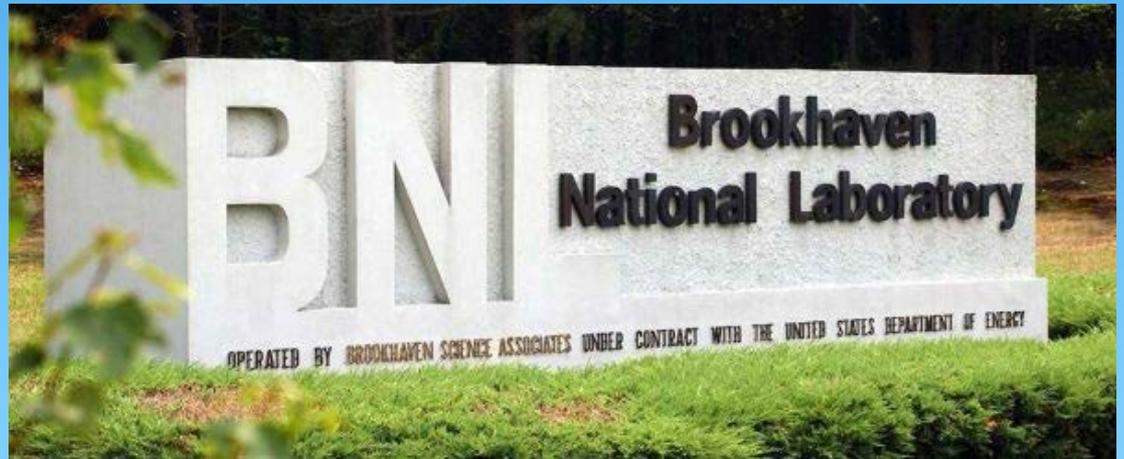


Brookhaven National Laboratory (BNL)

A comparison of the financial reporting standards between the government and publicly traded companies.

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Funds Appropriated to BSA

Taxpayer

Congress

Department of
Energy (DOE)

Brookhaven National
Lab (BNL)

Brookhaven National Laboratory

Opened in 1947 on the former site of the U.S. military's Camp Upton, and its initial mission is centered on the peaceful exploration of the atom. The facility currently is a multipurpose research institution funded primarily by the U.S. Department of Energy's Office of Science.

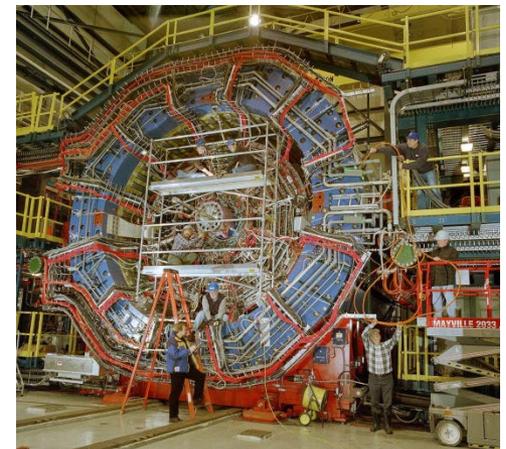
BNL is managed and operated by Brookhaven Science Associates, LLC (BSA) on behalf of DOE. BSA is a partnership of Battelle Memorial Institute in Columbus, Ohio, and the Research Institute of the State University of New York through Stony Brook University.



Brookhaven National Lab Background

BNL is a federally funded laboratory with an annual budget of approximately \$600 million. These funds are used for :

- Employees of over 3,000, which include scientists, engineers, and support staff.
- Operates vast research machines such as the Relativistic Heavy Ion Collider (RHIC) and National Synchrotron Light Source II (NSLS II).
- Exploring smaller and smaller nanomaterials to improve technology and medicine research.
- Exploring the identification of what existed in the first moments after the “Big Bang”.
- Climate, Environment & Bioscience Research.





Sarbanes Oxley (SOX)

VS.

**Federal Managers' Financial Integrity
Act (FMFIA)**

SOX – Publicly Traded Companies

The Sarbanes-Oxley Act came into force in July 2002 and was issued to ensure responsibility and good practice in accounting. This act set strict requirements placed on publicly traded companies in relation to their internal controls and financial reporting. This act was in response to the major corporate scandals of Enron, Worldcom, and Tyco.

