



DOE A-123 FY 2007 Implementation Overview

*Building on
A-123 Success*

Dec 7, 2006



Objectives for Today

- Recap FY 2006
- Understand how to leverage A-123 for business benefits
- Increase understanding of A-123 Implementation Methodology
- Enhance knowledge of key concepts
- Highlight key changes in the A-123 Product Suite
- Ensure success in implementing DOE FY 2007 A-123 Program



Agenda

- Introduction
 - FY 2006 in Review
 - DOE and Other Agency Results
 - Best Practices
- Leveraging A-123 to Create Business Benefits
- Assurance Process at a Glance
- FY 2007 A-123 Execution
 - What's New
 - Upgrade
 - Methodology and Key Concepts
 - Oversight and Accountability
- Next Steps
- Questions & Discussion



Assurance Statement Components

1. Management's responsibility for establishing and maintaining effective internal control over financial reporting
2. Scope of Assurance: DOE limited to principal financial statements in FY 2007
3. Scope of Assessment: Limited / 3-year implementation
4. Results: Unqualified / Qualified (for scope or deficiencies) / No assurance



Samuel W. Bodman
Secretary of Energy

Financial Reports

Balance Sheet	
Assets	MM\$
- Accounts Receivable	1,326,769
Liabilities	
- Accounts Payable	2,546,769

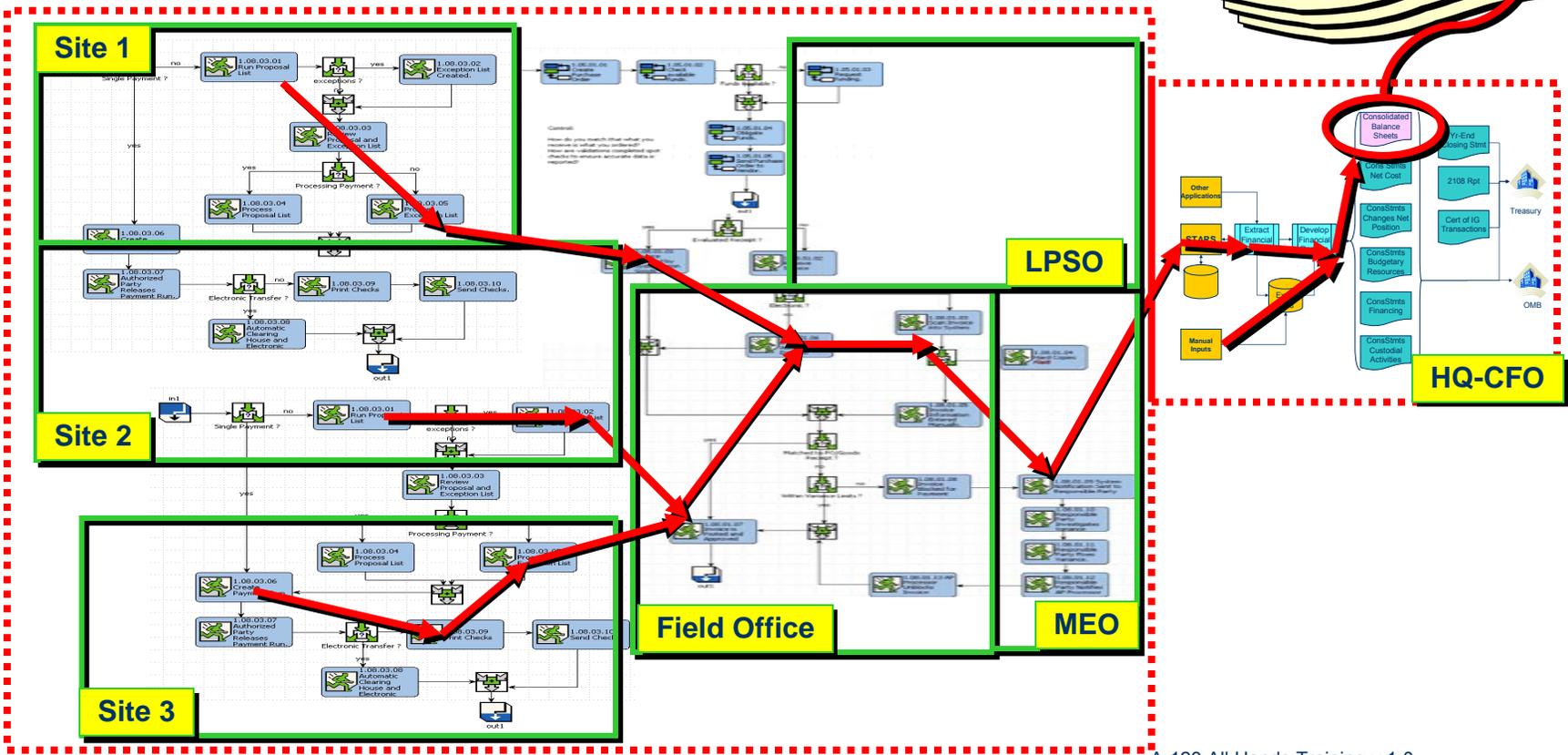


Assurance: What ensures the accuracy of the number?



