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6-26-04

Guide for Financial Management Oversight

[This Guide describes suggested non-mandatory approaches for meeting existing requirements. Guides are not to be construed as requirements in any audit or appraisal for compliance with the parent Policy, Order, Notice, or Manual.]



**U. S. DEPARTMENT OF ENERGY
Director, Office of Management, Budget and Evaluation/Chief
Financial Officer**

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Analysis

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Guide for Financial Management Oversight

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GUIDE FOR FINANCIAL MANAGEMENT OVERSIGHT

INTRODUCTION

Department of Energy (DOE) managers and the DOE financial management community have been impacted by various laws and guidance that have placed more goal-oriented responsibilities on them. For example, the Government Performance and Results Act (GPRA) and the Government Management Reform Act (GMRA) seek to make Government more effective and responsive. As a result, there has been more emphasis on performance measurement and increased reliance results to drive contractor accountability. However, in adopting this general philosophy, the CFO must ensure it meets its legal responsibilities to provide financial management oversight under the CFO Act.

To meet the new requirements for performance-based management while ensuring adherence to the CFO Act and other financial management legislation, it was recognized that a comprehensive but flexible approach for effective financial management oversight was needed. To address these issues, the Office of Management, Budget and Evaluation/Chief Financial Officer (OMBE/CFO) partnered with the DOE federal and contractor financial management community in developing this guide.

PURPOSE

The overarching purpose of this guide is to provide a comprehensive model of effective financial management oversight that, when implemented, will give DOE's Headquarters and Field Managers and top ranking Headquarters and cognizant Field Chief Financial Officer(s) or Equivalent (FCFOE) assurance that DOE has a sound, responsive and economical financial management program. It is intended to assist managers in carrying out their financial management oversight responsibilities described in DOE xxx.x, "Financial Management Oversight," and sets forth a flexible approach that each field organization may use to design its own financial management oversight program.

Key functions of the Guide are to:

- Provide high level objectives for financial management oversight;
- Identify core financial management areas that should be considered in developing local oversight strategies;
- Identify various methods & tools that may be used to accomplish the established oversight objectives; and
- Demonstrate the application of oversight methods to core financial management areas.

NOTE: DOE Guides provide supplemental information for fulfilling requirements contained in rules, Orders, Notices, and regulatory standards. Guides are also used to identify Government and non-Government standards and methods DOE finds acceptable for

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implementing the Department's requirements. Guides are not substitutes for requirements nor do they replace technical standards, which are used to describe established practices and procedures for implementing requirements. This guide does not establish any new requirements. It does, however, suggest procedures and methods for meeting existing requirements for financial management oversight.

OBJECTIVES OF SOUND FINANCIAL MANAGEMENT

The five major objectives of sound financial management are described below. Successful accomplishment of each of these objectives should provide management assurance that there is a sound financial management program that provides for accountability and informed management decision-making. All of the elements of this concept are necessary to ensure effective financial management oversight. Various other management techniques may be necessary dependent upon risk, systems reliability, past performance and other factors. Elimination or insufficient performance of any element will result in less than effective financial management oversight.

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

To ensure that program priorities are achieved within provided funding levels, systems must be in place for providing management with timely insight into trends and financial results. Management needs timely information about funds availability and usage. Reliable systems must be in place and operating before management can move toward performance-based oversight.

Objective 2. Provide Accurate and Relevant Financial Reporting to Customers

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

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

Over the years, Congress has enacted various laws making Departmental officials accountable for financial integrity, performance and stewardship. It is essential that DOE make sure that all applicable laws and regulations are carried out and all applicable standard financial management contract clauses are incorporated into contracts to ensure responsible use of taxpayer dollars and protection of DOE's assets against fraud, waste, abuse, and mismanagement.

Objective 4. Assess Effective and Efficient Use of Government Resources

A major Departmental responsibility is to ensure that scarce resources are being used economically and efficiently. Analyses should focus on high impact areas and known or suspected problem areas. These high impact areas should be determined using qualitative or quantitative assessments of risk that identify the degree of probability of loss, exposure, or detriment to DOE because of ineffective, inefficient, or noncompliant processes. Emphasis

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should be placed on identifying any deficiencies during infancy stages of projects and processes in order to take timely corrective actions. There should also be emphasis on identifying and implementing commercial best business practices for modernization of systems, reengineering, decentralized control, application of modern quality principles, and implementation of electronic commerce. Consistent with these concepts should be the design and management of business processes that balance the risk of loss or exposure with the cost of control activities. Emphasis should be placed on having financial management policies and procedures and a standards-based management system approach such as International Organization for Standardization (ISO) 9001 standards.

