment C-3. Headquarters reports are to be addressed to the Secretary through the appropriate Under Secretary. NNSA and Headquarters assurance memoranda are due September 10, 2004 and should reflect the status of management controls as of the date of signature.
 - c. Both Field and Headquarters Elements, including NNSA, are required to simultaneously submit two hard copies of the year-end report to the Department of Energy CFO, ME-100, Rm C-176, Germantown, and an electronic copy, in Word, provided by email to Beverly.pershing@hq.doe.gov.
3. ASSURANCE MEMORANDUM FORMAT The report format is provided in DOE Order 413.1A and consists of the following components.
- a. Memorandum. Executive level memorandum summarizing the results of evaluations conducted on the organization's management controls and financial management system, if applicable.
 - b. Index and Crosswalk for Action Plans. A cover sheet providing an index and crosswalk for action plans submitted is required with the annual assurance memorandum.
 - c. Action Plans. Action plans are required for all reportable problems and nonconformances identified in the assurance memorandum. The action plan instructions contained in DOE Order 413.1A, Chapter V, shall be adhered to.
 - d. Departmental Action Plans. Each FY 2003 Significant Issue (previously called Departmental Challenge) has a corresponding action plan including assignment of responsible program manager(s) and the office and person responsible for each critical milestone. The corrective action plan for each FY 2003 Significant Issue is contained in Attachment C-3. Action plans and critical milestones related to your organization's Significant Issue(s) should be updated and included in the index and crosswalk of the assurance memorandum submission.

FINANCIAL MANAGEMENT SYSTEMS REQUIREMENTS

Departmental Elements with financial management systems or system components included in the Department of Energy Financial Management System Inventory are required to conduct Summary Financial Management System Reviews annually. Information on the Department of Energy Financial Management System Inventory and the Summary Financial Management System Reviews is contained in DOE Order 413.1A, Chapter IV.

In conducting the Summary Financial Management System Reviews, managers are to consider existing information they have at their disposal. Using that information, managers are to then determine whether their system or system component is operating as designed and complies with government-wide financial management system requirements. Following are the General Accounting Office (GAO) and specific Office of Management and Budget (OMB) standards the financial management system is required to comply with:

1. OMB CIRCULAR A-127, FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS. This circular is available electronically at <http://www.whitehouse.gov/omb/circulars/a127/a127.html>. The financial systems shall adhere to the requirements contained in Circular A-127, FINANCIAL MANAGEMENT SYSTEMS. This Circular was updated by Transmittal Memorandum No. 1, dated July 1993. This Transmittal memorandum contains updated guidance which eliminates unnecessary overlap between Circular No. A-127 and Circular A-123, "Internal Control Systems"; eliminates unnecessary overlap between Circular No. A-127 and with Circular A-130, "Management of Federal Information Resources"; clarifies terminology and definitions; updates the Circular for statutory and policy changes; clarifies certain agency responsibilities; and, eliminates outdated guidance.

To further emphasize the adherence to these federal financial management system requirements, the President enacted the Federal Financial Management Improvement Act of 1996 (FFMIA). Following are the A-127 requirements:

- a. Agency-wide Financial Information Classification Structure. The design of the financial management systems shall reflect an agency-wide financial information classification structure that is consistent with the U.S. Government Standard General Ledger, provides for tracking of specific program expenditures, and covers financial and financially related information. This structure will minimize data redundancy, ensure that consistent information is collected for similar transactions throughout the agency, encourage consistent formats for entering data directly into the financial management systems, and ensure that consistent information is

readily available and provided to internal managers at all levels within the organization. Financial management systems' designs shall support agency budget, accounting, and financial management reporting processes by providing consistent information for budget formulation, budget execution, programmatic and financial management, performance measurement, and financial statement preparation.

- b. Integrated Financial Management Systems. Financial management systems shall be designed to provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the systems. In doing so, they shall have the following characteristics:

- Common Data Elements. Standard data classifications (definitions and formats) shall be established and used for recording financial events. Common data elements shall be used to meet reporting requirements and, to the extent possible, used throughout the agency for collection, storage and retrieval of financial information. Government-wide information standards (e.g., the U.S. Government Standard General Ledger) and other external reporting requirements shall be incorporated into the agency's standard data classification requirements.

- Common Transaction Processing. Common processes shall be used for processing similar kinds of transactions throughout the system to enable these transactions to be reported in a consistent manner.

- Consistent Internal Controls. Internal controls over data entry, transaction processing and reporting shall be applied consistently throughout the system to ensure the validity of information and protection of Federal government resources.

- Efficient Transaction Entry. Financial system designs shall eliminate unnecessary duplication of transaction entry. Wherever appropriate, data needed by the systems to support financial functions shall be entered only once, and other parts of the system shall be updated through electronic means consistent with timing requirements of normal business/transaction cycles.

- c. Application of the U.S. Government Standard General Ledger (SGL) at the Transaction Level. Financial events shall be recorded by agencies throughout the financial management system applying the requirements of the SGL at the transaction level. Application of the SGL at the transaction level means that the financial management system will process transactions following the definition and defined uses of the general ledger accounts as described in the SGL. Compliance with this standard requires:

--Data in Financial Reports consistent with the SGL. Reports produced by the systems that provide financial information, whether used internally or externally, shall provide financial data that can be traced directly to the SGL accounts.

--Transactions Recorded Consistent with SGL Rules. The criteria (e.g., timing, processing rules/conditions) for recording financial events in all financial management systems shall be consistent with accounting transaction definitions and processing rules defined in the SGL.

--Supporting Transaction Detail for SGL Accounts Readily Available. Transaction detail supporting SGL accounts shall be available in the financial management systems and directly traceable to specific SGL account codes.

- d. Federal Accounting Standards. Agency financial management systems shall maintain accounting data to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB and reporting requirements issued by the Director of OMB and/or the Secretary of the Treasury. Where no accounting standards have been recommended by FASAB and issued by the Director of OMB, the systems shall maintain data in accordance with the applicable accounting standards used by the agency for preparation of its financial statements. Agency financial management systems shall be designed flexibly to adapt to changes in accounting standards.

All 25 of the following Statements of Federal Financial Accounting Standards (SFFAS) have been recommended by the Federal Accounting Standards Advisory Board, and all have been accepted by the Congress and officially promulgated by OMB:

- SFFAS 1 -- Accounting for Selected Assets and Liabilities
- SFFAS 2 -- Accounting for Direct Loans and Loan Guarantees
- SFFAS 3 -- Accounting for Inventory and Related Property
- SFFAS 4 -- Managerial Cost Accounting Concepts and Standards
- SFFAS 5 -- Accounting for Liabilities of the Federal Government
- SFFAS 6 -- Accounting for Property, Plant, and Equipment
- SFFAS 7 -- Accounting for Revenue and Other Financing Sources
- SFFAS 8 -- Supplementary Stewardship Reporting
- SFFAS 9 -- Deferral of Implementation Date for SFFAS 4
- SFFAS 10 -- Accounting for Internal Use Software (amends SFFAS 6)
- SFFAS 11 -- Amendments to Accounting for PP&E – Definitions
(amends SFFAS's 6 and 8)
- SFFAS 12 -- Recognition of Contingent Liabilities from Litigation (amends SFFAS 5)

- SFFAS 13 -- Deferral of Para 65.2 - Material Revenue-Related Transactions (amends SFFAS 7)
- SFFAS 14 -- Amendments to Deferred Maintenance Reporting (amends SFFAS's 6 and 8)
- SFFAS 15 -- Management's Discussion and Analysis
- SFFAS 16 -- Amendments to Accounting for PP&E - Multi-Use Heritage Assets (amends SFFAS's 6 and 8)
- SFFAS 17 -- Accounting for Social Insurance
- SFFAS 18 -- Amendments to Accounting Standards for Direct Loans and Loan Guarantees (amends SFFAS 2)
- SFFAS 19 -- Technical Amendments to Accounting Standards for Direct Loans and Loans Guarantees (amends SFFAS 2)
- SFFAS 20 -- Elimination of Certain Disclosures
- SFFAS 21 -- Reporting Correction of Errors and Changes in Accounting Principles
- SFFAS 22 -- Change in Certain Requirements for Reconciling Obligations and Net Costs of Operations
- SFFAS 23 -- Eliminating the Category National Defense Property, Plant, and Equipment
- SFFAS 24 -- Selected Standards for the Consolidated Financial Report of the United States
- SFFAS 25 -- Reclassification of Stewardship Responsibilities and Eliminating the Current Services Assessment

The Statements of Federal Financial Accounting Standards are available electronically at <http://www.fasab.gov/standards.html>.

- e. Financial Reporting. The agency financial management system shall meet the following agency reporting requirements:

--Agency Financial Management Reporting. The agency financial management system shall be able to provide financial information in a timely and useful fashion to (1) support management's fiduciary role; (2) support the legal, regulatory, and other special management requirements of the agency; (3) support budget formulation and execution functions; (4) support fiscal management of program delivery and program decision making; (5) comply with internal and external reporting requirements including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury; and, (6) monitor the financial management system to ensure the integrity of financial data.

--Performance Measures. Agency financial management systems shall be able to capture and produce financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management, and financial statement

presentation. As new performance measures are established, agencies shall incorporate the necessary information and reporting requirements, as appropriate and feasible, into their financial management system.

- f. Budget Reporting. Agency financial management systems shall enable the agency to prepare, execute and report on the agency's budget in accordance with the requirements of OMB Circular A-11, "Preparation and Submission of Budget Estimates," OMB Circular A-34, "Instructions on Budget Execution," and other circulars and bulletins issued by Office of Management and Budget.
- g. Functional Requirements. Agency financial management systems shall conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial management systems. Functional requirements are defined in a series of publications entitled Federal Financial Management Systems Requirements issued by the Joint Financial Management Improvement Program (JFMIP). Additional functional requirements may be established through OMB circulars and bulletins and the Treasury Financial Manual. Agencies are expected to expeditiously implement new functional requirements as they are established and/or made effective. The following Federal Financial Management System Requirements have been issued by the JFMIP:

- Core Financial System Requirements (November 2001)
- Human Resources/Payroll System Requirements (April 1999)
- Travel System Requirements (July 1999)
- Seized/Forfeited Asset System Requirements (December 1999)
- Direct Loan System Requirements (June 1999)
- Guaranteed Loan System Requirements (March 2000)
- System Requirements for Managerial Cost Accounting (February 1998)
- Benefit System Requirements (September 2001)
- Grant Financial System Requirements (June 2000)
- Property Management System Requirements (October 2000)
- Inventory, Supplies, and Materials System Requirements (August 2003)
- Revenue System Requirements Document (January 2003)
- Acquisition Financial System Requirements (June 2002)

These JFMIP systems requirements are available electronically at <http://www.jfmip.gov/jfmip/systemrequirements.htm>.

- h. Computer Security Act Requirements. Agencies shall plan for and incorporate security controls in accordance with the Computer Security Act of 1987 and Circular A-130, for those financial management systems that contain "sensitive information" as defined by the Computer Security Act and the Government Information Security Reform Act which primarily addresses the program management and evaluation aspects of information security.

