

NNSA POLICY

NAP 412.1

Approved: 02-11-19

Expires: 02-11-22

FINANCIAL INTEGRATION



NATIONAL NUCLEAR SECURITY ADMINISTRATION Management and Budget

CONTROLLED DOCUMENT

AVAILABLE ONLINE AT:

<https://directives.nnsa.doe.gov>

OFFICE OF PRIMARY INTEREST (OPI):

Financial Integration

printed copies are uncontrolled

THIS PAGE INTENTIONALLY LEFT BLANK

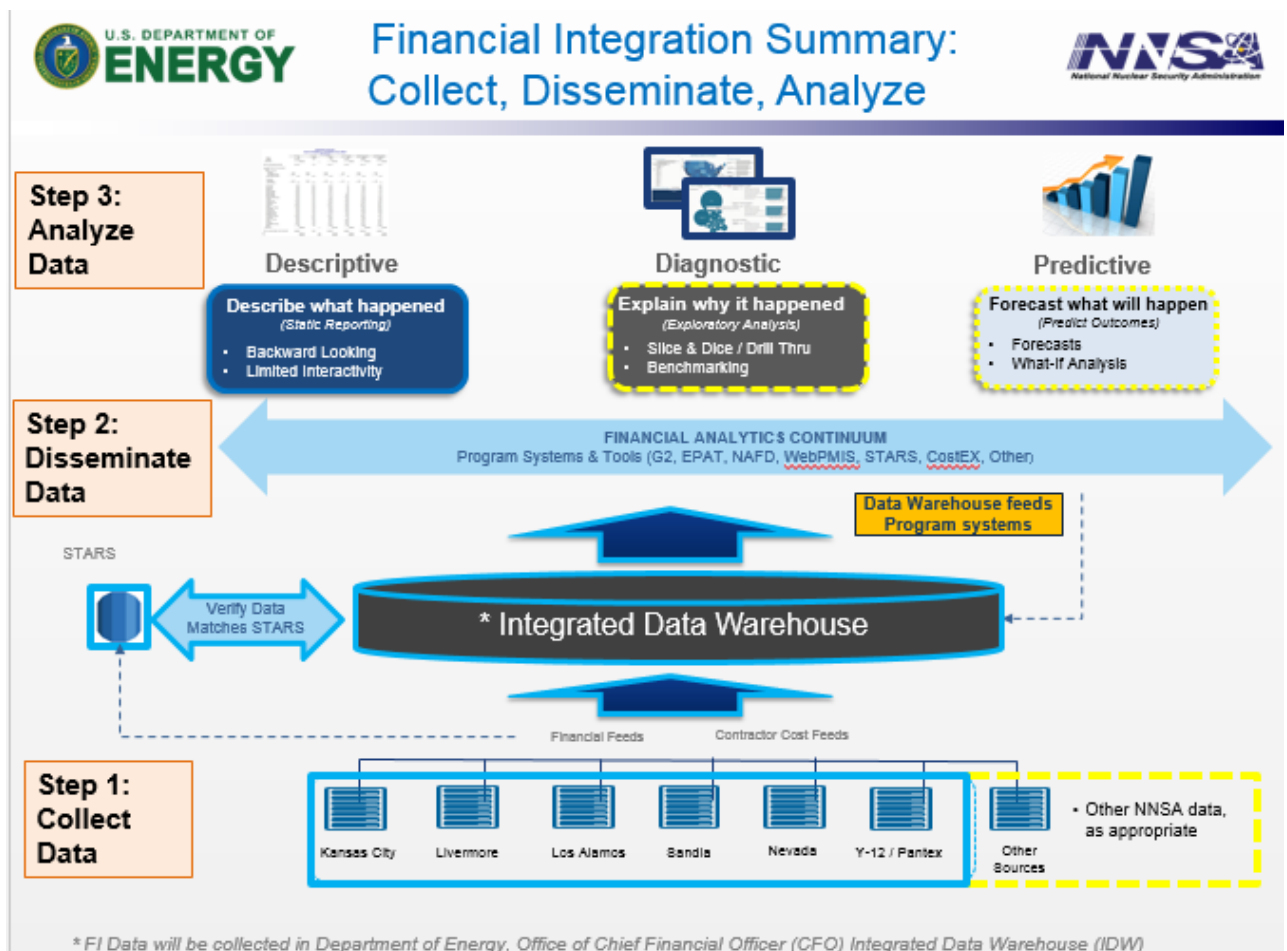
FINANCIAL INTEGRATION

1. **PURPOSE.** To define the strategic plan, mission, and function for the National Nuclear Security Administration's (NNSA) financial integration (FI) effort, along with the associated responsibilities, processes, and requirements to execute the plan. This NNSA Policy (NAP) establishes policy for NNSA's Management and Operating (M&O) contractor partners, program, field, and functional offices to achieve enterprise-wide standards of cost collection methods and lead to improved transparency of financial information and consistent reporting.
2. **AUTHORITY.** This NAP responds to criteria set forth by Fiscal Year (FY) 2014 *National Defense Authorization Act* (NDAA) Section 3128 *Plan for Improvement and Integration of Financial Management of Nuclear Security Enterprise* and FY 2017 NDAA Section 3113 *Common Financial Reporting System for the Nuclear Security Enterprise (NSE)*.
3. **CANCELLATION.** None.
4. **APPLICABILITY.**
 - a. **Federal.** This policy applies to all NNSA organizations.
 - b. **Contractors.** The Contractor Requirements Document (CRD), provided as Attachment 1, sets forth the requirements of this directive that apply to NNSA M&O contractors. The CRD must be included in NNSA M&O contracts that require monthly direct and indirect cost data file submissions, management of site business systems, and the support of data call requests.
 - c. **Equivalency.** In accordance with the responsibilities and authorities assigned by Executive Order 12344, codified at 50 United States Code sections 2406 and 2511, and to ensure consistency throughout the joint Navy/Department of Energy (DOE) Naval Nuclear Propulsion Program, the Deputy Administrator for Naval Reactors (Director) will implement and oversee requirements and practices pertaining to this Directive for activities under the Director's cognizance, as deemed appropriate.