**Identify End-to-End Processes
(manual & automated)
affecting Material Accounts**

Balance Sheet	
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Assurance

Department wide Rollup

Entity (ECS)
+ Process (PCS)
= Assurance

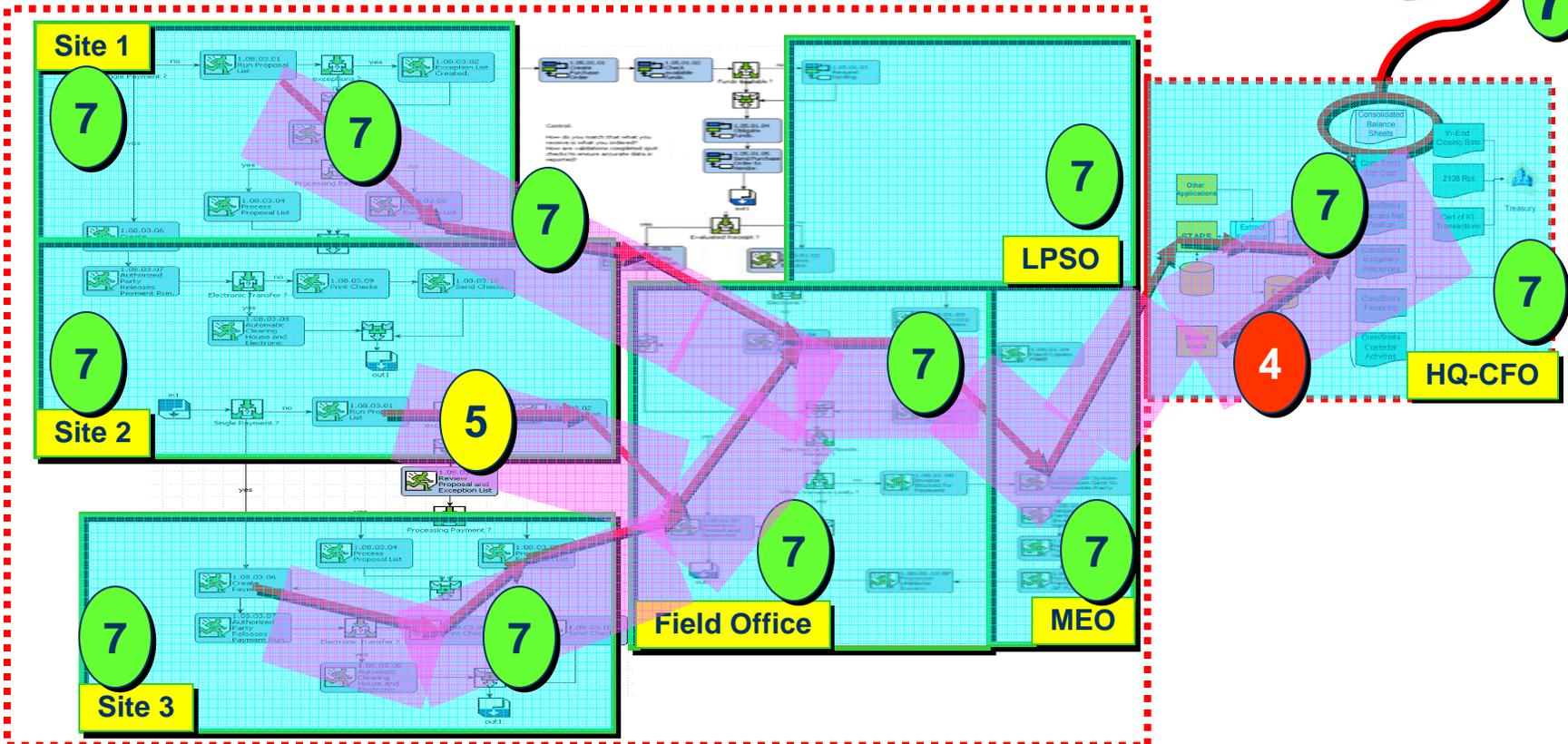


Controls Operating Effectively

No Material Weaknesses



Balance Sheet	
Assets	MMS
- Accounts Receivable	
Liabilities	
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FY 2006 in Review

Where Were We?

- New initiative with no clear direction
- HQ delays in getting organized for A-123
- Short time for the Field to deliver to meet OMB deadlines
- No clear picture of potential benefits
- Many competing initiatives and priorities
- New accounting system
- Disclaimer of audit opinion
- Extensive Tiger Team remediation



FY 2006 in Review

What Did We Achieve?

- Implemented an agency-wide assessment program
- Developed and implemented corporate A-123 tool suite
- Delivered on our commitments
- Met OMB reporting deadlines
- Raised OMB confidence level

Aug 05

Jun 06

- Identified and resolved three material weaknesses – one remains open
- Implemented program to withstand review / audit (KPMG, IG, CPA Assessment)
- Established foundation for business improvement

It was a great team effort to get where we are !