Objective 5. Evaluate and Assess Effectiveness of Financial Planning

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

CORE FINANCIAL MANAGEMENT AREAS

Responsibility for the areas described below generally resides with the FCFOE. However, within some organizations, some of these activities and functions may be performed by the Headquarters CFO, or may be under the cognizance of site office managers or the site procurement office.

1. Financial Systems, Policies, and Procedures: Financial systems, policies, and procedures include manual and automated systems and subsystems, policies, procedures, and controls used to (a) capture, record, summarize, and report financial information related to: the authorization of resources, incurrence of liabilities; collection and receipt of revenue; disbursement of funds; control and accountability over assets, costs, and appropriated funds; distribution of costs; development and issuance of reports on the financial status of assets, costs, liabilities, and appropriated funds; and the financial results of program and administrative operations; and (b) account for DOE-owned assets in their custody, including adequately safeguarding such assets against fraud, waste, abuse, unauthorized use, misappropriation, and mismanagement. Reliable financial systems are necessary in order to move toward performance-based oversight (See Accounting Handbook, Chapter 4, Accounting Systems and Organization). The National Nuclear Security Administration (NNSA) has developed interim procedures for review and approval of integrated contractor financial management systems. These interim procedures provide a framework for reviewing contractor financial management systems to ensure that they can be relied upon. They are included as Appendix C.
2. Budgeting and Funds Control: Budgeting consists of policies, procedures, and practices used to formally integrate plans with programs through the process of identifying, prioritizing, and allocating resource requirements to programs approved in the planning process. Budgeting also includes financial management activities associated with validation of funding requirements, including overhead; review of the

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budget request during the budget process; distribution of funds authorized and appropriated by Congress, including reimbursable work; carryover balances; and performance measurement of the funded work scope. In addition, budgeting consists of the systems and procedures used to support the development of baselines for program and project management (See DOE O 130.1, Budget Formulation).

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

3. Management Controls: Management controls -- organization, policies, and procedures -- are tools to help program and financial managers achieve results and safeguard the integrity of their programs. (See DOE O 413.1A, "Management Control Program").
4. Cost Accounting and Cost Management: Cost accounting and control includes the systems for accumulating, distributing, and accounting for costs and the policies, practices and procedures for managing costs. It also includes functional support costs and related party transactions. Support costs are incurred for functions that must be performed to enable DOE sites to accomplish their direct mission activities. Related party transactions include transactions between a contractor and its parent; a contractor and other subsidiaries of a common parent; a contractor and trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of the contractor's management; a contractor and its principal owners, management, or members of their immediate families and affiliates.
5. Financial Reporting and Performance: The financial reporting function consists of the policies, procedures, and practices used to formally communicate and deliver official planning, budgetary, financial performance, operating, and proprietary financial information regarding past, current, and future events in support of DOE (including the NNSA) programs to both internal and external groups. This includes DOE's financial statements and findings noted during the financial statement audit.

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6. Asset Management Systems: Asset management systems consists of the policies, procedures, and practices to acquire, process, control, safeguard, and account for DOE-owned assets and to collect, classify, record, process, and report financial data relating to such DOE-owned assets. Asset management systems include: Cash, Accounts Receivable, Inventories, Property (both Real and Personal), and Construction Work in Progress (See Accounting Handbook, Chapters 6, Cash; 7, Advances and Prepaid Expenses and Other Assets; 8, Receivables; 9, Accounting for Inventory and Related Property; and 10, Plant and Capital Equipment).
7. Material and Service Pricing: The material and service pricing area consists of policies, procedures, and practices used to determine the cost of services and/or materials furnished to others outside DOE so that full cost recovery is achieved (See DOE O 2110.1A, Change 2, Pricing of Departmental Materials and Services).
8. Liabilities: The liabilities area consists of the policies, procedures, and practices used to identify, record, and report those activities that create a present or future claim on DOE resources (See Accounting Handbook, Chapter 11, Liabilities).
9. Internal Audit: The internal audit area consists of the policies, procedures, and practices used by the contractor to perform comprehensive reviews and appraisals of the full scope of the contractor's diverse operations as a service to management (See DOE O 224.2, Auditing of Programs and Operations).
10. Payments: Payments consist of the systems, policies, practices and procedures for making payments for goods and services to ensure that valid invoices and claims are paid in a timely manner, cost beneficial discounts are taken, and erroneous and duplicate payments are prevented. It also includes payments for payroll, travel and other miscellaneous items. The payroll area, a function that the Department has outsourced, comprises the policies, procedures, and practices to process, control, and account for payments in exchange for services performed, payments to taxing authorities and others for amounts withheld, and employer contributions. Areas include time and attendance, payroll processing, and labor cost distribution. Travel consists of the policies, procedures, and practices for managing activities associated with permanent change of station, foreign travel, temporary duty, and local travel (See Accounting Handbook, Chapter 10, Payroll Accounting, Chapter 6, Cash; 1 TFFM 4 and 1 TFFM 6-8040.10; and DOE Order 522.1, Travel Policy and Procedures).

