



**Department of Energy**  
Western Area Power Administration  
P.O. Box 281213  
Lakewood, CO 80228-8213

**AUG 21 2006**

MEMORANDUM FOR THE SECRETARY

THRU: THE DEPUTY SECRETARY

FROM: MICHAEL S. HACSKAYLO *Michael S. Hacskaylo*  
ADMINISTRATOR

SUBJECT: Management Control and Financial Management System

In accordance with the Federal Managers' Financial Integrity Act (FMFIA), we have completed a summary management review of the management controls for the Western Area Power Administration (Western) in effect as of August 14, 2006. We performed the review in conformity with Departmental guidelines and accordingly included a review of whether the management controls comply with underlying management principles which incorporate the Government Accountability Office's *Standards for Internal Controls in the Federal Government*. The review included consideration of the results of audit reports, internal management reviews, assurances from management under my cognizance, and all other known information. In addition, the review considered the areas of environmental management, non-nuclear safety management, and information systems management. The review did not include separate FMFIA assessments related to financial management activities, including reimbursables, budget, and finance and accounting, since we completed more comprehensive assessments of these activities in accordance with OMB Circular A-123, Appendix A.

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, or unauthorized use or misappropriation; obligations and costs were proper; and accountability for assets was maintained. 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. The review did not disclose any reportable problems.

We also completed an evaluation of our financial management system in accordance with Department of Energy guidelines. The results of the review indicate that the system generally conforms with Federal financial management system requirements. However, the FY 2006 Summary Financial Management Review and the FY 2005 Financial Statement Audit disclosed that Western's financial system's internal controls could be more robust. Areas that must be addressed include the timely recording of certain construction-in-progress and plant entries, outstanding differences from the reconciliation of our power repayment studies and financial statements, and the

inability of generating agencies to provide reports in a timely manner of their power-related data needed by Western to produce our combined financial statements.

The attachments to this report contain the plans and schedules for correcting reportable non-conformances of our management control system and our financial management system.

#### Attachments

cc:

Chief Financial Officer, CF-1

ATTN: R. Heller, Germantown, MD

2006 Index and Crosswalk  
Western Area Power Administration

| PROGRAM/ADMINISTRATIVE<br>FUNCTION | TITLE | HQ<br>ORG | OPEN/<br>CLOSED | ATTACHMENT<br># |
|------------------------------------|-------|-----------|-----------------|-----------------|
|------------------------------------|-------|-----------|-----------------|-----------------|

New Action Plan for FY 2006 Assurance Memorandum:

|                        |   |     |      |                 |
|------------------------|---|-----|------|-----------------|
| Finance and Accounting | FY 2005 Financial Statement Audit                                   | CFO | Open | Attachment<br>A |
| Finance and Accounting | FY 2006 Summary Financial<br>Management System Evaluation <b>1/</b> | CFO | Open | Attachment<br>B |
| Finance and Accounting | FY 2006 Summary Financial<br>Management System Evaluation<br>Issues | CFO | Open | Attachment<br>C |

Action Plans Submitted With FY 2005 Assurance Memorandum:

|                        |   |     |        |     |
|------------------------|---|-----|--------|-----|
| Finance and Accounting | FY 2004 Financial Statement Audit                               | CFO | Open   | N/A |
| Finance and Accounting | FY 2005 Summary Financial<br>Management System Review <b>1/</b> | CFO | Closed | N/A |

Action Plans Submitted With FY 2004 Assurance Memorandum:

|                        |                                   |     |      |     |
|------------------------|-----------------------------------|-----|------|-----|
| Finance and Accounting | FY 2003 Financial Statement Audit | CFO | Open | N/A |
|------------------------|-----------------------------------|-----|------|-----|

- 1/** Some of the same issues and milestones from the FY 2002 through FY 2005 Summary Financial Management System Reviews are carried forward in the FY 2006 Summary Financial Management System Review.

ACTION PLAN  
Western Area Power Administration  
August 14, 2006

TITLE: FY 2005 Financial Statement Audit

ACTION PLAN: REPORTABLE PROBLEM \_\_\_ REPORTABLE NONCONFORMANCE X.

HEADQUARTERS ORGANIZATION: Chief Financial Officer, CF-1

PROGRAM AND ADMINISTRATIVE FUNCTION: Finance and Accounting

DESCRIPTION: Western's FY 2005 financial statement audit determined that some previously reported findings continue from FY 2004. FY 2005 audit findings include the following;