DOE and Other Agency Results

(Out of 19 other Agencies Reported)

Criteria	DOE	Other
Unqualified A-123 Assurance	No	10
Scope Limitation	Yes	5
1 or More Material Weaknesses / Reportable Conditions	Yes	7
Unqualified Financial statements	No	17



Best Practices

In Place:

- **Quick Start Guides** - Easy to use / Ensures Consistent Implementation
- **AART Tool Suite** – Saves \$ / Integrates All Activities / Brings Consistency
- **PERCV** – More Focus will Strengthen Risk Definition and Link to Objectives
- **Control Mode** (Preventive/Detective) – Supports Effectiveness & Efficiency / Better Analysis of Design
- **Ratings Changes** – Supports Better Evaluation & Testing / Facilitates easier Roll-up of Results
- **Dual Purpose Testing** – Supports Evaluation of Risk Occurrence

On The Horizon:

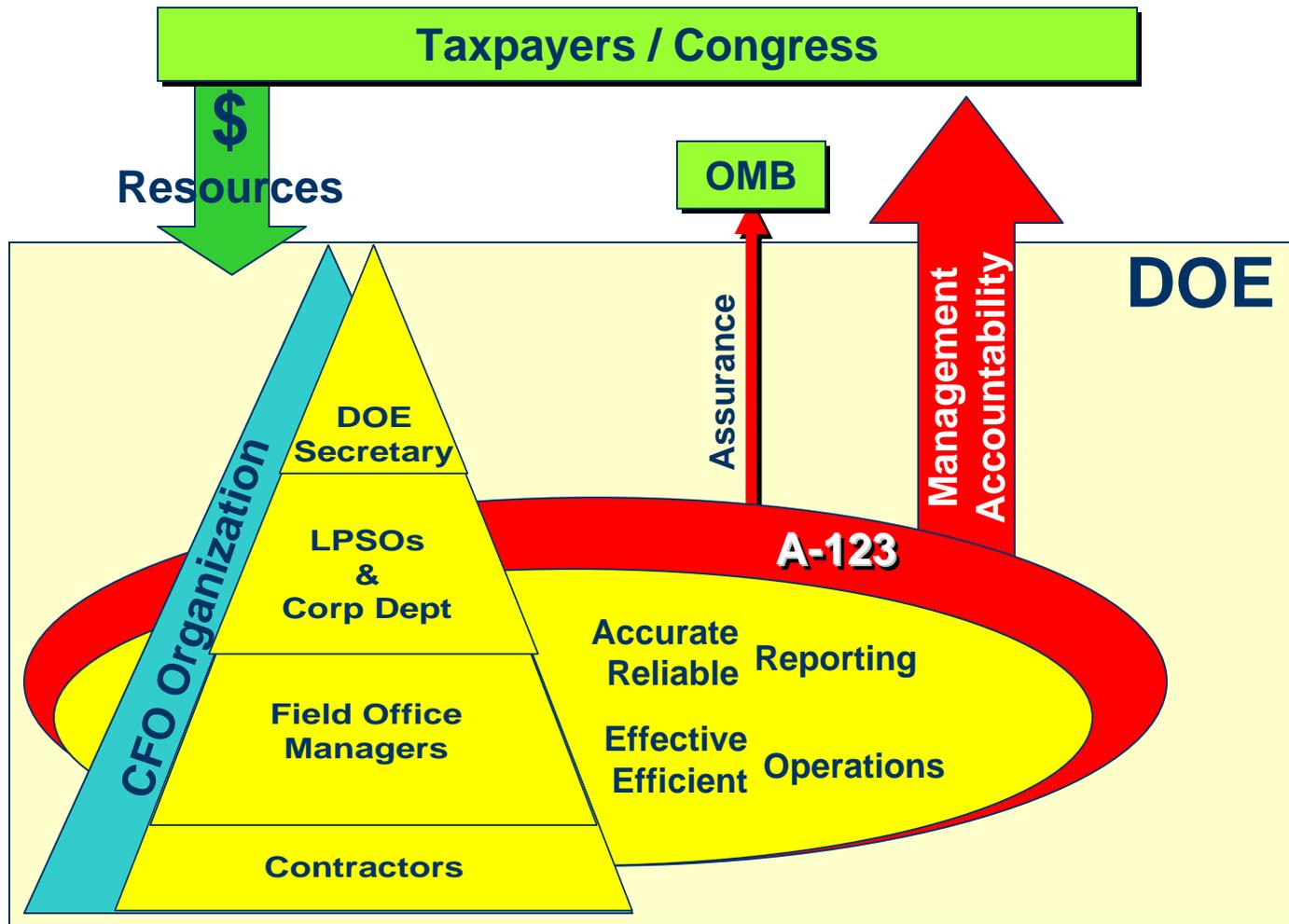
- **A-123 Portal** – Will Enhance Reporting & Sharing of Information
- **Cyclical Risk Based Approach** – Will Ensure Effective & Efficient Use of Resources
- **System solution options** - Evaluating Web based AART or alternate commercial system solutions