METHODS AVAILABLE TO OVERSEE FINANCIAL AREAS AND ACCOMPLISH OBJECTIVES

DOE's financial management process consists of a multi-pronged approach with different mechanisms that can be used either separately or in conjunction with each other as appropriate. The mechanisms used should be based on the FCFOE assessment of risk. Due to DOE's scarce resources, attention should be focused on the vital few internal control systems needed for effective financial management. The risk assessment process provides a

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listing of financial management activities ranked by relative priority and risk posed to the entire financial organization. The results of the risk assessment provide a corporate statement on responsibility and risk, drive the measurement process, and establish priority for evaluation of financial management systems and controls. The mechanisms for achieving financial management oversight are:

1. Risk Assessments
2. Financial analyses
3. Operational awareness
4. Partnerships between the contractor and cognizant DOE office
5. Performance objectives/measures
6. Self-assessments
7. DOE reviews
8. External reviews

Those mechanisms that support the performance-based management approach are preferred; however, FCFOE should exercise other management techniques as necessary to ensure that financial management objectives are accomplished.

- 1) Risk Assessments. Risk assessments should focus effort on the vital few control systems needed for effective financial management. They should provide a ranking of financial management activities in relative priority, relating the risk posed to the entire financial management organization, based on management's qualitative judgment. The ranking provides a corporate statement of responsibility and risks, and establishes priority for the analyses, evaluations and reviews of financial management areas and the associated management control systems.
- 2) Financial Analyses. Financial analysis is a systematic methodology for looking at contractor financial data and reports to identify trends, potential problems or deficiencies for follow-up, and to evaluate data integrity. Financial analysis includes trending, benchmarking, data mining, and other techniques that provide management with financial information that is useful for planning or for identifying areas needing additional management emphasis or review. Examples would be analysis of: unobligated balances; obligations and costs to identify cost overruns; and suspense account balances.
- 3) Operational Awareness. Operational awareness is the day-to-day involvement with contractor activities which enable DOE to determine how well the contractor is performing to meet the requirements of the contract. Factors influencing the degree of operational awareness include the nature of the work, the type of contract, and past performance of the contractor. Specific activities constituting an ongoing operational awareness process should be defined and understood by field organization management and its contractors. Examples of many available operational awareness activities that can be used to achieve effective financial management are provided in the section of this document on Methods Available to Accomplish Objectives.

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- 4) Partnerships between the Contractor and Cognizant DOE Office. An effective system is built upon open communication, partnership and trust at all levels - Headquarters CFO and program offices, FCFOE offices and contractors. This coordination and cooperation is necessary to ensure mutual understanding of required performance.
- 5) Performance Objectives/Measures. The use of performance-based oversight and management is an effective method for keeping apprised of progress toward intended results. This concept is results-oriented, focusing on agreed-to, predetermined performance objectives, measures, goals and expectations. Contractor performance is evaluated based upon the level of performance demonstrated against the performance expectations. Emphasis should be placed on critical performance areas and areas of needed improvement.
- 6) Self-assessments. Reliance may be placed on contractor self-assessments when contractor financial management systems are judged to be reliable, the risk level is low, and past contractor performance has been good.
- 7) DOE Reviews. Reviews can vary in scope from brief fact-finding assessments to extensive, detailed reviews, depending upon the circumstances. Reviews should normally be performed when management has identified a high-risk area, problems are suspected or have been identified and additional information is necessary to determine the extent of the problems and to develop corrective actions, areas have been identified as areas of high interest by the Administration or Congress, or Headquarters has directed the performance of a review.
- 8) External Reviews. Reliable audit, inspection, investigation and evaluation reports are also used in evaluating contractor financial management performance. They can sometimes be used in lieu of DOE analyses or reviews depending upon their scope and applicability.

