

**Financial Management Systems Improvement Council  
Meeting Notes  
Hyatt Regency Crystal City at Reagan National  
Arlington, VA  
April 3, 2007**

Attendees: Dan Becker-WSRC, Ron Butters-National Securities Technologies LLC, Jennifer Crooks-SNL, Cindy Conger-Fermilab, Suzanne Davidson-PNNL, Jim Eakins-LANL, Nancy Fitchpatrick-DOE OR, Chad Glines-NNSA, Bruce Grover-DOE ID, John Hauser-BNL, Brian Morishita-INL, Al Moser-LLNL, Dean Olson-DOE HQ, Ron Ragland-BWXT Y12, Brian Sack-INL  
Guests: Mary Coleman-WSRC, Mike Derbidge-INL, Peter Ferrara-BNL, Pat Hodson-DOE HQ, Gary Little-DOE SR  
Not present: Mike Bartos-ANL, Jim Campbell-DOE HQ, Marty Conger-PNNL, Dennis Martinez-NNSA

**Headquarters Update – Dean Olson for Jim Campbell**

- FY-2007 Funding. Sites will be operating under the provisions of a Continuing Resolution through November 17. Funding under the Continuing Resolution is set at the lower of the House mark or the FY 06 rate of operations. Funding under the Continuing Resolution is controlled at the appropriation level rather than the individual line item control level imposed when we are appropriated, which provides the Department flexibility in internally allocating funding. Of course, under a CR, no new starts are allowed nor are ongoing programs to be terminated. Since the Congress will not go back in session until November 13, we expect that the Continuing Resolution will be extended – the length of the extension is anyone's guess at this point but some are projecting that it will be extended through January.
- DOE Strategic Plan. Jim distributed copies of the Department's 2006 Strategic Plan to the attendees. Included in the handouts were a tri-fold containing DOE's mission, five strategic themes, priorities, and operating principles as well as an executive summary. The Strategic Plan can also be found on the DOE website at [www.energy.gov](http://www.energy.gov)
- Financial Statements. Last year the Department received a disclaimer of opinion on the financial statement audit and a material weakness in financial control and reporting. This was caused primarily by the failed attempt to implement three major changes near simultaneously – the stand-up of the most efficient organization resulting from the financial services competitive sourcing study, the mid year implementation of the Standard Accounting and Reporting System, and the conversion to the Standard General Ledger at the transaction level. It was an extremely difficult year and after seven years of clean audit opinions, the disclaimer

was a big disappointment to the Department. Financial staff worked days, nights and weekends trying to produce auditable financial statements, but we were not successful. In fact, we were unable to produce the Schedule of Intergovernmental balances – one of the required statements.

Since the issuance of the Department's FY 2005 Performance and Accountability Report on November 15, the Department's financial management community has been completely immersed in financial management remediation – focusing on the people, systems, and policies and procedures necessary to restore our reputation in financial management within the Department and in the Federal Government. The Department's goal for FY 2006 was a clean opinion on the balance sheet – which, if successful, would pave the way for a clean opinion on all financial statements in FY 2007.

The engagement and support of the entire senior leadership team in addressing the Department's financial management challenge has been incredible with financial management being a subject of discussion no less frequently than every two weeks at the Secretary's weekly leadership meeting.

The Department has made tremendous progress in our financial management remediation efforts – beyond what Jim thought possible. We produced and delivered our third quarter financial statements to the auditors on time – including the Schedule of Intergovernmental Balances, which we were unable to produce just nine months ago. We are now routinely reconciling integrated contractor trial balances with STARS, Cash balances between STARS and Department of Treasury, and the subsidiary modules in STARS with the General Ledger.

Despite these significant accomplishments, major concerns have arisen in the FY 2006 audit of undelivered orders. In fact, in their review of undelivered orders at six sites as of June 30, 2006, the auditors identified about 90 exceptions out of a sample of about 340 contracts. Problems identified included stale obligations, negative undelivered order balances, and duplicate obligations and payments. Double digit exceptions were identified at each of the sites and occurred in both DOE work and reimbursable work. Because of the magnitude of the exceptions, the auditors are reporting a material weakness in the accounting for undelivered orders and will qualify the FY 2006 balance sheet opinion. Two other areas of concern have surfaced during the FY 2006 audit, which will result in reportable conditions – unclassified network and information systems security and performance measurement reporting.

Once the Department completes the FY 2006 financial statements and issues the FY 2006 Performance and Accountability Report, an extensive remediation effort on undelivered orders will commence. Fortunately, we have the opportunity to clean up the FY 2006 activity, make appropriate adjustments, and have the auditors come back and reexamine undelivered orders. If these efforts are successful and withstand audit scrutiny, the Department will still be in a position to obtain a clean audit opinion on all financial statements in FY 2007. Jim knows that this will be a significant effort

and is fortunate to have Christine Ott, the DOE-ID Chief Financial Officer, leading the remediation effort. This effort commences with a meeting of all task force representatives in Germantown on 11/14/06 – 11/16/06