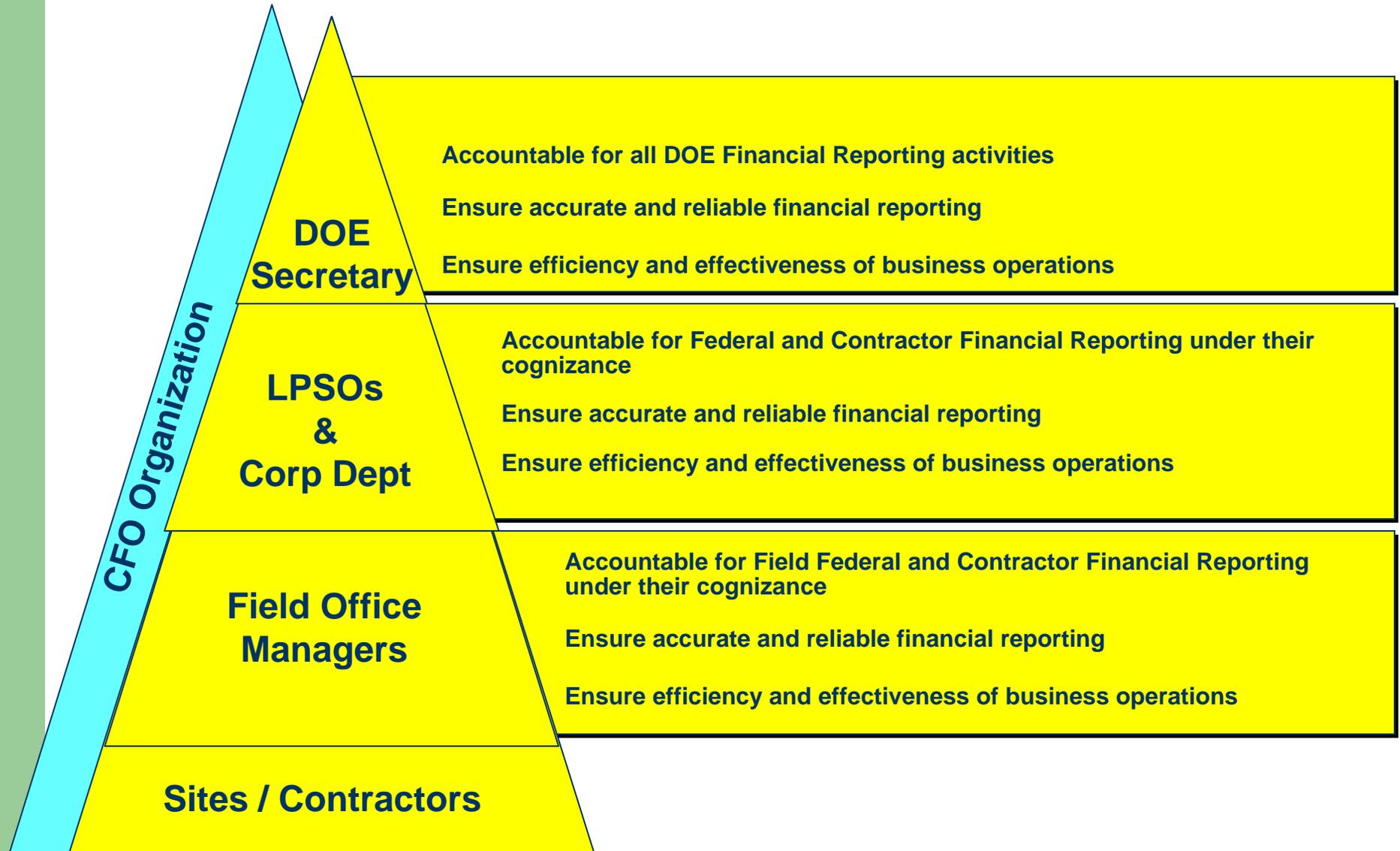
**Leveraging A-123
to Create Business Benefits**



A-123 in the Business Context

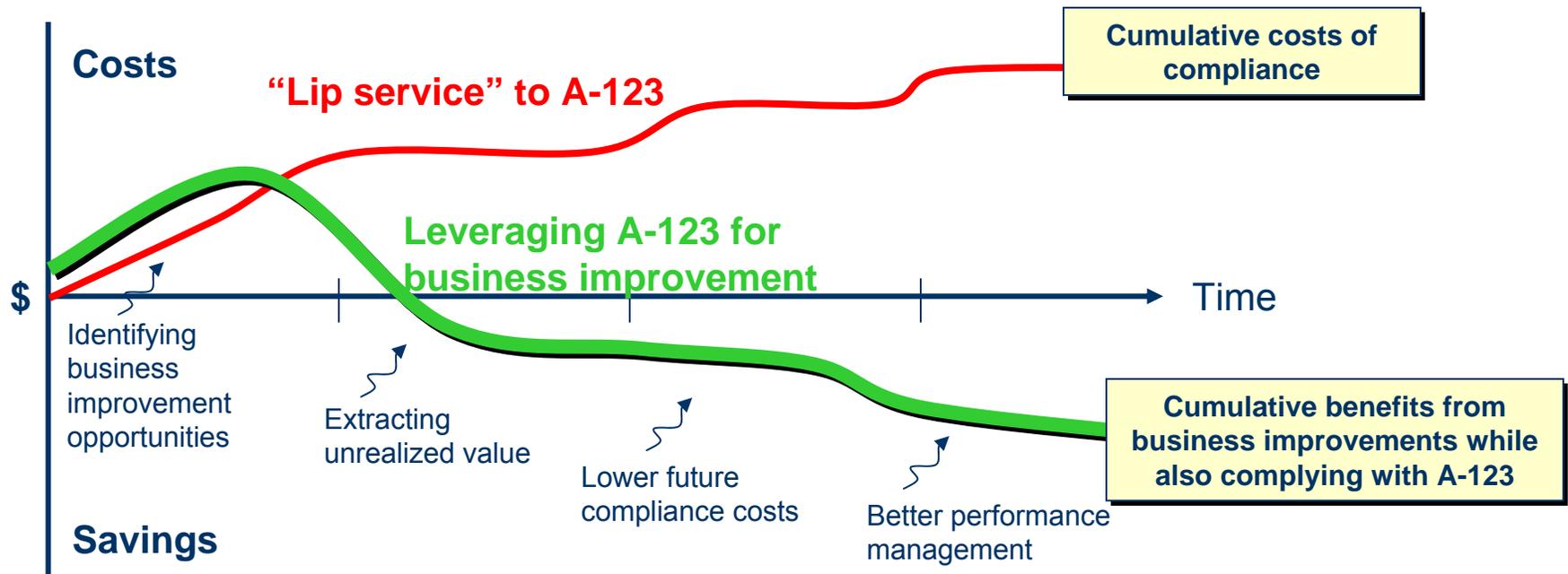


Management Accountability





Turning A-123 Costs into Benefits



A-123 can be used, and should be used, as the foundation to your financial continuous improvement programs



