



Department of Energy
Washington, DC 20585

August 31, 2005

MEMORANDUM FOR LINDA M. COMBS
CONTROLLER, OFFICE OF MANAGEMENT AND
BUDGET

FROM:

SUSAN J. GRANT
CHIEF FINANCIAL OFFICER

A handwritten signature in black ink, appearing to read "Susan J. Grant", written over the printed name.

SUBJECT:

CIRCULAR A-123, Appendix A, Implementation Plan

I have attached the U.S. Department of Energy's OMB Circular A-123, Implementation Plan. We currently are performing the up-front planning and management education required to assure success in meeting the revised Circular's objectives.

We look forward to discussing our implementation strategies with you. If you have any questions, comments or would like a meeting, please do not hesitate to contact me on (202) 586-4171 or John Newell, Director, Office of Program Liaison and Financial Analysis, on (202) 586-8921.

Attachment

Department of Energy
OMB Circular A-123
Appendix A
Implementation Plan



August 31, 2005

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Department of Energy OMB Circular A-123, Appendix A Implementation Plan

August 31, 2005

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I. Introduction

It is management's fundamental responsibility to develop and maintain effective internal control and the Department of Energy is committed to fulfilling this obligation. Effective internal control provides assurance that significant weaknesses, that could adversely affect the agency's ability to meet its objectives, are prevented or detected in a timely manner. Furthermore, effective internal control over financial reporting provides assurance that misstatements, losses or noncompliance with applicable laws and regulations, material in relation to the financial reports, are prevented or detected. The revised Office of Management and Budget (OMB) Circular A-123's (OMB A-123) new requirements will help us strengthen financial management and better support our program managers to improve business decision-making.

Analyzing the internal controls over financial reporting is not an isolated process. Instead, management must integrate efforts to meet the OMB A-123 requirements with other efforts to improve effectiveness and accountability. To accomplish this, internal control review efforts will be coordinated with and integrated within existing management evaluation processes so that single accountability is ensured. Finally, data collected to meet the OMB A-123 requirements can be leveraged to increase the effectiveness and efficiency of financial management and accounting operations on a continuing basis. This will assist the Department in achieving its strategic financial management vision of unified, sound, accountable fiscal operations.

DOE has developed this implementation plan in order to meet three primary objectives: improve the effectiveness and efficiency of financial management and accounting operations; integrate OMB A-123 requirements with other assessment and review requirements; and ensure compliance with OMB A-123 requirements. This implementation plan details the process framework, governance structure, and management processes required to meet those objectives.

The implementation plan is structured around two major sections: the process framework and the governance model. The process framework section describes the activities that will be performed to document and improve DOE financial management internal controls. The governance section describes the management models, structure, and processes that will manage, control, and guide the activities described in the process framework section in order to bring to successful conclusion the implementation plan. In particular, governance addresses such areas as identifying material accounts and key processes that assure proper focus of process framework activities.

In order to focus the implementation, the Department has utilized eight categories of activity identified by OMB in which to classify its implementation targets. Each section of the implementation plan contains a matrix of major decisions and major milestones as they pertain to:

- A. Organizational structure (e.g., establishment of Senior Assessment Team);
- B. Scope of financial reports;

- C. Materiality;
- D. Identification of key processes;
- E. Integration of internal control-related baseline activities;
- F. Testing plan;
- G. Resources to be utilized; and
- H. Documentation methods.

The matrices will reference the above implementation elements using the appropriate letter designation.

II. Process Framework

This section of the implementation plan outlines the overall process framework that will be followed to baseline, evaluate, and improve DOE internal controls and associated elements such as business activities involving the internal controls, the organizational elements responsible for assuring the integrity of the internal controls, and the need for training to enhance the effectiveness of internal controls. This process will involve continuous evaluation and will take place within an overall governance framework. This latter framework includes both the governance structure and management processes which are discussed in Section III of this document. Figure 1 shows the DOE Internal Controls Continuous Improvement Management Framework.