- i. Documentation. Agency financial management systems and processing instructions shall be clearly documented in hard copy or electronically in accordance with (a) the requirements contained in the Federal Financial Management Systems Requirements documents published by JFMIP or (b) other applicable requirements. All documentation (software, system, operations, user manuals, operating procedures, etc.) shall be kept up-to-date and be readily available for examination. System user documentation shall be in sufficient detail to permit a person, knowledgeable of the agency's programs and of systems generally, to obtain a comprehensive understanding of the entire operation of each system. Technical systems documentation such as requirements documents, systems specifications, and operating instructions shall be adequate to enable technical personnel to operate the system in an effective and efficient manner.
 - j. Internal Controls. The financial management systems shall include a system of internal controls that ensure resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and, reliable data are obtained, maintained, and disclosed in reports. Appropriate internal controls shall be applied to all system inputs, processing, and outputs. Such system related controls form a portion of the management control structure required by OMB Circular A-123.
 - k. Training and User Support. Adequate training and appropriate user support shall be provided to the users of the financial management systems, based on the level, responsibility and roles of individual users, to enable the users of the systems at all levels to understand, operate and maintain the system.
 - l. Maintenance. On-going maintenance of the financial management systems shall be performed to enable the systems to continue to operate in an effective and efficient manner. The agency shall periodically evaluate how effectively and efficiently the financial management systems support the agency's changing business practices and make appropriate modifications.
2. GAO POLICY AND PROCEDURES MANUAL FOR GUIDANCE OF FEDERAL AGENCIES. The GAO Policy and Procedures Manual for Guidance of Federal Agencies (manual) is no longer available. In recent years, changes in certain laws; the creation of the Federal Accounting Standards Advisory Board (FASAB); the establishment of the Advisory Council on Government Auditing Standards; and the different medium GAO has used to publish guidance (e.g. the Yellow Book and the Green Book on internal control standards) have rendered material in the existing manual to be outdated. Therefore, next year, this requirement will no longer be presented as a requirement.

ATTACHMENT C-3

ENVIRONMENTAL CLEANUP

RESPONSIBLE PROGRAM MANAGER

Jessie Hill Roberson
Assistant Secretary
Environmental Management

DESCRIPTION OF PROBLEM

One of the Department's most ambitious and far-ranging missions is dealing with the environmental legacy of the Cold War. As a result of this era, the Department continues to address significant long-term environmental restoration and waste management challenges at its facilities. Even though these issues resulted from activities conducted in a different atmosphere and under less stringent standards than today, the Department is committed to maintaining our compliance with current Federal and state laws and agreements. The Department manages some of the most technically challenging and complex work of any environmental program in the world. Due to the complexity and size of the challenge, constant management attention must be given to a process of continually evaluating and correcting the impacts of past operational practices and characterizing and minimizing possible impacts of present and future activities.

PRIOR YEAR ACCOMPLISHMENTS

Many of the Department's compliance agreements with states were originally negotiated when the production of nuclear weapons was a key mission and the availability of environmental management data to make informed decisions was minimal. Consequently, the deadlines and expectations of the original agreements were not realistic and required renegotiations. Progress continues to be made to ensure that facilities are in compliance with environmental regulations and that they remain in compliance while the restoration and waste management efforts continue to progress to completion. To address these environmental problems, the Department has made substantial progress over the past decade in cleaning up the nuclear weapons complex. By the end of FY 2003, the Department completed cleanup of 77 of the 114 contaminated geographic sites for which it has responsibility.

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	Projected Completion Date			
PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Planned/ Actual Date	Responsible Office	Responsible Individual
Implement resource-loaded project baselines.	9/2003	FY 2004	EM	Jessie Roberson

PROGRESS STATUS

The Department has been implementing a site closure initiative to improve program management and accelerate risk reduction and cleanup completions. During FY 2002, the Department conducted a Top-to-Bottom Review (Review) of all aspects of the Environmental Management program and identified opportunities for achieving more and faster cleanup for the funds invested, supporting efforts to comply with regulatory agreements, and maximizing value received for the resources expended. As a result of the Review, the Department developed an aggressive plan of action to change its cleanup mission approach and future milestones. The high-level waste program strategy for the Savannah River site, the Idaho National Engineering and Environmental Laboratory, and the Hanford site assumes that the Department has the authority to manage and dispose of different tank wastes according to the risks they present. A recent Idaho District Court decision has cast serious doubt and uncertainty on the Department's ability to implement this strategy. The Department has submitted a legislative proposal to Congress to allow DOE, in consultation with the Nuclear Regulatory Commission, to address management and disposal of high-level waste safely and cost effectively. This legislation would resolve the confusion and uncertainty created by the recent District Court decision and allow the Department to move forward with its plans for accelerating the high-level waste program.

The Department is now focusing to reduce risk to public health, workers, and the environment on an accelerated basis and at substantially reduced life-cycle costs. An example of focusing the Environmental Management program on mission-related closure activities is the creation in Fiscal Year 2004 of the Office of Legacy Management within the Department, which encompasses EM's long-term stewardship program. While important to overall Departmental operations, long-term stewardship is not part of EM's core accelerated risk reduction and closure mission. Based on this approach, the Department is defining risk reduction cleanup strategies on a site-by-site basis that have been developed into Letters of Intent and Performance Management Plans. The Performance Management Plans were implemented in FY 2003. These plans rely on other ongoing efforts (for example schedule integration) within the Department for the permanent disposition of the waste to be removed from the cleanup sites. Based on these plans

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and other acceleration initiatives, site resource-loaded baselines are being developed and validated. It is EM's goal in Fiscal Year 2004 to complete the process of establishing approved resource-loaded baselines at each site. Once approved, earned value cost and schedule information can be developed as a means to monitor annual cost and schedule performance at each site for mission-related activities.

In addition, the Department has established a hierarchical performance measurement system that delineates programmatic strategic performance goals from the Departmental level to the contractors performing the work. The process has been modified as a result of the Top-to-Bottom Review conducted of the Environmental Management program. The Department has developed and implemented new corporate performance measures that are aligned with the approach of accelerated cleanup and risk reduction. The Department's goal in developing new performance measures was to provide measures that clearly capture, at any point in time, the overall progress towards completion of the end-point objective of site cleanup. The Department's performance measures reflect overall program performance and monitor overall progress towards the goal of reducing risk and accelerating cleanup while reducing life-cycle costs.

PROPOSED CLOSURE DATE

The Department has targeted FY 2004 for completion of the activities necessary to complete this phase of the new cleanup strategy and will reexamine this corrective action plan at that time.

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SECURITY

RESPONSIBLE PROGRAM MANAGERS

Glenn F. Podonsky
Director
Office of Security and Safety
Performance Assurance

Karen S. Evans
Chief Information Officer

John C. Todd
Chief
Defense Nuclear Security
National Nuclear Security Administration

DESCRIPTION OF PROBLEM

Although the Department has taken positive actions to strengthen security activities, additional improvements are needed. In addition, recent terrorist activities have prompted the Department to consider new evolving security threats and a need to identify and implement new security measures. The Department must aggressively address the challenges presented by a need for improved homeland defense, threats posed by terrorists, and the threat of weapons of mass destruction. To this end, we must develop a long-range strategic plan for the Department's security posture, conduct threat analyses to establish the framework for continually improving security protective measures, continue to implement corrective actions for cyber security, and enhance the physical security of our facilities. It is anticipated that we will have to commit significant additional resources to protect against these new evolving threats.

Further, as a result of reports by the General Accounting Office (GAO) and the Inspector General, the Department identified several areas requiring increased management attention during FY 2003 including aggressive plans of action to improve them. Security was one of these areas and the action plans to improve them are integrated within the Critical Milestones of this plan. These include: (1) Implementation plans for protection strategies in response to the new Design Basis Threat and initial resource strategy and prioritization for Design Basis Threat driven upgrades; (2) corrective action plans for Inspector General findings and General Accounting Office uncompleted security recommendations; and (3) clarification of Departmental roles and responsibilities.

PRIOR YEAR ACCOMPLISHMENTS

The Department has taken a number of actions to improve security activities. During FY 2003, we developed and published a 10-year Department-wide Strategic Plan for Security. In addition, the Department drafted a 25-year Strategic Plan that is under review. The

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Department also issued the new Design Basis Threat Analysis and the Annual Policy Assessment Report. The Annual Policy Assessment Report will be refined on an annual basis, and will serve to establish the framework for continually improving security protective measures throughout the Department. In FY 2003, increased security protective measures were implemented for the Department’s facilities in the National Capital Area and the Executive Protective Force was enhanced. In addition, the Department developed an initial resource strategy and prioritization for Design Basis Threat-driven upgrades. A senior management working group was established to ensure our security operations are well coordinated, facilitate our relationship with the Department of Homeland Security, and recommend actions to strengthen accountability.

The Department has addressed Inspector General (IG) recommendations on classified information systems by finalizing the appraisal process guide for documenting cyber security reviews and the technical standard operating procedure to provide guidance for conducting cyber security performance testing. The Department has implemented prior IG recommendations relating to “Virus Protection Strategies and Cyber Security Incident Reporting” by adopting and utilizing a Department virus solution application and finalization of DOE N 205.4, Handling Cyber Security Alerts and Advisories and Reporting Cyber Security Incidents, to clarify incident handling and reporting procedures. In addition, during FY 2002, the Department addressed the IG’s recommendations on the Unclassified Cyber Security Program. Specifically, the Cyber Security Improvement Plan was developed and the Department promulgated a series of directives to support the policy document, P205.1. The directives provide the framework for a risk management approach to provide a level of protection for unclassified systems commensurate with the risk to these systems. Also in FY 2003, the CIO issued “Requirements for Cyber Security Performance Measurement Metrics” which requires quarterly reporting by Heads of Departmental Elements.

	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
PLANNED CRITICAL MILESTONES				
Publish 25-Year Security Strategic Plan.	N/A	10/03	SO	Marshall Combs
Conduct Vulnerability Assessments by DOE site in accordance with the new Design Basis Threat (DBT).	N/A	10/03	SO Lead Appropriate DOE Elements	Marshall Combs and Heads of Appropriate DOE Elements

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Develop Implementation Plans for near- and long-term protection strategies in response to new DBT.	N/A	10/03	SO Lead Appropriate DOE Elements	Marshall Combs and Heads of Appropriate DOE Elements
Clarify Departmental security roles and responsibilities.	N/A	10/03	SO Lead and Appropriate DOE Elements	Marshall Combs Heads of Appropriate DOE Elements
Submit comprehensive corrective action and/or completion plans for IG findings and uncompleted GAO-identified security initiatives to the Deputy Secretary.	N/A	10/03	SO Lead and Appropriate DOE Elements	Marshall Combs Heads of Appropriate DOE Elements
Complete study groups on security operations and security personnel and present recommendations to the Administrator, NNSA	N/A	04/04	NNSA	John Todd
Conduct a table top exercise at the Western Area Power Administration as part of the Department's program to ensure adequate protection of internal critical infrastructures. These exercises include senior management from Federal, state and local offices who would be responsible for responding to an actual incident.	N/A	5/04	SO	Marshall Combs
Implement increased security protective measures for DOE facilities in the National Capital Area.	N/A	9/04	SO	Marshall Combs
In collaboration with other related functional needs of the Department, complete arrangements for a facility that serves the Continuity Of Operations Plan (COOP) requirements for the Department.	N/A	9/04	SO	Marshall Combs
Pursue legislation to broaden the arrest and general law enforcement authorities for DOE Special Agents.	N/A	9/04	SO	Marshall Combs
Upgrade and improve the Nuclear Materials	N/A	9/04	SO	Marshall

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Management and Safeguards System (NMMS), the Department's official nuclear material accounting system to result in increase accuracy and reliability of NMMSS data.				Combs
Develop resource plans and strategies for a comprehensive review of the Department's sensitive document generation practices to improve identification of documents requiring security protection at time of origin.	N/A	9/04	SO	Marshall Combs
As part of the Department's effort to improve security of radioactive materials and in concert with the Department's acceptance of a DOE/Nuclear Regulatory Commission interagency working group recommendation to establish a national registration and tracking system for sealed sources, the Department will verify, update, and rebaseline the information contained in the existing Nonactinide Isotope and Sealed Source Database.	N/A	9/04	SO	Marshall Combs
Implement IG recommendations resulting from the IG's FY 2003 Evaluation of the Department's Unclassified Cyber Security Program.	N/A	09/04	CIO	Karen Evans
Implement approved recommendations of study groups regarding security operations and security personnel	N/A	12/05	NNSA	John Todd
Implement new Design Basis Threat throughout NNSA complex	N/A	09/06	NNSA	John Todd

PROGRESS STATUS

Although the Department has made significant progress, improving security is an iterative and evolving improvement process, especially with the renewed emphasis placed on this program as a result of the September 11, 2001, terrorist attacks. The Department has reemphasized that our overarching mission is national security. To this end, we are aggressively addressing the challenges presented by a need for improved homeland defense, threats posed by terrorists, and the threat of weapons of mass destruction. DOE's response to these threats and allocation of adequate resources to these missions will likely have far reaching consequences for the Department's budget, programs, and organization.