5. **SUMMARY OF CHANGES.** Not applicable.
6. **BACKGROUND.** The FY 2014 NDAA required NNSA to develop a plan to improve and integrate the financial management of the nuclear security enterprise, including improving the structure for the allocation of work; developing a clear and consistent cost structure for each program; identifying programs of record and base capabilities for programs; monitoring those programs during execution; and using the data collected to analyze programs and compare the cost of work across the nuclear security enterprise. The FY 2017 NDAA further required NNSA to implement a common financial reporting system. In response to these two bills, NNSA established the Program Director for Financial Integration (PDFI) to implement enterprise-wide financial integration. The

mission of financial integration is to execute a plan for NNSA to achieve enterprise-wide financial integration to collect standardized financial management data; increase transparency of financial accountability; and improve cost analysis, comparability, and reporting consistency among programs and M&O contractors.

Exhibit 1: Financial Integration Summary

Exhibit 1 reflects the three stages of financial integration. The first stage is to collect reliable and accurate FI data from the NNSA M&Os and, where appropriate, data from other Department M&Os or NNSA federal contracts. The second stage is to transmit the financial integration data to NNSA program office information technology systems for program offices to track project and program execution. Finally, all of the FI data will be made available to NNSA program, field, and functional offices to analyze.



7. **REQUIREMENTS.** NNSA federal staff and NNSA M&O contractors must use this NAP to govern and execute financial integration requirements. Naval Reactors and Naval Reactor M&O contractors are exempt from this requirement.

