

U.S. DEPARTMENT OF ENERGY
**PERFORMANCE AND
ACCOUNTABILITY REPORT**
FISCAL YEAR 2003

**MANAGEMENT'S
DISCUSSION
AND ANALYSIS**

DEPARTMENT AT A GLANCE

OUR HISTORY

In October 1977, Congress passed the Department of Energy Organization Act creating the Department of Energy. That legislation brought together for the first time not only most of the government's energy programs but also science and technology programs and defense responsibilities that included the design, construction and testing of nuclear weapons. Creating the Department of Energy required the joining of several organizational entities from a dozen departments and agencies, each with its own history and tradition.



***“Proud of Our Past,
Securing the Future”***

Today, the Department's overarching mission is enhancing national, economic, and energy security by accomplishing priorities in its programs for National defense, energy, environment, and science. This past year, the Department celebrated its 25th Anniversary and is proud the diversity that characterized its creation is still one of its greatest strengths, and one that will continue to contribute to the energy and national security needs of generations to come.

During the past 25 years, the Department has made the Nation a better place by providing the American people with numerous accomplishments that reflect its varied responsibilities.

- The Department has developed a host of technologies which provide energy that is cleaner to use than ever before. Coal can be burned cleaner, oil can be extracted with less environmental impact, nuclear energy can be produced cleaner, and renewable energies are now providing power with less reliance on fossil fuels.
- The Department has made great strides cleaning up the environmental hazards at weapons-production sites that helped secure victory in the Cold War.
- The Department has taken a huge step toward ensuring the future of nuclear power in this country with the President's and Congress's approval to proceed with Yucca Mountain as a permanent waste repository.



Former Secretaries of the Department of Energy and Secretary Spencer Abraham applauding employees of the Department for 25 years of dedicated service.



Solidified waste stored in metal drums at Oak Ridge Gaseous Diffusion Plant. The Department is seeking innovative technological approaches and policy changes to address problems with waste management.



Yucca Mountain, on the southwest boundary of the Nevada Test Site, was approved for the Nation's first repository for commercial high-level radioactive waste.

- Scientists at the Department initiated the Human Genome Project to identify all of the approximately 30,000 genes in human DNA. The research uncovered by the Human Genome Project will provide incalculable benefits for medical research in the future.
- The Department's national security programs have helped keep the peace through the end of the Cold War and the post-Cold War era. These programs also provide the power for the Nuclear Navy, work to prevent the proliferation of dangerous nuclear materials, and ensure that our nuclear weapons are safe, reliable and effective.



Biochemist and biophysicist at the Midwest Structural Genomics Center work with a robot to automate the protein crystallography process.



The Phillips Terminal, one of the Department's Strategic Petroleum Reserve facilities, is used for drawdown and distribution of stockpiled crude oil.

- The Department has taken measures to advance America's energy security, such as filling the Strategic Petroleum Reserve, promoting domestic energy production, and sponsoring research and development of the next generation of energy technologies. The Department is taking steps to guarantee that America's children and grandchildren have continued access to energy that is affordable, reliable, and environmentally responsible.
- The Department's research and development programs have advanced technologies that contributed to significant improvements in the Nation's energy efficiency and conservation.

In the years ahead, the Department will be working on technological and scientific advances that will distinguish the 21st century from the 20th. For example, the Department is working on the President's FreedomCAR program and the Hydrogen Fuel Initiative to promote the development of hydrogen as a primary fuel for cars and trucks. This revolutionary concept of a hydrogen economy holds the promise to create a world that is fundamentally different from the one we know now and has the potential to solve pollution problems. Other projects that the Department is working on today include:

- The Department's science programs are providing the latest technological advances, such as microbes that eat waste and can be harnessed to support our environmental activities.

- Research into fusion energy is also providing future applications as Departmental scientists are figuring out the way the sun and stars produce their energy.
- Work with private industry is providing further breakthroughs in energy efficiency, from advanced solar technologies for homes and offices to superconductivity research promising to transmit more power more efficiently over longer distances.
- The Department is working to develop methods of nuclear propulsion to power the exploration of space in the 21st century.
- The Department is also providing critical support to the war against terrorism, both at home in the United States and abroad.

During the next 25 years and beyond, the Department promises to be one of the most vital and exciting agen-