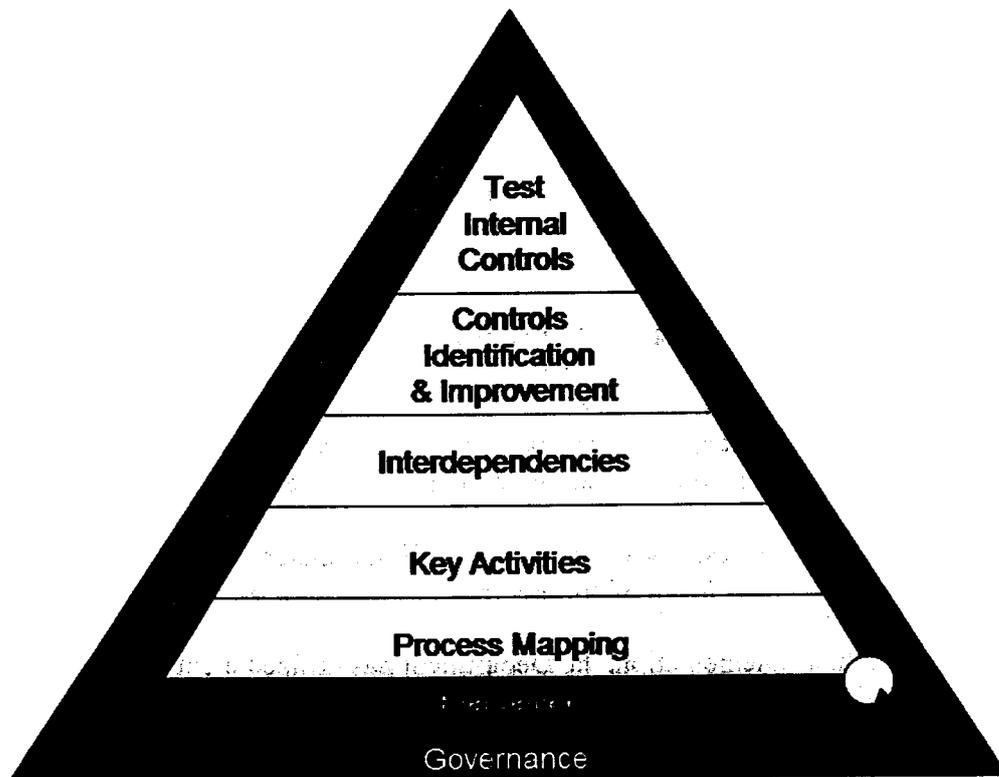


Figure 1 – DOE Internal Controls Continuous Improvement Management Framework

The overarching concept of this framework is one of spiral development, where each activity not only provides the basis for the following activity but also refines and focuses the development of the preceding activity. The continuous and cyclical nature of this process is denoted by the circle with the arrow in the graphic. This will enable DOE to maximize its resources by applying them towards its objectives and sub-objectives in order of priority (e.g., materiality, mandate requirements, return on investment, etc.).

- The **Process Mapping** activity involves the end-to-end documentation of the business event, including the business activities, activity relationships, roles and responsibilities, and organizational elements involved. In this activity, DOE will baseline its financial management and accounting processes and identify areas for future improvement.
- The **Key Activities** activity, based on guidance from its governance elements, involves the identification and detailed analysis of data sets, transactions, and process points used in creating financial management and accounting entries. In this activity, DOE will identify the key activities within DOE financial management and accounting operations based on materiality and other DOE priorities. This will allow DOE to focus its internal controls analysis and process mapping activities.
- The **Interdependencies** activity involves the identification and understanding of relationships, feeders, and critical paths of DOE financial management and accounting activities. In this activity, DOE will identify the operational interfaces between and among its financial management and accounting processes to ensure that modifications in one activity (e.g., modifying an internal control) will not adversely affect another activity's internal control(s). This activity will enable DOE to perform a more rigorous and refined internal control analysis.
- In the **Internal Controls Identification and Improvement** activity, DOE will identify the internal controls in place for its financial management and accounting processes (restricted as described above), identify areas for improvement, and implement the improvement recommendations. Internal control, per the OMB A-123, includes the plan of organization, methods, and procedures adopted by management to meet the objectives of: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. This activity is focused on the design effectiveness of the internal controls, will refine targets and priorities of each preceding activity, and will be used to point managers to risk areas in their processes. Modifications may be required to business activities and organizational elements to more effectively enforce the application of internal controls.
- In the **Test Internal Controls** activity, DOE will perform the internal controls testing, as designed in the Internal Controls Identification and Improvement activity. This activity will not only determine the operational effectiveness of the internal controls, but also aid in the refinement of the overall internal control framework.
- In order to properly monitor, control, and guide the process, the Department must have management processes in place for the **Evaluation** of the implementation process. This will allow not only for the successful implementation of the

continuous improvement management framework, but will allow the Department to perform its attestations. This is described in Section III.

- The proper **Governance** structure must be in place to monitor, control, and guide the overall implementation process and ensure all levels of management are appropriately engaged and accountable. This is described in Section III.

