

A-123 Fiscal Year 2007 Operating Assumptions & Key Changes September 7, 2006

Purpose: The purpose of this document is to outline the core operating assumptions and key process/tool changes that will guide Federal and contractor sites in their implementation of the requirements of Office of Management and Budget (OMB) Circular A-123, Appendix A, *Management's Responsibility for Internal Control*. This will cover areas including: high level milestones; consideration of material accounts; scope; evaluation cycle; pending changes to the A-123 Assessment and Reporting Tool (AART); clarifications of previous guidance in the Quick Start Guides; and other important information to jump-start the fiscal year (FY) 2007 evaluation. Over the next several months sites will receive more detailed operational guidance and training to support effective and efficient operations in FY 2007.

CORE OPERATING ASSUMPTIONS

Key Milestones:

- **January 15 / January 30** - 1st quarterly reporting due dates for Field and HQ respectively.
- **April 15 / April 30** – 2nd quarterly reporting due dates for Field and HQ respectively.
- **July 15 / July 30** – 3rd quarterly reporting due dates for Field and HQ respectively.
- **July 31** – Final due date for FY 2007 testing.

Note: Additional milestones will be established in the final guidance issued in October. AART updates may be requested at any time to facilitate external reporting requirements.

Scope:

Federal Sites – In FY 2006, Federal sites completed their assessment of those high-risk activities most critical to supporting the Department's financial statement remediation efforts. In FY 2007, Federal sites must complete their evaluation and testing of all remaining high-risk activities not completed in 2006. In addition, all medium-risk activities must be completed. NOTE: In FY 2008, Federal sites collectively have more than 750 low-risk activities to complete. Therefore, it is expected that, in addition to completing the 2007 scope, Federal sites will make significant progress against 2008 activities (i.e. documenting and testing a high percentage of low-risk activities). Sites will be asked to update their implementation plans to identify specific targets for addressing FY 2008 low-risk activities in FY 2007.

Contractor Sites – In FY 2006, contractor sites completed their assessment of all high-risk activities. In FY 2007, contractors must complete their evaluation and testing of all

medium and low-risk activities. Guidance on FY 2008 requirements will be provided later in FY 2007.

Cyclical Risk-Based Evaluations: The Department will begin its cyclical risk-based testing approach beginning in FY 2008. For FY 2007, sites are to focus on completing the baseline assessment of all activities which will occur over the three year period from FY 2006 to FY 2008. Guidance on cyclical evaluations will be issued later in FY 2007.

Addressing High-Risk Activities in FY 2007: Sites are NOT required to re-evaluate and test all high-risk activities in FY 2007. However, sites must look at all the high-risk areas evaluated in FY 2006 to determine if significant process changes occurred since the time of the evaluation (e.g. if the process for validating invoices changed from a completely automated to manual process, etc.). If process changes occurred that would cause the site to question whether the results are still valid, the site should consider that process for possible re-testing in FY 2007. The final decision rests with the Field Element with cognizance over the site. Please let the Field Office A-123 lead know of any areas for potential re-testing to facilitate this decision. The A-123 Project Management Team (PMT) is available to assist in these decisions if requested.

Material Accounts: Because the Department has chosen a 3-year approach for completing the baseline assessment, the PMT believes the material accounts need to remain fairly constant. This is important to allow for adequate tracking of progress and status against the commitments made to OMB. Therefore, the core material accounts listing used for the 2006 assessment will remain for FY 2007. However, the PMT will perform an analysis to determine whether there are any new material accounts at the Departmental level. While unlikely, if new material accounts are identified, they will be accommodated and the sites for which those accounts are material will need to add them to their AART and FY 2007/2008 scope. In addition, sites will be asked to determine whether any significant changes have occurred locally in 2006 that might necessitate a change to their material accounts (e.g. a major contractor merger, a major contractor split, change in allottee or organization cognizance, etc.). Any such issues should be brought to the PMT, who will work with the site (on a case-by-case basis) to determine an appropriate course of action. Specific instructions and key considerations for identifying any potential material accounts changes will be provided in the Annual Guidance to be issued in early October.