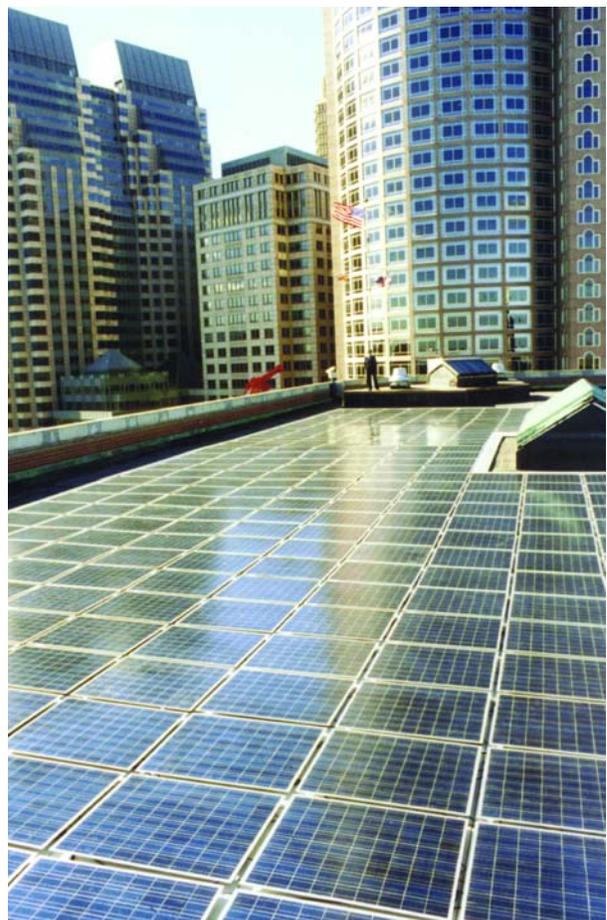


President Bush and Secretary Abraham examine a hydrogen fuel vehicle and scooter at the Washington, D.C. Clean Energy for the 21st Century exhibit.



Technological advances will reduce the amount of waste stored throughout the Department's facilities.

cies in the Federal Government. The Department's mission – advancing America's national, economic and energy security – is even more profound today than it was in October 1977.



Photovoltaic system, consisting of 372 solar panels on the roof of the Williams Building, Boston, Massachusetts.

OUR MISSION, ORGANIZATION AND RESOURCES

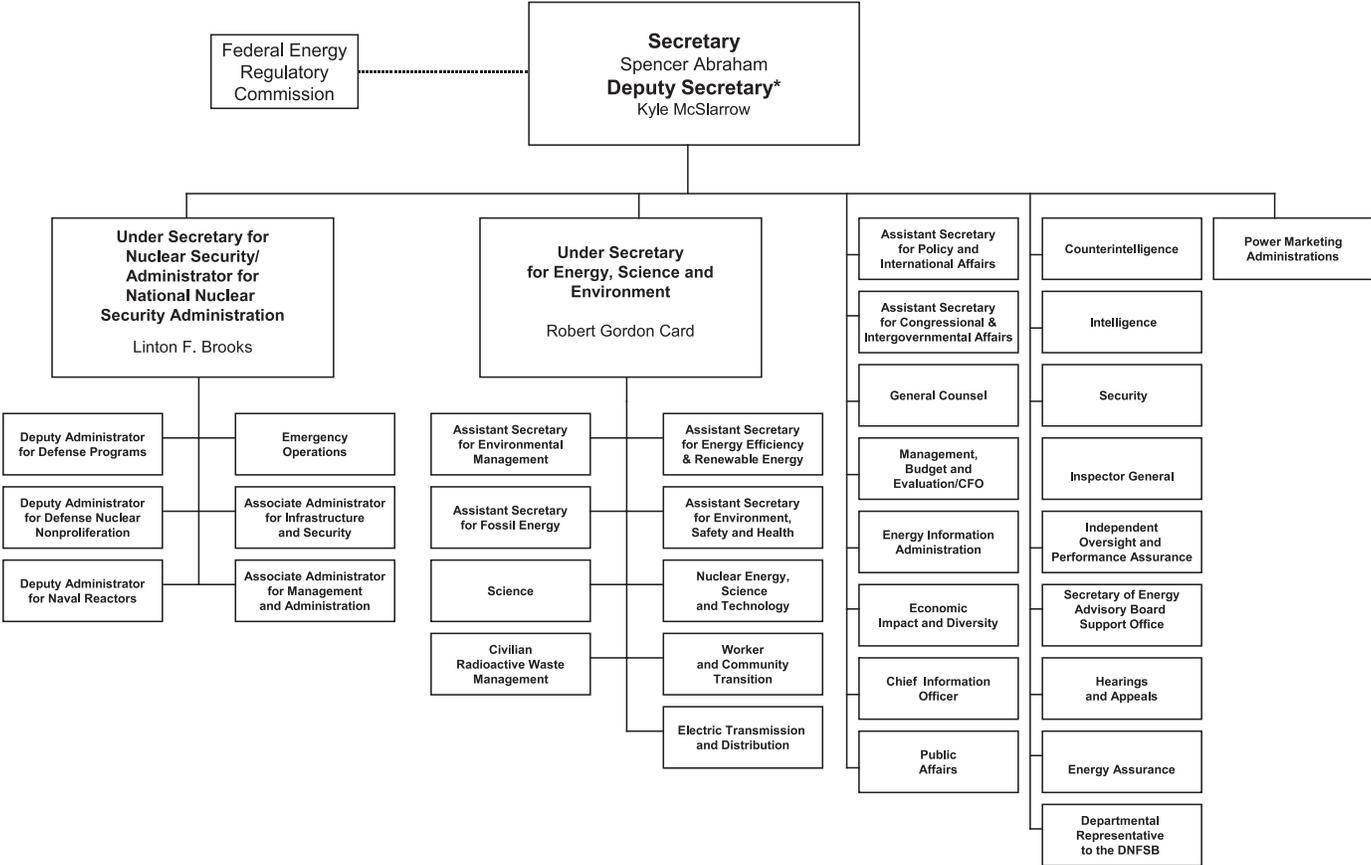
OUR MISSION

To advance the national, economic and energy security of the United States;

To promote scientific and technological innovation in support of that mission;

To ensure the environmental cleanup of the national nuclear weapons complex.