APPLICATION OF OVERSIGHT METHODS TO CORE FINANCIAL MANAGEMENT AREAS

1. Maintain awareness of contractor financial management system controls

DOE O 413.1A requires heads of Field organizations to be responsible for ensuring that major contractors' financial management systems and practices are acceptable for carrying out the Department's financial policy, principles and objectives. To meet this requirement, FCFOE should review site/facility management contractors' accounting systems or major changes to existing systems to assure they comply with applicable Federal and commercial standards and include adequate controls over financial processes and recordkeeping. A fundamental element in approving site/facility management contractor financial management systems is the Cost Accounting Standards (CAS) Disclosure Statement detailing cost accounting practices. Site/facility management contractors submit proposed Disclosure Statements and revisions (generally annually) to the FCFOE through the contracting officer. To ensure that site/facility management contractors comply with Cost Accounting Standards as prescribed in Chapter 4 of the DOE Accounting Handbook, FCFOE should review the

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Disclosure Statement and any proposed revisions for conformance with CAS and Generally Accepted Accounting Principles and make a recommendation to the contracting officer with respect to final approval. To adequately carry out these responsibilities, FCFOE should possess a detailed understanding and continued awareness of the DOE and contractor's automated financial systems and their integration with management controls such as its approved policies and procedures. This understanding and awareness can be accomplished through operational awareness, analyses, systems reviews, routine meetings, briefings, and reviews of financial reports. This routine interaction is necessary to assure that any changes to operations have not adversely impacted the integrity of financial data. If feasible, FCFOE should maintain access to the site/facility management contractor's accounting system(s) to enhance ongoing operational awareness.

2. Monitor and Evaluate Budget Activities

FCFOE must monitor budget execution for programs, projects, and in some cases, individual orders to ensure resources are being expended as planned and in accordance with legal and administrative limitations. They also have responsibilities for ensuring that controls are in place to ensure that funds are expended in accordance with legal authorities. To carry out these responsibilities, FCFOE should perform sufficient oversight activities to provide assurance that relevant laws and regulations pertaining to financial and budget activities are being followed. Certain laws, such as the Anti-deficiency Act, have serious penalties for Federal employees in violation of their provisions.

- a. FCFOE should determine the effective use of budget resources by evaluating actual versus planned expenditures and variances between applied and actual indirect costs. They should also perform analyses of uncosted balances, commitments (when applicable) and supplemental data reported such as functional costs and manpower. Internal controls over systems and processes used to provide budget estimates should also be evaluated. FCFOE should also partner with functional and program managers to ensure that limited financial resources are allocated in order of priority and that these resource allocations are used for their intended purposes. [Note: Some of these budget activities may reside in Headquarters under recent reorganizations].
- b. FCFOE must also ensure that funds availability is being certified in accordance with applicable policy, and the work is not initiated in advance of receiving a budgetary resource. Federal law prohibits performing work for private parties and certain Governmental entities in the absence of advance funding. Departmental policy also prohibits the initiation of work in advance of receiving a valid budgetary resource. This is an inherently governmental responsibility under the Anti-Deficiency Act and other related statutes. It also prohibits starting or continuing in-house work if funding is not available. The use of contractor corporate funding is permitted, however the use of such funding does not relieve the contractor of its responsibility to comply with all Work for Others' requirements. FCFOE must also review and validate the use of operating funds for capital acquisitions to ensure such projects meet the demanding criteria for expense funding. Federal law and DOE policy prohibit the use of operating (expense) funds for many capital activities, and vice-versa. FCFOE should take measures to ensure that contractors follow the appropriate legal provisions and

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for ensuring that costs are disallowed when contractors perform work without proper authorization and funding. This responsibility is also vital for protecting the taxpayer's interests and reducing the probability of fraud, waste and abuse.

- c. FCFOE should also partner with technical organizations in Work Authorization and Change Control Systems. Work Authorization and Change Control systems are highly interrelated with the funds distribution and control process. Working in concert, they ensure appropriately categorized and authorized work is accomplished within funding limits. For change control systems, FCFOE should evaluate changes in scope and funding needs. Both analyses are done in conjunction with the appropriate program management.