Jim reported other areas of concern as identified in the FY 2006 audit including environmental liabilities, the spent fuel litigation liability, property, plant and equipment, Federal accruals, and reconciliation of inter-governmental balances with our trading partners in other Federal Agencies. The PP&E issues included failure to transfer items from Construction Work in Progress to Completed Plant and Equipment, applying full G&A to purchased assets, improper writeoffs, and incorrect depreciation on assets acquired or placed in service during the year. Despite these challenge areas, we expect the concerns will be satisfactorily resolved and the audit opinion will not be further impacted. Jim did mention the importance of sharing issues identified at particular sites with all sites to ensure they do not surface in subsequent audits. ***ACTION: Jim will make available through FMSIC a compilation of DOE audit findings.***

- Functional Accountability. In a memorandum dated May 23, 2006, the Secretary announced the functional accountability initiative to give heads of certain corporate functions (financial, human capital, information technology, legal, procurement, and public affairs) the proper oversight and accountability for their respective areas throughout the Department. To execute the necessary changes, a functional accountability working group composed of the six functional heads within the Department was formed with representation from the Office of the Secretary, all Under Secretaries, and Selected Field Offices and Power Marketing Administrations.

The working group has completed its assignment and on October 17, 2006 the Deputy Secretary signed out the Functional Accountability Corporate Implementation Plan. The Plan delineates how the Secretary's functional accountability initiative will be integrated into the day-to-day management of these functions. ***ACTION: Jim will make available to FMSIC a copy of the Implementation Plan.***

Dean Childs.

- A-123. Three year implementation approach. June 30, 2006, material weaknesses related to: 1) Entries to record reductions to the Environmental liability and Construction Work in Progress; 2) Reconciliation and confirmation of interoffice accounts receivable and payable; and 3) Recording of changes to contractor pensions and post-retirement benefits other than pensions (PPRB). Year-end Material Weakness related to undelivered orders. A conference call is scheduled in two weeks to review definitions and is open to participation. It was noted that the best control is automated preventive. Dual purpose testing also looks at the likelihood of risk occurrence. Dean would like to develop a team to collect and process feedback on the FY 2007 process. ***ACTION: Brian will provide Dean some information on the FMSIC Sox working group in 2005. (see attachment at <http://info.inel.gov/fmsic/meetnots.htm>).***

Dean Olson.

- With respect to Undelivered Orders, Dean asked whether the contractors record a commitment when contracts are placed? The response indicated different practices at different sites. Dean indicated there might be additional focus on the contractors undelivered orders in the future. The Department's auditors had several findings at sites that are capitalizing indirect costs as a part of a purchased asset. A policy has been issued not to do this against purchased assets. No new guidance on LDRD thus far (good news). GAO inquired about stand down costs. Accounts should be created to capture stand down costs which should be tracked and burdened. The proposed Safeguards and Security funding change is no longer a live issue. Pension change proposal has been put on hold. Another issue is the \$40M for S&S WFO has remained the same for six years. DOE efforts to have GPP increased to \$10M is dead but maybe could take a run at \$7.5M threshold. ***ACTION: Sandia will take the lead on identifying the IGPP construction index and will be led by Richard Conway.***

Marty Conger

- Conference Management Orders. Janie Treadway, PNNL, reported on the findings of the Conference Management Order Working Group. The group discovered that Head of Departmental/Field Elements (who can approve conferences) includes Laboratory Directors. Clarification will be sought on this. The rev com on this order will be issued for review but unsure when it is coming out. Janie's working group will coordinate a response to the rev com. They will also modify their white paper based upon the revisions including clearing up ambiguities and will work through Devon Streit and Dennis Martinez. (see attachment at <http://info.inel.gov/fmsic/meetnots.htm>).
- Third Party Financing. Progress is being made by GC and a decision was made to hold off on further work by the FMSIC Third Party Working Group. John Watson indicated that if progress snags up then FMSIC should reactivate the working group.
- Eliminating the Distinction Between Operating and Capital Funds. A decision was made to drop this initiative.

Mike Bartos

- Inter-Entity Working Group. Nancy Fitzpatrick was going to address the invoicing issues and asked to be hooked up with the working group. John Wall will take the working group's recommendations and present to Dean Olson to determine implementation feasibility and timing. (see attachment at <http://info.inel.gov/fmsic/meetnots.htm>)

Roy Geiselhart

- Pension Protection Act. (see attachment at <http://info.inel.gov/fmsic/meetnots.htm>). Robert Meyers reported that he is leading a working group to look at PPA to determine the impact of funding upon contractors. Looking at submission from FAS 82. The one of the main purposes of his working group is to serve as an early warning mechanism to contractors and others.

Al Moser

- Benchmarking at LLNL. (see attachment at <http://info.inel.gov/fmsic/meetnots.htm>)

Brian Morishita

- 2007 FMSIC All-Contractors Meeting. The 2007 FMSIC All-Contractors Meeting will be held at the Hyatt Regency Crystal City Reagan Nation Airport, Arlington, VA, April 3-5, 2007. ***ACTION: Brian will issue a call to all of the FMSIC members for presenters and topics.***

**Next FMSIC Meeting**

- April 3, 2007, Hyatt Regency Crystal City Reagan National Airport, Arlington, VA.