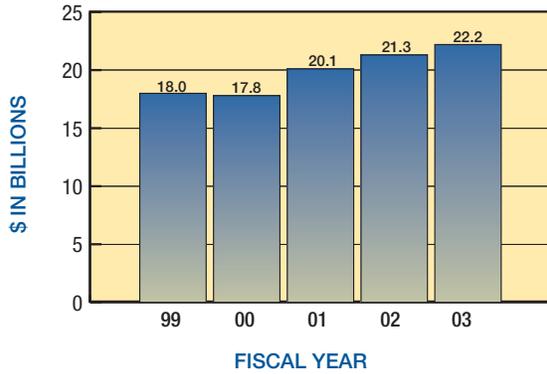
OUR ORGANIZATION



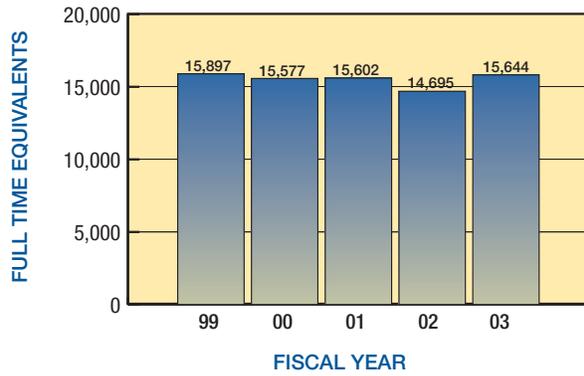
* The Deputy Secretary also serves as the Chief Operating Officer.