- 1) Supervisory Reviews – Financial statements should be reviewed by appropriate levels of management to identify any significant and/or unusual adjustments and such adjustments should be reviewed to determine that they are properly supported, documented and approved (see page 3, numbers 1 and 2).
- 2) Untimely Transfer of Completed Construction in Process Projects – Completed construction in process projects continue to be transferred in an untimely manner to completed plant, resulting in significant interim and year-end audit adjustments (see page 3, numbers 3 and 4).
- 3) Manual and Audit Instance Adjustments – Historically a high degree of dependence has been placed upon utilization of the audit instance as well as a large number of non-routine manual entries booked to the production instance, the process of loading the audit instance, including reversals of the audit instance in the subsequent period, is subject to human error, and errors have been noted in the posting of manual journal entries, which would indicate a lack of thorough and complete reviews prior to posting (see page 3, number 5).
- 4) Financial Reporting of Inter-company and Inter-agency Power Sales – Due to multiple financial reporting requirements there are certain transactions that are included or excluded from particular reports (see pages 3 and 4, numbers 6 and 7).
- 5) Generating Agencies Financial Reports – Obtaining timely and accurate financial information from the generating agencies continues to require Western to expend a significant amount of monetary and human resources to complete the combined power system financial statements (see pages 3 and 4, numbers 8, 9, and 10).
- 6) Non-routine Accounting Transactions – Transfers of revenues between Western and the Generating Agencies occur as a result of billing arrangements and recovery of cost associated with activities of various projects. The recording of these transfers have resulted in significant annual adjustments due to the use of inaccurate estimates and untimely completion (see page 4, number 11).
- 7) Recovery of Power System Costs – Legislation requires Western to establish rates and generate annual power revenues at levels adequate to recover annual operating costs and interest on Federal investment. Reconciling differences have been identified in the various power systems throughout Western that represent differences between the properly adjusted audited financial information and the financial data utilized in the PRS for developing rates (see page 4, number 12).

ASSESSMENT OF PROGRESS: In FY 2006, Western implemented and strengthened reconciliations, analytics, and tie-point analysis. Some of these procedures have been

automated and others have been manually developed and refined. Additionally, others are in development in conjunction with the information technology office. More supervisory oversight has also been applied to this effort. While not yet fully implemented, Western has made progress in improving its internal controls over processes during the year through more timely revenue reconciliations and closer coordination within the financial community to clean up historical accounting issues. This effort is expected to reduce the volume of year-end adjustments. Western has also placed an increased focus on management review of its receivable process, write-offs, and balances. Additionally, Western has begun to examine its use of the standard general ledger and make structural changes that should result in increased efficiency and improved accuracy of financial data.

| CRITICAL MILESTONE:   | ORIGINAL MILESTONE COMPLETION MONTH/YEAR | REVISED OR ACTUAL COMPLETION MONTH/YEAR |
|---|--|---|
| 1. All material or unusual adjustments will be brought to the attention of management. This increased level of scrutiny will be documented in the journal voucher procedures (see page 2, number 1).  | 1/06                                     | 1/06                                    |
| 2. Ensure that management reviews the complete financial statement packet prior to releasing it to the auditors (see page 2, number 1).   | 1/06                                     | 1/06                                    |
| 3. Promote timely transfers in the future of completed projects to the accounting system by implementing policy that will define responsibilities and the timeline for movement of completed construction to plant accounts (see page 2, number 2).                                   | 9/05                                     | 8/05                                    |
| 4. A corporate data repository (CDR) is being developed to assist and support balances in the general ledger module (see page 2, number 2).   | 9/06                                     | 8/06                                    |
| 5. A corporate data repository (CDR) is being developed to replace the accounting system audit instance. This CDR will allow us to permanently post financial statement adjustments and review them for their impact prior to the end of the reporting period (see page 2, number 3). | 9/05                                     | 6/05                                    |
| 6. Revise the set up in BIDSS to recognize and ensure consistent treatment of federal activity when it is part of the marketing plan (rate setting process) (see page 2, number 4).   | 9/05                                     | 5/06                                    |

| CRITICAL MILESTONE:  | ORIGINAL MILESTONE COMPLETION MONTH/YEAR | REVISED OR ACTUAL COMPLETION MONTH/YEAR |
|--|--|---|
| 7. Intra-entity sales/purchases will be identified by a unique date element in BIDSS which will be used to query BIDSS and eliminate intra-entity activity on the income statement (see page 2, number 4). | 3/06                                     | 2/06                                    |
| 8. Develop a Memorandum of Understanding that addresses the financial reporting requirements of both Western and Reclamation and will better define roles and responsibilities (see page 2, number 5).     | 12/05                                    | 12/06                                   |
| 9. Explore every opportunity to exercise additional control over the data it receives from Reclamation (see page 2, number 5).   | 9/05                                     | 6/06                                    |
| 10. Initiate quarterly reviews of BOR data (see page 2, number 5).   | 9/06                                     | 9/07                                    |
| 11. Develop and apply procedures to ensure timely posting of revenue transfers (see page 2, number 6).   | 9/05                                     | 09/07                                   |
| 12. Reconcile the majority of outstanding crosswalk differences (see page 2, number 7).  | 9/05                                     | 9/06                                    |
| 13. Review and enhance internal controls. (Reported in FY 2005 as part of the FY 2004 Summary Financial System Evaluation), (See FY 2006 Financial System Evaluation).                                     | 9/03                                     | 9/06                                    |

SUCCESS INDICATORS FOR CLOSED CORRECTIVE ACTION PLANS: N/A.

Is plan closed? \_\_\_ Yes \_\_\_X\_\_\_ No, not applicable.