3. Administer Federal Managers Financial Integrity Act (FMFIA)

Heads of Departmental Organizations are required to report annually on the management controls and financial management system(s) in their respective programs and administrative functions. This information is reported through issuance of an annual assurance memorandum and typically includes current reportable problems and status updates of previously reported problems. Those FCFOE with responsibility for overall FMFIA administration should ensure that managers perform the necessary analyses or reviews to adequately report as required by the Act and that any necessary assurances from major facilities management contractors have been obtained. All FCFOE should perform the necessary analyses and reviews to adequately report on the status of financial management controls, activities and systems and ensure that they receive the required assurances from major facilities management contractors under their cognizance. (See DOE O 413.1A, "Management Control Program")

4. Perform Required Analyses and Reviews

Certain review and analysis activities are required by law or policy. These include but are not limited to the following.

- a. Annual Statement of Cost Incurred and Claimed. Contractors operating under Treasury financing (most major facility management contractors) are required to submit an Annual Statement of Cost Incurred and Claimed. In accordance with Chapter 4 of the DOE Accounting Handbook, FCFOE must attest that "the contractor has established a system of accounting ... controls adequate to minimize the risk of incurring unallowable or unreasonable costs." The attestation statement does not constitute final approval or settlement of costs. Sufficient review work should be performed to support this attestation.

- b. Biennial Pricing Reviews. DOE's contractors provide materials and services to non-DOE entities and must develop prices for these materials and services. Field FCFOE should review and validate prices to ensure they conform to the requirements of OMB Circular A-25, User Charges, Departmental pricing policy, and other legislative authority, as applicable. Biennial pricing reviews are a requirement of the

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CFO Act. A review of related party transactions between the DOE contractor and its parent corporation, and a DOE contractor and any of its affiliates should be conducted in conjunction with the biennial pricing review.

c. Indirect Cost Rates. At each major DOE contracted operation, millions of dollars of indirect costs are allocated to final cost objectives. DOE contractors develop and use prospective recovery rates for allocation of these indirect costs in accordance with their disclosed cost accounting practices. FCFOE must analyze the components of indirect costs and evaluate the allocation method employed in indirect cost distribution to assure such costs are properly estimated and allocated, laws governing augmentation of appropriations are complied with, and direct/indirect costs are being accounted for properly. Based on the analysis and evaluation, FCFOE then approve the contractor's proposed indirect cost rates.

d. Internal Audit Function. DOE uses a tri-party Cooperative Audit Strategy-involving the field organization, the Office of Inspector General (OIG), and a representative of the contractor's internal audit staff. The strategy is aimed at improving overall audit coverage by using all available resources and ensuring DOE reviews, external audits, and contractor internal audits are conducted through a fully integrated audit plan. This increased reliance on contractor internal audit groups by DOE makes it imperative that the FCFOE assess the audit work they perform. FCFOE should, at a minimum, ensure audits focus on areas of greatest risk and that internal audits are conducted in conformance with Generally Accepted Government Auditing Standards (GAGAS or Yellow Book) and to verify achievement of independent, supportable conclusions. Also, this work should include review of audit plans and tracking of the audit plan progress to aid in evaluating performance of internal audit functions by the contractor.

5. Assess Contractor Financial Performance and Assist in the Award Fee Process.

FCFOE must ensure that fees paid to contractors are based on authorized, agreed upon scope and volume of work. FCFOE should work with contractors to develop appropriate and effective financial performance measures and evaluate and assess contractor financial performance as part of the award fee process. DOE contracts with award fee provisions require assessment and analysis of contractor performance. Closure contracts have been negotiated with many Environmental Management sites that incentivize site cleanup and closure. These contracts provide for provisional payment of award performance objectives fees based on progress to date, but subject to revision if other down-stream incentives are not subsequently met (i.e. previously awarded fee can be later disallowed). The amount of fee paid can vary dramatically based upon contractor performance at, below, or ahead of schedules. Fee payments for closure contracts and other performance-based contracts are heavily dependent upon reported performance and earned value analyses. While Procurement has primary responsibility, FCFOE should assist as appropriate in assuring that reported performance is accurate and in accordance with negotiated fee and performance-based incentive provisions. Whenever DOE organizations establish contractor incentive fees, the FCFOE should ensure computations of claimed benefits and cost savings are computed using official accounting records. Fees paid to DOE major facility management contractors are determined by the cognizant DOE Contracting Officer. Available fee is based on the

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anticipated scope of work, the performance risk, and actual performance. FCFOE should assist the Contracting Officer, as appropriate, in determining the fee basis, and in ensuring the fee paid to the contractor is based on an authorized, agreed upon scope and volume of work.