OUR RESOURCES

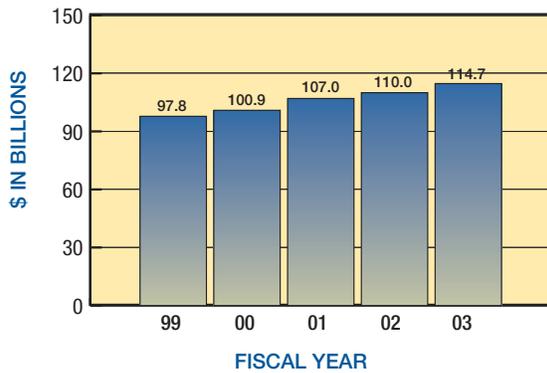
FUNDING



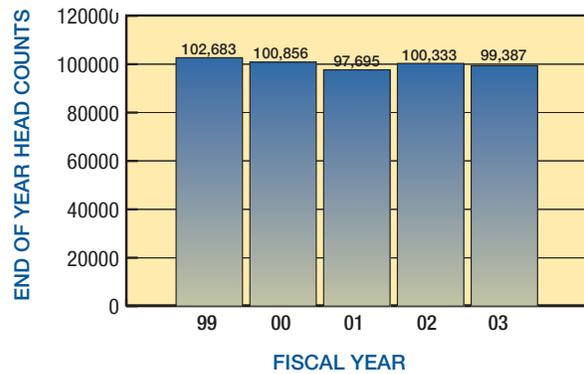
FEDERAL EMPLOYEES



ASSETS

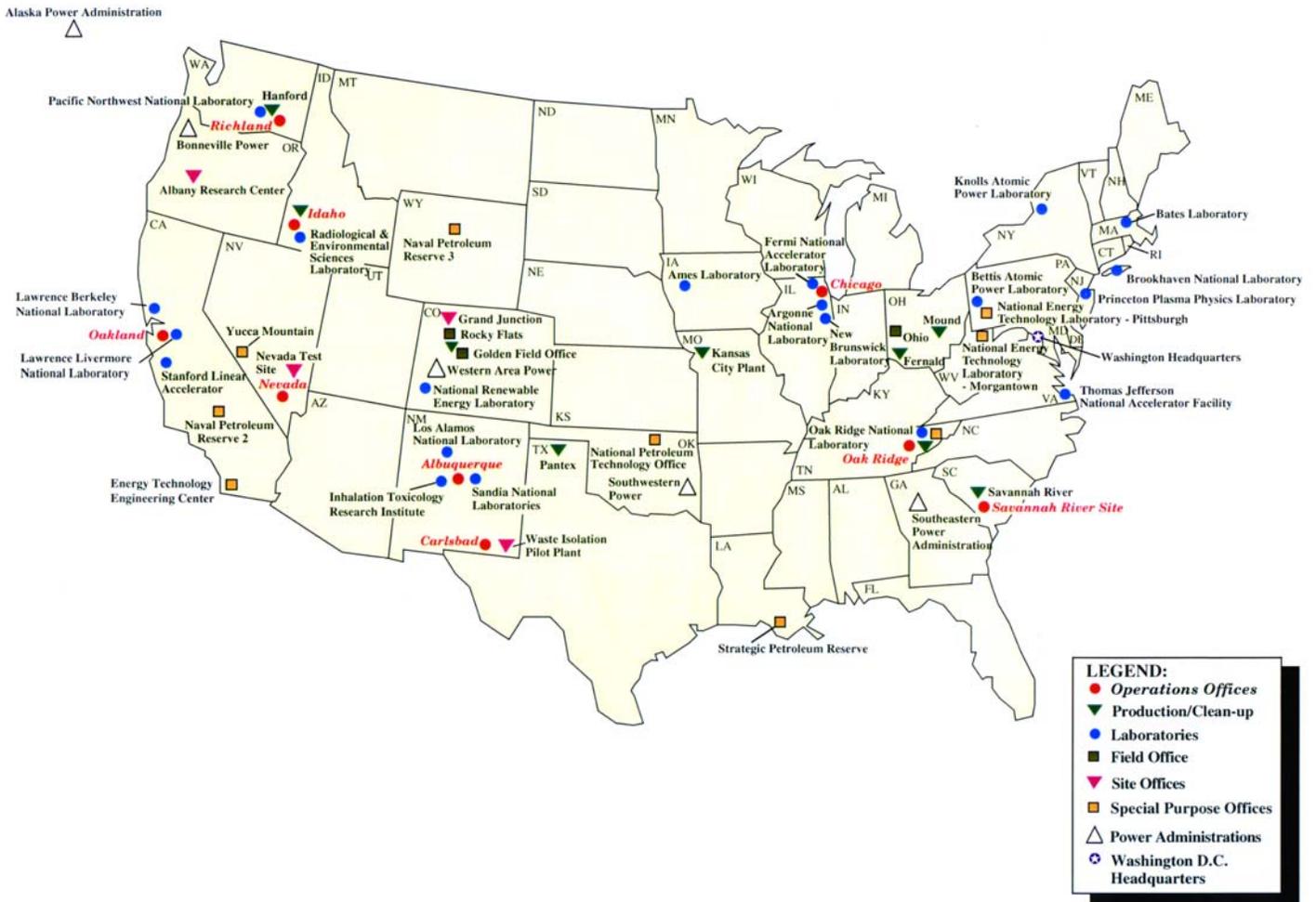


CONTRACTOR EMPLOYEES



OUR OFFICES AND FIELD FACILITIES

The Department accomplishes its mission through unique scientific assets which are located throughout the United States and include national laboratories, facilities and employees.



OUR STRATEGIC GOALS

The Department has established the following four strategic goals and seven supporting general goals toward achieving our mission.

The performance information and key cost data presented in this report and accompanying financial statements are structured around these goals.

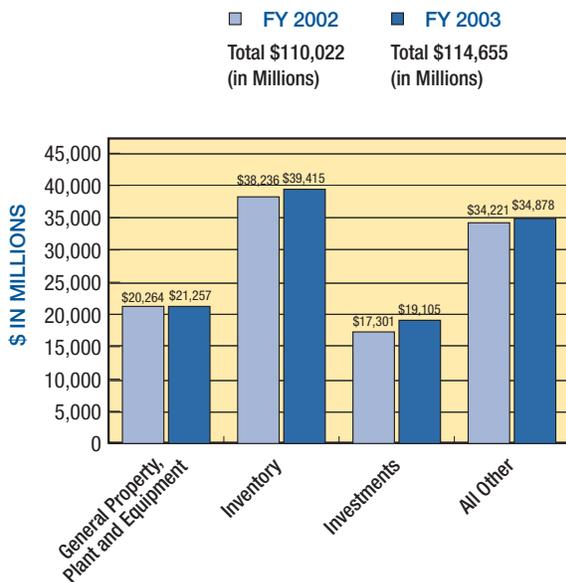
STRATEGIC AND GENERAL GOALS	RESOURCES APPLIED (IN MILLIONS)
DEFENSE	
To protect our national security by applying advanced science and nuclear technology to the Nation's defense.	Operational Net Costs \$6,847 Federal Employees 2,493
GENERAL GOALS	
<ul style="list-style-type: none"> ● Maintain nuclear weapons stockpile ● Detect and prevent nuclear proliferation ● Support nuclear power needs of the U.S. Navy 	
ENERGY	
To protect our national and economic security by promoting a diverse supply and delivery of reliable, affordable, and environmentally sound energy.	Operational Net Costs \$1,609 Federal Employees 6,629
GENERAL GOAL	
<ul style="list-style-type: none"> ● Enhance energy security 	
SCIENCE	
To protect our national and economic security by providing world-class scientific research capacity and advancing scientific knowledge.	Operational Net Costs \$3,068 Federal Employees 933
GENERAL GOAL	
<ul style="list-style-type: none"> ● Maintain a world-class scientific research capacity 	
ENVIRONMENT	
To protect the environment by providing a responsible resolution to the environmental legacy of the Cold War and by providing for the permanent disposal of high-level radioactive waste.	Operational Net Costs \$6,222 Federal Employees 2,424
GENERAL GOALS	
<ul style="list-style-type: none"> ● Clean up contamination of sites ● Establish a permanent repository for high-level radioactive waste 	

ANALYSIS OF FINANCIAL STATEMENTS

The Department's financial statements, which are included in the Financial Results section of this report, have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. While the financial statements have been prepared from the Department's books and records in accordance with the formats prescribed by the Office of Management and Budget, they are different from the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity.

The following provides information on selected aspects of the financial statements. Some significant balances and changes in balances from the prior year are noted to help clarify the link to the Department's operations.

