U.S. Department of Energy
Washington, D.C.

ORDER

DOE O 413.1B

Approved: 10-28-08

SUBJECT: INTERNAL CONTROL PROGRAM

1. PURPOSE. Managers are accountable for the performance, productivity, operations, and integrity of their programs through the use of internal controls. The purpose of this Order is to ensure sound internal controls and overall consistency in exercising the statutory authorities that vest in the Secretary, the Administrator, National Nuclear Security Administration (NNSA), and Department's Chief Financial Officer (CFO), and to implement the Federal Managers' Financial Integrity Act of 1982 (P.L. 97-255) and related central agency guidance. The objective of the internal control program is to:

   a. evaluate internal controls using existing information and day-to-day knowledge to the maximum extent possible;

   b. provide reasonable assurance that programs are protected from waste, fraud, and mismanagement and that internal control over financial reporting is effective;

   c. promote open recognition of problems prior to identification by outside organizations;

   d. focus attention on correcting the most serious problems; and

   e. report the status of major problems up through the chain of command to the President and Congress.

2. CANCELLATION. DOE O 413.1A, *Management Control Program*, dated 04-18-02. Cancellation of a directive does not, by itself, modify or otherwise affect any contractual obligation to comply with the Order. Contractor requirement documents (CRDs) that have been incorporated into or attached to a contract remain in effect until the contract is modified to either eliminate requirements that are no longer applicable or substitute a new set of requirements.

3. APPLICABILITY.

   a. DOE Elements. Except for the exclusions in paragraph 3c, this Order applies to all Departmental elements, including those created after the Order is issued. (Go to www.directives.doe.gov/pdfs/reftools/org-list.pdf for the current listing of Departmental elements.)

      The Administrator, NNSA will ensure that NNSA employees and contractors comply with their respective responsibilities under this Order. Nothing in this Order will be construed to interfere with the NNSA Administrator's authority under section 3212(d) of Public Law (P.L.) 106-65 to establish Administration specific policies.

b. Contractors. The CRD, Attachment 1, sets forth the requirements intended to be applied to contractors with responsibilities for the management and/or operation of a DOE-owned or -leased facility. Contractor compliance with the CRD will be required to the extent set forth in a contract.

c. Exclusion. The Bonneville Power Administration, which is treated as a Government Corporation, is exempt from the reporting requirements in this Order.

4. REQUIREMENTS. Terminology is defined in Attachment 2.

a. Annual Reporting.

(1) The Secretary provides an assurance statement in the Department's annual Performance and Accountability Report to the President and Congress related to the effectiveness of the Department's internal controls to support effective and efficient programmatic operations, reliable financial reporting, and compliance with applicable laws and regulations; and whether the financial management systems conform to financial systems requirements.

(2) Heads of Departmental elements and the Administrator, NNSA must evaluate and annually report on the adequacy of their organization's internal controls, including internal controls over financial reporting and if applicable, financial management systems.

(3) Program management must correct reportable problems, material weaknesses and financial management system nonconformances identified in programs, administrative functions, and/or financial management systems in a timely and effective manner.

(4) Reportable problems and material weaknesses must be considered as part of the strategic planning, performance planning, and budgeting processes.

(5) Internal Control Action Officers must be appointed by Heads of Departmental elements to serve as principal points of contact in coordinating all planning, evaluating, and reporting related to the Internal Control Program. For NNSA, the internal control program is managed by the Director, Policy and Internal Controls Management.

b. Coordination and Oversight.

(1) The Internal Control Program is coordinated through the Office of the Chief Financial Officer. For NNSA, the internal control program is coordinated through the Director, Policy and Internal Controls Management.

(2) The CFO manages the process of evaluating and reporting on all internal controls, including internal controls over financial reporting, and financial management systems.

(3) Annual assurance memorandums from Departmental Elements serve as the basis for the Secretary's report to the President and Congress on the status of the Department's internal controls, including internal controls over financial reporting.

(4) The Departmental Internal Control and Audit Review Council provides senior management oversight. Membership includes—

(a) the Chief Financial Officer (chairperson),

(b) Inspector General,

(c) Director, Office of Management,

(d) Assistant Secretary for Environmental Management,

(e) Principal Deputy Administrator for NNSA,

(f) Chief Information Officer,

(g) Chief Health, Safety and Security Officer

(h) other heads of Headquarters elements, as selected by the standing members of the Council, serving on a rotating basis, and

(i) a Special Assistant as selected by the Secretary.