SIGNATURE: \_\_\_\_\_  
NAME: Harrison G. Pease  
TITLE: Chief Financial Officer  
DATE: August 18, 2006

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  | Yes | No   | N/A |
|--|-----|------|-----|
| <u>EVALUATE SYSTEM ANNUALLY.</u> The financial management system must be evaluated annually to determine conformance with the principles and standards established by the Comptroller General and the requirements of OMB Circular A-127.  |     |      |     |
| <u>Consider Existing Information.</u> Managers should consider existing information when conducting their evaluation. If the answer is "no" to any of the questions below, nonconformance issues should be listed on Attachment A.   |     |      |     |
| 1. The financial system is required to comply with <u>GAO Policy and Procedures Manual for Guidance of Federal Agencies</u> . Specifically, financial systems shall incorporate the applicable requirements contained in Title 2, "Accounting"; Title 6, "Pay, Leave, and Allowances"; and Title 7, "Fiscal Procedures of the GAO Policies and Procedures Manual". |     |      |     |
| 1.1 <u>Title 2, Accounting.</u> The law requires that systems of accounting and internal control must conform to the accounting principles, standards, and related requirements and internal control standards prescribed by the Comptroller General.  |     |      |     |
| 1.1.1 - <u>Accounting Principles and Standards.</u>  |     |      |     |
| 1.1.1.1 - Does the system properly control the allocation of resources?  | X   |      |     |
| 1.1.1.2 - Does the system assess management performance and stewardship?   | X   |      |     |
| 1.1.2 - <u>Internal Control Standards.</u> Do the internal controls support the following general and specific standards:  |     |      |     |
| 1.1.2.1 - Reasonable Assurance.<br><br>1/ The FY 2005 audit identified areas where internal controls could be more robust. Western has made significant progress in addressing/ correcting system internal control weaknesses. However, until all material weaknesses have been corrected, Western will not assert complete compliance.                            |     | X 1/ |     |
| 1.1.2.2 - Supportive Attitude.   | X   |      |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
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|  | Yes | No   | N/A |
|--|-----|------|-----|
| 1.1.2.3 - Competent Personnel.   | X   |      |     |
| 1.1.2.4 - Control Objectives (objectives are to be identified or developed for each activity).   | X   |      |     |
| 1.1.2.5 - Control Technique (internal controls are to be effective and efficient).   |     | X 1/ |     |
| 1.1.2.6 - Documentation (internal controls are to be documented).  | X   |      |     |
| 1.1.2.7 - Recording of Transactions and Events (record promptly and properly classified).<br><br>2/ Certain construction in progress and plant entries are not recorded promptly in the system.                              |     | X 2/ |     |
| 1.1.2.8 - Execution of Transactions and Events (authorized and executed only by persons acting within the scope of their authority).   | X   |      |     |
| 1.1.2.9 - Separation of Duties.  | X   |      |     |
| 1.1.2.10 - Supervision.  | X   |      |     |
| 1.1.2.11 - Access to and Accountability of 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). | X   |      |     |
| 1.1.3 - <u>Accounting System Standards</u> . Note: these are addressed throughout this questionnaire.  |     |      |     |
| 1.2 <u>Title 6, Pay, Leave, and Allowances</u> .<br><br>Responses are based on Western's current provider, the DFAS.   |     |      |     |
| 1.2.1 - Are policies and procedures documented, updated promptly, uniform, reflect clear assignments of responsibility, and distributed to payroll operations staffs?  | X   |      |     |
| 1.2.2 - Are personnel engaged in pay, leave, and allowance activities adequately trained, supervised, efficient and effective, and are inconsistencies promptly identified and corrected?                                    | X   |      |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|   | Yes | No | N/A         |
|---|-----|----|-------------|
| 1.2.3 - Are required internal and external reports accurately and promptly prepared and distributed to appropriate recipients to ensure receipt when information will be of maximum benefit?  | X   |    |             |
| 1.2.4 - Does the payroll system interact as efficiently and effectively as practical with other related systems (personnel, general ledger, cost accounting, and other financial management systems as necessary)?  | X   |    |             |
| 1.2.5 - Agencies must establish appropriate internal controls over payroll operations which will include, but not limited to, the following items:  |     |    |             |
| 1.2.5.1 - Are controls in place which will help ensure that payroll documents processed are correct, complete, accurate, and properly authorized?   | X   |    |             |
| 1.2.5.2 - Are controls in place which help ensure that computerized payroll operations process transactions and produce reports accurately?<br><br><b>3/</b> Western relies on existing DFAS payroll system controls.   |     |    | X <b>3/</b> |
| 1.3 <u>Title 7, Fiscal Guidance.</u>  |     |    |             |
| 1.3.1 - By means of the accounting system's coding and classification structure, is the system able to summarize and report their financial data in both proprietary and budgetary terms, and on either a consolidated basis or by individual appropriation or fund account?  | X   |    |             |
| 1.3.2 - Obligations:  |     |    |             |
| 1.3.2.1 - Are appropriate controls in place to ensure that all obligations entered into, including interagency transfers for reimbursable work, are made in accordance with law and are documented, recorded, and reported as required by law? Such procedural controls should be integrated with agency budgetary and accounting fund control systems? | X   |    |             |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
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|   | Yes | No | N/A |
|---|-----|----|-----|
| 1.3.2.2 - Does the system prevent obligations from exceeding the amounts of appropriations, statutory limitations, apportionments, or administrative subdivisions thereof?  | X   |    |     |
| 1.3.2.3 - Does the system allow for all obligations to be promptly charged against the applicable appropriations to meet the requirements for control of funds, essential management information, and the preparation of financial statements and required reports? | X   |    |     |
| 1.3.2.4 - Does the system allow for the recording of contingent liabilities when they materialize?  | X   |    |     |
| 1.3.3 - Year-End Closing of Accounts. General requirements for adjusting and closing current and expired account balances for appropriations are in 31 U.S.C 1551-1558.   |     |    |     |
| 1.3.3.1 - Does the system allow for year-end closing of accounts for fixed period appropriations, no-year appropriations, and appropriations affected by contract protests?   | X   |    |     |
| 1.3.4 - Collections. All officers and employees of the U.S. government who receive moneys on account of or for the custody of the United States shall maintain proper records and provided adequate physical control over such funds.                               |     |    |     |
| 1.3.4.1 - Are collections placed under appropriate accounting control promptly upon receipt?  | X   |    |     |
| 1.3.4.2 - Is there proper separation of duties for persons responsible for handling cash receipts?  | X   |    |     |
| 1.3.4.3 - Are collections deposited according to the procedures prescribed by Treasury (TFM, Vol. 1, part 5, chpt 2000)?  | X   |    |     |
| 1.3.4.4 - Are collections credited to appropriation and fund accounts promptly?   | X   |    |     |
| 1.3.4.5 - Are collections received by one agency for another agency deposited by the  | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  | Yes | No | N/A |
|--|-----|----|-----|
| collecting office for credit to its suspense or budget clearing account (TFM, Vol 1, part 5, chpt 3000)?   |     |    |     |
| 1.3.5 - Disbursements.   |     |    |     |
| 1.3.5.1 - Do system controls ensure that amounts paid by the disbursing/certifying officers were in accordance with the payment information certified to them on vouchers or voucher schedules?    | X   |    |     |
| 1.3.5.2 - Are disbursements promptly recorded in the proper accounts of the agencies and reported in accordance with Treasury regulations?   | X   |    |     |
| 1.3.5.3 - Is the agency adhering to the Prompt Payment Act?  | X   |    |     |
| 1.3.5.4 - Do the internal controls of disbursement provide for separation of duties, prevention of duplicate payments, and prevention of payments to closed accounts?                              | X   |    |     |
| 1.3.5.5 - Is the agency using information contained in the Central Contractor registration (CCR) as the source for making payment to vendors?  | X   |    |     |
| 1.3.5.6 - Is the agency using the Intra Governmental Transaction Exchange (IGTE) Portal in its IPAC transactions?  | X   |    |     |
| 1.3.6 - <u>Use of Credit Cards for Purchases</u> . The agency should establish appropriate procedures and controls over credit card use to minimize the risk of loss, theft, and unauthorized use. |     |    |     |
| 1.3.6.1 - Is the issuance of credit cards limited to appropriate personnel?  | X   |    |     |
| 1.3.6.2 - Is initial and recurring training provided to credit card users and documentation of training kept on file?  | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  | Yes | No | N/A |
|--|-----|----|-----|
| 1.3.6.3 - Are all purchases reviewed by approving officials to determine if they are allowable and appropriate?  | X   |    |     |
| 1.3.6.4 - Are policies up to date and include DOE guidelines?  | X   |    |     |