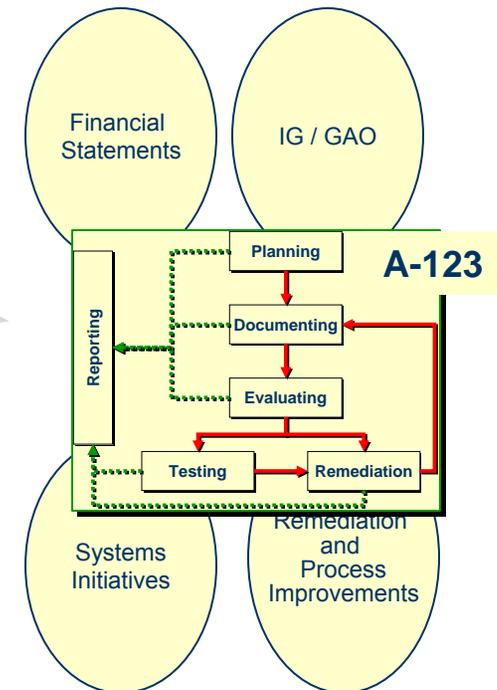
Integrated A-123 Business Improvement Lifecycle

Financial Reports

Balance Sheet	
Assets	MMS
+ Accounts Receivable	1,326,766
Liabilities	
- Accounts Payable	2,546,766

- Report Results
- Highlight successes & Failures
- Describe value and benefits from the program
- Define Goals for Improvement

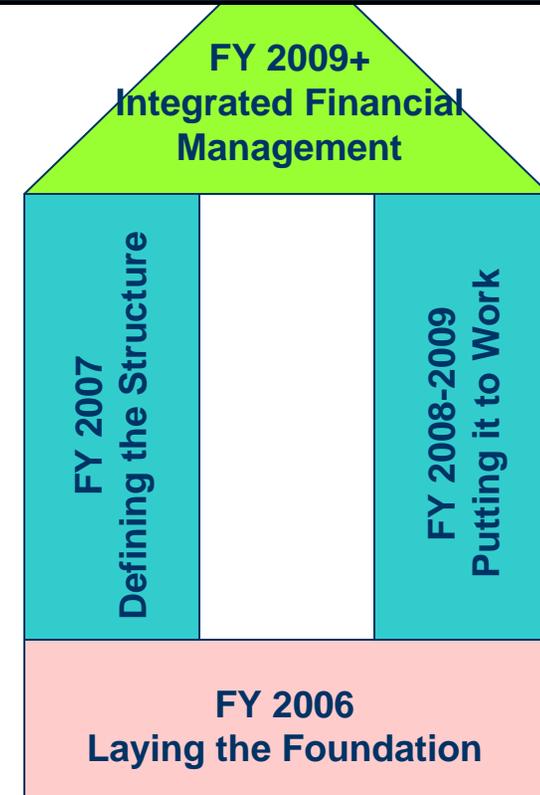
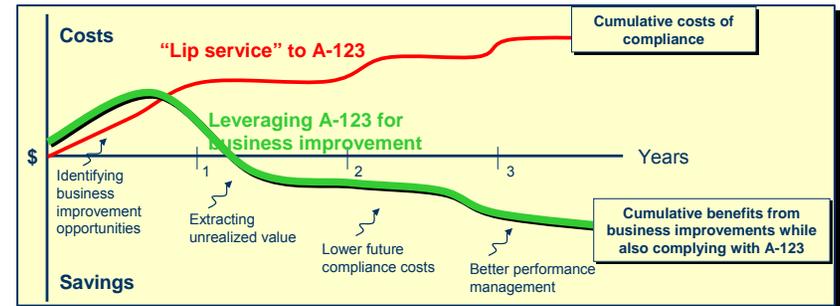
- Meet Internal & External Commitments
- Evaluate Costs/Benefits
- Define & Implement Lessons Learned
- Assess Progress and Results





Evolutionary vs Revolutionary

- **FY 2006 - Laying the foundation**
 - Standard Processes
 - Integrated Remediation
 - Some Integration with FMFIA/FFMIA
 - Corporate High Risk
- **FY 2007 – Defining the Structure**
 - Standardization Decisions & Framework
 - Scope of Integration
 - Process Owners
- **FY 2008/2009 – Putting it to Work**
 - Implement/Pilot Standardization Model
 - Execute Integrated Activities (A-123, FMFIA, FFMIA, Audit Activities/Results)
- **FY 2009 & Beyond – Integrated Financial Mgmt.**
 - All Activities Well Coordinated
 - Process Owners Active
 - Maximize Efficiency & Effectiveness in All Processes