5. RESPONSIBILITIES.

a. Heads of Departmental Elements and the Administrator, NNSA/Heads of Field Elements.

(1) Maintain stewardship of Federal resources and ensure they are used efficiently and effectively to achieve intended program results;

(2) Take systematic and proactive measures to establish cost-effective and appropriate internal controls;

(3) Establish and provide separate assurances under the requirements of this Order; and

(4) Notify contracting officers of contracts affected by the requirements of this Order.

b. Chief Financial Officer.

(1) Ensures that the Internal Control Program is conducted in accordance with this Order.

(2) Prepares and issues detailed guidance for conducting the internal control review.

(3) Reviews Departmental elements' assurance memorandums to evaluate whether reporting requirements in this Order are followed.

(4) Reviews the year-end assurance memorandums and attachments prepared by Departmental elements, and identifies potential leadership challenges or material weaknesses.

(5) Prepares and presents to the Departmental Internal Control and Audit Review Council (DICARC) for review and approval an executive summary on the status of the Department's internal controls and those governing financial reporting.

c. Program Managers will correct reportable problems, material weaknesses and financial management system nonconformances identified in program, administrative functions, and/or financial management systems in a timely and effective manner.

d. Inspector General.

(1) Provides technical assistance in the evaluation and improvement of management and financial management system controls.

(2) Reviews year-end assurance memorandums from the Heads of Departmental elements and from the Administrator, NNSA to ensure that previously detected waste and other problems are appropriately disclosed.

(3) Provides independent written assurance to the Secretary annually on whether the evaluation of DOE internal controls has been carried out in a reasonable and prudent manner.

(4) Reports on financial systems compliance with Federal financial management system requirements, applicable Federal accounting standards, and the standard general ledger at the transaction level.

e. Departmental Internal Control and Audit Review Council provides senior management oversight, as appropriate.

f. Contracting Officers will be responsible for incorporating the CRD into each affected contract.

6. REFERENCES.

a. Government Accountability Office *Policy and Procedures Manual for Guidance of Federal Agencies*, Title 7, Fiscal Procedures, which prescribes standards for internal controls and financial systems operations.

b. Standards for Internal Control in the Federal Government, GAO/AIMD-00-21.3.1, November 1999.

c. Maintaining Effective Control Over Employee Time and Attendance Reporting, GAO-03-352G, January 2003.

d. Office of Management and Budget (OMB) Circular A-123, revised, *Management's Responsibility for Internal Control* dated 12-21-04, which provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting and reporting on internal controls, including internal controls over financial reporting as described in Appendix A to the Circular.

e. OMB Circular A-127, *Financial Management Systems*, dated 7-23-93, which prescribes policies for developing, operating, evaluating, and reporting on financial management systems.

f. OMB *Revised Implementation Guidance for the Federal Financial Management Improvement Act (FFMIA)*, dated January 2001, which details the specific requirements of FFMIA, as well as factors to consider in reviewing systems for compliance with the Act.

g. OMB Circular A-130, revised, *Management of Federal Information Resources*, dated 11-30-00, which establishes policy for the management of Federal information resources.

h. Federal Managers' Financial Integrity Act of 1982 (FMFIA), Public Law (P.L.) 97-255 [31 United States Code (U.S.C.) §3512], which requires establishing internal controls in accordance with GAO standards; evaluating internal controls in accordance with Office of Management and Budget guidelines; and reporting annually by the Secretary to the President and Congress.

i. Accounting and Auditing Act of 1950, P.L. 81-784, Title I, Part II, as amended, sections 112 and 113, which requires Federal agencies to maintain effective systems of internal controls.

j. Reports Consolidation Act of 2000, P.L. 106-531 (31 U.S.C. Chapter 35) as amended, which authorizes the consolidation of several key financial and performance management reports required of Federal agencies.

k. Government Information Security Reform Act, P.L. 106-398, Title X, subtitle G, which amends the Paperwork Reduction Act of 1995, by enacting a new subchapter on information security. The Act primarily addresses the program management and evaluation aspects of security.

l. Financial Management Improvement Act of 1996 (FFMIA), P.L. 104-208 (31 U.S.C. §3512), Federal which requires:

(1) each agency to implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards and the United States Government Standard General Ledger (SGL) accounting at the transaction level, and

(2) auditors to report on the Department's compliance with the previously stated requirements as part of the financial statement audit report.

m. National Nuclear Security Administration Act, P.L.106-65, Title XXXII (2000).