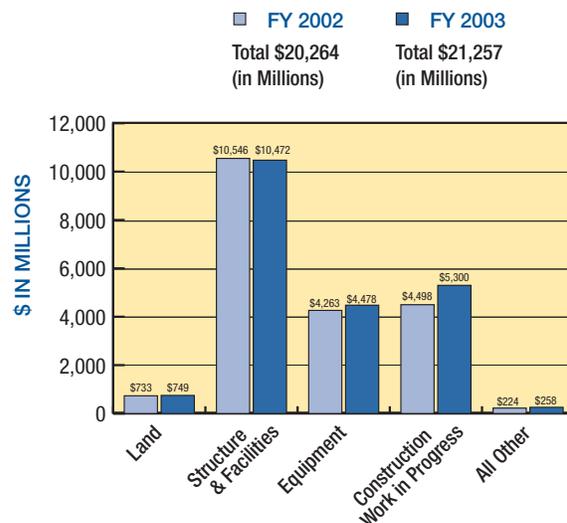
ASSETS



General Property, Plant, and Equipment, Inventory, and Investments comprise most of the Department's total assets and are described below.

GENERAL PROPERTY, PLANT, AND EQUIPMENT

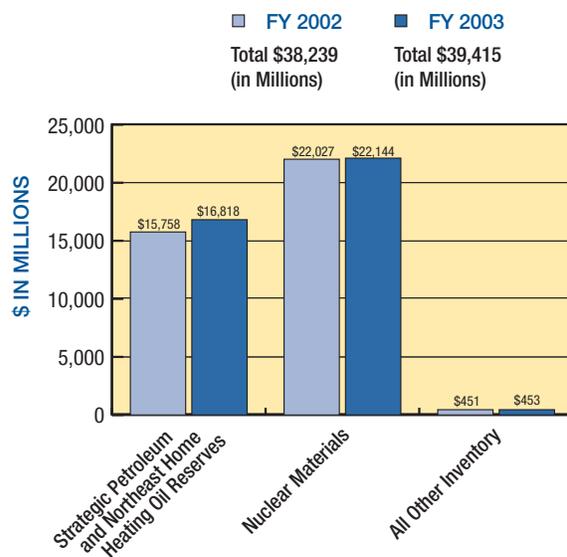
The Department owns the Nation's nuclear weapons facilities and some of its most prestigious research laboratories. These laboratories support the Department's research and production activities related to our defense, science, and other missions. These assets include land, structures and facilities, equipment, con-



struction work in progress, and other miscellaneous items and cover over 126 million square feet of buildings located on over 2.6 million acres of land.

INVENTORY

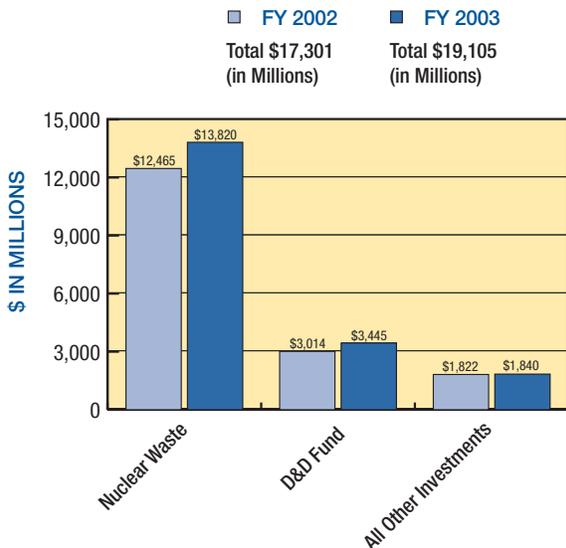
The Department's inventory includes oil held in the Strategic Petroleum and Northeast Home Heating Oil



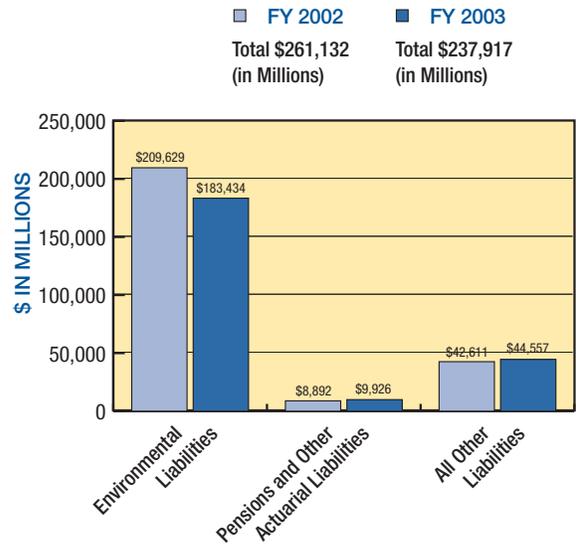
Reserves, nuclear materials, and other items consisting primarily of operating materials and supplies. The Strategic Petroleum Reserve provides an effective response mechanism to protect the country from disruption in oil supplies. The Northeast Home Heating Oil Reserve provides a buffer to allow commercial companies to compensate for interruptions in supply or severe winter weather. Nuclear materials are primarily uranium, tritium, and plutonium and include nuclear weapons and related components, as well as materials used for research and development.