The Assurance Process at a Glance



Assurance Statement Components

1. Management's responsibility for establishing and maintaining effective internal control over financial reporting
2. Scope of Assurance: DOE limited to principal financial statements in FY 2007
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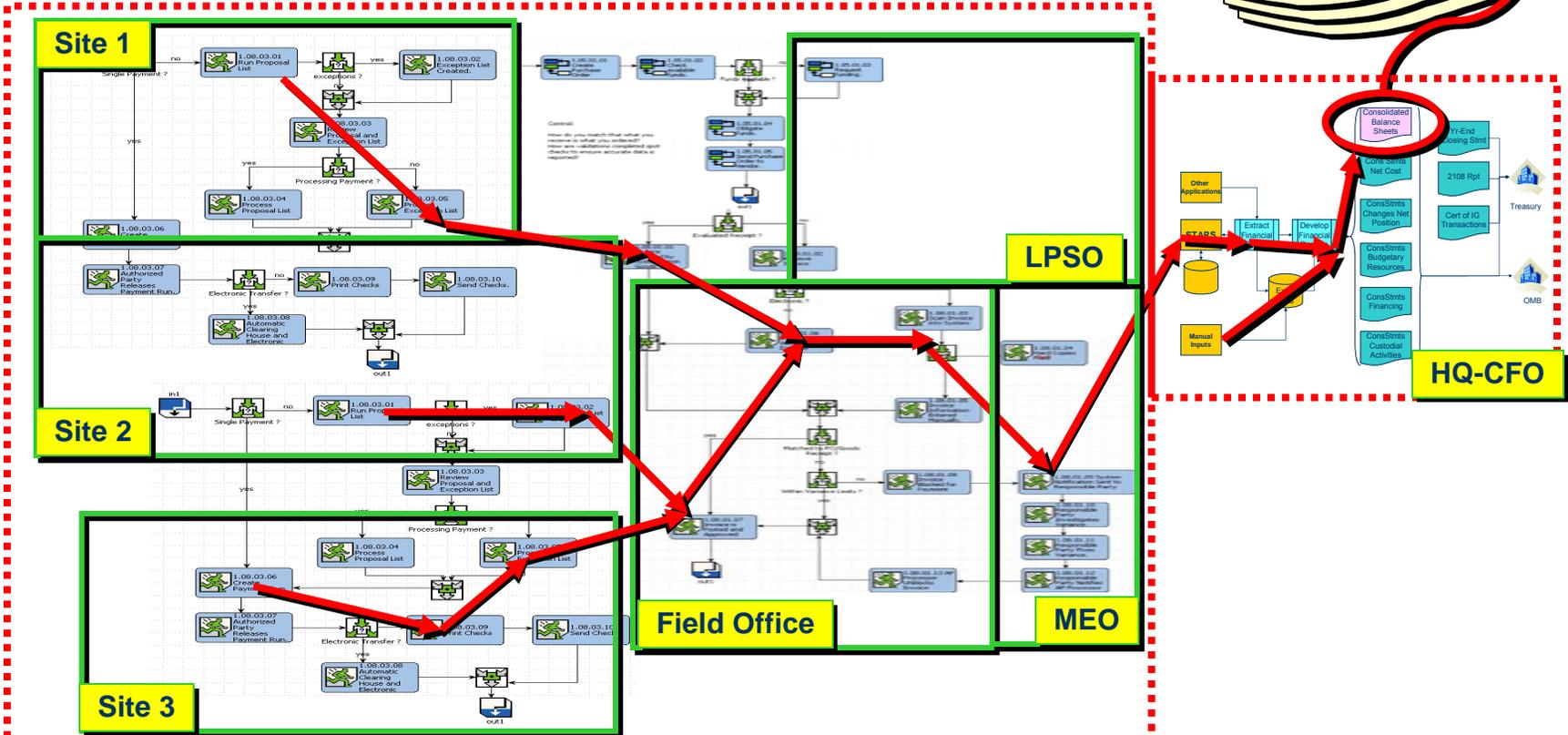
DOE A-123 Methodology

Process Controls (PCS)