This act can be broken down into 6 major sections

- Corporate Responsibility of Financial Reports (section 302)
- Disclosures in Periodic Reports (section 401)
- Management Assessment of Financial Reports (section 404)
- Real Time Issuer Disclosures (section 409)
- Corporate and Criminal Fraud Accountability (section 802) and White-Crime Penalty Enforcement (section 901)

The purpose of Sarbanes-Oxley is to both enforce accurate reporting and to drive the development of stronger internal processes and controls within every organization.

By contrast

FMFIA – U.S. Government

In 1982, Congress enacted the *Federal Managers' Financial Integrity Act (FMFIA)*, which requires each agency to establish and maintain internal control systems that allow:

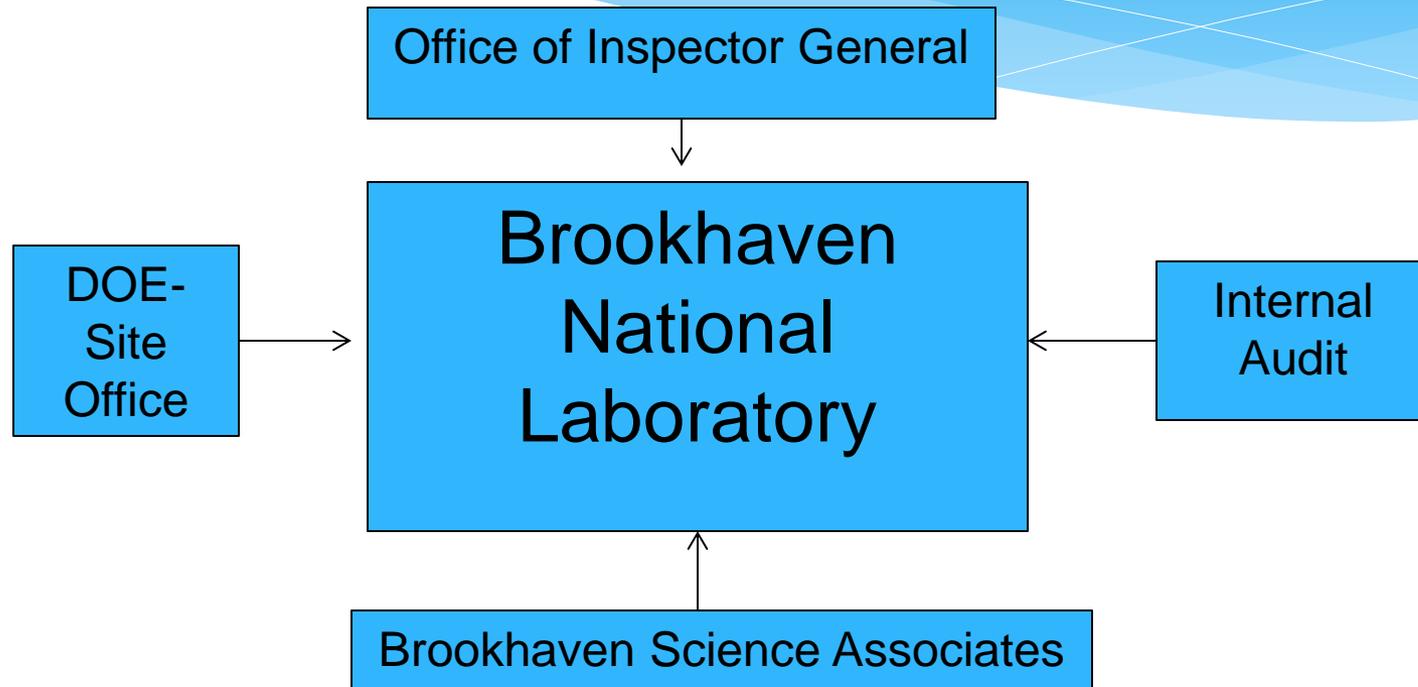
- * Obligations and costs to be recorded in compliance with applicable laws;
- * Funds, property, and other assets to be safeguarded; and
- * Revenues and expenditures applicable to agency operations to be properly recorded and accounted for to permit the preparation of accounts and reliable financial information and statistical reports and to maintain accountability over the assets.