6. Provide Other Required Certifications

FCFOE must provide the certifications required for laboratory-directed research and development/plant-directed research and development/site-directed research and development information submitted for the Department's annual report to Congress. They also must provide certifications required for the Federal Managers' Financial Integrity Act reporting, and the annual TFS 2108 Year End Closing Statement. In addition, other information may require certification as requested by the Headquarters CFO.

OTHER SUGGESTED OVERSIGHT ACTIVITIES

1. Conduct Periodic Surveys and Risk Assessments

FCFOE should conduct periodic surveys to evaluate implementation of financial management processes, identify and correct inconsistencies in DOE's financial management, identify best practices, identify potential vulnerabilities, and assist in evaluating risk. FCFOE should also conduct periodic risk assessments of financial activities. The risk assessments should focus effort on the vital control systems needed for effective financial management. They also provide a ranking of financial management activities in relative priority, relating the risk posed to the entire financial management organization, based on management's qualitative judgment. The ranking provides a corporate statement of responsibility and risks, and establishes priority for the evaluation of management control systems.

2. Analyze Financial Operations and Accounting Reports

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

3. Partner with Contractors to Develop Agreed-upon Financial Management Performance Measures

FCFOE should partner with integrated contractors and the cognizant contracting officer to develop agreed upon financial management performance measures in support of the Department's performance-based management initiatives. These measures should focus on activities that are critical, high-risk, or areas in need of improvement. They should also

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support measures established by the Office of Management and Budget, Treasury, and DOE as required or as appropriate.

4. Conduct Periodic Liaison Meetings with Contractors

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

5. Perform Contract Administration of Financial Activities

FCFOE should ensure all standard DEAR financial management clauses are included in major facility management contracts. Certain items, such as the Automated Standard Application for Payment (1031) method of contract finance, should be coordinated with the Office of Financial Policy prior to implementation.

6. Trend and Analyze Costs

FCFOE should trend and analyze selected costs (such as inventory, travel, training, equipment, and overtime), to determine whether costs are prudent, consistent with predetermined plans or agreements, or whether there are any anomalies requiring attention. Some DOE field organizations perform this activity through receipt of recurring supplemental reports; others acquire the information through direct access to contractor financial systems.

7. Analyze Results of Internal and External Financial Audits/Review Follow-up

FCFOE should regularly communicate the relevant findings, recommendations, and corrective action status to the cognizant Contracting Officer and appropriate senior management. This analysis work provides an understanding of the overall health of financial processes at the contractor, and reinforces accountability for audit follow-up and resolution. FCFOE should use a tracking system to analyze and trend results of corrective action plans for addressing audit and review findings.

8. Analyze Results of Contractor Self-assessments

FCFOE should analyze results of any self-assessments of financial functions performed by contractors. Self-assessment results should be validated to the extent necessary to ensure reliability.

9. Conduct Special Cost Studies/Analyses

FCFOE should conduct management-directed and self-initiated special cost studies and analyses. These studies/analyses evaluate requirements and related costs. The results are used to make appropriate recommendations to management. Examples include product-related studies, resource studies, and cost-benefit analyses.

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10. Validate Selected Contractor Make vs. Buy Decisions

It is often important for FCFOE to verify data and computations regarding high visibility/high impact make vs. buy decisions. As necessary, FCFOE should analyze all cost elements of the related estimates to determine accuracy, allocability, reasonableness, and completeness. In addition, FCFOE may provide an independent opinion on potential unidentified contingencies.

11. Partner with Contractor and HQ to Monitor Financial Status and Timely Close-out of Completed Projects/Activities/Contracts

Processing financial closure activities related to completed projects, contracts and other work tasking is critical to providing accurate, up-to-date financial results. These activities are critical to releasing unexpended funds, or identifying previously unknown funding shortfalls and to ensure timely and accurate capitalization of assets. FCFOE should work with other appropriate Field organization personnel to ensure financial closeout activities are performed in accordance with DOE policy and in a timely manner.

Financial Management Legal Requirements and Regulatory Guidance

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

Chief Financial Officers Act of 1990

This Act requires Agency CFOs to:

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

Anti-Deficiency Act

This act states that:

- An officer or employee of the U.S. Government may not make or authorize an expenditure or obligation exceeding an amount available in an appropriation or fund for the expenditure or obligation.
- An officer or employee of the U.S. Government may not involve the Government in a contract or obligation for the payment of money before an appropriation is made, unless authorized by law.