Additional improvements are needed to foster long-term improvement. Publication of the 25-year Strategic Security Plan will serve as the roadmap for future planning activities. With its publication, all Departmental Elements will need to develop meaningful and objective long-term security planning initiatives. Additionally, organizations will need to conduct Vulnerability Assessments for their sites in accordance with the new Design Basis Threat. Continuous process improvements via the Annual Assessment of Policy Report will assist in the continuing development of effective, clear, and comprehensive security and classification policies for DOE-wide application.

PROPOSED CLOSURE DATE

The completion of identified milestones indicate a closure date of FY 2006, however, due to continuing security challenges, we anticipate that the final correction of this issue will be a long-term effort.

SAFETY AND HEALTH

RESPONSIBLE PROGRAM MANAGERS

Glenn S. Podonsky
Director
Security and Safety
Performance Assurance

Beverly A. Cook
Assistant Secretary
Environment, Safety and Health

Dr. Everet Beckner
Deputy Administrator for Defense Programs
National Nuclear Security Administration

Jessie Hill Roberson
Assistant Secretary
Environmental Management

Raymond L. Orbach
Director
Office of Science

William D. Magwood, IV
Director
Nuclear Energy, Science and
Technology

DESCRIPTION OF PROBLEM

Many of the Department's facilities had safety deficiencies that were addressed to ensure the Department's ability to provide for the health and welfare of both our workers and the public. The Department had identified non-conformances with nuclear safety requirements, and weaknesses in meeting technical safety requirements. Vulnerabilities were also identified at some of the Department's facilities used to store spent nuclear fuel and other nuclear materials in implementing the Nuclear Safety Rule. In addition, occurrences throughout the Department's sites indicated a need for increased management attention to continue improving integrated safety management with particular emphasis on feedback and improvement mechanisms and compliance with environment, safety and health requirements.

Ensuring the safety and health of the public and the Department's workers is one of the top priorities in accomplishing our challenging scientific and national security missions. Due to the inherently critical nature of these issues, there is the need for continuous vigilance and improvement. Currently, the Department is addressing explosive safety issues and, with the ongoing re-engineering of the National Nuclear Security Administration workforce, needs to ensure that adequate focus on general safety at our laboratories and plants is maintained.

PRIOR YEAR ACCOMPLISHMENTS

The safety and health of the Department's workers and the public is one of our top priorities.

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Through 2002, the Department had completed a variety of actions to improve safety and health processes and address known deficiencies at individual locations. Key accomplishments include: Initiated implementation of Integrated Safety Management (ISM) which is a key component of the Department's long term safety and health strategy; completed the Nuclear Safety Standards Upgrade Project to assure nuclear activities are accomplished safely; established a beryllium registry to monitor worker exposure to beryllium and provided medical screenings to formerly exposed workers; completed substantive actions correcting vulnerabilities related to the storage of spent nuclear fuel; strengthened the Department's epidemiology program; and completed an investigation and established corrective actions to address worker and public safety concerns at the Paducah site. Also, in FY 2002, responsibility for independent oversight of environment, safety and health (ES&H) programs was transferred to the Office of Independent Oversight and Performance Assurance (OA) to assess the effectiveness of those environment, safety, and health systems and practices used by field organizations for implementing Integrated Safety Management and to provide clear, concise, and independent evaluations of performance in protecting our workers, the public and the environment from the hazards associated with DOE activities and sites.

Projected Completion Date

**PLANNED CRITICAL
MILESTONES**

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Validate effective implementation of the Documented Safety Analyses and Technical Safety Requirements for all applicable sites/facilities.	N/A	9/04	NNSA EM SC NE	Dr. Everet Beckner Jesse Roberson Raymond Orbach William Magwood
Complete movement of critical Federal personnel throughout the complex to align resources in a manner that best supports accomplishment of NNSA safety oversight responsibilities.	N/A	10/04	NNSA	Dr. Everet Beckner
Validate the stability of the Federal safety oversight function across the NNSA complex.	N/A	9/05	NNSA	Dr. Everet Beckner

PROGRESS STATUS

The Department has made great strides in establishing and implementing processes to address our safety and health Significant Issue. Most notably, implementation of ISM systems at all Departmental sites, submission of required Documented Safety Analyses; and

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completion of the Nuclear Safety Standards Upgrade Project have provided a solid foundation for resolving our long-term safety and health issues. As a result of ISM being revoked at the Oak Ridge Operations Office and one of its contractors, Bechtel Jacobs Company (BJC), independent assessments and reviews were required prior to their ISM implementation being re-verified. The BJC ISM implementation was conducted in late March/early April 2003. BJC and ORO have both received their re-verifications; BJC in June 2003 and ORO in October 2003.

In FY 2003, OA conducted independent inspections of ES&H program management and implementation at six sites, conducted a special study on the Department's management of suspect/counterfeit items, and published reports detailing lessons learned from ES&H evaluations and from performance analysis of environmental monitoring, surveillance, and control programs within the Department. The inspections included an independent safety assessment at the Oak Ridge Operations Office. Continued safety inspections are planned for FY 2004 to help evaluate the effectiveness of Federal safety oversight and the Department's implementation of the Documented Safety Analyses and Technical Safety Requirements.

In addition, National Nuclear Security Administration (NNSA) has put into place processes and procedures to ensure nuclear explosive safety studies are completed prior to performance of any life extension work on weapons systems. However, with the movement of critical individuals throughout the complex, Federal oversight of all safety and health related areas will require enhanced management attention until personnel movements stabilize. Similarly, the Office of Science (SC) will continue to ensure the safety and health of its workforce through appropriate training, tracking, and clarification of roles, responsibilities, authorities, and accountabilities as SC restructures its organization.

PROPOSED CLOSURE DATE

While we have put in place the building blocks to ensure a strong safety and health program, evaluating our effectiveness in implementing these strategies is an on-going process. In the coming years, the Department plans to continue validating the implementation and effectiveness of safety and health activities in key areas including Integrated Safety Management, Documented Safety Analyses, Technical Safety Requirements and explosives safety programs at selected sites. NNSA and SC will also increase management attention to key safety areas to mitigate the impacts of critical personnel movements and other restructuring initiatives. Potential for closure will be evaluated in 2005 with the completion of all major milestones.

PROJECT MANAGEMENT

RESPONSIBLE PROGRAM MANAGER

Jessie Roberson
Assistant Secretary
Environmental Management

Raymond L. Orbach
Director
Office of Science

Dr. Everet Beckner
Deputy Administrator For Defense Programs
National Nuclear Security Administration

James T. Campbell
Acting Director
Office of Management Budget, and
Evaluation/Chief Financial Officer

DESCRIPTION OF PROBLEM

In the past, it was reported that the Department lacked discipline and structure in approving and controlling program and baseline changes to projects and therefore needed a Department-wide approach to certify project managers at predetermined skill levels to ensure competent management oversight of resources. Additionally, it was determined that the Department needed stronger policies and controls to ensure that the need for construction projects is reevaluated frequently in light of changing missions. While the Department has taken actions to address these past problems, confidence in the ability to build new facilities, remediate contaminated sites and upgrade existing systems has been adversely impacted by reported cost overruns, schedule slippages, unplanned mid-course redirection and other project management problems. Projects encountered major cost overruns and schedule delays due to oversight failures were suspended due to inability to work safely and efficiently as designed, and terminated due to concerns about the contractor's performance and rapidly escalating cost estimates. These issues have led to Congressional concern over the adequacy of the Department's engineering and construction project management structure and practices.

PRIOR YEAR ACCOMPLISHMENTS

To identify the root causes of these project management deficiencies, Department-wide policies and procedures have been assessed by an expert panel formed under the National Research Council (NRC) of the National Academy of Sciences. The Department is addressing these problems through a comprehensive plan to implement the NRC's recommendations, as well as corrective actions gleaned from other internal and external reviews. The NRC issued a report in November 2001, "Progress In Improving Project Management at the Department of Energy," commending the Department for taking positive steps towards improving project management and recognized that more time will be needed to achieve the intended goals. Spearheading this continuing effort is the Office of Engineering and Construction Management (OECM), within the Office of Management,

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Budget and Evaluation/Chief Financial Officer. This office has taken the mission to drive value added change in the Department's project management systems. The OECM implemented an External Independent Review procedure that focuses on the review and validation of the project's cost, schedule and technical scope, and continues to improve upon the procedure. The Project Assessment and Reporting System (PARS) was developed to collect project data and report on project performance and status. The Project Assessment and Reporting System became operational in FY 2002. Noteworthy accomplishments during FY 2003 include: the Issuance of the DOE Project Manual in March 2003; Development of the Project Management Career Development Program; and Refinement of the monthly project status report.

NNSA is currently leading a Department-wide effort to increase staff competencies through increased training and involvement with professional societies such as the Project Management Institute and the Construction Industry Institute.

In the past year, SC's management reinforced its support for ongoing and needed improvements in project management through a memorandum; all SC site offices have been briefed on the new project management manual and have developed site-specific implementation plans; SC performed a survey of its PARS users as a basis for improving SC's reporting practices; SC met with external groups to improve project management; and SC's overall performance as reported in the monthly PARS report consistently exceeds the Department's project management performance measures established by OECM in support of the President's Management Agenda.

Over the past eighteen months, the top priority of EM management has been to reform and refocus the cleanup program to deliver quicker, less expensive cleanup and real risk reduction. These reforms culminated in the release of the Top-to-Bottom Review in February 2002, which served as a catalyst to reevaluate previously accepted strategies and cleanup methods. A major focus of the program has been the challenge of developing resource-loaded baselines for each EM site.

	Projected Completion Date			
PLANNED CRITICAL MILESTONES	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Submit monthly project status reports to the Deputy Secretary.	Ongoing	Ongoing	OECM	Jim Rispoli

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Program Offices continue to implement improved project management practices.		Ongoing	NNSA EM SC	Dr. Everet Beckner Jessie Roberson Ray Orbach
Implement resource-loaded project baselines		FY 2004	EM	Jessie Roberson

PROGRESS STATUS

The Office of Management, Budget and Evaluation has completed significant actions towards mitigation of the Department's project management deficiencies. The National Research Council's 2002 assessment of the Department's project management recognized the progress DOE has made toward improving project management.

