Department of Energy

Basic Requirements of the

Management Control Program

Training Package

DOE Management Control Action Officer (MCAO)Training Package
FY 2004 Federal Managers' Financial Integrity Act (FMFIA) Reporting

Basic Requirements of the Management Control Program

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Basic Requirements of the Management Control Program

Background

ACT

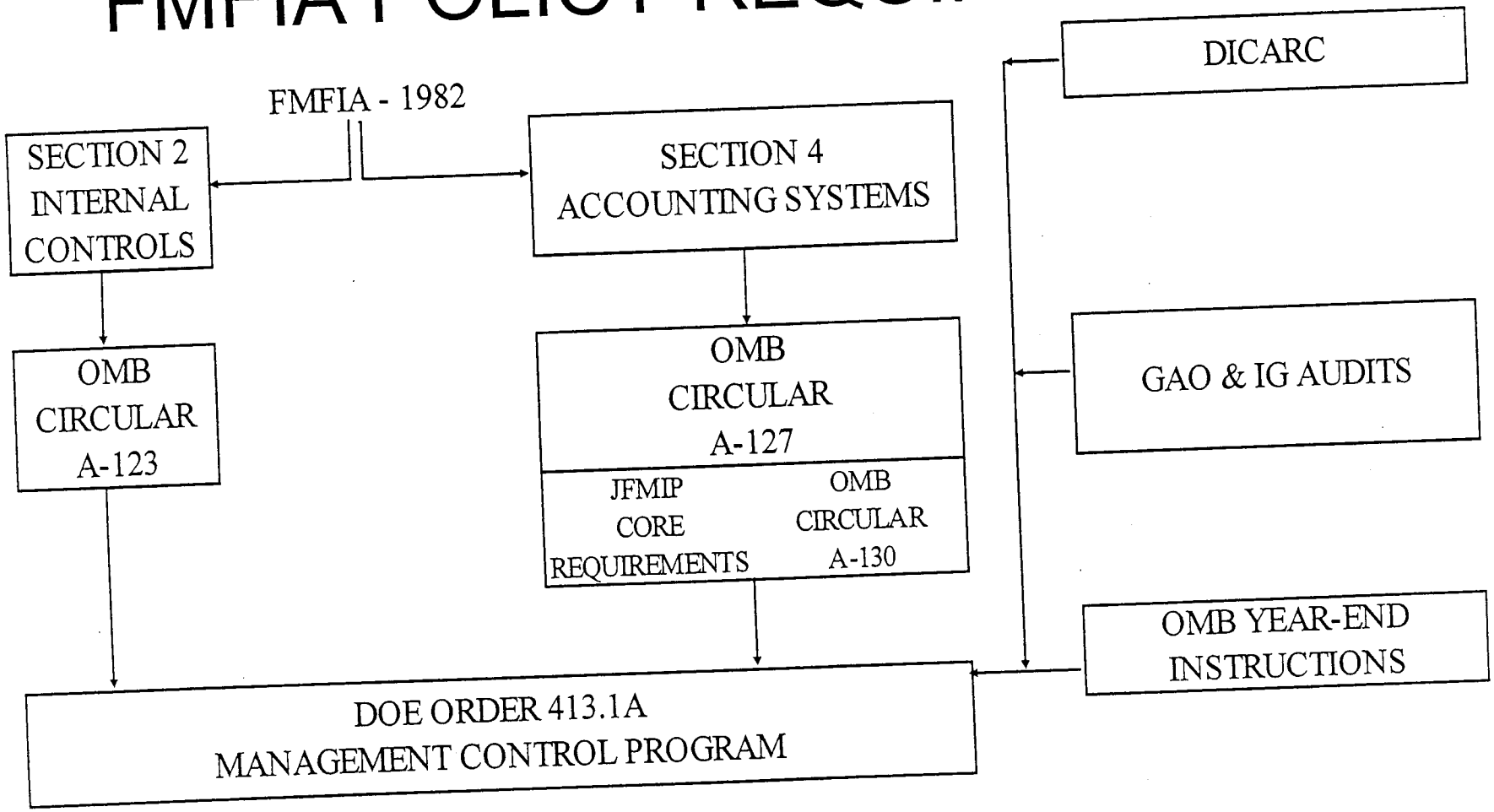
OMB CIRCULARS

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT - 1982

- In response to continuing reports of waste and inefficiency, Congress passes FMFIA
- Requires self assessments of management controls
- Requires Secretary to report annually to the President and Congress
- The Act applies to all programs and administrative functions
- Secretary's report to President and Congress Due December 30

