cc to: Bruce
Alicia
Gary

Department of Energy
Fermi Site Office
Post Office Box 2000
Batavia, Illinois 60510

JUL 3 2007

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Fermilab - CFO Office

Dr. Piermaria J. Oddone, Director
Fermi National Accelerator Laboratory
P.O. Box 500
Batavia, IL 60510

Dear Dr. Oddone:

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

The Federal Managers' Financial Integrity Act (FMFIA) requires the Office of Science to report to the Secretary of Energy the status of its internal Control System, as outlined in the Department of Energy (DOE) Order 413.1A. In support, you are requested to submit your assurance memorandum that addresses the status of the Laboratory's system of internal controls and the status of your accounting systems in terms of compliance with DOE requirements. Please provide your written assurance that these management controls are working effectively, that program and administrative functions are performed in an economical and efficient manner consistent with applicable laws, and that assets are safeguarded against potential for waste, loss, mismanagement, unauthorized use or misappropriation. A detailed narrative is required supporting your conclusions. In the body of your memorandum, when you attest as to the status of your internal controls and financial management systems, you should refer to the appropriate clauses in the Contract and DOE requirements as the controlling evaluation standard, and DOE Order 413.1A as the controlling reporting standard, and not the FMFIA. Your accounting system should also be reviewed for compliance with the current DOE Order 534.1b. Any references to vulnerability ratings should be avoided.

Attached for your information and use is the guidance for the 2007 FMFIA process. The first three attachments contain information that is applicable to your areas of responsibility, and should be a part of your management control evaluation process and summary management review. The attachments are:

1. Significant Issues and Other Areas of Interest

2. Management Challenges Identified by the Office of the Inspector General and the General Accounting Office

3. Hot Topics

4. Summary Management Review Process Guidelines

The fourth attachment contains the DOE-CH FMFIA guidelines for your information.

The assurance memorandum should apply to the period subsequent to your last assurance letter. Since the 2007 FMFIA process is on an accelerated schedule, you will not certify the status as of the end of the fiscal year or September 30, 2007. Because the assurance memorandum is due prior to the end of the fiscal year, it needs to reflect the status of management controls as of the date it is signed. Please be sure your memorandum states this accordingly.

Please submit your memorandum to Kristin Palmer, of my staff, by July 17, 2007. If you have any questions, please contact Ms. Palmer at extension 4122.

Sincerely,

Joanna M. Livengood

Dr. Joanna M. Livengood
Site Manager

Enclosures:
As Stated

cc: B. Chrisman, w/encls.
C. Conger, w/encls.

Significant Issues

The Significant Issues as identified by the DOE are:

1. Environmental Cleanup
2. Nuclear Waste Disposal
3. Acquisition Process Management
4. Oversight of Contractors
5. Security
6. Project Management
7. Human Capital Management
8. Safety and Health
9. Stockpile Stewardship
10. Unclassified Cyber Security

Other Areas of Interest

1. Financial Oversight (Department-wide coverage)
2. Audited Financial Statement Findings
3. A-123 Implementation

GAO Challenge Areas

The Departmental Challenges as identified by the GAO are:

1. Cleanup of Radioactive and Hazardous Waste
2. Security Threats and Problems
3. Stockpile Management
4. Contract Management
5. Revitalize Infrastructure
6. Leadership in Meeting the Nation's Energy Needs

OIG Challenge Areas

The Departmental Challenges as identified by the OIG are:

1. Safeguards & Security
2. Environmental Cleanup
3. Stockpile Stewardship
4. Contract Management
5. Project Management
6. Cyber Security
7. Energy Supply

Hot Topics

Hot Topics are issues which currently are drawing a high level of attention. They may or may not have an impact on your area, but are provided here as information for your consideration.

This year, the Hot Topic list includes five components. They are:

1. **The President's Management Agenda** which include:

    1. Human Capital
    2. Competitive Sourcing
    3. Financial Performance
    4. E - Government
    5. Budget and Performance Integration
    6. Federal Real Property Asset Management

    For more information on any of these, go to
    www.whitehouse.gov/omb/budget/index.html

2. **Significant Issues** (provided in separate document).

3. The **IG and GAO Challenge Areas** (provided in separate document).

4. The **IG Watch List** which includes:

    1. Human Capital
    2. Worker and Community Safety
    3. Financial Management and Reporting

5. **Other Areas of Interest** (provided in separate document).

FOREWORD

The following guidelines describe the background, intent, and procedures of the Summary Management Review (SMR) process to be performed on your Group or Lab's management controls. This evaluation process is an essential prerequisite to preparing the annual assurance memo from the CH Manager to the DOE Secretary through the Office of Science as required by the Federal Managers' Financial Integrity Act (FMFIA).