| 1.3.6.5 - Are procedures in place to prevent card users from exceeding their delegated single purchase threshold and cycle limit?  | X   |    |     |
| <b>Consider Financial Management System Requirements.</b> The integrated financial management system shall comply with OMB Circular A-127. Per A-127: The term "information system" means the organized collection, processing, transmission, and dissemination of information in accordance with defined procedures, whether automated or manual. Information systems include non- financial, financial, and mixed systems as defined in this Circular. |     |    |     |
| <b>2. Financial Information Classification Structure.</b> The design of the system shall reflect a financial information classification structure that is consistent, provides for tracking of expenditures, and covers financial information.   |     |    |     |
| 2.1 Is the information classification structure consistent with the U.S. Government Standard General Ledger?   | X   |    |     |
| 2.2 Does the design provide for tracking of specific program expenditures?   | X   |    |     |
| 2.3 Does the design cover financial and financially related information?   | X   |    |     |
| 2.4 Is data redundancy minimized by the structure?   | X   |    |     |
| 2.5 Does the structure ensure that consistent information is collected for similar transactions?   | X   |    |     |
| 2.6 Are consistent formats for entering data directly into the financial management systems encouraged by the structure?   | X   |    |     |
| 2.7 Does the structure ensure that consistent information is readily available and provided to internal managers at all levels?  | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|      |   | Yes | No   | N/A |
|------|---|-----|------|-----|
| 2.8  | Does the system's design provide consistent information for budget formulation and budget execution?  | X   |      |     |
| 2.9  | Is consistent information available from the system for programmatic and financial management?  | X   |      |     |
| 2.10 | Does the system design provide consistent information for performance measurement?  | X   |      |     |
| 2.11 | Does the system's design provide consistent information for financial statement preparation?  | X   |      |     |
| 3.   | <u>Integrated Financial Management Systems.</u> The system shall be designed to provide for effective and efficient interrelationships.   |     |      |     |
| 3.1  | Does the system design provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the system?<br><br><b>4/</b> The COTS package implemented by Western has room for improvement. Specifically, the relationship between system modules and the General Ledger could be improved. In addition, the reporting (required, operational) and budget formulation functions of the system need additional work. |     | X 4/ |     |
|      | <u>Common Data Elements.</u> Standard data classifications shall be established and used for recording financial events.  |     |      |     |
| 3.2  | Are standard data classifications (definitions and formats) established and used for recording financial events?  | X   |      |     |
| 3.3  | Are common data elements used to meet reporting requirements?   | X   |      |     |
| 3.4  | To the extent possible, are common data elements used throughout the system for collection, storage and retrieval of financial information?   | X   |      |     |
| 3.5  | Are government wide information standards (e.g., the U.S. Government Standard General Ledger) and other external reporting requirements incorporated into the system's data classification requirements?  | X   |      |     |
|      | <u>Common Transaction Processing.</u> Common processes shall be used to enable similar transactions to be reported in a consistent  |     |      |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  |   | Yes  | No   | N/A |
|--|---|------|------|-----|
| manner.  |   |      |      |     |
| 3.6  | Are common processes used for processing similar kinds of transactions throughout the system?   | X    |      |     |
| <u>Consistent Internal Controls.</u> Internal controls shall be applied consistently to ensure the validity of information and protection of Federal government resources. |   |      |      |     |
| 3.7  | Are internal controls over data entry applied consistently throughout the system?   | X    |      |     |
| 3.8  | Are internal controls over transaction processing applied consistently throughout the system?   | X    |      |     |
| 3.9  | Are internal controls over reporting applied consistently throughout the system?-   | X    |      |     |
| 3.10   | Does the system of internal controls ensure resource use is consistent with laws, regulations, and policies?                                    | X    |      |     |
| 3.11   | Do the internal controls of the system ensure resources are safeguarded against waste, loss, and misuse?  | X    |      |     |
| 3.12   | Does the system of internal controls ensure that reliable data is obtained, maintained, and disclosed in reports?                               | X    |      |     |
| 3.13   | Are appropriate internal controls applied to all system inputs, processing, and outputs?  | X    |      |     |
| 3.14   | Are established internal control procedures promoted by upper management and followed consistently?   | X    |      |     |
| 3.15   | Are systems maintained and operated by competent well trained staffs?   | X    |      |     |
| 3.16   | Are transactions properly documented?   | X    |      |     |
| 3.17   | Is information captured in the financial management system simultaneously or immediately following the event with which the data is associated? |      | X 2/ |     |
| 3.18   | Is final corrected data made available in time to meet external reporting requirements?   | X 5/ |      |     |
| 5/ Western relies on receiving data from non-DOE agencies for certain external requirements and cannot   |   |      |      |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
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|   | Yes | No | N/A |
|---|-----|----|-----|
| control their submission.   |     |    |     |
| 3.19 Are transactions authorized and executed only by persons acting within the scope of their authority?   | X   |    |     |
| 3.20 Are the functions of initiating, authorizing, performing, processing, recording, and reviewing transactions assigned to different individuals?   | X   |    |     |
| 3.21 Is access to resources and records limited to authorized individuals?  | X   |    |     |
| 3.22 Are financial management systems and operating personnel supervised by qualified individuals?  | X   |    |     |
| 3.23 Is the accountability for the custody and use of resources assigned and the records thereof maintained?  | X   |    |     |
| 3.24 Are audit findings and recommendations evaluated promptly?   | X   |    |     |
| 3.25 Are proper actions determined in response to audit findings and recommendations?   | X   |    |     |
| <u>Efficient Transaction Entry.</u> System design shall eliminate unnecessary duplication of transaction entry.   |     |    |     |
| 3.26 Wherever appropriate, is data needed by the system to support financial transactions entered only once?  | X   |    |     |
| 3.27 Are other parts of the system updated electronically consistent with timing requirements of normal business/transaction cycles?  | X   |    |     |
| 4. <u>Application of the U.S. Government Standard General Ledger (SGL) at the Transaction Level.</u> Financial events shall be recorded throughout the system by applying the requirements of the SGL at the transaction level. |     |    |     |
| 4.1 Does the system process transactions following the definition and defined uses of the general ledger accounts as described in the SGL?  | X   |    |     |
| <u>Data in Financial Reports Consistent with the SGL.</u> Reports produced by the system shall provide financial data that can be traced to the SGL accounts.   |     |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  | Yes | No | N/A |
|--|-----|----|-----|
| 4.2 Do system produced financial information reports, whether used internally or externally, provide financial data that can be traced directly to the SGL accounts?   | X   |    |     |
| <u>Transactions Recorded Consistent with SGL Rules.</u> The criteria for recording financial events shall be consistent with defined SGL definitions and rules.  |     |    |     |
| 4.3 Is the criteria (e.g., timing, processing rules/conditions) for recording financial events in the system consistent with accounting transaction definitions and processing rules defined in the SGL?   | X   |    |     |
| <u>Supporting Transaction Detail for SGL Accounts Readily Available.</u> Transaction detail for SGL accounts shall be available and traceable to specific account codes.   |     |    |     |
| 4.4 Is transaction detail supporting SGL accounts available in the system and directly traceable to specific SGL account codes?  | X   |    |     |
| 5. <u>Federal Accounting Standards.</u> The system shall maintain accounting data to permit reporting in accordance with accounting standards.   |     |    |     |
| 5.1 The system should maintain accounting data in a manner to permit reporting in accordance with accounting standards recommended by the Federal Accounting Standards Advisory Board (FASAB) and issued by the Director of OMB and/or the Secretary of the Treasury. This standard applies to the following statements: |     |    |     |
| Statement 1 - Account for Selected Assets and Liabilities  | X   |    |     |
| Statement 3 - Accounting for Inventory and Related Property  | X   |    |     |
| Statement 4 and 9 - Managerial Cost Accounting Concepts and Standards  | X   |    |     |
| Statement 5 - Accounting for Liabilities of the Federal Government   | X   |    |     |
| Statements 6, 11, and 16 - Accounting for Property, Plant, and Equipment   | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
JULY 26, 2006