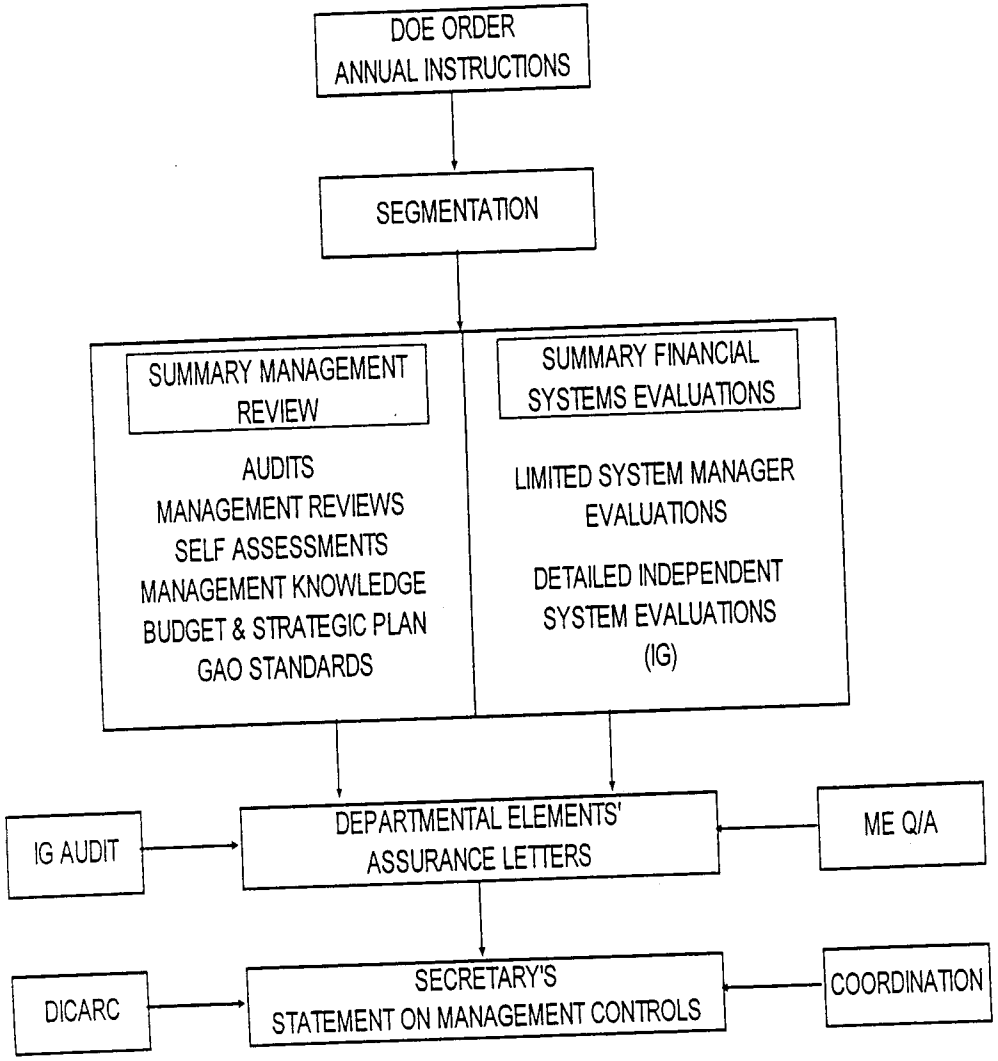
MANAGEMENT CONTROL PROGRAM OVERVIEW

FMFIA POLICY REQUIREMENTS



OVERVIEW OF MANAGEMENT CONTROL PROGRAM

OVERVIEW OF DOE'S MANAGEMENT CONTROL PROGRAM



- OMBE Administrative Responsibility
- Programs and Administrative Functions Segmented
- Managers Consider All Relevant Existing Information
- Annual Summary Management Review and Financial System Evaluation
- Corrective Action Plans Are Tracked
- IG Annually Audits FMFIA Program
- ME Performs QA of Assurance Letters
- DICARC Approves Department's Significant Issues
- Letter Coordinated Departmentwide

MANAGEMENT CONTROL PROGRAM OVERVIEW

- Management Controls Ensure that Program and Administrative Functions Operate Efficiently, Effectively and Within Applicable Requirements
- Purpose of the Management Control Program is to Assess the Adequacy of the Department's Management Controls and Correct Any Problems Identified
- Aiming for Reasonable Assurance that Controls Are Working Effectively
- Builds on Ongoing Management Processes

ORGANIZING THE PROCESS

Management Control Action Officer Responsibilities

- Principal Point of Contact for Departmental Element

- Coordinates all planning, evaluating, and reporting related to management control matters

SEGMENTING

Listing of Programs and Administrative Functions

- Each Departmental Element is required to develop an annual listing which serves as a basis for evaluating the Departmental Element
- A summary management review will be performed for each program and administrative function identified

Listing of Program and Administrative Functions - Criteria

- HQ – Individual programs with total obligational authority of $10M or more
- HQ – If no programs have total obligational authority of $10M or more consolidate and treat all as a single program
- Field – Individual programs with total obligational authority of $5M or more if the total Departmental funding is $10M or more
- Applicable administrative functions, crosscutting areas and sensitive areas should be identified regardless of funding levels.

Summary Management Review

Summary Management Review