The Project Management Career Development Program task force successfully developed a comprehensive career program to include tracking, training curriculum, developmental assignments, certifications, advancements and incentives.

Additional training and guidance has been provided to project managers to ensure their understanding of the requirements of the Department's Project and Program Management Manual and assist them in their efforts to ensure its successful implementation.

Revision of the External Independent Review (EIR) process and procedures is complete. The revised EIR procedures have been tested and have been shown to provide a more focused and detailed assessment of key project performance parameters. The revised EIR process is also providing detailed assessments of the extent to which cost and schedules for "start-up testing" have been incorporated into the Performance Baseline for production type projects.

A process to identify poorly performing projects requiring the attention of the Department's Deputy Secretary has been developed and fully implemented. A monthly project status report is prepared for all projects and a summary report that identifies all poorly performing projects is provided to the Deputy Secretary, Under Secretary and NNSA Administrator.

The EM Assistant Secretary will approve all site resource-loaded baselines. The baselines describe in detail the activities, schedule and resources required to complete the EM mission at each site. Key elements of the baselines such as annual costs, corporate performance measures, and completion dates are under strict configuration control. All baselines are assessed prior to approval to ensure that they meet site-specific commitments in addition to EM corporate goals. These approved baselines, assessed to identify and remedy any

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weaknesses that would be a barrier to accomplishing the scope of work at the validated cost, will allow for even greater focus on the cleanup mission. These approved baselines are also critical in enabling senior management to accurately monitor and measure the cleanup progress of each site against its completion objectives.

PROPOSED CLOSURE DATE

As a result of the progress achieved in rectifying this engineering and construction project management deficiency, it is expected that this significant issue will be closed in FY 2004.

OVERSIGHT OF CONTRACTORS

RESPONSIBLE PROGRAM MANAGERS

Dr. Everet Beckner
Deputy Administrator for Defense Programs
National Nuclear Security Administration

Raymond L. Orbach
Director
Office of Science

Jessie Roberson
Assistant Secretary
Environmental Management

DESCRIPTION OF PROBLEM

The majority of the Department's programs are accomplished through contracts, particularly those that provide management and operating capabilities for running the Department's facilities. The Department has previously been criticized for not effectively managing these contracts due to the absence of competition in contracting for major facility management contracts, the general indemnification of contractors for the cost of all performance failures and liabilities under a contract, the lack of contractual features to ensure contractor performance accountability, the absence of a strong focus on environmental, safety, and health concerns, and weak controls over such areas as records management, overtime, and litigation. The Department has established the appropriate policies and procedures to address these problems; however, programmatic implementation of these policies and procedures is not consistently occurring throughout the Department to provide sufficient effective oversight of contractors. Specific contractor oversight problems have been identified by the Inspector General at the Department's environmental cleanup sites and laboratories conducting national security and scientific activities. Adequate oversight is needed to assure that contractor operations are effective and efficient.

PRIOR YEAR ACCOMPLISHMENTS

The Department, through its Contract Reform efforts and other follow-on initiatives, has drastically changed its contract management policies and practices. The Department has changed its policies with respect to competing management and operating contracts, and developed and issued a comprehensive guide for the administration of managing and operating contracts. Under the revised regulations, we now hold contractors financially accountable for certain fines and penalties, property losses and litigation costs. Fixed-fee management contracts with ill-defined performance expectations have been eliminated, and performance-based management contracts with defined performance objectives and related at-risk financial incentives have been created.

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The Department has also initiated several workforce restructuring efforts. New strategies for environmental cleanup were implemented in FY 2003. In an effort to align contract incentives with accelerated cleanup objectives EM has incorporated cost-sharing options to ensure contractor efficiency. The NNSA and SC are restructuring its workforce to improve oversight of contractors managing its facilities. SC has also developed a model contract for its laboratories emphasizing enhanced flexibility and contractor accountability, using national standards and systems based oversight, and increasing incentives and disincentives for continuous improvement in mission performance.

Projected Completion Date

**PLANNED CRITICAL
MILESTONES**

	Previously Reported Date	Current Completion Date	Responsible Office	Responsible Individual
Through a process of re-engineering, National Nuclear Security Administration (NNSA) is restructuring its Federal workforce to provide efficient, effective oversight of the contractor workforce. Additionally, NNSA is evaluating a different method that is more in line with industry standards.	12/04	12/04	NNSA	Dr. Everet Beckner
The Office of Environmental Management (EM) is incorporating cost-sharing contracting options into future contracting activities to ensure the Department conducts the most effective clean up of its sites.	9/03	Ongoing	EM	Jessie Roberson
The Office of Science (SC) is restructuring its Federal workforce to provide clear line management accountability that will result in more efficient and effective oversight of our laboratories.	12/04	12/04	SC	Raymond Orbach

PROGRESS STATUS

National Nuclear Security Administration: NNSA is still in the implementation phase of its reengineering effort to refine roles and responsibilities and strengthen accountability. This effort will continue until the end of calendar year 2004.

Environmental Management: Increased contractor oversight and contracting strategy is an

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integral part of the Office of Environmental Management's (EM) implementation strategy resulting from the "Top-to-Bottom" Review. Specifically EM has implemented a Contract Management Council to ensure aggressive and consistent contracting strategies are implemented. Part of the strategy is ensuring that performance based incentives are included in contracts so as to align with the objectives of the Accelerated Cleanup plans and to review all acquisitions strategies to ensure optimal support of the Accelerated Cleanup. Nine

environmental cleanup contracts had been reevaluated or renegotiated to shorten schedules, establish more focused performance incentives, and accelerate risk reduction through project restructuring. These activities are expected to be iterative in nature.

Science: As part of its restructuring effort, SC is instituting several changes that will provide clear line management accountability and result in more efficient and effective oversight of SC laboratories. These include creating a single point of contact and authority for laboratory contract management in each SC Site Office, placing a contracting officer in each Site Office, moving Head of Contracting Activity authority to Headquarters (HQ), and establishing a clear set of integrated roles, responsibilities, accountabilities and authorities encompassing HQ, the nine SC Site Offices, and the Oak Ridge and Chicago Offices.

In addition, SC has undertaken a new contract approach for its laboratories that will rely more on national standards, best practices, and validation of management systems to produce further improvements in efficiency and effectiveness of laboratory operations. The first contract under the new approach was signed on August 26, 2003, and it will be used as a model for future SC laboratory contracts.

PROPOSED CLOSURE DATE

As a result of the progress achieved to correct this oversight of contractors management deficiency, it is expected that this significant issue will be closed in FY 2004.

NUCLEAR WASTE DISPOSAL

RESPONSIBLE PROGRAM MANAGER

Dr. Margaret S.Y. Chu
Director
Office of Civilian Radioactive Waste Management

DESCRIPTION OF PROBLEM

In the past, the Department reported that its schedule for acceptance of spent nuclear fuel and defense-related high-level radioactive waste had experienced delays resulting from funding shortfalls, past litigation, and scientific studies of a scope not envisioned when the Nuclear Waste Policy Act was initially passed in 1982 and amended in 1987. These delays were encountered at the Yucca Mountain site where the Department was performing comprehensive scientific tests to determine the suitability of the site for construction of a repository for the disposal of spent nuclear fuel and high-level radioactive waste.

The characterization of the Yucca Mountain site has since been completed. On February 14, 2002, the Secretary of Energy recommended the site to the President for development of a nuclear waste repository. On February 15, 2002, the President recommended the site to the Congress. On May 8 and July 9, 2002, the House of Representatives and the Senate, respectively, passed a resolution approving the siting of the repository. Finally, on July 23, 2002, the President signed into law the Congressional Joint Resolution designating Yucca Mountain as the site for the Nation's first repository. At that point, implementation of the Program entered a new phase.

The Nuclear Waste Policy Act of 1982 created the Nuclear Waste Fund in the Department of Treasury and established a fee on nuclear power generation to be paid into it by owners and generators of spent nuclear fuel and high-level radioactive waste, to cover the cost of the Civilian Radioactive Waste Management Program. In the intervening years, several budget control measures have been enacted by the Congress that have had the effect of preventing the Nuclear Waste Fund from being available to the Office of Civilian Radioactive Waste Management (OCRWM) for its intended purpose. As a result of reduced appropriations, OCRWM has experienced a cumulative funding shortfall of \$712 million for the eight-year period of 1995 to 2003. This funding shortfall has been a major factor in the need for the Department to reschedule and reprioritize Program activities while maintaining the December 2004 milestone for license application submittal. OCRWM's replanning effort will result in a revised cost and schedule baseline.

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Implementing the repository licensing and construction phases and taking the necessary steps to develop a national transportation capability, will require substantial increases in funding if waste acceptance at Yucca Mountain is to begin, as scheduled, in 2010. However, such funding is not likely to be provided through the existing budget process and the success of the Program is dependent on the establishment of a mechanism to assure the necessary funding is available. The President's FY 2004 budget request contained a proposal to adjust the discretionary caps to provide adequate funding for developing the Yucca Mountain repository and transportation infrastructure. The proposal would have been part of a reauthorization of the Budget Enforcement Act. Congress did not take up the Budget Enforcement Act reauthorization legislation, but a bill to provide access to Nuclear Waste Fund receipts and investment income has been introduced (H.R. 3429).

PRIOR YEAR ACCOMPLISHMENTS

The FY 2001 Energy and Water Development Appropriations Act directed OCRWM to update its 1984 report on Alternative Means of Financing and Managing the Program. The updated report, which identified a number of near- and long-term options for ensuring that sufficient funding is available for the Program, was submitted to the Congress in August 2001. As part of the FY 2003 passback, the Office of Management and Budget (OMB) directed the Department to submit a draft Capital Asset Management Plan outlining OCRWM's proposed funding profiles through the construction phase of the Program and a proposed funding strategy, consistent with the concepts described in the Alternative Means of Financing and Managing the Program report. Program officials have participated in discussions with OMB on the findings of the updated report on Alternative Means of Financing and Managing the Program and the draft Capital Asset Management Plan, which was submitted to OMB in early September 2002. The latter includes a funding strategy designed to ensure that useful segments of that plan are fully funded. Also, in its FY 2003 Budget Request, OCRWM identified the need to gain greater access to the Nuclear Waste Fund as a priority.

The FY 2004 OMB Passback provided further direction to the Department regarding the Capital Asset Plan and included a new timetable for its completion. OMB directed DOE to revise the draft Plan over the coming year. OCRWM provided OMB, on March 4, 2003, a detailed plan for updating the draft Capital Asset Management Plan, provided a redraft in July 2003, and will provide a final draft Plan with the Department's FY 2005 Budget Request.

A cap adjustment was proposed in the FY 2004 President's Budget Request through a reauthorization of the Budget Enforcement Act, but failed to garner congressional support. With the Capital Asset Management Plan in place, and alternative financing legislation enacted to ensure access to the necessary funding, this action plan should be closed in FY 2004 and OCRWM should be able to achieve its mandated mission. If the legislation is not

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authorized by Congress in FY 2004, then the OCRWM funding needs would be uncertain and will require other policy decisions and actions. H.R. 3429 was introduced to permit greater access of the Program to Nuclear Waste Fund resources.