INVESTMENTS

The Department's investments primarily involve the Nuclear Waste Fund and the Uranium Enrichment Decontamination and Decommissioning Fund. The Nuclear Waste Fund provides money to site, design, construct, and operate a deep geologic repository for the permanent disposal of nuclear waste. The Uranium Enrichment Decontamination and Decommissioning Fund was created to protect human health and the environment from risks posed by inactive and surplus facilities and contaminated areas. Fees are paid into the Nuclear Waste Fund by owners and generators of spent nuclear fuel and high-level radioactive waste. The fees are not available for use until appropriated by Congress. Fees collected from domestic utilities are deposited into the Uranium Enrichment Decontamination and Decommissioning Fund. Funds in excess of those needed to pay current program costs are invested in Treasury Securities.



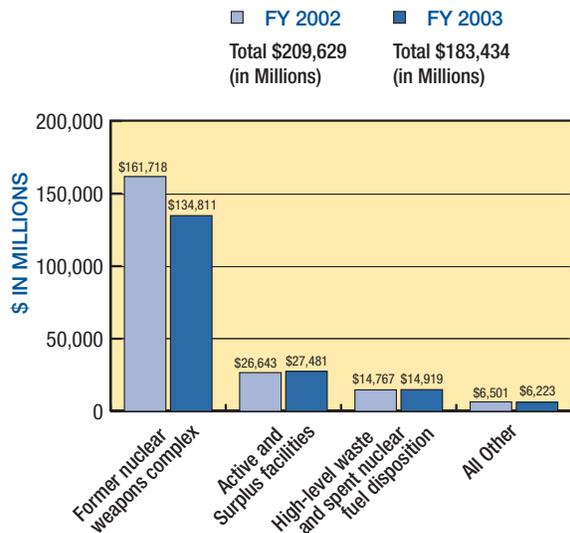
LIABILITIES



Major components of the Department's liabilities are:

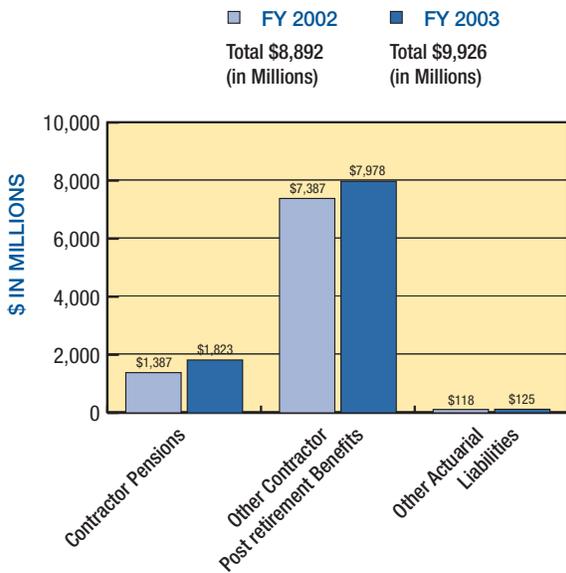
ENVIRONMENTAL LIABILITIES

The Department is cleaning up its sites that supported the Nation's production of nuclear weapons. In the past, the nuclear weapons complex generated large amounts of waste, which currently present one of the most technically challenging and complex environmental cleanups in the world. The environmental liabilities are the estimated future costs for cleanup and storage of waste. They decreased significantly in Fiscal Year 2003 due primarily to restructuring the cleanup program to focus on its core mission and accelerating cleanup.



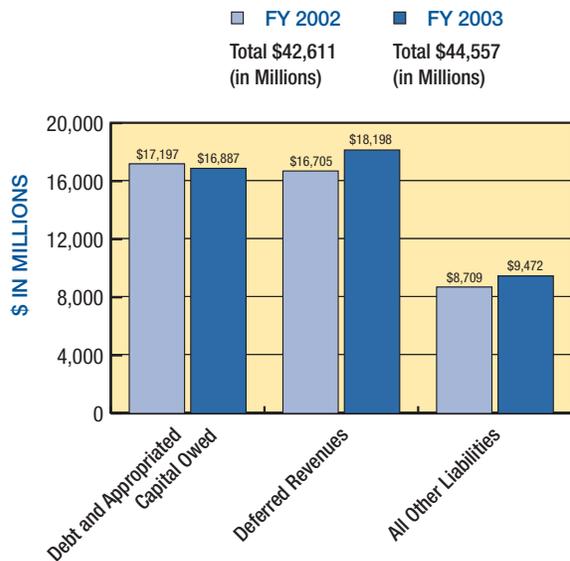
PENSIONS AND OTHER ACTUARIAL LIABILITIES

The Department's pension and other actuarial liabilities are related primarily to contractors managing and operating many of its facilities. Most of the contractors sponsor defined pension plans and other postretirement benefit plans, mainly health care, for which the Department reimburses the costs. Defined pension plan assets are held in a trust and accumulate earnings that offset the contributions required by the Employee Retirement Income Security Act. Other postretirement benefits are not required to be pre-funded and are paid on an as-you-go basis.