|  | Yes | No | N/A |
|--|-----|----|-----|
| Statements 7, 13, 20, 21, and 22 - Accounting for Revenue and Other Financial Sources  | X   |    |     |
| Statement 10 - Accounting for Internal Use Software  | X   |    |     |
| Statement 12 - Recognition of Contingent Liabilities from Litigation   | X   |    |     |
| Statement 15 - Management=s Discussion and Analysis  | X   |    |     |
| 5.2 Is the system flexibly designed to adapt to changes in accounting standards?   | X   |    |     |
| 6. <u>Financial Reporting</u> . The system must meet reporting requirements.   |     |    |     |
| <u>Agency Financial Management Reporting</u> . The system shall be able to provide financial information in a timely and useful fashion.   |     |    |     |
| 6.1 Is the system capable of providing financial information in a timely and useful fashion to support management's fiduciary role?  | X   |    |     |
| 6.2 Is the system capable of providing financial information in a timely and useful fashion to support legal, regulatory and other special management requirements?  | X   |    |     |
| 6.3 Does the system support budget formulation and execution functions by providing financial information in a timely and useful fashion?  | X   |    |     |
| 6.4 Is financial information provided in a timely and useful fashion to support fiscal management of program delivery and program decision making.   | X   |    |     |
| 6.5 Does the system provide financial information in a timely and useful fashion to allow compliance with internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with the form and content prescribed by OMB and reporting requirements prescribed by Treasury? | X   |    |     |
| 6.6 Is the system capable of providing financial information in a timely and useful fashion for monitoring the integrity   | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
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|  |  | Yes | No | N/A |
|--|--|-----|----|-----|
| of financial data?   |  |     |    |     |
| <u>Performance Measures.</u> The system shall be able to capture and produce financial information necessary to measure performance. |  |     |    |     |
| 6.7  | Is the system capable of capturing and producing financial information required to measure program performance, financial performance, and financial management performance as needed to support budgeting, program management and financial statement presentation? | X   |    |     |
| 6.8  | As new performance measures are established, are necessary information and reporting requirements, as appropriate and feasible, incorporated into the system?  | X   |    |     |
| 7.   | <u>Budget Reporting.</u> The system shall provide for budget preparation, execution and reporting in accordance with requirements.   |     |    |     |
| 7.1  | Does the system allow for the preparation of the budget in accordance with the requirements of OMB Circular A-11, "Preparation and Submission of Budget Estimates", and other circulars and bulletins issued by OMB?   | X   |    |     |
| 7.2  | Does the system allow for the execution of the budget in accordance with the requirements of OMB Circular A-11, "Preparation and Submission of Budget Estimates", and other circulars and bulletins issued by OMB?   | X   |    |     |
| 7.3  | Does the system allow for the reporting of the budget in accordance with the requirements of OMB Circular A-11, "Preparation and Submission of Budget Estimates", and other circulars and bulletins issued by OMB?   | X   |    |     |
| 8.   | <u>Functional Requirements.</u> The system shall conform to existing functional requirements for financial management systems.   |     |    |     |
| 8.1  | Does the system conform to existing applicable functional requirements for the design, development, operation, and maintenance of financial systems?   | X   |    |     |
| 8.2  | Does the system comply with the functional requirements as defined in the <u>Federal Financial Management System Requirements</u> issued by the Joint Financial Management Improvement Program (JFMIP) for the following areas:                                      |     |    |     |

