



Fermi National Accelerator Laboratory
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Director's Office

July 17, 2007

Dr. Joanna M. Livengood
Site Manager
Fermi Site Office
U.S. Department of Energy
P.O. Box 2000
Batavia, Illinois 60510

Dear Dr. Livengood,

SUBJECT: ASSURANCE STATEMENT - ADEQUACY OF INTERNAL CONTROL
AND ACCOUNTING SYSTEMS, CONTRACT
NO. DE-AC02-07CH11359

In response to your letter of July 3, 2007, requesting an assurance statement, I have considered all existing information relating to Fermilab management control systems and Fermilab financial management systems. On the basis of such consideration, I can reasonably assure you that internal controls for the management and financial systems are generally adequate and that the objectives of the systems are being accomplished. My assurances reflect the status of management controls as of the date of this letter. The financial management system at Fermilab complies with the requirements as contained in the Fermi Research Alliance LLP Contract DE-AC02-07CH11359 with the United States Department of Energy, and specifically Clause I.118 with respect to compliance with generally accepted accounting principles and Clause I.87 with respect to management controls. The concept of reasonable assurance recognizes that management controls must be cost effective, and there is always some potential for errors or irregularities to go undetected.

There are two significant issues that the DOE needs to be aware of with respect to the twelve criteria listed in Attachment 2 to DOE Order 413.1A, dated 04-18-02L:

1. On Tuesday, March 27, 2007 a Fermilab-built "inner triplet" of three focusing magnets and other associated components failed a high-pressure test in the tunnel of the Large Hadron Collider (LHC) under construction at CERN. You have been kept apprised of ongoing activities associated with analysis, repair and remediation efforts.
2. A review conducted by representatives of DOE's Life and Medical Sciences Division on July 12 & 13 raised serious concerns with some aspects of the Northern Illinois University performance of its Work for Others agreement with the lab. We will keep you informed as corrective actions are undertaken.

There were issues raised since the last assurance statement that require management attention and which are outlined below.

The information considered for the above assurances included financial reports, project management reports, budget and control reports, and internal and external audits. In relying on financial reports, I also considered that the Fermilab Accounting System complies with the DOE Order 534.1B (Accounting). Further consideration was given to Fermilab Accounting System's general compliance with the Department of Energy Accounting Handbook except where directly modified or countermanded by DOE directives and contract terms and conditions.

Specific consideration was given to the following audits, reviews, and actions performed subsequent to the last assurance statement:

- KPMG, LLP letter dated December 18, 2006, issued in conjunction with the FY06 audited financial statements of Fermilab reported no material weaknesses in internal controls under standards established by the American Institute of Certified Public Accountants. The letter made one new recommendation:

That procedures be established to review the year-end accruals for accuracy and completeness prior to preparing the financial statements. The Laboratory concurred with the recommendation and will improve our procedures during the FY07 year-end close.

The following recommendation from KPMG's FY05 letter was noted in the FY06 letter as partially implemented but not completed:

That plant and equipment construction in progress (CIP) be reviewed in detail by Accounting in order to "ensure the accuracy and proper classification of year end construction in progress and plant and equipment amounts, and the related depreciation expense." We concurred with the recommendation and completed the implementation in the first quarter of FY07.

- During the KPMG financial statement audit, management developed a determination that the depreciation expense misstatement in Fermilab's FY06 financial statements was immaterial. KPMG concurred with management's determination and issued an unqualified opinion on the Laboratory's FY06 financial statements.
- Internal Audit reports and other Internal Audit correspondence produced since the last assurance statement fully delineated the matters requiring management's attention. Only two findings related to formal audit reports issued during the period remain open, and progress is being made toward closure. The draft Annual Allowable Cost Review report (covering fiscal year 2006 costs) contains no significant findings. An area that has received significant audit coverage includes subcontracts subject to the Service

Contract Act (SCA). IA is in the planning stage of the Service Subcontract Administration audit. The scope will include tests of internal controls surrounding the administration of subcontracts subject to the SCA. It is being conducted as a type of follow up to prior internal audits.