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1. SUMMARY MANAGEMENT REVIEW - BACKGROUND

The Federal Managers' Financial Integrity Act of 1982 modified the Accounting and Auditing Act of 1950 to require all executive agencies to enhance the effectiveness of their systems of internal control and the conformance of their accounting systems to appropriate governmental standards. To ensure that this would occur, the Act requires each agency to conduct a yearly self assessment of their internal controls and, if applicable, their accounting system, develop correction plans for any internal control weaknesses and/or accounting system non-conformances discovered, and, by December 31st, forward a report to the President and Congress giving a evaluation of their internal control and accounting systems - including descriptions or and action plans for any problems found.

In support of this requirement, the CH Manager must submit an assurance memo to the DOE Secretary for the period just ended, which should include the following statement:

"The review included the consideration of the results of audit reports, internal management reviews, assurances from management and operating contractors under my cognizance, and all other known information. The results of the review indicate there is reasonable assurance that the management controls were working effectively and that program and administrative functions were performed in an economical and efficient manner consistent with applicable laws; property, funds and other resources were safeguarded against waste, loss, unauthorized use or misappropriation; obligations and costs were proper; and accountability for assets was maintained."

In order for the Manager to prepare the CH-wide assurance memo, each CH Group Manager must evaluate his/her Group's management controls and, usually by mid July, submit an assurance memo to the Manager that describes the results of the evaluation. If the Group Manager is aware of any "reportable problems" with their management controls (see definition in the following section), then an action plan must be submitted with the assurance memo for evaluation and possible inclusion with the CH Manager's memo to the Secretary.

The process that supports an organization's evaluation of its management controls is referred to as a Summary Management Review (SMR). The requirements of a SMR are described, from the Agency level perspective, in DOE Order 413.1, "Management Control Program", Chapter III, "Summary Management Review".

2. SUMMARY MANAGEMENT REVIEW - INTENT

Within CH, a Summary Management Review refers to the process performed by CH Managers during which they review and evaluate the functions and activities for which they are responsible to determine if each function or activity is performed within the framework of a system of management controls that meets the following standards as established by the Comptroller General:

- Reasonable Assurance. Internal control systems are to provide reasonable assurance that the objectives of the systems will be accomplished.
- Supportive Attitude. Managers and employees are to maintain and demonstrate a positive and supportive attitude toward internal controls at all times.
- Competent Personnel. Managers and employees are to have personal and professional integrity and are to maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal controls.
- Control Objectives. Internal control objectives are to be identified or developed for each agency activity and are to be logical, applicable, and reasonably complete.
- Control Techniques. Internal control techniques are to be effective and efficient in accomplishing their internal control objectives.
- Documentation. Internal control systems and all transactions and other significant events are to be clearly documented, and the documentation is to be readily available for examination.
- Recording of Transactions and Events. Transactions and other significant events are to be promptly recorded and properly classified.
- Execution of Transactions and Events. Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
- Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.
- Supervision. Qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved.
- Access to and Accountability for Resources. Access to resources and records is to be limited to authorized individuals, and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

Along with these technical or structural standards required of a Group's management controls, it is important to have a clear picture of what adequate management controls are intended to accomplish. The following statement is excerpted from OMB Circular A-123:

"The proper stewardship of Federal resources is a fundamental responsibility of agency managers and staff. Federal employees must ensure that government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with agency mission, in compliance with law and regulation, and with minimal potential for waste, fraud, and mismanagement."

A more specific description is excerpted from the 1982 FMFIA itself:

"...administrative controls of each executive agency shall be established in accordance with standards prescribed by the Comptroller General, and shall provide reasonable assurance that -

"(i) obligations and costs are in compliance with applicable law;

"(ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use or misappropriation; and

"(iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets."

3. SUMMARY MANAGEMENT REVIEW - PROCEDURE/PROCESS

The specific functions CH is responsible for evaluating and reporting on in the Manager's assurance memo to the Secretary are identified to us in a yearly memo from Headquarters, usually issued in mid to late April. Also identified in this memo are crosscutting issues, that is, functions that may not be associated with a particular B&R#, along with a number of "hot topics", i.e., problem areas reported by the Secretary in last year's assurance memo. This information is subsequently identified to the responsible CH management control evaluation officials as part of the CH CFO's memorandum announcing the beginning of the current fiscal year's management control evaluation and reporting cycle.