Internal Controls Validation and Improvement Framework			
Major Milestones	OMB A-123 Implementation Element	Scheduled Completion Date	Status
Initial Baseline Activity	H	1 st Quarter 2006	Planning
Identification of Integrated Internal Control-Related Requirements	E	1 st Quarter 2006	Planning
Evaluation of Internal Controls in Initial Baseline	C	1 st Quarter 2006	Planning
Development of Test Plan for Material Internal Controls	F	1 st and 2 nd Quarters 2006	Planning
Testing of Material Internal Controls	F	1 st and 2 nd Quarters 2006	Planning
Design of Improved Internal Controls	H	3rd Quarter 2006	Planning
Design of Improved Processes and Activities	H	3rd and 4 th Quarter 2006	Planning
Testing of Improved Internal Controls	F	3rd and 4 th Quarter	Planning
Institutionalizing of Improved Internal Controls Structure	F	TBD	Planning
Evaluation of Improved Internal Controls Structure	F	TBD	Planning
Initiation of 2 nd Level Baseline Activities	H	2 nd Quarter 2006	Planning

III. Governance

This section of the implementation plan describes: the governance structure that DOE will use to monitor, control, and guide the implementation process described in Section II, including determinations of materiality and scope; the management processes and activities that the responsible parties within the governance structure perform; and the major decisions and milestones that will be used to track the progress of the implementation plan. One of the key inputs that the governance structure and management processes will provide will be the determination of materiality and scope.

Figure 2 outlines the governance structure that DOE has implemented for this purpose.

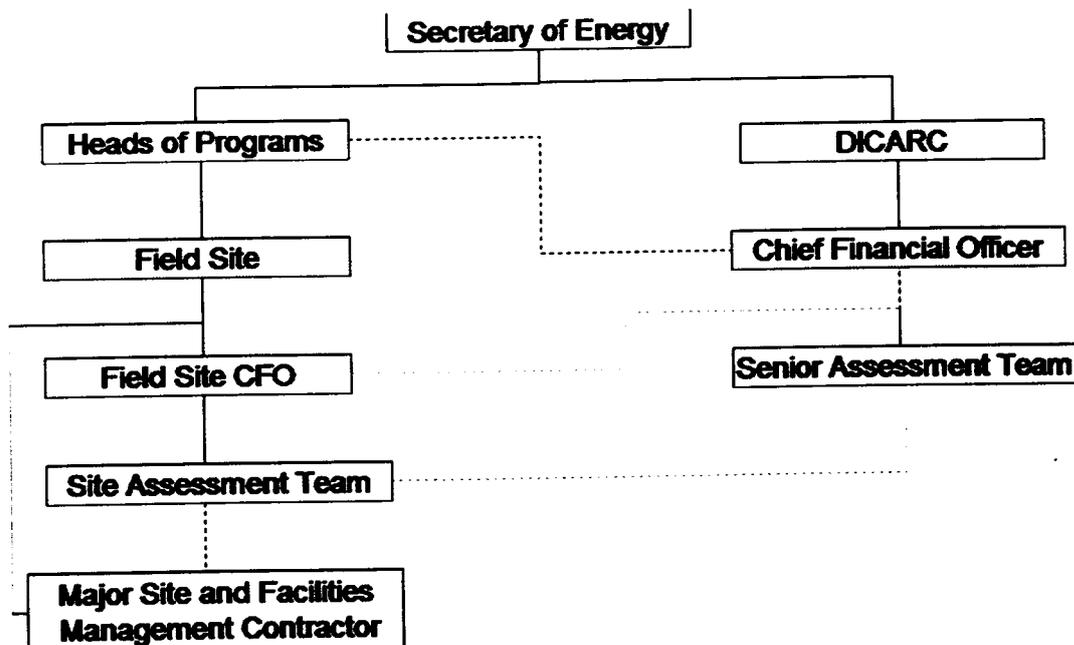


Figure 2 – DOE Governance Structure for OMB A-123 Implementation

The Secretary of Energy shall sign the assurance statement on the Department’s effectiveness of internal control over financial reporting as of June 30th for the fiscal year being reported to be included in the annual Performance and Accountability Report (PAR), issued November 15.

The Departmental Internal Control and Audit Review Council (DICARC) provides senior management oversight of the Department’s internal control program. The DICARC consists of the CFO, the Inspector General, the Assistant Secretary for Environmental Management, the Principal Deputy Administrator for National Nuclear Security Administration, the Director, Office of Security, and the Special Assistant to the Secretary.

DICARC reviews and approves material weaknesses of internal control over financial reporting and determines the level of Secretarial assurance the Department should provide on its internal control over financial reporting.

The DOE Chief Financial Officer (CFO) is responsible and accountable for ensuring an effective process is implemented to assure fiscal integrity and accountability. The CFO has established a Senior Assessment Team to oversee the Department’s efforts to implement the requirements of A-123, Appendix A and recommend to the Departmental Internal Control and Audit Review Council the level of Secretarial assurance the Department should provide on its internal control over financial reporting.