	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
PLANNED CRITICAL MILESTONES				
Submit Final Draft Capital Asset Plan to OMB	06/03	11/03	RW	Margaret S.Y. Chu
Issue Revised Program Cost and Schedule Baseline	01/03	11/03	RW	Margaret S.Y. Chu

PROGRESS STATUS

Work is progressing on the redrafting of the Capital Asset Plan, which will include a funding strategy designed to ensure that useful segments of that plan are fully funded.

A 22 percent cut in OCRWM's FY 2003 funding required replanning OCRWM's entire work effort and resulted in a delay in the issuance of OCRWM's Program Cost and Schedule Baseline. The baseline has been developed and is undergoing review and processing.

PROPOSED CLOSURE DATE

A cap adjustment was proposed in the FY 2004 President's Budget Request through a reauthorization of the Budget Enforcement Act but failed to garner congressional support. With the Capital Asset Management Plan in place, and alternative financing legislation enacted to ensure access to the necessary funding, this action plan should be resolved closed in FY 2004 and OCRWM should be able to achieve its mandated mission. If legislation is not authorized by Congress in FY 2004, then the OCRWM funding needs would be uncertain and will require other policy decisions and actions. H.R. 3429 was introduced to permit greater access of the Program to Nuclear Waste Fund resources.

INFORMATION TECHNOLOGY MANAGEMENT

RESPONSIBLE PROGRAM MANAGER

Karen S. Evans
Chief Information Officer

Marc S. Hollander
Chief Information Officer
National Nuclear Security Administration

DESCRIPTION OF PROBLEM

The Department has experienced problems in fully implementing the Clinger-Cohen Act of 1996 and in meeting the requirements of Office of Management and Budget Circular A-130. In summary, these requirements establish Federal agency Chief Information Officers (CIOs) with a broad set of responsibilities for maximizing mission accomplishment through improved and more cost-effective use of information technology. Significant barriers to implementing these responsibilities include a decentralized approach to information technology management, the limited control and influence by the CIO in the program budgeting process and the lack of an information technology baseline. Without a technology baseline, Information Technology (IT) managers do not have enough information to make sound IT investment decisions, and due to the decentralized IT management and limited influence of the CIO in program decision-making, the CIO cannot guide the acquisition and management of IT resources in the Department.

Audit reports indicate that the Department does not yet have an effective investment strategy and management tools for corporate information technology activities. Examples of problems identified in audits include continued effort in certain areas of the Department on developing duplicative information systems, lack of an enterprise architecture, limited success in leveraging enterprise-wide software contracts with significant savings potential, and lack of a comprehensive framework for acquiring information technology related assets and support services in a cost effective manner. When the Department establishes an Enterprise Architecture, it will describe the necessary technology baseline and define the context for future IT acquisitions. This document, in conjunction with the other elements identified above would enable the Department to fully implement Clinger-Cohen requirements.

PRIOR YEAR ACCOMPLISHMENTS

To address these problems, the Department made changes to the management structure to make the Office of the Chief Information Officer a direct report to the Secretary and the primary official for Department-wide information management issues. The establishment of an enterprise-wide license for Microsoft software will save millions of dollars that would have been spent on multiple, small contracts for site or program specific licenses. The Department deployed the Information Technology Investment Portfolio System (ITIPS) to

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the Headquarters program level to provide automated support for the IT capital planning process and establish an electronic method for managing the DOE IT portfolio. In March 2002, the Department launched the Innovative Department of Energy E-Government Applications Task Force to identify high priority DOE E-Government investments. The Department also developed an Information Resource Management (IRM) Strategic Plan that includes specific goals, objectives, strategies and performance measures targeted at the reform of IT management processes associated with the Clinger-Cohen Act including the reduction duplicative IT system investments. In addition, the Department developed a high-level Enterprise Architecture with an information technology baseline to guide IT investment decision-making and submitted it to the Office of Management and Budget in September 2002, along with the IRM Strategic Plan and other reporting associated with the FY 2004 Budget Request.

In support of the President's Management Agenda goal of expanding electronic government, the Department completed the E-Government Strategic Action Plan to identify high priority E-Government investments for the Department. The Department has developed a plan for more DOE-wide Enterprise License Agreements beginning with initial discussions this fiscal year and funding any agreements with FY 2004 funds, if not sooner. The Extended Common Integrated Technology Environment (eXCITE) initiative was launched to consolidate all aspects of common IT systems throughout DOE as a way to improve services, increase IT purchasing power, and reduce overall IT expenditures. The Department has also developed an acquisition framework for corporate systems and procedures for acquiring information technology related assets and support services.

PLANNED CRITICAL MILESTONES	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
Establish an automated repository for the Departmental Enterprise Architecture to support maintenance and analysis.	N/A	10/03	CIO	Theanne Gordon
Establish Memorandums of Agreements with all Headquarters Offices for eXCITE participation and continue with program roll-out.	N/A	10/03	CIO	Theanne Gordon

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Implement control reviews for all major IT investments.	N/A	12/03	CIO	Theanne Gordon
Submit a revised DOE Enterprise Architecture document to the Office of Management and Budget.	N/A	12/03	CIO	Theanne Gordon
Submit a draft DOE Order that will establish explicit requirements for information technology management within the Department to the Directives System.	N/A	12/03	CIO	Theanne Gordon
Develop a DOE Order that will establish explicit requirements for information technology management within the Department.	12/03	03/04	CIO	Theanne Gordon
Fully Document the Enterprise Architecture to identify IT inventory by increasing the level of detail and including mandatory standards.	12/03	03/04	CIO	Theanne Gordon
Complete an automated support tool pilot project for IT project and portfolio management.	N/A	03/04	CIO	Theanne Gordon
Initiate an additional enterprise-wide licensing agreement for the Department.	N/A	03/04	CIO	Theanne Gordon
Fully implement the IT capital planning process.	12/03	03/04	CIO	Theanne Gordon
Implement E-Government initiatives within NNSA.	N/A	09/04	NNSA	William Huntman

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Implement NNSA's cyber security policy.	N/A	10/04	NNSA	William Huntman
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PROGRESS STATUS

The Department has made significant progress during this past year to strengthen management of information technology resources. The E-Government strategic plan, the IRM Strategic Plan, and the Enterprise Architecture Document provided guidance to all organizations to stop work on duplicative local systems. The Draft DOE Order to establish requirements for information technology management throughout the Department was developed and is to be issued early in FY 2004. The implementation of ITIPS serves as the first step to the development of an IT baseline and inventory of systems. The systems, projects, and initiatives identified in ITIPS combined with the DOE Enterprise Architecture, document the DOE IT inventory

PROPOSED CLOSURE DATE

This Significant Issue will be closed out by the end of FY 2004. By that time, substantive actions will be completed to support closure of this issue. Specifically, the Enterprise Architecture will be fully documented, the E-Government and IRM Strategic Plans will be matured and in use, the IT capital planning process will be fully implemented Department-wide, the DOE Order should be in place, and an additional DOE-wide Enterprise License Agreement will have been developed.

HUMAN CAPITAL MANAGEMENT

RESPONSIBLE PROGRAM MANAGERS

James Campbell
Acting Director, Office of Management, Budget
and Evaluation/Chief Financial Officer

Gregory H. Friedman
Inspector General

Mike Kane
Associate Administrator
Management and Administration
National Nuclear Security Administration

Jessie Roberson
Assistant Secretary
Environmental Management

Raymond Orbach
Director
Office of Science

DESCRIPTION OF PROBLEM

The Department of Energy is highly dependent on its Federal workforce for its mission accomplishment. Since 1995, the Department has experienced a 27 percent reduction in the workforce. Combined with other factors such as lengthy moratoria on hiring, the relative age of the workforce, and a variety of incentives to leave Federal service, the decline in staffing has left the Department with a significant challenge: reinvesting in its human capital to ensure that the right skills, necessary to successfully meet its missions, are available. In this regard, the Office of Inspector General has reported that staffing constraints have limited its ability to provide adequate audit coverage of the Department's major contractors. In FY 1999, the Department reported a Departmental Challenge of Mission Critical Staffing that was primarily a funding issue for several program offices with many having to absorb staffing cuts in the field. There were also secondary issues related to skill-mix, workforce alignment, and personnel action processing. By FY 2000, up to 30 percent of the Department's critical workforce was eligible for retirement within the next 5 years. This situation caused a focus on Headquarters recruiting and hiring practices and processes. FY 2000 also brought with it the challenge to implement the National Nuclear Security Administration (NNSA) and to re-think the alignment, missions, and critical skills needs of the Department. More recently, the Administration has recognized human capital management as a major problem government-wide and has included it as one of the five key initiatives of the President's Management Reform Agenda.

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PRIOR YEAR ACCOMPLISHMENTS

The Department's workforce challenges over the past years have been met with focused initiatives, some of the largest initiatives being the Strategic Alignment Initiative from FY1995-2000 and the Workforce for the 21st Century Initiative in FY 1999. In FY 2002, a departmental framework was developed with the implementation of a comprehensive human capital management strategy. This strategy began with development of a Workforce Analysis to serve as a baseline of workforce demographics for future change. The Department implemented a new SES Performance Management System that distinguishes high performers with higher awards and cascaded the system to non-SES managers and supervisors; developed a guidebook on recruiting, retaining, and developing a highly-skilled workforce; implemented Quickhire, an automated human resources system; developed the On-line Learning Center, Web-based learning technology; established a new Career Intern Program; launched the first SES Candidate Development Program since 1993; and guided major DOE offices in developing Business Visions and Workforce Plans.

In September 2001, the Department submitted a 5-Year Workforce Restructuring Plan with the FY 2003 budget submission to the Office of Management and Budget (OMB). This Plan serves as the blueprint for future improvements in Human Capital Management. In addition, the Department developed a Human Capital Management Strategic Plan that includes quarterly progress and planned actions on human capital actions that is submitted to OMB and the Office of Personnel Management each quarter as part of the President's Management Agenda Initiative on Human Capital. The Human Capital Management Strategic Plan is currently under revision to expand the Plan and include more detail on the numerous human capital initiatives. The revised Plan, which is scheduled to be issued in the third quarter of FY 2004, will replace the 5-year Workforce Restructuring Plan as the blueprint for improvements in Human Capital Management.

The Office of Inspector General (OIG) has undertaken efforts to improve the inadequate audit coverage portion of human capital management. Specifically, the OIG has requested additional funding in the FY 2005 budget to address increasing staffing requirements. In addition, the OIG's Office of Audit Services reorganized in May 2002. This reorganization was implemented along program lines. Further, risk assessments were being conducted to identify the greatest audit needs and a consolidated analysis of Internal Audit staffing levels

Offices within the Department are now right-sizing to address their specific needs. Environmental cleanup officials began rotations and succession planning in FY 2003. The Office of Environmental Management (EM) focus is to fully integrate individual performance into EM organizational goals. EM implemented a management rotation program and an executive mentoring program to develop the management leadership and resolve needed to overcome the barriers to cleanup encountered in the past. NNSA began its re-engineering effort to streamline operations and strengthen accountability. As part of that effort, the organization is reducing overall staffing levels and some positions are being

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geographically relocated. In addition, staffing plans have been approved for each NNSA Site Office.