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

Federal Managers' Financial Integrity Act (FMFIA) of 1982

This act requires that the head of each agency conduct an evaluation in accordance with guidelines and prepare a statement concerning the agency's system of internal accounting and administrative controls of each executive agency. The requirements of this act include providing reasonable assurance that:

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

Government Performance and Results Act (GPRA) of 1993

This act provides for the establishment of strategic planning and performance measurement. The act requires agencies to submit five-year strategic plans to OMB and Congress by September 30, 1997, concurrent with transmittal of fiscal year 1999 budget requests. The five-year strategic plans are to be updated at least every three years. The strategic plans shall include:

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

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Government Management Reform Act of 1994 (GMRA) Public Law 103-356

This act requires:

- That the head of each executive agency shall prepare and submit to the Director, OMB, an audited financial statement for the preceding fiscal year, reflecting (1) the overall financial position and (2) results of operations.

Debt Collection Improvement Act of 1996

This act requires all Federal payments to be made electronically.

Federal Financial Management Improvement Act (FFMIA) of 1996

The purposes of this act are to:

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

Cost Accounting Standards.

P.L. 100-679 requires certain contractors and subcontractors to comply with Cost Accounting Standards (CAS), and to disclose their practices in writing and follow them consistently.

OMB Circular A-127 “Financial Management Systems”

This circular states that financial and program managers are accountable for financial results of actions taken, control over the Federal Government’s financial resources and protection of Federal assets. Specific requirements of this circular include:

- Each agency shall maintain a single, integrated financial system,
- Financial systems must be designed in a manner consistent with the U.S. Government Standard General Ledger, and is capable of tracking specific program expenditures,

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- In accordance with XXXXX, integrated financial management systems must possess (1) common data elements, (2) common transaction processing, (3) consistent internal controls, and (4) efficient transaction entry, and
- Agency financial management systems shall be able to produce financial information required to measure program performance, and support budgeting, program management and financial statement presentation.

OMB Circular A-123 “Management Accountability and Control”

This circular states that managers are responsible for the quality and timeliness of program performance, increasing productivity, controlling costs, and complying with applicable laws. The circular requires Agencies and individual Federal managers to take systematic and proactive measures to:

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

OMB Circular A-25, “User Charges”

The Circular establishes Federal policy regarding fees assessed for Government services and for sale or use of Government goods or resources. It provides information on the scope and types of activities subject to user charges and on the basis upon which user charges are to be set. Finally, it provides guidance for agency implementation of charges and the disposition of collections.

OMB Circular A-50, “Audit Followup”

This circular provides the policies and procedures for use by executive agencies when considering reports issued by the IGs, other executive branch audit organizations, the GAO, and non-Federal auditors where follow-up is necessary.

Points of Contact

John Newell

301-903-2551

Dean Childs

301-903-2560

**National Nuclear Security Administration Office of Field Financial Management/Chief
Financial Officer**
**Interim Procedures for Review and Approval
of Integrated Contractor Financial Management Systems**

Background: Effective December 20, 2002, the Administrator, National Nuclear Security Administration (NNSA) delegated all authorities relating to the Financial Allottee function including functions previously assigned to field components in various DOE Directives that took effect with the standup of the new NNSA to the Director, NNSA Office of Field Financial Management/Chief Financial Officer (OFFM/CFO). This included, but was not limited to, accounting, financial management systems, administrative control of funds and distribution, and related budget execution, financial oversight, and financial reporting requirements. In addition, the Director, OFFM/CFO has been designated a Contracting Officer Representative for financial management on all NNSA integrated contracts by the NNSA Senior Procurement Executive. In discharging these responsibilities, the Office of Field Financial Management has established interim procedures for the review and approval of integrated contractor financial management systems effective December 20, 2002.

Process Overview: Until the late 1970s or early 1980s, the General Accounting Office (GAO) was chartered to approve financial systems of major Government contractors. At that time the GAO relinquished its responsibility to Federal agencies having direct cognizance over the contractors involved. Each Federal agency developed and applied its own methods to “approve” contractor financial systems.

In consonance with restructuring of the NNSA and the delegations by the Administrator for financial management, the OFFM established interim procedures for the review and approval of integrated contractor financial management systems. These procedures are based on a comprehensive matrix of oversight, review, audit, attestations, and certifications of contractor financial management systems to ensure they meet the minimum standards and satisfy Federal requirements. **Note: These Interim Procedures are consistent with and complement the draft “Guide for Financial Management Oversight of Department of Energy’s Contractors”.** Taken collectively these actions constitute the basis for NNSA’s acceptance of a contractor’s financial management systems and are designed to fulfill the requirements of DEAR Clauses 970.5232-7 and 8. This process includes, but is not limited to the following actions:

Contract Award: The federal procurement process requires the contractor’s financial systems be adequate to perform Federal work. During the contract award process, the contractor must provide representations and certifications that its financial systems are adequate to perform the contract scope of work. In practice, most successful bidders on an integrated contract, compete actions and assume the financial management systems in place at the time of award. Normally, this will establish the baseline for the OFFM to monitor and approve new integrated contractor financial management systems or major enhancements to existing financial management systems.