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|   | Yes         | No | N/A |
|---|-------------|----|-----|
| 8.2.1 - Core Financial System Management?   | X           |    |     |
| 8.2.2 - General Ledger Management?  | X           |    |     |
| 8.2.3 - Funds Management?   | X           |    |     |
| 8.2.4 - Payment Management?   | X           |    |     |
| 8.2.5 - Receipt Management?   | X           |    |     |
| 8.2.6 - Cost Management?  | X           |    |     |
| 8.2.7 - Reporting?  | X           |    |     |
| 8.3 The system should comply with the functional requirements as defined in the <u>Human Resources/Payroll System Requirements</u> of the Federal Financial Management System Requirements issued by the Joint Financial Management Improvement Program (JFMIP). For the following areas, do the human resources and payroll systems provide: |             |    |     |
| 8.3.1 - Complete, accurate, and prompt payment of pay and deductions?<br><br><b>6/</b> This function is performed by the DFAS organization for DOE/Western.   | X <b>6/</b> |    |     |
| 8.3.2 - Complete, accurate, and prompt generation and maintenance of human resources and payroll records and transactions?  | X           |    |     |
| 8.3.3 - Timely access to complete and accurate information, without extraneous material, to those internal and external to the agency who require the information?  | X           |    |     |
| 8.3.4 - Timely and proper interaction of human resources and payroll systems with the Core financial systems?   | X           |    |     |
| 8.3.5 - Adequate internal controls to ensure that human resources and payroll systems are operating as intended?  | X           |    |     |
| 8.4 The system should comply with the functional requirements as defined in the <u>Travel System</u>  |             |    |     |