OTHER LIABILITIES

In addition to the liabilities described above, the Department has other liabilities for debt, appropriated capital owed, deferred revenues and other ongoing operations. The Department's debt and appropriated capital owed are related to the power marketing administrations' requirement to repay the government's investment in capital projects. Deferred revenues are predominantly Nuclear Waste Fund fees that are being held to pay the future costs of a permanent nuclear waste repository. The remaining liabilities are related to contingencies for litigation, accounts payable and other operational activities.



MANAGEMENT CONTROLS, SYSTEMS AND COMPLIANCE WITH LAWS AND REGULATIONS

This section of the report provides information on the Department's compliance with the:

- Federal Managers' Financial Integrity Act of 1982
- Federal Financial Management Improvement Act of 1996

This section also includes information on the Department's efforts to improve its operations through the actions it is taking to address:

- The President's Management Agenda
- Significant Issues Facing the Department
- Homeland Security Act of 2002
- Erroneous Payments

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982

The Federal Managers' Financial Integrity Act of 1982 requires that agencies establish management controls and financial systems to provide reasonable assurance that the integrity of Federal programs and operations is protected. Furthermore, it requires that the head of the agency provide an annual assurance statement on whether the agency has met this requirement and whether any material weaknesses exist. The Secretary's Fiscal Year 2003 annual assurance statement is included in his message at the beginning of this report.

In response to the Federal Managers' Financial Integrity Act, the Department developed a management control program which holds managers accountable for the performance, productivity, operations and integrity of their programs through the use of management controls. Annually, senior managers at the Department are responsible for evaluating the adequacy of the management controls surrounding their activities and determining whether they conform to the principles and standards established by the Office of Management and Budget and the General Accounting Office. The results of these management control evaluations and other senior management information are used to determine whether there are any problems to be reported as

material weaknesses. The Departmental Internal Control and Audit Review Council, the organization responsible for oversight of the management control program, makes the final assessment and recommendation to the Secretary for the Department. For Fiscal Year 2003, the Department identified no material weaknesses that place the overall control system at risk.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT

The Federal Financial Management Improvement Act of 1996 was designed to improve Federal financial management reporting by requiring that financial management systems comply substantially with three requirements: (1) Federal financial management system requirements; (2) applicable Federal accounting standards; and (3) the United States Government Standard General Ledger at the transaction level. Furthermore, the Act requires that the Independent Auditors' Report on the Department's financial statements state whether the agency's financial management systems comply with these requirements.

The Department evaluated its financial management system and determined that it generally conforms to these governmental financial system requirements. Additionally, the Independent Auditors' Report on the Department's Fiscal Year 2003 financial statements identified no instances in which the Department's financial management system did not substantially comply with the requirements. The Auditors' Report is located in the Financial Results section of this report.

THE PRESIDENT'S MANAGEMENT AGENDA

In 2001, the President introduced a bold new strategy for improving the management and performance of the Federal government. This strategy focuses on five government-wide areas where the opportunity to improve performance is the greatest. This initiative reflects the President's commitment to achieve immediate, concrete, and measurable results that matter to the American people.

The goal of the President’s Management Agenda is for Federal agencies to:

- Maximize the value of their human resources,
- Professionally and routinely determine how best to perform their commercial activities,
- Responsibly and timely account for resources and use financial information to make management decisions,
- Streamline the provision of many services to the public through e-government and manage their information technology programs at the highest levels, and
- Base budget and management decisions on programs’ effectiveness and efficiency.

To monitor efforts in implementing the President’s Management Agenda, the Administration developed a simple grading system – red, yellow, and green. Each quarter, the major Federal agencies receive assessments of their overall status in achieving the “Standards For Success” management milestones for each of the initiatives. Because achieving the overall goals of the

initiatives is challenging, and in some cases may require years, agencies also receive progress ratings for their work over the previous three months.

The Department’s ongoing implementation of the President’s Management Agenda is being accomplished through several initiatives. The Department’s Fiscal Year 2003 scorecard and highlights of our implementation are shown below.

SIGNIFICANT ISSUES FACING THE DEPARTMENT

The Department is continually striving to improve the efficiency and effectiveness of its programs and administrative activities. However, there are some specific areas within our operations that merit a higher level of focus and attention. These areas represent significant issues for the Department. The table on the following pages identifies the Department’s nine significant management issues for Fiscal Year 2003 and two previously reported issues that we will continue to address internally but, due to substantive actions taken, no longer merit reporting.

INITIATIVE	STATUS	PROGRESS	HIGHLIGHTS
HUMAN CAPITAL			The Department is executing a Human Capital Management Strategic plan that addresses all human capital standards and supports mission accomplishment. Completion of all major items is anticipated in 2004.
COMPETITIVE SOURCING			The Department initiated private-public competitions involving 1,180 Federal and 1,337 contractor positions, and completed 2 studies involving 21 Federal positions in Fiscal Year 2003. The remaining planned studies will be completed in 2004-05.
FINANCIAL PERFORMANCE			The Department’s 2002 financial statements received an unqualified audit opinion; its financial system is in general conformance with government-wide requirements; and no material weaknesses in management controls have been identified. Efforts to integrate financial and performance data to support day-to-day operations, decision-making, and performance management are ongoing.
E-GOVERNMENT			The Department has a Modernization Blueprint Enterprise Architecture and will be using it to ensure information technology investments improve performance. In addition, the Department is making progress in remediating information technology security weaknesses.
BUDGET & PERFORMANCE INTEGRATION			The Department issued a new strategic plan in September 2003 and developed a 2005 performance budget that fully aligns funding with its goals.