- Overall Look at Entire Operation
- Conducted Annually at Year-End to Support Assurance Letter
- Based on Existing Evaluations and Day-To-Day Knowledge
- Considers GAO Standards for Internal Controls
- Provides Framework for Identifying Reportable Problems

SUMMARY MANAGEMENT REVIEW GUIDELINES

There are 5 major steps in the SMR

1. Consider existing information
2. Consider underlying management principles based on GAO Standards
3. Determine if there are reportable problems
4. Develop action plans for reportable problems identified
5. Document the SMR

SUMMARY MANAGEMENT REVIEW GUIDELINES

CONSIDER EXISTING INFORMATION

- Problems reported through this process in prior year
- Current year evaluations and information
- Strategic plans, budgets and customer needs

SUMMARY MANAGEMENT REVIEW GUIDELINES

UNDERLYING MANAGEMENT PRINCIPLES

- Policies and objectives have been established and understood/accepted
- Roles and responsibilities have been assigned and understood/accepted
- Work is planned and controlled to ensure objectives are met

SUMMARY MANAGEMENT REVIEW GUIDELINES

CONT. UNDERLYING MANAGEMENT PRINCIPLES

- Employees are capable of performing their assigned tasks and adequately supervised
- Responsibilities for critical verifications and approvals are assigned to separate employees and/or organizations

SUMMARY MANAGEMENT REVIEW GUIDELINES

CONT. UNDERLYING MANAGEMENT PRINCIPLES

- Decisions are based on accurate, up-to-date information
- Work is assessed to ensure it meets expectations
- Problems are identified and corrected

SUMMARY MANAGEMENT REVIEW GUIDELINES

REPORTABLE PROBLEMS

- Problem(s) of concern to next higher level of management
- Judgments of reportability made by progressively senior managers
- Criteria to assist in determining reportability are in SMR guidelines

REPORTABLE PROBLEMS CRITERIA

- Substantially impairs mission
- Violates significant statutory or regulatory requirements
- Substantially weakens safeguards against waste, loss misuse
- Results in conflict of interest
- Merits attention of the President and Congress

REPORTABLE PROBLEMS CRITERIA (CONT.)