KEY IMPLEMENTATION CHANGES

Many of the planned changes outlined below will require revision to the AART. The PMT plans to roll out a revised tool (and provide requisite training) in late November. The transition will be timed and managed to minimize impact on on-going evaluation efforts. As with previous revisions, we will automate the extraction of data from the old tool into the new. Quick Start Guides and other guidance will also be revised to accommodate these changes. All changes will be implemented in October and November of FY 2007.

For your convenience we are providing the most advance notice we can and, in some cases, have provided direction on immediate actions you can take now to prepare for the changes or to simply eliminate steps that will be unnecessary once the changes are implemented.

Effectiveness Rating Definitions: Rating definitions for control design effectiveness at the sub-process/risk level will be changed in FY 2007. We will migrate to a system that will provide more descriptive ratings that better align with the evaluation process (e.g. a 3 rating may be termed a “Critical Design Flaw” versus the current “Material Weakness” term.). “Material Weaknesses” and “Reportable Problems” will only be defined at higher levels (e.g. process or account level at year-end.). **Impact:** AART will be modified and sites will have to align prior ratings with the new rating system in the tool.

Testing Result Ratings: Rating definitions for test results at the sub-process/risk level will be changed in FY 2007. We will migrate to a system that will provide more descriptive ratings that better align with control design effectiveness ratings and provide an indication of the severity of any testing issues (e.g. a result that previously received a “Fail” rating might receive a rating of “3” Critical Control Failure, etc.). **Impact:** The AART will be modified and sites will have to align prior ratings with the new rating system in the tool.

Testing Statistics: Currently, the AART captures selected testing statistics (e.g. universe, sample size, etc.). For FY 2007, these fields will be eliminated. All of this information must still be captured in the sites test work-papers and maintained locally; however, sites will no longer be required to input this data into the tool. **Impact:** Effective immediately, all sites may refrain from populating the following fields in the AART: # of Universe, # of Sample, % Tested, # Failures, and % Failures. The AART will be modified and the new tool will automatically eliminate these columns. QSGs will be update accordingly.

Test Priority: The test priority column in the PCS and ECS-Test tabs of the AART will be replaced with the actual risk ratings identified in the PCS and ECS-Assess tabs. This will better facilitate a risk-based testing approach. **Impact:** The AART will be modified. There should be no impact on sites.

Self Assessment Capability: The November 2007 release of the AART will contain a self-assessment tab that will automatically calculate key progress statistics (e.g. number and percent of risks rated/unrated, number of activities in remediation, etc.). **Impact:** This new AART capability will allow site and field office A-123 leads to better evaluate the completeness and quality of their AART submissions prior to forwarding to Headquarters. It will also provide better information to assess general progress and plan resources.

Action Plan Tracking Tool: The November 2007 release of the AART will integrate the Action Plan Tracking Tool, which is now a stand-alone worksheet. **Impact:** The integration will be seamless and will result in a new worksheet within the AART

workbook. Sites may (or may not) have to perform some limited copy and paste functions to align data between the old and new tool.

Assurance Tool: The November 2007 release of the AART will integrate the Assurance Tool, which is now a stand-alone worksheet. **Impact:** The integration will be seamless and will result in a new set of worksheets within the AART workbook.

Risk Assessment Guidance: The November 2007 release of the Documentation QSG will incorporate the May 12, 2006, Clarifying Guidance on Risk Assessment, issued by the Deputy Director, Office of Internal Review. **Impact:** No process impact. The change will provide for more efficient and effective access to program guidance and will reinforce the performance of an “inherent” risk assessment.

Testing Guidance: The November 2007 release of the Testing QSG will incorporate slight modifications to testing requirements to support the new test result rating definitions. Specifically, the guide will be revised to address steps necessary to determine if risks actually occur as a result of control failures (e.g. an invoice approval control may have failed; however, an actual over/under payment may not have occurred.). **Impact:** Sites will have to perform minimal additional steps when testing failures occur.

Entity Controls: The November 2007 release of the QSGs will include more emphasis on entity controls, including better examples and a clearer delineation of some of the possible differences in documentation and testing approaches. **Impact:** These changes should help sites better understand entity controls and help drive continuous improvement in our evaluation program.

/S/

John Newell
Chair, A-123 Senior Assessment team
U.S. Department of Energy