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|   | Yes | No | N/A |
|---|-----|----|-----|
| <u>Requirements</u> of the Federal Financial Management System Requirements issued by the Joint Financial Management Improvement Program (JFMIP). For the following general areas:  |     |    |     |
| 8.4.1 - Is travel properly authorized? If it is not possible to obtain authorization prior to travel, an agency may approve reimbursement for travel expenses after travel is completed.  | X   |    |     |
| 8.4.2 - Does the system require approval before travel begins?  | X   |    |     |
| 8.4.3 - For travel advances for PCS moves, does the system code funding sources and approval codes?   | X   |    |     |
| 8.4.4 - Does the system provide for reservation and ticketing?  | X   |    |     |
| 8.4.5 - Does the system provide for accurate travel advance processing including: entry, processing, approval, and payment and liquidation of government funds?   | X   |    |     |
| 8.4.6 - Does the system require timely and accurate preparation of travel vouchers?   | X   |    |     |
| 8.5 The system should comply with the functional requirements as defined in the <u>Systems Requirements for Managerial Cost Accounting</u> of the Federal Financial Management System Requirements issued by the Joint Financial Management Improvement Program (JFMIP). Does the system perform the following: |     |    |     |
| 8.5.1 - <u>System administration</u> to maintain the relatively static information that controls other systems function, manage application-level security, and manage data storage for the entire system.  | X   |    |     |
| 8.5.2 - <u>Data capture</u> to obtain data that is more dynamic than the data maintained by the system administration function. This includes capturing data on costs, units (e.g., of inputs and outputs), exchange revenues, and gains and losses.  | X   |    |     |
| 8.5.3 - <u>Cost assignment</u> to assign costs to intermediate and final cost objects (e.g., outputs) either using direct tracing, on a case-by-case basis, or on a prorated basis using a cost allocation methodology.   | X   |    |     |

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|  | Yes | No | N/A |
|--|-----|----|-----|
| 8.5.4 - <u>Cost classification</u> to determine values of inventory, property, plant, and equipment; stewardship investment amounts; and performance measures.   | X   |    |     |
| 8.5.5 - <u>Cost monitoring</u> to manage costs, operations, programs, and outputs according to management needs and external reporting requirements.   | X   |    |     |
| 8.6 Are new functional requirements, established through OMB circulars and bulletins and the Treasury Financial Manual, implemented expeditiously as they are established and/or made effective?   | X   |    |     |
| 9. <u>Computer Security Act Requirements.</u> Security controls shall be planned for and incorporated.   |     |    |     |
| 9.1 If the system contains "sensitive information" as defined by the Computer Security Act of 1987, are security controls planned for and incorporated in accordance with the Computer Security Act and OMB Circular A-130?                | X   |    |     |
| 9.2 Based on the periodic reviews conducted in accordance with A-130 requirements, is the system recertified as to the adequacy of security safeguards?  | X   |    |     |
| 9.3 Has a security awareness and training program been established?  | X   |    |     |
| 9.4 Have personnel security policies and procedures been established to assure an adequate level of security for the system?   | X   |    |     |
| 9.5 Do the personnel security procedures include requirements for screening all individuals participating in the design, development, operation, or maintenance of sensitive application or those persons having access to sensitive data? | X   |    |     |
| 9.6 Are safeguards in place to preclude the disclosure of sensitive or proprietary information?  | X   |    |     |
| 10. <u>Documentation.</u> The system and processing instructions shall be clearly documented.  |     |    |     |

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|        |  | Yes | No | N/A |
|--------|--|-----|----|-----|
| 10.1   | Are processing instructions clearly documented in hard copy or electronically in accordance with the requirements contained in the <u>Core Financial System Requirements</u> of the Federal Financial Management Systems Requirements published by JFMIP or other applicable requirements? | X   |    |     |
| 10.2   | Is the following, at a minimum, documented: systems, operations, and user documentation?   | X   |    |     |
| 10.3   | Is all documentation (software, system, user manuals, operating procedures, etc.) kept up-to-date and readily available for examination?   | X   |    |     |
| 10.3.1 | Is system user documentation in sufficient detail to permit a person, knowledgeable of the programs and of systems generally, to obtain a comprehensive understanding of the entire operation of the system.   | X   |    |     |
| 10.4   | Is system technical documentation such as requirements documents, systems specifications and operating instructions adequate to enable technical personnel to operate the system in an effective manner?   | X   |    |     |
| 11.    | <u>Training and User Support.</u> Adequate system training and appropriate user support shall be provided.   |     |    |     |
| 11.1   | Is adequate training and appropriate user support provided to the users of the system, based on the level, responsibility and roles of individual users, to understand, operate and maintain the system?   | X   |    |     |
| 12.    | <u>Maintenance.</u> On-going system maintenance shall be performed.  |     |    |     |
| 12.1   | Is on-going maintenance of the system performed to enable the system to continue to operate in an effective and efficient manner?  | X   |    |     |
| 12.2   | Is a periodic evaluation performed to determine how effectively and efficiently the system supports changing business practices and, if necessary, are appropriate modifications made?   | X   |    |     |

FY 2006 SUMMARY FINANCIAL SYSTEM EVALUATION  
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IDENTIFY REPORTABLE NONCONFORMANCES. After considering existing information, including day-to-day interaction and financial management system requirements, the responsible manager must judge if any of the nonconformances identified are reportable.