Identify Processes affecting Material Accounts

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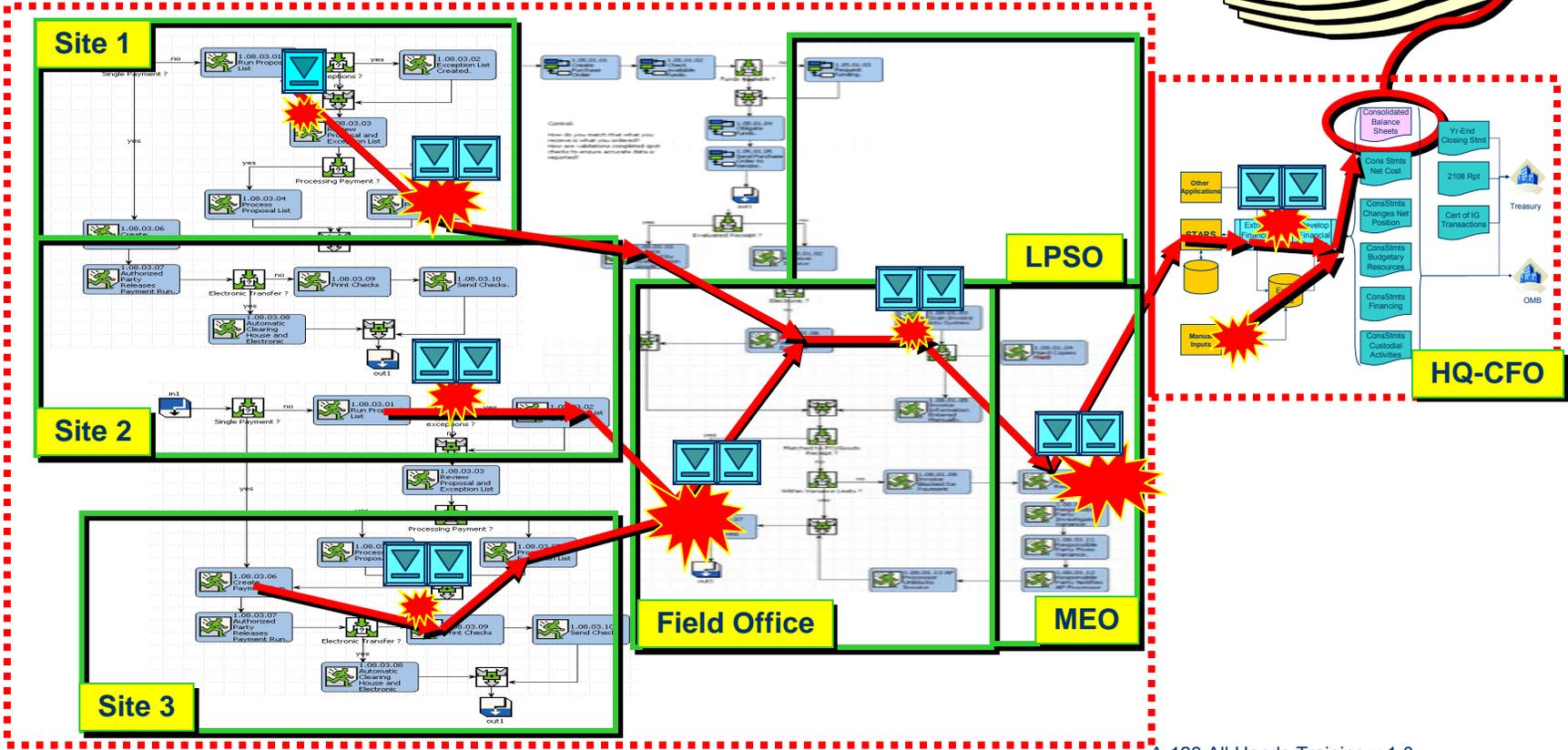
DOE A-123 Methodology Process Controls (PCS)



Identify and Rate Inherent Risks

Identify Controls

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DOE A-123 Methodology

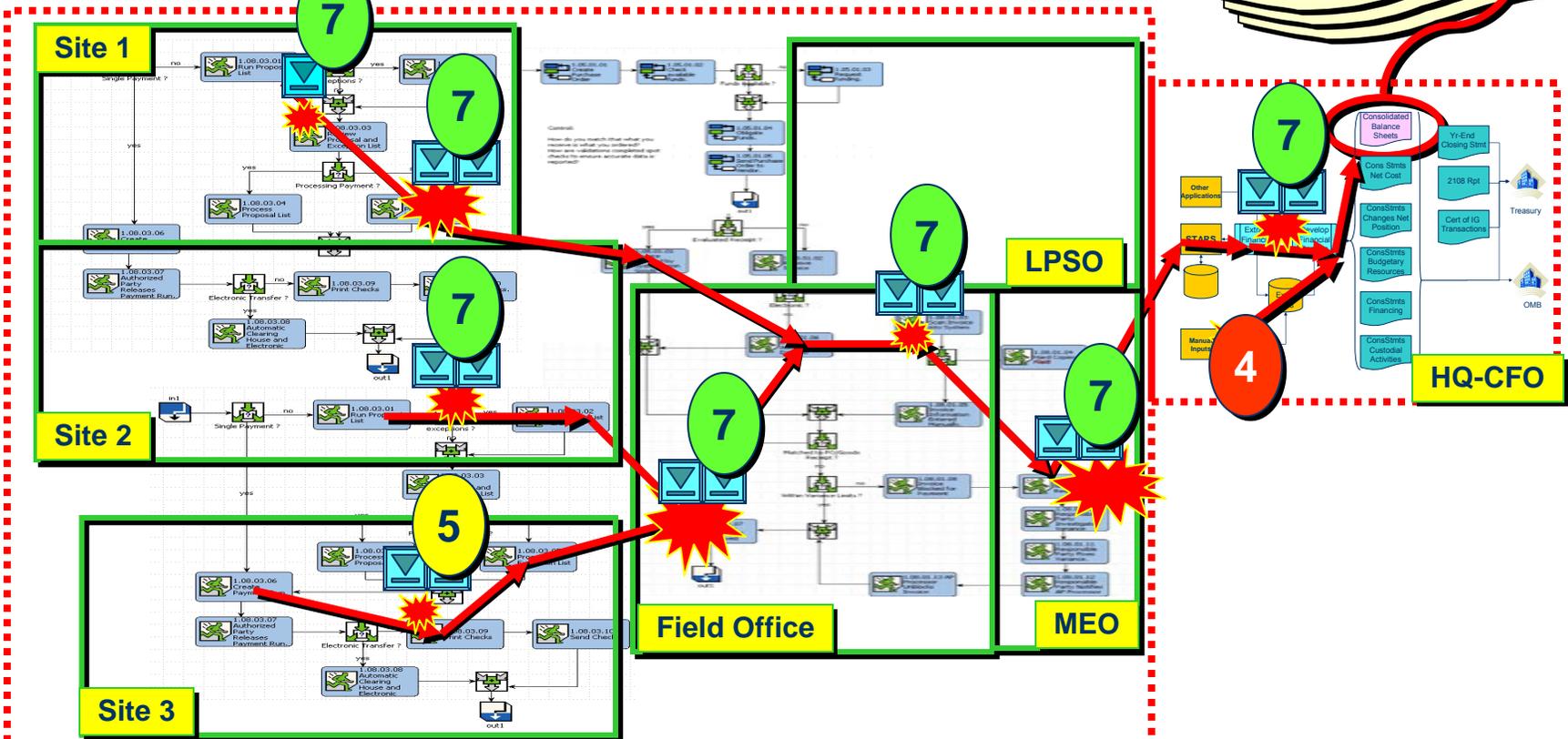
Process Controls (PCS)