8. RESPONSIBILITIES.

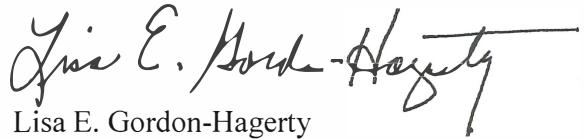
- a. Program Director for Financial Integration (PDFI). Reports to the NNSA Office of Management and Budget (MB) and provides updates to the Financial Integration Executive Committee (EXCOM).
- (1) Manages and coordinates all NNSA financial integration (FI) activities necessary to meet NDAA FI requirements;
 - (2) Develops and maintains clear and consistent integrated FI reporting requirements for the NNSA enterprise;
 - (3) Establishes methodologies for identifying costs for programs of record and base capabilities;
 - (4) Coordinates, reviews, and resolves FI issues referred to NNSA for action;
 - (5) Analyzes enterprise-wide FI data using leading business best practices;
 - (6) Develops financial management reports and dashboards;
 - (7) Assesses the effectiveness of the integrated data warehouse (IDW) information technology solution, including whether the solution can validate and reconcile data, as well as whether a change control process can be instituted without being overly burdensome. If the IDW solution is not able to achieve these items, the PDFI will inform EXCOM of the problem and suggest solutions; and
 - (8) Monitors the effects of FI.
- b. NNSA Program, Field, and Functional Offices.
- (1) Adhere to FI data collection, reporting, and requirements that support NDAA requirements;
 - (2) Develop and manage program-specific WBS in coordination with M&Os, conforming to a common framework and manage changes through defined configuration control;
 - (3) Make updates, when necessary, to WBS or other data fields in the information technology solution. Programs are solely responsible to manage program-specific WBS and other data in the information technology (IT) system. As part of the workflow process, the PDFI may review changes and, if necessary, deny a change if it does not comply with FI policy direction after consulting with the program office;
 - (4) Work with the PDFI to identify and define necessary enhancements to FI reporting requirements;

- (5) Use FI cost data to transfer data into support program-specific systems such as G2; and
 - (6) Lead FI program-related cost analysis as required.
- c. Financial Integration Executive Committee (EXCOM). EXCOM is chaired by the Associate Administrator for Management and Budget and includes senior representatives from NNSA program, field, and functional offices.
- (1) Monitors and provides strategic direction for the implementation of financial integration; and
 - (2) Approves significant changes to the FI effort, particularly any change to the system's architecture beyond the process of M&O contractors sending flat files to the Department of Energy (DOE) Chief Financial Officer's (CFO) integrated data warehouse (IDW), where the data is then shared with other DOE/NNSA program management systems.
- d. Financial Integration Team. NNSA Management and Budget (MB) federal staff who provide support to the PDFI.
- (1) Oversees transmissions of monthly cost data uploaded by NNSA sites into the DOE CFO IDW and works with NNSA sites to resolve any issues that arise, to support financial integration reporting requirements; and
 - (2) Share FI data with program offices for review. The FI team shall periodically review the effectiveness of the information technology system, to determine if financial integration data can be validated and reconciled with the Department's official accounting system.
9. REFERENCES.¹ The following references are useful or necessary to perform the functions covered by this NAP.
- a. *National Defense Authorization Act of 2014, Section 3128, Plan for Improvement and Integration of Financial Management of Nuclear Security Enterprise.*
 - b. *National Defense Authorization Act of 2017, Section 3113, Common Financial Systems for the Nuclear Security Enterprise.*
 - c. *Financial Integration Implementation Report to Congress, September 2018.*

¹ This NAP is intended to collect data to support Financial Integration. There is a separate effort to collect cost estimating data led by the Office of Cost Estimating and Program Evaluation under the authority found in the Fiscal Year 2018 National Defense Authorization Act, Section 1652.

10. CONTACT. Program Director for Financial Integration (PDFI) at (202) 586-0101 or finfo@nnsa.doe.gov.

BY ORDER OF THE ADMINISTRATOR:



Lisa E. Gordon-Hagerty
Administrator

Attachments:

1. Contractor Requirement Document
2. Definitions

THIS PAGE INTENTIONALLY LEFT BLANK

**ATTACHMENT 1: CONTRACTOR REQUIREMENTS DOCUMENT (CRD)
NAP 412.1, *FINANCIAL INTEGRATION***

1. INTRODUCTION.

This Contractor Requirements Document (CRD) applies to the National Nuclear Security Administration (NNSA) Management and Operating (M&O) contractors when providing financial data to NNSA. Naval Reactor M&O contractors are exempt from this CRD.

NNSA M&O contractors are responsible for complying with the requirements of this CRD. The contractor is responsible for flowing down the requirements of this CRD to subcontractors at any tier to the extent necessary to meet the contractor's compliance with the requirements.