Criteria: Generally, if the nonconformance identified would be of concern to the next higher level of management, it should be considered by the manager to be reportable, i.e. the problem should be reported to a level ABOVE THE ADMINISTRATOR. Specific items to address are listed in Attachment C.

Action Required: For the nonconformance issues identified on the preceding pages, complete Attachment C to determine if the specific problem is reportable.

MANAGER'S CERTIFICATION

*THE ANSWERS TO THE ABOVE QUESTIONS AND THE EVALUATIONS OF THE NONCONFORMANCES LISTED ON THE ATTACHMENTS REPRESENT, TO THE BEST OF MY KNOWLEDGE, THE STATUS OF FINANCIAL SYSTEM CONFORMANCE AT THE WESTERN AREA POWER ADMINISTRATION AS OF JULY 26, 2006.*

\_\_\_\_\_  
Harrison G. Pease, Chief Financial Officer

\_\_\_\_\_  
Date

FY 2006 Summary Financial Management System Evaluation  
July 26, 2006

I. DEPARTMENTAL PROGRAM OR ADMINISTRATIVE FUNCTION: Financial Management System

II. Problem/Nonconformance Issue:

Questions 1.1.2.1, 1.1.2.5, 1.1.2.7 and 3.17. BIDSS internal controls need to be strengthened.

- The FY 2005 audit identified areas where internal controls could be more robust.
- Internal control techniques are not always effective and efficient.
- Transactions are not always recorded promptly or properly classified.

These issues continue from FY 2005

III. Source: A-123 Review, day-to-day interaction, management reviews, financial statement audits, user groups and financial management system evaluation.

IV. Identification of Reportable Problems/Nonconformance Issues. For the problem/nonconformance issue noted above, answer yes or no to the following statements:

Yes/No

- No a. Merits the attention of the senior management, the Chief Financial Officer and/or the Secretary;
- No b. Prevents the financial system from achieving central control over financial transactions and resource balances, and results in significant adverse effect on external reporting and internal management decisions;
- No c. Results in a material misstatement (either 5 percent of a budget line item or \$10 million or more) in reports required by OMB, Treasury, or the Congress;
- No d. Prevents conformance of financial systems:  
(1) Financial information standards do not:  
< Comply with implementation of the U.S. Government Standard General Ledger (crosswalks acceptable); and  
< Adhere to standards for data quality: accurate, complete, reliable, timely, comparable, consistent, useful financial information for the current and past fiscal years.
- No e. (2) Financial system functional standards do not:  
< Comply with JFMIP Federal Financial Systems Requirements: Compliance with financial system functional requirements published by JFMIP and approved by OMB, Treasury and GAO, which includes general ledger control (including fund control) over resources, obligations and spending;  
< Use effective system interfaces: single entry of data or adequate reconciliation among systems;  
< Comply with requirements for adequate documentation and audit trails; and  
< Ensure adequate overall system performance exist in support of assigned mission and financial information needs.

If you answered yes to any of the above statements, the problem is considered reportable and an action plan must be developed for inclusion in the FY 2006 assurance letter.

FY 2006 Summary Financial Management System Evaluation  
July 26, 2006

I. DEPARTMENTAL PROGRAM OR ADMINISTRATIVE FUNCTION: Financial Management System

II. Problem/Nonconformance Issue:

Question 3.1. The system does not always provide for effective and efficient interrelationships between software, hardware, personnel, procedures, controls, and data contained within the system.

The COTS package implemented by Western has room for improvement. Specifically, the relationship between system modules and the General Ledger could be improved. In addition, the reporting (required, operational) and budget formulation functions of the system need additional work.

III. Source: A-123 Review, day-to-day interaction, management reviews, financial statement audits, user groups and financial management system evaluation.

IV. Identification of Reportable Problems/Nonconformance Issues. For the problem/nonconformance issue noted above, answer yes or no to the following statements:

Yes/No

- No   a. Merits the attention of the senior management, the Chief Financial Officer and/or the Secretary;
- No   b. Prevents the financial system from achieving central control over financial transactions and resource balances, and results in significant adverse effect on external reporting and internal management decisions;
- No   c. Results in a material misstatement (either 5 percent of a budget line item or \$10 million or more) in reports required by OMB, Treasury, or the Congress;
- No   d. Prevents conformance of financial systems with:  
(1) Financial information standards do not:  
    < Comply with implementation of the U.S. Government Standard General Ledger (crosswalks acceptable); and  
    < Adhere to standards for data quality: accurate, complete, reliable, timely, comparable, consistent, useful financial information for the current and past fiscal years.
- No   e. (2) Financial system functional standards do not:  
    < Comply with JFMIP Federal Financial Systems Requirements: Compliance with financial system functional requirements published by JFMIP and approved by OMB, Treasury and GAO, which includes general ledger control (including fund control) over resources, obligations and spending;  
    < Use effective system interfaces: single entry of data or adequate reconciliation among systems;  
    < Comply with requirements for adequate documentation and audit trails; and  
    < Ensure adequate overall system performance exist in support of assigned mission and financial information needs.

If you answered yes to any of the above statements, the problem is considered reportable and an action plan must be developed for inclusion in the FY 2006 assurance letter.