- Exists in majority of programs, functions or organizations and can cause harm, though minor individually, because the aggregate is significant
- Risks of results in loss of either $10 million or 5% of budget line item
- Endangers National Security
- Subject of adverse media coverage, adverse audit reporting and adverse Congressional interest
- Could reflect adversely on management integrity if not reported

SUMMARY MANAGEMENT REVIEW GUIDELINES

DEVELOP ACTION PLANS

- Executive summary information with broad critical milestones
- Consolidate related/similar problems
- Link to Strategic Plan and/or Budget as appropriate

SUMMARY MANAGEMENT REVIEW GUIDELINES

DOCUMENT THE SMR

- Maintain documentation to show:
  - That a SMR was conducted
  - What information was considered during the SMR
  - The Rationale for the Conclusion(s) reached
- Exhaustive documentation not required
- Documentation must provide evidence of what was done

SUMMARY FINANCIAL MANAGEMENT SYSTEMS REVIEWS

FINANCIAL MANAGEMENT SYSTEMS REVIEWS

SECTION IV

THE DEPARTMENT'S FINANCIAL MANAGEMENT SYSTEMS MUST BE EVALUATED ANNUALLY TO DETERMINE WHETHER IT CONFORMS TO THE PRINCIPLES AND STANDARDS ESTABLISHED BY THE COMPTROLLER GENERAL AND THE REQUIREMENT OF OMB CIRCULAR A-123 "INTERNAL CONTROL SYSTEMS" AND A-127 "FINANCIAL MANAGEMENT SYSTEMS"

DOE FINANCIAL MANAGEMENT SYSTEM INVENTORY

- Departmental Integrated Standardized Core Accounting System
- Financial Information System
- Departmental Funds Distribution System
- Financial Management Systems of Power Marketing Administrations
- Payroll/Personnel System
- Departmental Budget Formulation System

TYPES OF FINANCIAL MANAGEMENT SYSTEM REVIEWS

- **Detailed** – Conducted on a Periodic Basis under the cognizance of the OMBE and IG
- **Summary** – Conducted Annually by Departmental Element responsible for System or System Component

Summary Financial System Evaluation Process

Guidelines for Financial Management System Evaluations

EVALUATE SYSTEM ANNUALLY:

- Consider Existing Information
  - ✓ IG and/or GAO Reviews
  - ✓ Management Reviews
  - ✓ Daily Involvement
  - ✓ Financial Statement Audits
- Selected Techniques

  (E.G., Questionnaires, Financial Analysis, Transaction Testing)
- Other Considerations
  - ✓ OMBE Financial Management 5-Year Plan
  - ✓ Department's 5-Year System Development Plan
  - ✓ System Change Requests
  - ✓ Problems Identified by User Groups/Councils
  - ✓ Prior Limited and Detailed Reviews

Summary Financial System Evaluation Process

Guidelines for Financial Management System Evaluation

<u>Identify Reportable Nonconformance(s):</u>

- Identify Nonconformance(s)
- Determine whether nonconformance(s) is reportable
  - To the Next Level
  - Meets Criteria for Reportability
- Follow Guidelines for Reportable Nonconformances

SYS. EVALUATION

2 nonconformances identified

1 considered reportable

Summary Financial System Evaluation Process

Guidelines for Financial Management System Evaluation

DEVELOP ACTION PLANS:

- Briefly describe the nonconformance
- Identify critical milestones
- Indicate action to be taken by reporting element
- Report only those things you are responsible for fixing

DOCUMENT THE PROCESS:

- Maintain Evidence
  - That an evaluation was conducted
  - Information used to conduct the evaluation
  - Rationale for the conclusion reached
- Maintain Sufficient Documentation