	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
PLANNED CRITICAL MILESTONES				
Issue revised guidance on the Cooperative Audit Strategy.	09/03	03/04	IG	William Maharay
Extend application of workforce planning methodology to other key occupational groups.	09/04	09/04	OMBE	Claudia Cross
Establish performance measures that can be used in FY 2003-2007 to assess effectiveness of above actions and overall progress achieved in improving human capital management.	09/03-07	09/03-07	OMBE	Claudia Cross
Complete Reorganization of Headquarters office of Environmental Management	N/A	09/04	EM	Jessie Roberson
Fully implement all NNSA re-engineering plans	N/A	09/06	NNSA	Mike Kane

PROGRESS STATUS

Human Capital Management is an area of government-wide focus as increasing emphasis is being placed on performance and accountability at both the Departmental and individual employee level. Program Offices within DOE are examining ways to reduce layers of management, streamline decision-making, remove duplicative and unnecessary work, clarify lines of authority and increase flexibility to respond to shifting priorities by effectively leveraging resources. EM's human capital strategy focuses on building a high-performance culture that attracts and retains talented managers and staff to deliver performance excellence. EM is developing an organizational structure that is clearly aligned to deliver on its accelerated risk reduction and closure initiative. NNSA is re-engineering its workforce by eliminating a confusing management layer and clarifying relative roles and responsibilities between Headquarters, Site Offices and the contractors. These reforms strengthen management by shifting program management authority closer to where actual work is performed. The Office of Science also began a reorganization effort to clarify lines of authority, improve employee to supervisor ratios and eliminate unnecessary organizational layers.

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All of these efforts are in full support of the President's Management Agenda (PMA) to focus on improved human capital management. In addition, the DOE Management Council, comprised of DOE Secretarial Officers, continues to meet monthly to focus on achievements of the PMA. OMB provided DOE with the fourth quarter, FY 2003 PMA Scorecard and DOE received a "Green" score in human capital management on progress and a "Yellow" score on overall status. DOE has projected it will be at "Green" in overall status by July 2004 as part of the Administration's "Where We'd Be Proud To Be" exercise.

PROPOSED CLOSURE DATE

Closure of the significant issue is contingent upon successful completion of the Department's individual programmatic reorganization efforts. Current plans extend these efforts through the completion of Fiscal Year 2006.

STOCKPILE STEWARDSHIP

RESPONSIBLE PROGRAM MANAGER

Dr. Everet Beckner
Deputy Administrator, Defense Programs
National Nuclear Security Administration

DESCRIPTION OF PROBLEM

Since the moratorium on underground testing of nuclear weapons, the Department's responsibility to ensure the safety, security, and reliability of the nuclear weapons stockpile has been met through its Stockpile Stewardship Program. Stewardship of the Nation's nuclear weapons stockpile is one of the most complex, scientifically technical programs undertaken and the Department needs to ensure that all aspects of this mission-critical responsibility are fulfilled. Successful implementation of the Stockpile Stewardship Program is key to the Secretary of Energy's annual certification to the President that the nuclear stockpile is safe and reliable. Success is dependent upon unprecedented scientific tools to better understand the changes that occur as nuclear weapons age, enhance the surveillance capabilities for determining weapon reliability, and extend weapon lives.

In the past, deficiencies have been identified in surveillance tests of stockpiled nuclear weapons, a key component of the Stockpile Stewardship Program. Surveillance testing has been characterized as the first line of defense for maintaining high confidence in the stockpile and the link between stewardship activities and the annual certification process. Deficiencies had also been identified in conducting Significant Finding Investigations to determine the cause and impact of problems identified by surveillance tests, and to recommend corrective actions. While the Department has put into place processes to eliminate the backlog of surveillance tests and resolve deficiencies in Significant Finding Investigations, problems related to the Weapons Life Extension and Enhanced Test Readiness programs have been identified that, if left unresolved, could impact the Department's ability to certify the aging nuclear weapons stockpile.

PRIOR YEAR ACCOMPLISHMENTS

During FY 2003, National Nuclear Security Administration (NNSA) developed and implemented a comprehensive significant finding investigation database. An enhanced version of the database is currently in testing. In addition, NNSA implemented a management plan to address and eliminate the testing backlog. NNSA also renewed safety studies of weapons prior to surveillance testing. The Department also began development of new improved cost accounting methods for items within the Weapons Life Extension Program and program plans for the Enhanced Test Readiness Program.

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PLANNED CRITICAL MILESTONES	Projected Completion Date		Responsible Office	Responsible Individual
	Previously Reported Date	Current Completion Date		
Implement program plans to achieve the Department's test readiness goal of 18 months	N/A	10/04	NNSA	Dr. Everet Beckner
Implement improved cost accounting methods for items within the Life Extension Program	N/A	09/05	NNSA	Dr. Everet Beckner
Finalize refurbishment plans for weapons within the Life Extension Program	N/A	09/05	NNSA	Dr. Everet Beckner
Implement resource loaded program plans for the Enhanced Test Readiness Program	N/A	09/05	NNSA	Dr. Everet Beckner

PROGRESS STATUS

As the stockpile continues to age, a stringent stockpile stewardship program becomes increasingly important. During FY 2003, the Department put into place the necessary processes to correct deficiencies in stockpile surveillance and testing. During FY 2004, the Department will implement improvements in the Weapons Life Extension and Enhanced Test Readiness programs to further strengthen stockpile stewardship.

PROPOSED CLOSURE DATE

FY 2005 with completion of planned milestones.

SIGNIFICANT ISSUE	RESPONSIBLE ORGANIZATION	ACTIONS TAKEN AND REMAINING	EXPECTED COMPLETION
<p>ENVIRONMENTAL CLEANUP: There are significant long-term compliance and waste management problems at the Department's facilities due to past operations that left risks to the environment. Even though these issues resulted from earlier activities conducted in a different atmosphere and under less stringent standards than today, the Department is committed to maintaining compliance with current environmental laws and agreements.</p>	EM	<p>Substantial progress has been made in cleaning up contaminated sites. By the end of Fiscal Year 2003, cleanup of 76 of the 114 contaminated geographic sites had been completed. However, to accelerate the cleanup, risk reduction and site closure strategies have been defined on a site-by-site basis and in Fiscal Year 2003 performance management plans describing the end states, strategies and milestones to achieve cleanup faster and cheaper than originally anticipated were developed. Resource-loaded site baselines are being implemented in Fiscal Year 2004.</p>	<p>Long-term correction expected with completion date to be reassessed following implementation of site baselines in Fiscal Year 2004.</p>
<p>NUCLEAR WASTE DISPOSAL: A repository for the Nation's spent nuclear fuel and high-level radioactive waste has not been opened as required by the Nuclear Waste Policy Act. Delays in milestones and revisions to cost and schedule baselines have been required as a result of funding shortfalls. A mechanism needs to be established to assure the necessary funding is available to lead to waste acceptance in 2010, as presently scheduled.</p>	RW	<p>Extensive scientific testing determined that Yucca Mountain, Nevada, is suitable for the disposal of spent nuclear fuel and high-level radioactive waste and, in 2002, the President designated it as the site for the Nation's first repository. Potential funding mechanisms and a proposed funding strategy to ensure the Department can complete the remaining activities—licensing, construction, and establishing the capability to transport waste to the repository on a timely basis—were developed in Fiscal Year 2003. A final funding mechanism and cost and schedule baseline are anticipated in Fiscal Year 2004.</p>	<p>Fiscal Year 2004 upon finalization of a funding mechanism.</p>

<p>INFORMATION TECHNOLOGY MANAGEMENT: The Department has a decentralized approach to information technology management, limited control by the Chief Information Officer in the budgeting process, and lack of an information technology baseline to guide management decisions. These problems have impeded the Department's ability to effectively manage its information technology resources.</p>	<p>CIO NNSA</p>	<p>Management of information technology has been strengthened by making the Chief Information Officer a direct report to the Secretary and the primary official for agency information technology issues. A strategic plan targeted at Clinger-Cohen Act reforms has been developed as well as a high-level enterprise architecture with an information technology baseline. In 2004, a detailed enterprise architecture, including mandatory standards, will be developed and an agency-wide directive establishing explicit information technology requirements will be issued.</p>	<p>Fiscal Year 2004</p>
<p>OVERSIGHT OF CONTRACTORS: Improvements are needed in the oversight of contractors managing and operating the Department's facilities. Specific oversight problems have been identified at environmental cleanup sites and laboratories conducting national security and scientific activities. Adequate oversight is needed to assure that contractor operations are effective and efficient.</p>	<p>EM NNSA SC</p>	<p>An improved contract administration structure that focuses on performance-based contracts has been put in place and efforts to institutionalize it are ongoing. In Fiscal Year 2003 new strategies for environmental cleanup contracts were implemented. These entail re-evaluation and renegotiation to align contract incentives with accelerated cleanup objectives and to incorporate cost-sharing options for ensuring contractor efficiency. In addition, the National Nuclear Security Administration is restructuring its workforce to improve the oversight of contractors managing and operating its facilities. This effort is scheduled for completion in Fiscal Year 2004.</p>	<p>Fiscal Year 2004</p>

<p>SECURITY: Unprecedented security challenges have evolved since the events of September 11, 2001. The need for improved homeland defense, highlighted by the threats of terrorism and weapons of mass destruction, created new and complex security issues that must be surmounted to ensure the protection of our critical energy resources and infrastructure. These have made it necessary for the Department to reassess and strengthen its physical and cyber security postures.</p>	<p>CIO NNSA SP</p>	<p>In Fiscal Year 2003, a 10-year security strategic plan was published, an updated analysis reflecting new threats issued, and a plan for near and long-term protection upgrades was developed. A senior management working group was established to ensure our security operations are well coordinated, facilitate our relationship with the Department of Homeland Security, and recommend actions to strengthen accountability. In Fiscal Year 2004, implementation of the new agency-wide threat analysis will begin and continue through Fiscal Year 2006. In addition, the National Nuclear Security Administration will be addressing problems with its security operations and personnel through Fiscal Year 2005.</p>	<p>Long-term correction is expected due to the continuing nature of security threats.</p>
<p>PROJECT MANAGEMENT: The construction of new facilities and upgrading of existing systems have been adversely affected by cost overruns, schedule slippages, and other project management problems. These issues have led to concern over the Department's engineering and construction project management practices. Improved discipline and structure are required to effectively manage project costs and schedules.</p>	<p>OMBE EM NNSA SC</p>	<p>An improved engineering and construction project management structure, completed in Fiscal Year 2003, is now in place following the implementation of recommendations from an expert panel formed under the National Research Council of the National Academy of Sciences; external independent reviews validating project cost, schedule and scope; a new system tracking project performance; a detailed project management manual; and a career development program.</p> <p>Efforts to institutionalize the improved structure are underway. In Fiscal Year 2003, the Office of Science began site-specific implementation plans and the National Nuclear Security Administration is monitoring its projects to ensure the new requirements are consistently applied. Other organizations within the Department are also taking actions to improve project management.</p>	<p>Fiscal Year 2004.</p>