2. REQUIREMENTS.

- a. NNSA M&O contractors must adhere to financial integration data collection and reporting requirements that support mission requirements and address *National Defense Authorization Act* financial integration reporting requirements.
- b. The definitions in this CRD are only applicable for the purposes of Financial Integration. To the extent that any of the definitions in this CRD conflict with or differ from other definitions expressly applicable to this contract, the other definitions must take precedence over the definitions in this CRD, except as related to Financial Integration.
- c. In the event an M&O contractor perceives a conflict between the definitions in this CRD and other contractual documents, the contractor must notify the cognizant Contracting Officer upon identification of a potential conflict.

3. RESPONSIBILITIES.

NNSA Management and Operating (M&O) Contractors.

- (1) Adhere to FI data collection and reporting requirements; and analyze FI data, if appropriate;
- (2) Manage site level FI systems to support common cost collection requirements including cross-walks, data file transmissions, and analysis;
- (3) Support NNSA FI data calls and reporting requirements; and
- (4) Comply with the Financial Integration Cost Element definitions, collection, and framework in this CRD.

4. COMMON COST ELEMENT DATA COLLECTION

Introduction

NNSA uses program-specific work breakdown structures (WBSs) to report on the scope and cost of work. NNSA has also introduced the use of common methods of cost collection by defining common cost elements to collect detailed direct and indirect costs mapped to a WBS. NNSA is following best practices of WBS development as described in the Government Accountability Office's, *Cost Estimating and Assessment Guide* (GAO-09-3SP), in reviewing and developing a program-specific WBS conforming to a common framework.

Financial integration is designed to capture data sets of direct and indirect costs managed by NNSA's M&O contractors.

The model consists of common cost elements that are directly mapped to the WBS, reconciled to Standard Accounting and Reporting System (STARS), and systematically loaded into the DOE CFO IDW on a monthly basis. Financial integration requirements include being able to consistently report cost elements and support any additional financial integration reporting requirements. Monthly collection of cost data will enhance NNSA's ability to perform analysis on costs within programs and across contractors.

Over time, cost elements may be added or removed, as necessary.

5. COMMON COST ELEMENTS.

a. Direct Cost Elements

- Direct Labor & Fringe
 - Craft
 - Technical, Engineering, & Scientific
 - Managerial & Administrative
- Travel
- Materials & Supplies
- Equipment
- Subcontracts - Domestic
- Subcontracts – International
- Staff Augmentation
- Recovery of Service Center Costs (Recharges)
- Other Direct Costs

b. Overhead (Indirect) Cost Elements

- Site Support
- Program Office Support

- General and Administrative (G&A)
- Safeguards and Security (S&S) Adder
- New Mexico Gross Receipts Tax (GRT)*
- Fee
- Laboratory directed research and development (LDRD), Plant directed research & development (PDRD), Site directed research & development (SDRD)
- Infrastructure Support
- Other

c. M&O contractors are also required to report fully burdened encumbrances as part of the monthly transmission starting in FY 2019.

6. PROCESS

NNSA M&Os shall transmit data to the DOE CFO's integrated data warehouse (IDW) CostEx system as directed by a Contracting Officer or Contracting Officer's Representative, if delegated. This data will include monthly cost data by WBS, budget and reporting (B&R) code, fund value, cost element, and any other fields. M&O contractors shall pre-reconcile data to STARS prior to transmission. If the transmission values do not reconcile to STARS, the FI team will reject the file. M&O contractors are then required to resolve all reconciliation discrepancies and retransmit the file to the IDW CostEx system. In the event M&O contractors anticipate updating STARS data because of STARS errors or other reasons, M&O contractors are required to submit two files: 1) a file that matches the current STARS numbers, and 2) a file that includes the anticipated, updated STARS cost data.

THIS PAGE INTENTIONALLY LEFT BLANK

ATTACHMENT 2: DEFINITIONS

Note: This attachment applies to NNSA federal and contractor personnel.

Management and Operating (M&O) contractors and National Nuclear Security Administration (NNSA) program offices must use the following cost element definitions for financial integration (FI). The Financial Integration Executive Committee will reaffirm or modify the list of definitions and terms at least once annually.