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Annual Plan for Financial Systems: NNSA prepares an annual Information Technology (IT) Acquisition Plan as part of its Capital IT Planning Process. This includes integrated contractor identification of proposed new financial management systems and/or subsystems and major enhancements and/or upgrades to the current existing financial systems and/or subsystems. The OFFM coordinates with the NNSA Service Center Chief Information Officer and the applicable Site Office in reviewing and approving Capital IT Plans having financial management system components. All new financial management system or major enhancement to an existing financial management system will require prior coordination with the OFFM.

Integrated Accounting: The integrated contractor's accounting system will be integrated with the Department's system and have electronic capability to transmit monthly and year-end self-balancing trial balances to the Department's Primary Accounting System for reporting financial activity. The OFFM will monitor contractor performance through month-end and year-end edit errors routines to assure that problems are identified and corrected. The OFFM also employs financial performance measures to identify and track the integrated contractor's performance in meeting the integrated financial reporting requirements.

Cost Accounting Standards Disclosure Statement: A fundamental element in approving integrated contractor financial management systems is the CAS Disclosure Statement detailing cost accounting practices. Integrated contractors submit proposed Disclosure Statement revisions generally annually to OFFM through the contracting officer. OFFM reviews the proposed revisions for conformance with CAS and Generally Accepted Accounting Principles requirements and makes recommendation to the contracting officer for final approval.

Indirect Rates: Integrated contractors notify the OFFM of proposed interim rates to be used prior to the beginning of the fiscal year. The integrated contractors also notify OFFM of proposed interim rate changes during the fiscal year. The OFFM reviews the proposed rates and changes and concurs with the proposed rates or resolves issues with the integrated contractor. Rate changes having a material impact on previously submitted budget estimates (those requiring Congressional reprogramming) will generally be deferred until the next budget cycle.

Internal Audit: The OFFM oversees the integrated contractor internal audit process including review and approval of the annual audit plan and periodic review of audit reports and supporting workpapers. The OFFM also reviews internal audit finding closure actions and validates the adequacy of actions for all financial findings.

Operational Awareness: The OFFM performs operational awareness of integrated contractor financial systems and processes. Factors that will be considered in influencing the degree of operational awareness include the nature of the work, the type of contract, and past performance of the contractor. Issues will be identified and resolved on a real time basis.

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Self Assessments and For Cause Reviews: Reviews are normally performed when OFFM identifies a high-risk area, problems are suspected or have been identified and additional information is necessary to determine the extent of the problems and to develop corrective actions, areas have been identified as areas of high interest by the Administration or the Congress, or Headquarters has directed the performance of the review. Depending on resource availability, reliance may be placed on contractor self-assessments if the self-assessments are sufficient in scope and if adequate verification and validation of results is performed by OFFM.

Statement of Cost Incurred and Claimed (SCIC): The OIG performs periodic financial and internal control system reviews which serve as the basis for certifying that cost incurred and claimed are allowable and reasonable in accordance with the terms of the subject contract and applicable laws and regulations, subject to audit. The OFFM will rely on reviews done internally by the OFFM, the OIG, integrated contractor internal audit, and other reviews to serve as the basis for providing an annual statement that the contractor has established a system of accounting controls adequate to minimize the risk of incurring unallowable or unreasonable costs.

Federal Manager's Financial Integrity Act (FMFIA): The FMFIA management control process requires managers to conduct a review of functions under their cognizance, identify and report reportable conditions identified, and prepare a corrective action plan. The OFFM FMFIA process leading to an attestation on the financial management systems includes both Federal and integrated contractors operations.

Audited Financial Statements: 31 U.S.C. 3515 requires audited financial statements be prepared covering all agency operations. This includes the integrated contractor financial component and management representations. The OIG and/or commercial audit firms conduct such audits in accordance with Generally Accepted Government Auditing Standards. The results serve as the basis for the audit report opinion on the fairness, accuracy and reliability of the consolidated financial position and operations of the agency. The audit tests contractor internal controls and conformity with generally accepted accounting principles.