<p>HUMAN CAPITAL MANAGEMENT: Since 1995, the Department has experienced a 27 percent reduction in the workforce. By Fiscal Year 2000, up to 30 percent of the Department's critical workforce was eligible for retirement within the next 5 years. Combined with other factors such as lengthy moratoria on hiring, the relative age of the workforce, and a variety of incentives to leave Federal service, the decline in staffing has left the Department with a significant challenge: reinvesting in its human capital to ensure that the right skills, necessary to successfully meet its missions, are available.</p>	<p>OMBE IG NNSA EM</p>	<p>A Departmental framework for addressing this issue was put in place with the implementation of a comprehensive human capital management strategy; an improved senior executive performance management system; a guide on developing and retaining a highly-skilled workforce; and business visions and workforce plans for all major offices.</p> <p>Individual offices are now right-sizing to address their specific needs. Environmental cleanup officials began management rotations and succession planning in Fiscal Year 2003 and will reorganize the headquarters office in Fiscal Year 2004. The National Nuclear Security Administration is re-engineering its workforce, to be complete in Fiscal Year 2004, to streamline operations and strengthen accountability. Buyouts and increased excepted service authority, expected in Fiscal Year 2006, will be used to upgrade technical capabilities.</p>	<p>Fiscal Year 2006</p>
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<p>SAFETY AND HEALTH: Ensuring the safety and health of the public and the Department’s workers is one of the top priorities in accomplishing our challenging scientific and national security missions. Due to the inherently critical nature of these issues, there is the need for continuous vigilance and improvement. Currently, the Department is addressing explosive safety issues and, with the ongoing re-engineering of the National Nuclear Security Administration workforce, needs to ensure that adequate focus on general safety at our laboratories and plants is maintained.</p>	<p>EH EM NE NNSA SC SP</p>	<p>Significant actions have been taken to mitigate safety and health concerns. The integrated Safety Management program, a key component of the Department’s long-term safety and health strategy, has been implemented. The Office of Independent Oversight and Performance Assurance was established to evaluate safety and health performance. In Fiscal Year 2003, updates to nuclear facilities safety analysis documentation were satisfactorily completed. In addition, the National Nuclear Security Administration put processes in place to ensure explosive safety studies are completed prior to life extension work on weapons. Increased management focus on general safety is planned for Fiscal Years 2004 and 2005 as critical individuals are moved throughout the nuclear security complex and the safety oversight function is restabilized.</p>	<p>Fiscal Year 2005</p>
<p>STOCKPILE STEWARDSHIP: Stewardship of the Nation’s nuclear weapons stockpile is one of the most complex, scientifically technical programs undertaken and the Department needs to ensure that all aspects of this mission-critical responsibility are fulfilled. Based on stockpile stewardship activities, the Secretary annually certifies to the President that the nuclear weapons stockpile is safe and reliable and that underground nuclear testing does not need to resume. Success is dependent upon unprecedented scientific tools to better understand the changes that occur as nuclear weapons age, enhance the surveillance capabilities for determining weapon reliability, and extend weapon lives. The Department must ensure that problems in these areas are aggressively addressed.</p>	<p>NNSA</p>	<p>During Fiscal Year 2003, processes were put in place to eliminate a backlog of surveillance tests and resolve deficiencies in the investigations conducted when weapons problems are identified. Plans and financial controls over weapons refurbishment are being strengthened with improved cost accounting in Fiscal Year 2004 and individual refurbishment plans to be finalized in Fiscal Year 2006. Resource loaded plans that contain cost, scope, and milestones will be implemented through Fiscal Year 2005.</p>	<p>Fiscal Year 2006</p>

FY 2004 MANAGEMENT REPRESENTATION LETTER GUIDANCE

(Field Organizations)

The Government Management Reform Act of 1994 requires the Department to prepare and have audited Department-wide financial statements. In compliance with this Act, the Department will submit financial statements to KPMG through the Inspector General for audit. A critical step in the audit is to obtain a management representation letter from the Department's senior managers. The Department's final management representation letter will include detailed representations signed by the Department's Chief Operating Officer and the Chief Financial Officer.

To support the Department's process, Heads of Field Elements will prepare a Field Office management representation letter and submit it to the Lead Program Secretarial Officer and Department's Chief Financial Officer. At the same time, a copy will also be officially transmitted to the applicable Cognizant Secretarial Officer(s). In the management representation letter, individual Field Elements will provide assurances that all known liabilities have been disclosed and assets are fairly valued. The assertions will be based upon managerial knowledge of the respective financial information.

Field management representation letters are due to the Lead Program Secretarial Officer and Chief Financial Officer by October 15, 2004. These letters and separate attestations provided by Heads of Headquarters Elements will serve to support the final management representation letter submitted to KPMG through the Inspector General. Attachment D-1 contains guidance and a format for completing the Field Element's management representation letter.

If you have any questions on the representation letter process, call Theresa Ballinger of the Office of Program Liaison and Financial Analysis on 301-903-4128.

INSTRUCTIONS FOR PREPARING MANAGEMENT REPRESENTATION LETTERS

1. Heads of Field Elements should submit a management representation letter addressed to the Lead Program Secretarial Officer and the Department's Chief Financial Officer (CFO) by October 15, 2004. The letter to the Chief Financial Officer should be forwarded to the Chief Financial Officer Attention: Office of Program Liaison and Financial Analysis, ME-100, GTN, Rm C-176. A copy should be simultaneously provided to applicable Cognizant Secretarial Officer(s).
2. Field Element management representation letters and separate attestations provided by Heads of Headquarters Elements will serve to support the Department's management representation letter package submitted to KPMG through the Inspector General. The representation letter is an integral part of the financial statement audit. The attached sample letter is to be used as a starting point by Field Elements in preparing their letters and represents the types of representations that may be made by the Chief Operating Officer and the Chief Financial Officer to KPMG through the Inspector General. The final letter assists KPMG in forming an opinion whether the Department's financial statements are presented fairly, in all material respects, in conformity with Federal accounting standards.
3. Field Element assertions will, to a large extent be based upon a detailed analysis of their respective financial statement accounts. This analysis should build upon the Financial Statement Analysis and Footnote Disclosure requirements issued separately by the Office of Financial Control and Reporting.
4. Power Marketing Administrations (PMAs) - As in the past, these organizations will not be required to issue a complete management representation letter. It is assumed these organizations will provide the cognizant auditor with all the necessary assertions for the PMA's FY 2004 financial statement audit. However, the PMAs will be required to issue several assertions to the Headquarters CFO on the data submitted for combination with the Department's financial activity and performance measurement information. Attestations listed below may be used as a starting point.

The information provided to the Office of the Chief Financial Officer by *Power Marketing Administration* and consolidated into the Department-wide financial activity presented in the Departmental financial statements accurately reflects the Department of Energy's portion of *Power Marketing Administration's* financial activity.

Power Marketing Administration acknowledges our responsibility for the fair presentation of the (financial) performance measure information presented in the Overview and Supplemental Information sections of the financial statements. *Power Marketing Administration* believes this data to be accurate and reliable.

5. Field Elements should include all applicable assertions included in the following Management Representation Letter Format:

**MEMORANDUM FOR LEAD PROGRAM SECRETARIAL OFFICER
DEPARTMENT'S CHIEF FINANCIAL OFFICER**

FROM: HEAD OF FIELD ELEMENT

SUBJECT: FY 2004 MANAGEMENT REPRESENTATION LETTER

Obtaining a representation regarding the fair presentation of the FIELD ELEMENT'S financial statements is a significant procedure in the audit of those statements. As Manager of the FIELD ELEMENT, I confirm that I am responsible for the fair presentation of the FIELD ELEMENT'S statements, in conformity with principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

In connection with your audit of the Department's consolidated financial statements as of September 30, 2004 and 2003, and for the years then ended, I confirm, to the best of my knowledge and belief, the following representations made to you and, where applicable, to KPMG:

1. The FIELD ELEMENT'S consolidated financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.
2. FIELD ELEMENT has made available to you and to KPMG:
 - a. All financial records and related data.
 - b. If applicable, communications from the Office of Management and Budget (OMB) concerning noncompliance with or deficiencies in financial reporting practices, if applicable.
3. The FIELD ELEMENT is responsible for the identification of and compliance with all aspects of applicable laws, regulations, contracts, or grants that could have a direct and material effect on the consolidated financial statements in the event of noncompliance and has disclosed those aspects of laws, regulations, contracts, or grants to you and to KPMG.
4. The FIELD ELEMENT has complied, in all material respects, with applicable laws, regulations, and contracts that could have a material effect on the consolidated financial statements in the event of noncompliance.
5. I acknowledge responsibility for the design and implementation of programs and controls to prevent and detect fraud. I understand that the term "fraud" includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements or performance results to deceive

financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the consolidated financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

6. Except as disclosed to you, there have been no known:
 - a. Instances of fraud, whether or not material, involving management or other employees who have a significant role in internal control over financial reporting.
 - b. Instances of fraud involving others (e.g., recipients of Federal financial assistance or other Federal payments) that could have a material effect on the consolidated financial statements.
 - c. Allegations of fraudulent financial reporting on the part of the Department received in communications from employees, former employees, or others.
 - d. Communications from other governmental entities or agencies (e.g., the U.S. Department of Treasury) concerning noncompliance with, or deficiencies in, financial accounting practices.
 - e. Communications from regulatory or oversight agencies such as the OMB and the General Accounting Office (GAO), concerning noncompliance with, or deficiencies in, financial reporting practices that could have a material effect on the consolidated financial statements.
 - f. Violations or possible violations of specific requirements of contracts, grants and budgetary procedures, the effects of which should be considered for disclosure in the consolidated financial statements or as a basis for recording a loss contingency.
 - g. Allegations, either written or oral, of misstatements or other misapplications of accounting principles in the consolidated financial statements.
 - h. Allegations, either written or oral, of deficiencies in internal control that could have a material effect on the consolidated financial statements.
 - i. Communications from legal counsel reporting evidence of a violation of a law or regulation or breach of fiduciary duty or similar violation by the FIELD ELEMENT or any agent thereof that would have a material effect on the consolidated financial statements.
 - j. False statements affecting the consolidated financial statements made to you, the Office of Inspector General, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audits.
7. Except as disclosed to you, there are no known:
 - a. Unasserted claims or assessments that our General Counsel or the Department of Justice General Counsel have advised me are probable of assertion and must be disclosed in accordance with the Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, as amended.

- b. Other liabilities or gain or loss contingencies that have not been accrued that are required to be accrued or disclosed by the Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, as amended.
 - c. Material transactions (e.g., obligations or commitments) or events that have not been properly recorded in the accounting records underlying the consolidated financial statements.
8. The following have been properly recorded or disclosed in the consolidated financial statements:
- a. Purchase commitments for inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices.
 - b. Changes in accounting principles affecting consistency.
 - c. Agreements to repurchase assets previously sold including sales with recourse.
 - d. Joint ventures.
 - e. Commitments for purchases of services or assets at prices involving material probable losses.
 - f. Losses to be sustained as a result of other than temporary declines in the fair value of investments.
 - g. Losses to be sustained in the fulfillment of, or from the inability to fulfill, any sales commitments.
9. There are no significant deficiencies in the design or operation of internal controls which could adversely affect the Department's ability to record, process, summarize and report financial data or performance information, and we have identified no material weaknesses in internal controls. In the Federal Managers Financial Integrity Act (FMFIA) assurance statement, FIELD ELEMENT has disclosed to you all significant deficiencies in the design or operation of internal controls which could adversely affect the Department's ability to process, summarize, and report financial data and identified no material weaknesses in internal control. The Department interprets "significant deficiencies in the design or operation of internal controls" to be consistent with the concept of a "reportable condition" defined under standards established by the American Institute of Certified Public Accountants. Such standards define a "reportable condition" as a significant deficiency in the design or operation of internal control that could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The Department understands that the term "material weakness in internal control" is a reportable condition for which the design or operation of one or more internal control components does not reduce to a relatively low level risk that errors or fraud in amounts that could be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
10. Except as disclosed in my consolidated financial statements, FIELD ELEMENT has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

I have disclosed in my footnotes to the consolidated financial statements that future decisions, including but not limited to changes in environmental cleanup standards or remediation technologies; decisions to dispose of nuclear materials; revisions in land use or waste disposal assumptions; or reductions in Federal Government spending, could have a material effect on environmental remediation liabilities.