DOE management is responsible for establishing an internal control program and annually evaluating internal controls and reporting on the status of any identified material weaknesses up through the chain of command to the President, Congress, and OMB.

In order to comply with the requirements of FMFIA and OMB Circular A-123, all Departmental elements (Inclusive of all integrated contractors) are required to perform the following types of internal controls assessments:

- * Financial Management Assurance (FMA) Evaluation;
- * Entity Evaluation; and
- * Financial Management Systems (FMS) Evaluation

FMFIA Oversight Participants



FMFIA at Brookhaven National Lab- Brookhaven Science Associates

Brookhaven Science Associates (BSA)

- Required to maintain a financial management system responsive to the obligations of sound financial stewardship and public accountability.
- Shall develop an assurance system that is executed by BSA's Board of Directors. This system provides reasonable assurance that the objectives of the contractor management systems are being accomplished and that the systems and controls will be effective and efficient.
- Completes the Financial Management Assurance (FMA) Evaluation and the Entity Evaluation on an annual basis. These evaluations tests and documents management's internal controls; evaluations are subsequently submitted to DOE for review.

FMFIA-Internal Audit

BSA's Internal Audit Department

- Provides BSA with an independent selection of samples required for testing internal controls.
- Performs numerous audits throughout the year testing and documenting the strength of internal controls.

FMFIA-Department of Energy

Department of Energy

- Provides oversight of BSA to ensure adequate and effective internal control systems.
- Upon receipt of BSA's internal control evaluations, DOE performs a review to ensure the adequacy of the results of the evaluation.
- DOE also completes Financial Management Assurance (FMA) Evaluation, Entity Evaluation and Financial Management Systems (FMS) Evaluation.

FMFIA- Office of the Inspector General

Office of Inspector General (OIG)

- Is the Audit arm of the Federal Government.
- Performs audits to determine the allowability, allocability and reasonableness of costs incurred at BNL.
- Performs audits of various aspects of DOE's FMFIA process.

Comparison: Assurance Process

BNL

- BSA provides DOE an assurance memorandum documenting the strength of its internal controls as a result of its FMA and Entity evaluations.
- DOE site office provides the DOE Office of the Chief Financial Officer (OCFO) an assurance memorandum documenting the strength of internal controls at BNL.
- OCFO provides an assurance memorandum to the Secretary of Energy on the adequacy of Controls.
- The final Secretary of Energy assurance is provided to the President, Congress and OMB and the Agency Financial Report.

Corporations:

- Auditors give opinions on the annual report that will be submitted to SEC and disclosed to the public.

FMFIA vs. SOX

FMFIA

- * Planning
- * Risk Assessment – top-down and bottoms-up approach
- * Testing the design and operating effectiveness of controls selected in last step
- * Evaluating identified control deficiency to determine whether the deficiencies are material weaknesses.
- * Thorough review by numerous layers to ensure the adequacy of the results and assurance determination.
- * Forming an opinion of the effectiveness of internal control systems that allow:
 - * Obligations and costs to be recorded in compliance with applicable laws;
 - * Funds, property, and other assets to be safeguarded; and
 - * Revenues and expenditures applicable to agency operations to be properly recorded and accounted for to permit the preparation of accounts and reliable financial information and statistical reports and to maintain accountability over the assets.

SOX

- * Planning
- * Risk Assessment - top-down approach
- * Testing the design and operating effectiveness of controls selected in last step
- * Evaluating identified control deficiency to determine whether the deficiencies are material weaknesses.
- * Forming an opinion of the effectiveness of internal control over financial reporting.

Why must the Government be held to a higher standard?

- BNL is funded predominantly with tax dollars that is subject to congressional oversight. Federal funding is a matter of public trust and should be transparent to the taxpayer.
- BNL funding is subject to annual appropriations from congress and can be reduced or increased subject to it's performance.
- The FMFIA not only demands the responsibilities of organizations, but also the duties of head officials such as contractors, agencies, CFOs, program managers and the Inspector General.
- Brookhaven National Laboratory is essential to our society and it is no surprise that DOE regulates itself at such a high level.