7. NECESSITY FINDING STATEMENT. In compliance with Sec. 3174 of P.L. 104-201 (50 USC 2584 note), DOE hereby finds that this Order is necessary for the protection of human health and the environment or safety, fulfillment of current legal requirements, and conduct of critical administrative functions.

8. CONTACT. For assistance, contact the Office of the Chief Financial Officer, Office of Internal Review at 301-903-2551.

BY ORDER OF THE SECRETARY OF ENERGY:

JEFFREY F. KUPFER
Acting Deputy Secretary

CONTRACTOR REQUIREMENTS DOCUMENT

Regardless of the performer of the work, the contractor is responsible for complying with the requirements of this Contractor Requirements Document (CRD) and flowing down CRD requirements to subcontractors at any tier to the extent necessary to ensure contractor compliance.

As directed by the contracting officer, the contractor must consider all existing information and report annually to the appropriate head of a Departmental element on the status of internal control, including internal control over financial reporting and financial management systems.

1. The nature and extent of the process implemented by contractors to determine the status of their internal controls under Federal Managers' Financial Integrity Act of 1982 (FMFIA) (P.L. 97-255) is at the discretion of the contracting officer and the contractor; however, the Department must be made aware of significant problems, which meet any of the following criteria:

    a. substantially impairs the Department's mission;

    b. violates statutory or regulatory requirements;

    c. substantially weakens safeguards against waste, loss, unauthorized use, and misappropriation of funds or other assets;

    d. results in a conflict of interest;

    e. creates adverse publicity that affects the Department's credibility;

    f. merits the attention of senior DOE management, the Secretary, Congressional Committees or the Executive Office of the President;

    g. exists in a majority of programs, administrative functions, and/or organizations and can cause harm, even though minor individually, because the aggregate is significant;

    h. risks or results in the actual loss of either $10 million or 5% of the resources of a budget line item;

    i. could reflect adversely on management integrity if not reported;

    j. endangers national security;

    k. has received adverse audit coverage; and/or

    l. impairs the ability to meet DOE and Federal financial management system requirements.

2. OMB Circular A-123. For implementing the requirements of OMB Circular A-123—

The contractor must assist DOE in meeting obligations imposed on DOE by OMB Circular A-123, Appendix A, Internal Control over Financial Reporting, and contractor activity is to be performed in accordance with annual guidance provided by the Department's Chief Financial Officer as agreed to by the contracting officer and the field chief financial officer for the respective contractor.

DEFINITIONS

1. Contractors—a DOE contractor with responsibility for the management and/or operation of a Department-owned or –leased facility or whose contract contains the clause Laws, regulations and directives (48 CFR (DEAR) 970.5204-2).

2. Financial management systems—both manual and automated systems used to collect, classify, analyze, and report data for financial decision making; process, control, and account for financial transactions and resources; formulate and execute the budget; and generate financial information in support of the Department's mission.

3. Internal controls—an organization's procedures and methods that managers use to achieve their goals; processes for planning, organizing, directing, and controlling operations designed to reasonably assure that programs achieve intended results; resources are used consistent with DOE's mission and are protected from waste, loss, unauthorized use, and misappropriation; laws and regulations are followed; and decisions are based on reliable data. Internal controls apply to all programs and administrative functions.

4. Leadership challenge—a reportable problem that has been determined to be of significance at the overall Departmental level and is reported by the Secretary. Leadership challenges do not rise to the level of a material weakness.

5. Material weakness—a reportable condition that the Secretary determines to be significant enough to be reported outside the Agency. For internal control over financial reporting, a material weakness represents more than a remote likelihood for a misstatement of the financial statements and the misstatements may be of a material magnitude.

6. Programs and administrative functions—a Departmental element's programs and administrative functions that are subject to evaluation and reporting.

7. Reportable nonconformance—a financial management system nonconformance with Office of Management and Budget and Government Accountability Office requirements that is of concern to the next higher level of management.

8. Reportable problem—one that generally would be of concern to the next higher level of management.