- a. Appropriation. Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority. **Source:** Office of Management and Budget Circular A-11 (2016)
- b. Budget Authority. The authority provided by federal law to incur financial obligations that will result in outlays. Most budget authority for acquisitions is in the form of appropriations; other types are contract authority, authority to borrow, and spending authority from offsetting collections. **Source:** OMB Circular A-11 (2016)
- c. Budget Outlay. Outlay means a payment to liquidate an obligation (other than the repayment to the Treasury of debt principal). Outlays are a measure of Government spending. **Source:** OMB Circular A-11 (2016)
- d. Cost Elements. Cost Elements track the type of costs. They form categories of costs that are independent from external or financial reporting requirements, but help management track costs according to internal accounting policies. Examples include labor, purchases, travel, and chargebacks. **Source:** Oracle Enterprise Resource Planning (ERP) Financials – Cost Element Accounting
- e. Costs. The amount accrued or due for: 1) services performed by employees, contractors, vendors, carriers, grantees, lessors, and other government funds; 2) goods and tangible property received; and 3) programs for which no current service performance is required such as annuities, insurance claims, benefit payments, loans, etc. **Source:** Department of Energy Office of the Chief Financial Officer (DOE/CFO) Accounting Team
- f. Direct Labor and Fringe. Costs directly related to the creation of a product or execution of a program: it is an expense that can be completely attributed to the production of specific goods or services. Direct Labor must be personnel that are performing directly on a project or program as specified in the work authorization or program implementation plan for the fiscal year. Direct Labor does not include labor charged indirect or to a Service Center. These labor costs will be captured in the Overhead or Service Center categories. Direct Labor and Fringe benefit costs will be reported under the following categories:
 - (1) Craft Labor: e.g., pipefitters, mechanics, electricians, carpenters, machinists, welders, plumbers, steelworkers, operators, maintenance personnel, and security police officers (SPO).

- (2) Technical, Engineering, and Scientific Labor: e.g., various types of engineers, physicists, biologists, chemists, metallurgists, computer scientists, industrial hygienists, security system technicians, and supporting technical assistants.
- (3) Managerial & Administrative Labor: e.g., program management, project management, project controls, security schedulers and assistants, administrative assistants, and clerical workers. Includes all other labor categories not included in previous categories.

Source: NNSA Financial Integration Team Cost Element

- h. Encumbrance/Commitment (fully burdened). Commitments (encumbrances) represent the unpaid balance of awarded subcontracts. The monthly financial reports should contain only the total unpaid portion of all commitments through the reporting period. Subcontracts that are either in the planning or formative stages should not be reported as commitments until the contract has been awarded. Reported amounts should include all Commitment Overhead charges, which represent the estimated M&O Partner fees on the unpaid portion of awarded contracts. **Source:** NNSA Financial Integration Team and DOE/CFO
- i. Equipment. Includes the cost of purchased equipment specifically identified with a particular final cost objective. This may include the purchase price of the asset and related vendor taxes, as well as any related vendor or integrated contractor costs, import duties, freight and handling, site preparation, and installation. In recognition of the range of contractor cost models and allowable accounting practices it is recognized some contractors will be unable to provide equipment as an element of cost. Equipment, at a minimum, must include the cost of capital equipment. **Source:** NNSA Financial Integration Team Cost Element
- j. Fee. Costs incurred for the management and operations of the contract on behalf of the U.S. Department of Energy. Also includes cost credits for prior year unearned fee reductions. **Source:** NNSA Financial Integration Team Cost Element
- k. Financial Integration. The collection of common financial data, as identified in Section 3128 of the FY 2014 *National Defense Authorization Act* (NDAA) and Section 3113 of the FY 2017 NDAA. **Source:** 2014 and 2017 NDAA.
- l. General and Administrative. Costs incurred for institutional management and administration, procurement, and education and external relations activities. **Source:** NNSA Financial Integration Team Cost Element
- m. Infrastructure Support. Costs incurred to fund the maintenance, sustainment, and modernization of infrastructure and equipment. Includes costs for institutional-funded maintenance and recapitalization projects (e.g., minor construction, equipment, and facility disposition). **Source:** NNSA Financial Integration Team Cost Element