As initiated by the CFO's memo, and in accordance with these guidelines, each organization's SMR evaluation process should begin with a clear understanding among all the involved persons of the fundamental management control system standards and objectives as described in the preceding section. Then, as each specific function of your Group or Lab is evaluated, along with any pertinent crosscutting issues and/or "hot topics", specific aspects should be considered: the intended outcome of the functions or activity under scrutiny; the specific resources required; the information and product inputs and outputs; the relationships with other CH and external suppliers, customers, and stakeholders; and the specific management control objectives of the function or activity, the identified risks to achieving these objectives, and the efficiency and effectiveness of the offsetting management controls.

The review and evaluation of the management controls of a specific function or activity of your Group should be primarily based on the day-to-day knowledge of the operating and control environment - a knowledge that should include awareness of and concern for the efficiency and effectiveness of each function or activity's management controls - and supplemented with a review of existing documentation which should reiterate or complement specific day-to-day knowledge.

Such documentation may include the following:

- Organization chart(s)
- Mission and function statement(s)
- Management control documentation: objectives, risks, offsetting controls
- Business plans
- Pertinent statutes
- DOE Orders and regulations
- Treasury, GSA, or other regulations
- Standard operating procedures
- Flowcharts and/or written narratives of processes
- Personnel data (nonsensitive)
- Relevant operating reports
- Current budget and approved funding programs
- Significant audit and evaluation reports
- Prior fiscal year's Group/Lab assurance memo to CH Manager
- Prior fiscal year's CH Assurance memo from Manager to DOE Secretary

After combining day-to-day knowledge with a review of existing information, your Group must determine whether any perceived deficiencies with your management controls qualify as "reportable problems" to the CH Manager.

A reportable management control problem is a serious matter, and should already be known to your Group Manager as a result of day-to-day knowledge and monitoring. A perceived management control deficiency can be considered a "reportable problem" to the CH Manager if, in your Group Manager's view, it appears to:

- Substantially impair your Group or Lab's mission and/or the mission of another CH element;
- Violate significant statutory or regulatory requirements;
- Substantially weaken safeguards against waste, loss, unauthorized use, and misappropriation of funds or other assets;
- Result in a conflict of interest;
- Create adverse publicity that affects your Group's credibility, and/or the credibility of another CH element or CH at large.
- Merits the attention of senior DOE management, the Secretary, Congressional Oversight Committees or the Executive Office of the President;
- Exists in a majority of CH programs, administrative functions, and/or organizations and can cause harm, even though minor individually, because the aggregate is significant;
- Risks or results in the actual loss of either $10 million or 5% of the resources of a budget line item;
- Could reflect adversely on the management integrity of your Group and/or other CH elements or CH at large if not reported;
- Endangers national security; and/or
- Has received significant adverse audit coverage.

If the evaluation of an organization's management controls yields a reportable management control problem, then the reporting organization must prepare a formal action plan describing local actions that are expected to correct the problem. Note that an action plan must only include actions that can be effected by the reporting organization using techniques and resources available to them.

A standardized action plan format has been established by Headquarters, and is described in Chapter V of DOE Order 413.1.

4. REPORTING THE RESULTS OF THE SMR EVALUATION PROCESS

After the management control evaluations have been concluded, and any required action plans prepared, a memo must be prepared to the attention of the CH Manager reporting on the results. The memo should follow the following format, as, of course, appropriate:

1. Use the following statement in the SUBJECT line:

   "Federal Managers Financial Integrity Act (FMFIA) FY XX Assurance Memorandum"

2. Begin with a comment regarding the status of any open corrective actions plans you may have initiated in prior fiscal years.

3. Identify the specific functions, any crosscutting areas, and any "Hot Topic" areas encompassed by your Office's responsibility, and provide an assurance concerning the status of the relevant controls.

4. Include, if appropriate, an executive summary description of any reportable problems concerning your Group's management controls. A copy of an action plan should be attached to your memo for all new and still open reportable problems. Chapter V of DOE Order 413.1 describes the required content and format of "action plans".

5. Do not include a detailed identification of the resources and methods used during your evaluations of your management control system. This sort of evidentiary/supportive material is not used as part of the CH Assurance memo preparation process. It should be retained in your Group's FMFIA files.

5. DOCUMENTING THE FMFIA REVIEW AND EVALUATION PROCESSES

After the preparation of your Group or Lab's assurance memo to the CH Manager, with, if required, a reportable problem action plan, the review processes supporting the assurances provided in these documents must be adequately documented.

This documentation need not be lengthy: it should be adequate to evidence:

- o That appropriate reviews were conducted,
- o What information was used to support your Group's evaluations; and
- o The rationale for the conclusions reached.

In determining the extent of this descriptive documentation, you are not required to submit exhaustive documentation. Detailed documentation should be retained which you feel is adequate to support your evaluations.

It is the responsibility of the Group's Management Control Representative to maintain **all** documentation relating to the Group/Lab's yearly FMFIA efforts.