11. Inventories and materials are stated at historical cost in accordance with Statement of Federal Financial Accounting Standards No. 3, Accounting for Inventory and Related Property, except where valuation at net realizable value is authorized by the Statement. These exceptions include (1) stockpile materials that management has determined have permanently declined in value below cost or are damaged or decayed; (2) excess, obsolete, or unserviceable items; and (3) petroleum produced for sale at the Department's Naval Petroleum Reserve. Where feasible, physical counts and measurements of inventories and operating materials were made, and records were appropriately adjusted to reflect the physical inventories. The Department's inventory of nuclear materials is valued at standard transfer value, which approximates historical cost, except for certain nuclear materials that have been identified as surplus or excess to the Department's needs. These nuclear materials are recorded at their net realizable value. Costs associated with the weapons life extension program have been capitalized into inventory in accordance with the provisions of Chapter 9 of the Department's Accounting Handbook.
12. I believe that the carrying amounts of all material assets are recoverable. I understand that with respect to the majority of the FIELD ELEMENT assets, including nuclear materials and plant and equipment, the term "recoverable" does not imply that FIELD ELEMENT can or would recoup the assets' carrying values by selling them, but that the assets are fulfilling their intended purposes and that their serviceability has not been impaired or that any material impairments are reflected in reduced carrying values for the assets.
13. FIELD ELEMENT has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor have any assets been pledged as collateral. If applicable, FIELD ELEMENT has commitments to the United States Enrichment Corporation (USEC) under the lease for the Gaseous Diffusion Facility at Paducah, Kentucky.
14. FIELD ELEMENT has not, directly or indirectly, including through a component entity, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit in the form of a personal loan to or for any management member of the Department.
15. FIELD ELEMENT has properly accounted for all property, plant and equipment sold, destroyed, abandoned, or considered to be obsolete and have no further use. FIELD ELEMENT has also properly accounted for property, plant, and equipment predominately used in environmental remediation activities.
16. All capital assets are properly categorized as either work-in-progress or completed projects as required in the Department's policy. Further, all capital assets are properly capitalized, and, if applicable, depreciated. There are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
17. FIELD ELEMENT and its contractors have properly accounted for all internal use software that is used to operate programs and produce goods and services, as required, by Statement of Federal Financial Accounting Standards No. 10, Accounting for Internal Use Software. Capitalized internal use software costs are limited to those costs incurred after the completion of

conceptual formulation, design, and testing of possible software project alterations. FIELD ELEMENT and its contractors have capitalized labor costs for employees that worked on software development projects for a substantial portion of time.

18. FIELD ELEMENT has performed the necessary procedural requirements to develop and support the deferred maintenance estimate reported in the disclosure required by Statement of Federal Financial Accounting Standards No. 6, Accounting for Property, Plant, and Equipment, as amended. All estimates developed for purposes of reporting on FIELD Element's deferred maintenance were developed in accordance with Departmental guidance. These estimates are properly documented and readily verifiable.
19. Provisions, when material, have been made:
 - a. To reduce excess, obsolete, damaged, or unusable inventories to their estimated net realizable value. For example, FIELD ELEMENT has analyzed all of its nuclear materials and identified all such materials that are excess to the Department's needs and recorded appropriate allowances to record such inventories at net realizable value.
 - b. For any material adjustments of long-lived assets as a result of permanent impairment, in accordance with Statement of Federal Financial Accounting Standard No. 6, Accounting for Property, Plant, and Equipment, as amended.
20. Receivables reported in the consolidated financial statements represent valid claims for sales or other charges arising on or before the balance-sheet date, and have been appropriately reduced to their estimated fair value.
21. The following have been properly recorded and disclosed in the consolidated financial statements:
 - a. Related party transactions and related accounts receivable or payable, including revenues, expenditures, loans, transfers, leasing arrangements, assessments and guarantees.
 - b. Financial guarantees or commitments or debt or lease agreements, whether written or oral, under which the Department is contingently liable due to triggering events or otherwise.
22. During the years ended September 30, 2004 and 2003, FIELD ELEMENT did not exceed its approved budgetary authorities.
23. All significant estimates, uncertainties, and material concentrations of risk known to management have been properly recorded and/or disclosed in my consolidated financial statements. Significant estimates are estimates at the balance sheet date, and could change materially within the next year. Concentrations refer to volumes of reimbursable work, revenues, or available sources of supply, for which it is reasonably possible that events could occur which would significantly disrupt normal operations or financing sources within the next year.
24. All sales transactions entered into by FIELD ELEMENT are final and there are no side agreements with customers, or other terms in effect, which allow for the return of items sold, except for defectiveness or other conditions covered by the usual and customary warranties.

25. I believe that the actuarial assumptions and methods used to measure actuarial liabilities and costs for financial accounting purposes are appropriate in the circumstances.
26. I have provided background and detailed cost information for all environmental liabilities identified to date, as well as information regarding pending, threatened, or unasserted claims related to the environmental project sites identified. Provisions have been made for any material loss that is probable from remedial liabilities associated with Department-owned properties. Recorded environmental remediation liabilities are based on the Department's best and most recent estimates of the expected costs, stated in fiscal year 2004 dollars, to remediate legacy facilities and contaminated sites managed by the Office of Environmental Management (EM); perform long-term post-remediation stewardship activities; remediate active and surplus facilities, including under-building and other soil and groundwater contamination associated with those facilities, managed by other programs; dispose of high level waste and spent nuclear fuel; and dispose of surplus nuclear materials and other materials in inventory. I believe that such estimates are reasonable based on available information and that the liabilities and related loss contingencies and the expected outcome of uncertainties have been described adequately in the consolidated financial statements and related footnotes. The environmental remediation liability includes adequate provisions for costs to dispose of all nuclear materials whose disposition as waste is probable (more likely than not) as defined by Statement of Federal Financial Accounting Standards No. 5, Accounting for Liabilities of the Federal Government, as amended.
27. The environmental remediation liability for facilities and sites managed by EM (EM liability) is based upon an accelerated cleanup approach. Achievement of accelerated cleanup goals is largely contingent upon receipt of anticipated funding. I believe the funding assumptions are reasonable.
28. I agree with the findings of specialists preparing cost estimates for environmental remediation projects, measuring employee retirement and postretirement benefit obligations, and measuring and sampling inventories of nuclear materials, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. I did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
29. The liability for spent nuclear fuel litigation is based upon reasonable expectations as to repository availability and the rate of waste acceptance.
30. Costs have been recorded in accordance with the Statement of Federal Financial Accounting Standard No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government. Indirect costs were allocated to the General Goals in an equitable manner.
31. Pursuant to the Federal Managers' Financial Integrity Act (FMFIA), we have assessed the effectiveness of the FIELD ELEMENT internal control in achieving the following objectives:
 - a. Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition.

- b. Compliance with applicable laws and regulations - transactions are executed in accordance with: (i) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the consolidated financial statements, and (ii) any other laws and regulations and government-wide policies that the OMB, Department's management, or the Inspector General have identified as being significant for which compliance can be objectively measured and evaluated; and
32. Except as disclosed, all internal controls are operated in accordance with applicable policies and procedures and are effective in meeting the FMFIA objectives set forth above.
 33. I have assessed the financial management systems to determine whether they comply substantially with these Federal financial management systems requirements. Our assessment was based on guidance issued by OMB.
 34. The financial management systems complied substantially with Federal financial management systems requirements, accounting standards applicable to Federal entities, and the standard general ledger at the transaction level as of September 30, 2004.
 35. (if applicable) FIELD ELEMENT has properly accounted for all liabilities and commitments associated with the cessation of Portsmouth Gaseous Diffusion Plant operations by USEC and the Department's subsequent placement of the Plant into cold standby. Material commitments are properly disclosed in the financial statements.

RESEARCH AND DEVELOPMENT DATA
(Headquarters Departmental Elements and Bonneville Power Administration)

This attachment contains the requirements and instructions for reporting on research and development (R&D). The Statement of Federal Accounting Standard (SFFAS) Number 8, "Supplementary Stewardship Reporting - Chapter 7 Research and Development," requires the Department to report expenses for R&D programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. This Standard requires Federal agencies to report on R&D costs as part of the supplementary data included with the audited financial statement in the annual Performance and Accountability Report (PAR).

Investment in research and development refers to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits. Research and development is composed of the following three categories: Basic, Applied, and Development.

The format for submitting data is included as Attachment E-1. Attachment E-2 is a list of programs that reported R&D activities last year. This information is to be used as a starting point when preparing your submission.

Specific steps for the submission are included below:

Step 1: Complete Attachment E-1 for each program with R&D activities. In some cases organizations may have to include percentages for those Program Budget and Reporting Codes (B&Rs) that are not 100 percent R&D and for those B&Rs that are split among the three categories of R&D. This attachment will be used to formulate the Performance and Accountability Report R&D information. Once prepared, the R&D Report will be issued in draft to the applicable program organizations for review. The final Report will be included in the FY 2004 PAR. Due to this year's accelerated OMB date for the submission of the PAR, a 3rd Quarter draft of this report will also be issued. As a result, increased emphasis will be placed with regard to the accuracy of the 3rd Quarter data. In addition, the auditors will be reviewing and testing in detail, the data included in the draft. It is therefore imperative that the information included in this draft is accurate.

The definitions for basic, applied and development R&D included in the SFFAS No. 8 are identical to the definitions contained in OMB Circular A-11, Preparation and Submission of Budget Estimates. If you need copies of these definitions, please contact Donna Taylor on 301-903-3075. Please ensure that you indicate in Attachment E-1, the categories of research, and the percentage if necessary.

Step 2: Please submit all R&D information to the Office of Program Liaison and Financial

Analysis (301-903-2551, fax 301-903-2550), ME-100, Room C-176, Germantown by June 18, 2004.

Any questions regarding the Research and Development Supplementary Stewardship Reporting information should be directed to Theresa Ballinger (301-903-4128) or Donna Taylor (310-903-3075).

RESEARCH AND DEVELOPMENT
SUPPLEMENTARY STEWARDSHIP INFORMATION
For Fiscal Year Ending September 30, 2004

PROGRAM OFFICE: _____

APPROPRIATION: _____

PROGRAM: _____

Research and Development B&Rs	Category of R&D & Percentage if Necessary (Applied, Basic, Development)

Continue for each appropriation and program as necessary to address all R&D programs in your organization.

CONTACT NAME & NUMBER: _____

RESEARCH AND DEVELOPMENT PROGRAMS

Bonneville Power Administration

Energy Efficiency and Renewable Energy
Conservation R&D
Solar and Renewable Energy

Science

Basic Energy Sciences
Biological and Environmental Research
Computational and Technology Research
Fusion Energy
Energy Research Analyses
Small Business Innovation Research
University and Science Education
High Energy Physics
Nuclear Physics

Environmental Management

Fossil Energy
Fossil Energy R&D (coal, oil, gas, coop)
Clean Coal Technology

NNSA

Defense Programs
Weapons Activities
Nonproliferation and National Security
Nonproliferation and Verification R&D
Fissile Materials Disposition
Naval Reactors

Office of Intelligence

Nuclear Energy
Nuclear Energy R&D

Civilian Radioactive Waste Management

Office of Security