The Senior Assessment Team (SAT) provides senior management oversight for the Department’s assessment of internal control over financial reporting and ensures

compliance with OMB Circular A-123, Appendix A. The SAT includes cross-functional program representatives, including a member of the Inspector General's office as an ex-officio representative. While not a voting member of the team, the Inspector General staff's input is critical in developing an implementation approach that meets the intent of the Circular and leverages the existing audits and reviews that should be considered as part of the assessment process.

The SAT will annually identify material accounts from the Department's quarterly and annual financial statements. Based on identified accounts, key processes and sites will be selected for inclusion in the assessment. The SAT shall make an overall evaluation of the design and operation of the internal control over financial reporting based in large part on the quarterly and annual assessments from Heads of Headquarters and Field Elements. The SAT will, based on their analysis, recommend to the CFO which reportable conditions, when aggregated, may be deemed material weaknesses to the Department as a whole. To ensure accurate assessment and reporting of control effectiveness in the Department's Performance and Accountability Report, the SAT will develop a process to identify changes in the internal control environment from June 30th to fiscal year-end that could potentially impact the effectiveness of internal control over financial reporting.

Heads of Programs shall develop and maintain effective systems of internal control; conduct assessments of internal control over financial reporting; and report results, including quarterly status reports and an annual assertion on the internal controls under their cognizance.

Heads of Programs will submit quarterly status reports on their progress in assessing the systems of internal controls and will prepare annual assertions on internal control over financial reporting to the CFO.

The Field Chief Financial Officers support their respective the Heads of Field Site's assessments and liaison with the Major Site and Facilities Management Contractors under the site's cognizance.

Site Assessment Teams shall be established by Heads of Programs with major site and facilities management contractor involvement, as appropriate, to perform evaluations of the effectiveness of internal control over financial reporting. Site Assessment Teams will develop a test plan, conduct an evaluation based on material accounts and key processes identified by the SAT; prepare quarterly status reports on their progress in assessing the systems of internal controls; and prepare annual assertions on internal control over financial reporting to the CFO. Deficiencies identified in the assessment of internal controls must be included in the quarterly reports and annual assertions, as applicable. Documentation should be appropriately detailed, organized and contain sufficient information to support management's assertion.

Major Site and Facilities Management Contractors are responsible for developing and maintaining effective systems of internal control and complying with the methodology developed by the Department. Major site and facilities management contractors will:

conduct assessments of internal control over financial reporting at their respective sites; document such assessments; report the results of the assessments, including quarterly status reports and an annual assertion on the internal controls under their cognizance to the applicable Head of Field Elements via the Field CFO; and implement and monitor corrective actions.

OMB A-123 Implementation Governance Structure and Processes			
Major Decisions	OMB A-123 Implementation Element	Completion Date	Status
Established Senior Assessment Team	A	3 rd Quarter 2005	Complete
Established Governance Structure and Responsibilities	A, G	3 rd Quarter 2005	Complete
Identified financial reports to be used in assessment	B	4 th Quarter 2005	Complete
Major Milestones			
Establish Site Assessment Teams	A,G	1 st Quarter 2006	In process
Identify FY 2006 Material Accounts	C	1 st Quarter 2006	In process
Identify Key Processes and Significant Sites	D	1 st Quarter 2006	In process
Develop and execute test plan	F	1 st and 2 nd Quarter 2006	Planning
Document Test Results	H	1 st and 2 nd Quarter 2006	Planning
Submit Quarterly Status Reports	H	January 15, April 15, July 15, October 15	
Annual Assurance Statements submitted by Heads of Headquarters and Field Elements	H	Preliminary – September 15 Final – October 6	
Annual Secretarial Assurance Statement to be included in the PAR	H	October 13, as of June 30	

IV. Summary

In order for a successful internal control program to be established, an organization must conduct extensive up-front planning, including the establishment of the governance structure and processes, and performance of data collection. Towards these ends, the Department has prioritized its OMB A-123 activities ensuring that the appropriate governance structure is in place, ensuring that the management mechanisms are present for implementation, and ensuring that the initial data collection effort involves the engagement of all levels of management. In order to maximize these elements in the most efficient manner, the Department has integrated them, to the extent possible, with existing structures and processes.

The Department also recognizes that a successful internal control program is ultimately the responsibility of management, not only to ensure the success of individual controls, but also to promote an internal control environment that increases the efficacy of the controls. For this to happen, all levels of management must not only be appropriately engaged, but also accountable through their quarterly status reports and annual assertions. This enables the Secretary to confidently make the annual attestation.

This implementation plan establishes the framework for which the Department will meet its three objectives: improving the effectiveness and efficiency of operations; integrating OMB A-123 requirements with other assessment requirements; and ensuring compliance with OMB A-123 requirements. Meeting these three objectives will assist the Department in attaining its strategic financial management vision of unified, sound, accountable fiscal operations.