- The Laboratory has updated its assessment of internal controls over financial reporting through the evaluation phase in accordance with DOE guidance, in conjunction with DOE's implementation of the requirements of Appendix A of OMB Circular A-123. An additional process, "Budget to Close", was documented and evaluated. Corrective Action Plans (CAPs) from the FY06 assessment have been resolved; no new CAPs arose from either the FY06 testing or the FY07 evaluation phase. The FY07 required testing has been contracted to Deloitte & Touche and is in process. A "controls rationalization" was conducted by Deloitte & Touche in FY07, optimizing the nature and number of controls that are subject to evaluation and testing each year.
- During October 2006, the URA Visiting Committee for Fermilab conducted an Administrative and Operations Support Review. The Committee made a recommendation to "finalize the necessary FLSA [Fair Labor Standards Act] changes" and "conduct a risk assessment for potential liability for back pay and fines" related to FLSA changes. This was completed in December 2006.

The following reviews cite issues related to financial and non-financial internal controls.

- The Computer Security program has received particular attention and is in compliance with the DOE Office of Science Program Cyber Security Plan. Technical, management and operational controls are in place and are continually re-evaluated and tested to assure that IT assets and applications are protected at the appropriate levels in accordance with documented risk assessments. A June 2006 IG audit of FISMA compliance resulted in one finding which requested that we review and reconsider the level of controls on our mass storage system. The 2007 audit is in progress. Preliminary indications are that the finding will not be closed.
- In the DOE Mid-Year Performance Appraisal for FY2007, concerns were raised about:
 - The Laboratory's quality assurance system, highlighted by the LHC triplet failure mentioned above. The Laboratory has developed an action plan, including engaging EG&G to perform a root-cause analysis which is in process.
 - Safety performance. In FY06 the steady improvement in the Laboratory's safety statistics, as measured by the TRC and DART

rates, stalled. Further, the trend to date in FY07 is an increase in these rates. This matter has the full attention of all levels of Fermilab management. We remain committed to improving our performance as we strive to meet the challenging standards DOE has established.

- Development of a credible NOvA project cost estimate. This effort is underway.
- DOE recently conducted a Facility Information Management System (FIMS) validation of Fermilab's Federal Real Property Council data field including the RPV and deferred maintenance methodology. No deficiencies were noted at the closeout meeting.

Other major management developments during the past year and challenges for the coming year include:

- The imminent turn-on of the Large Hadron Collider will present a major management challenge to the Laboratory in the next year as we strive to remain flexible and capitalize on our strengths in the face of an uncertain future. In addition, the schedule to construct the ILC will almost certainly be lengthier than the technically limited one. A Steering Group led by Deputy Director Young-Kee Kim is working to develop a strategic roadmap for the evolution of the accelerator-based HEP program, focusing on facilities at Fermilab that will provide discovery opportunities in the next two to three decades.
- The Laboratory is at the lowest level of personnel in decades while carrying the largest program ever: Running the Tevatron and neutrino beams, building up the ILC and related SCRF infrastructure, getting NOvA, DES, CDMS-25kg, and MINERVA going, and helping to commission the LHC. Accomplishing this program in the face of a very tight budget in FY08 will be a significant management challenge in the next year.
- Pursuant to the FRA contract proposal commitment, the Organization and Human Asset Plan (OHAP) is well underway. It has become clear that this project is larger than anticipated if it is to fulfill the intent of the contract proposal. As such the project is taking longer to complete than anticipated. Meeting the FRA contract proposal commitments will be a challenge for the Laboratory in the next year in the face of increasing program demands and tight budgets.
- Revitalizing the Laboratory's infrastructure is an ongoing challenge. We participated in the Office of Science SLI prioritization effort and three projects totaling \$76M are in the current SC plan. The first two of these are scheduled to begin in FY11.

- The Laboratory suffered a loss of a member of senior management and one of our "key personnel", with the unexpected death of David Gassman, Chief Legal Counsel, on Thursday, July 5, 2007. Gary Leonard, former Deputy Chief Legal Counsel, is currently Acting Chief Legal Counsel.

Overall, management controls are given a high priority at Fermilab and in light of the above issues extra attention has been and will be devoted to strengthening these controls.

Sincerely,



Piermaria Oddone
Director

PJO:csc

cc: FRA

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