- n. Laboratory Directed Research & Development. Costs incurred to fund basic scientific research and development as approved by Department of Energy Order 413.2C, *Laboratory Directed Research and Development*. PDRD and SDRD are authorized in Section 310 of the 2001 *Energy and Water Development Appropriation Act* (P.L. 106-377), Section 3156 of the FY 2001 NDAA (P.L. 106-398), and Section 310 of the 2002 *Energy and Water Development Appropriation Act* (P.L. 107-66). **Source:** Referenced citations
- o. Materials & Supplies. Costs for tangible goods that may be incorporated into or attached to a deliverable end item or that may be consumed or expended in performance of work. Materials and supplies include, but are not limited to, raw and processed materials, purchased parts, components, assemblies, fuels, small tools and supplies, and subcontracted materials identified with a particular final cost objective. Materials may include such collateral items as inbound transportation and in-transit insurance. **Source:** NNSA Financial Integration Team Cost Element
- p. New Mexico Gross Receipts Tax. Allocable costs of the New Mexico business tax imposed on Los Alamos National Security, LLC; Sandia National Laboratory; Kansas City National Security Campus for management and operation of the site. **Source:** NNSA Financial Integration Team Cost Element
- q. Obligations. Obligation means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. **Source:** OMB Circular A-11 (2016)
- r. Other Direct Costs. All other direct NNSA-funded costs charged to a particular final cost objective, but not previously categorized. Includes relocation, and where identifiable, conference fees, training classes, training materials, and training supplies. Individual costs charged to Other Costs should be relatively small; large costs should be examined and moved to the appropriate category. **Source:** NNSA Financial Integration Team Cost Element
- s. Other Indirect Costs. All other indirect costs not charged to any other indirect cost element. **Source:** NNSA Financial Integration Team Cost Element
- t. Overhead (indirect). The portion of total indirect costs allocated for recovery against a particular final cost objective. Includes LDRD/SDRD/PDRD, and fee. Does not include Service Center recoveries or recharges. **Source:** NNSA FI Team Cost Element
- u. Program Office Support. Costs incurred for management and administration, project planning and controls, and customer liaison activities related to major contractor programs. The applicable rate is dependent on program type. **Source:** NNSA Financial Integration Team Cost Element
- v. Recovery of Service Center Costs. Direct funded cost for support from designated contractor Service Centers charged directly to a particular final cost objective. Indirect funded Service Center cost/charges/allocation will be reported in Overhead. **Source:** NNSA Financial Integration Team Cost Element

- w. Safeguard & Security Adder. Strategic Partnership Projects (SPP) customers only: allocable security envelope costs incurred to protect personnel, information, and materials within the site footprint. Apply consistent with authority in DOE Order 481.10, *Strategic Partnership Projects [Formerly Known as Work for Others (Non-Department of Energy Funded Work)]*. **Source:** NNSA Financial Integration Team Cost Element
- x. Site Support. Costs incurred for organizational management and administration, site-wide infrastructure services, general purpose facility operations, worker safety and protection, computer and communications infrastructure, and other support costs necessary to ensure that work activities can be successfully managed and executed. **Source:** NNSA Financial Integration Team Cost Element
- y. Staff Augmentation. Cost of temporary personnel charged directly to a particular cost objective (including parent company staff). **Source:** NNSA Financial Integration Team Cost Element
- z. Subcontracts – Domestic. Cost for domestic service-based contracts and leases (all procurements other than materials, supplies, equipment, tooling, and staff augmentation), issued by the prime contractor. **Source:** NNSA Financial Integration Team Cost Element
- aa. Subcontracts – International. Costs for international contracts issued by the prime contractor. **Source:** NNSA Financial Integration Team Cost Element
- bb. Travel. Costs for transportation, lodging, subsistence, and incidental expenses incurred by personnel in official company business identified with a particular final cost objective including invitational travel. Sites with the ability to distinguish between *travel* and *non-travel* costs frequently combined in travel (e.g., conference fees, training, books, relocation, etc.), are requested to separate those costs and include them in Other Direct Costs. **Source:** NNSA Financial Integration Team Cost Element
- cc. Work Breakdown Structure. The work breakdown structure (WBS) is used as the basic building block for the planning of all authorized work. The WBS is a product-oriented division of project tasks depicting the breakdown of work scope for work authorization, tracking, and reporting purposes that facilitates traceability and provides a control framework for integrated program management. **Source:** National Defense Industrial Association Earned Value Management System Guide (2014)