ACTION PLANS

ACTION PLANS

- Action Plans (AP) are prepared for all reportable problems and nonconformances
- Related or similar issues should be aggregated by program and administrative function
- Format prescribed must be used
- Cognizant HQ Office must be identified
- Describe problem or nonconformance as well as impact on operations

ACTION PLANS

- Critical milestones indicate major interim actions to eliminate problem and its root causes
- Assessment of progress briefly summarizes progress made to implement milestones, reasons for milestone slippage, and the final date projected for closure
- MCAO QA review to ensure AP meets requirements
- Attachment A of the assurance memorandum
- Index and crosswalk of APs attached as a cover to the Attachment

Annual Assurance Memorandum

Assurance Memorandum

- Each Departmental Element submits an annual assurance memorandum
- Field Elements submit assurance memorandum to the Secretary or appropriate HQ office
- HQ incorporate Field input and submit assurance memorandum to the Secretary
- The Secretary considers all input and reports the results in the Overview of the Accountability Report

Assurance Memorandum

- Signed by Head of Departmental Element
- Include Standard Assurance Statements
- Include Statement concerning applicable contractors
- Include Statement on Financial Management Systems (if applicable)
- Executive Summary of Reportable Problems and Nonconformances

REPORTABLE PROBLEM

REPORTABLE PROBLEMS CRITERIA

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FY 2003 Significant Issues

- Environmental Cleanup
- Security
- Nuclear Waste Disposal
- Human Capital Management
- Information Technology Management
- Project Management
- Stockpile Stewardship
- Safety and Health
- Oversight of Contractors

CONTRACTOR PARTICIPATION

Contractor Participation

Departmental Element Requirement

Departmental Elements are responsible for monitoring, ensuring, and considering the integrity and efficiency of contractors under their cognizance.

Contractor Participation

Contractors Included

- Management and Operating Contractors (M&O)
- Management and Integrating Contractors
- Environmental Restoration Management Contractors (ERMC)

Contractor Participation

Contractor Requirement

Annually Departmental Elements should require written assurance from the contractors as to the status of their operations identifying reportable problems and nonconformances

Contractors annual assurance memoranda should contain action plans to be tracked by the cognizant Departmental Element as necessary (Option of Departmental Element Head)

Contractor Participation

Departmental Element Requirement

Consider contractors' written assurance when performing the Summary Management Review and determining reportable problems and/or nonconformances

TRACKING

TRACKING

- Local Tracking
  - Departmental Element Action Plans
  - Contractor Action Plans, if appropriate
  - Formal System required, not necessarily automated
- Departmental Tracking
  - Secretarial Milestones
  - Third Quarter Update for preparation of 3rd Quarter Draft of the Performance and Accountability Report

QUALITY ASSURANCE

Quality Assurance

- Program Quality Assurance Actions Provide the Checks and Balances Necessary to Ensure that the Program is Through in its Depth, Comprehensive in Scope, Conducted in Accordance with Guidance, and Verifiable as to Work Performed

Quality Assurance

Components

- Departmental Element Actions
- OMBE Actions
- Departmental Internal Control and Audit Resolution Council Actions
- IG Actions

Quality Assurance

Local Actions

- Assurance Memorandum reviewed by senior managers

Quality Assurance
OMBE Actions

- Review of Departmental Elements submissions
- Annual guidance on year-end requirements
- Concurrence on Accountability Report

Quality Assurance

Departmental Internal Control and Audit Resolution Council

- Senior Manager oversight to ensure compliance with Legislative, Regulatory and Departmental Guidance
- Actively participate in preparation of the Secretary's Annual Report to the President
- Refer highly sensitive issues to appropriate departmental personnel
- Educate senior managers on the purpose and uses of the Management Control Program
- Decide and Direct on issues relating to the Management Control Program

QUALITY ASSURANCE

IG ACTIONS

- Review Year-End assurance memorandum from Departmental Elements
- Provide independent written assurance to the Secretary annually as to whether the evaluations were carried out in a reasonable and prudent manner