SIGNIFICANT ISSUE	ACTIONS TAKEN AND REMAINING	EXPECTED COMPLETION
<p>ENVIRONMENTAL CLEANUP:</p> <p>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>	<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:</p> <p>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>	<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:</p> <p>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>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>

SIGNIFICANT ISSUE

ACTIONS TAKEN AND REMAINING

EXPECTED COMPLETION

<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>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>In Fiscal Year 2003, a ten-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>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>

SIGNIFICANT ISSUE

ACTIONS TAKEN AND REMAINING

EXPECTED COMPLETION

<p>HUMAN CAPITAL MANAGEMENT:</p> <p>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 five 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>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>
<p>SAFETY AND HEALTH:</p> <p>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>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>

SIGNIFICANT ISSUE

ACTIONS TAKEN AND REMAINING

EXPECTED COMPLETION

<p>STOCKPILE STEWARDSHIP: Stewardship of the Nation's nuclear weapons stockpile is one of the most complex, scientificall-ly 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>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>
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SIGNIFICANT ISSUES CLOSED IN FY 2003

ACTIONS TAKEN

<p>PERFORMANCE MANAGEMENT: Improvements were needed to make performance goals, targets, and measures results driven, quantifiable or outcome oriented, and adequately integrated with budgets and decision making processes. Deficiencies in performance management processes were noted by the Department's Inspector General, the Office of Management and Budget, and Congress.</p>	<p>Departmental performance measure criteria have been established, formal training implemented, performance tracking software with expanded analytical capabilities implemented, a five-year program/budget review formally considering performance completed, and the Office of Management and Budget's Program Assessment Rating Tool evaluating the effectiveness of programs implemented. The Department's success in addressing this issue has been recognized by the Inspector General and performance management has been removed from his list of management challenges facing the Department.</p>
<p>FACILITIES AND INFRASTRUCTURE MANAGEMENT: The Department risked not being able to meet some of its mission objectives if the condition and functionality of its facilities were not addressed. Aging facilities had deteriorated due to insufficient maintenance and upgrades and were impacting the defense production mission and the performance of world-class science. In addition, poor conditions were resulting in increased safety and health risks and negatively influencing the Department's ability to retain its highly-skilled scientific and technical workforce. It was critical that the Department address facilities and infrastructure repair, replacement, upgrade, and long-term management in order to mitigate the deteriorating conditions.</p>	<p>Agency-wide requirements incorporating industry standards endorsed by the National Academies of Sciences and Engineering have been issued. The National Nuclear Security Administration has instituted ten-year comprehensive facility improvement plans, which have been integrated into the budget planning cycle, for each site in its complex. The Office of Science has implemented an initiative to define modernization needs, provide appropriate funding, and improve its facilities management practices. Funding requirements are being addressed in an infrastructure budget initiative instituted in Fiscal Year 2004. The Department's success in addressing this issue has been recognized by the Inspector General.</p>

HOMELAND SECURITY ACT OF 2002

The Homeland Security Act of 2002 created the Department of Homeland Security to prevent terrorist attacks within the United States and to reduce the vulnerabilities to terrorism. In accordance with the Homeland Security Act of 2002, the Department of Energy transferred certain functions to the Department of Homeland Security as of March 1, 2003. The specific functions transferred include:

- The National Infrastructure Simulation and Analysis Center;
- The chemical and biological national security and supporting programs, and activities of the nonproliferation and verification research and development program;
- The nuclear smuggling programs and activities within the proliferation detection program of the nonproliferation and verification research and development program;
- The nuclear assessment program and activities of the assessment, detection, and cooperation program of the international materials protection and cooperation program;
- Life sciences activities of the biological and environmental research program related to microbial pathogens;
- The Environmental Measurements Laboratory;
- The advance scientific computing research program and activities at Lawrence Livermore National Laboratory.

ERRONEOUS PAYMENTS

The Secretary of Energy is committed to the Administration's initiative to prevent and reduce erroneous payments. The Department has determined that none of its programs or activities are at risk of significant erroneous payments. The Department's erroneous payment rates for Fiscal Years 2002 and 2003 were below one percent of total payments.

The Department's erroneous payments risk analysis determined that it had no major benefit or entitlement programs, which are normally associated with high risks. The Department is monitoring all classes of its payments (administrative payments to contractors and grantees, employee purchases and travel, and employee payroll) in accordance with the Improper Payments Information Act.

	Fiscal Year 2002		Fiscal Year 2003	
	Dollars	Rate	Dollars	Rate
TOTAL PAYMENTS	\$23,587¹		\$22,695	
TOTAL ERRONEOUS PAYMENTS*	\$11¹	0.05%	\$14	0.06%

* The Department does not currently track under payments and over payments separately but plans to do so, as required, beginning in Fiscal Year 2004.

¹ Fiscal Year 2002 amounts were revised to reflect Office of Management and Budget criteria for erroneous payments