Evaluate effectiveness of Controls (Design and Operational effectiveness)

Effective Deficient Ineffective

Balance Sheet	
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DOE A-123 Methodology Entity Controls (ECS)



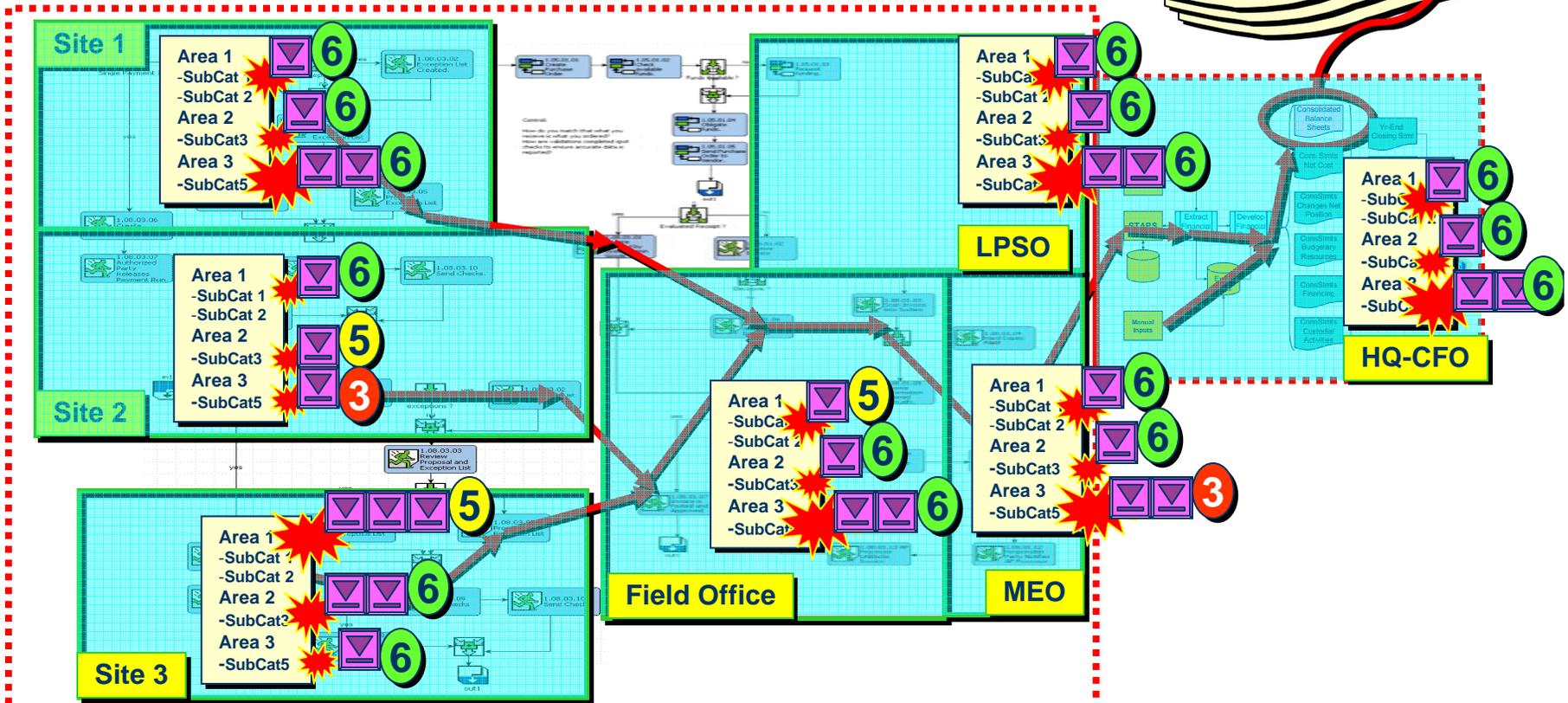
Identify and Rate Inherent Risks

The Same for Entity Controls

Evaluate effectiveness of Controls

Effective ● Deficient ● Ineffective ●

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Rollup and Assurance

Department wide Rollup

Entity (ECS)
 + Process (PCS)
 = Assurance



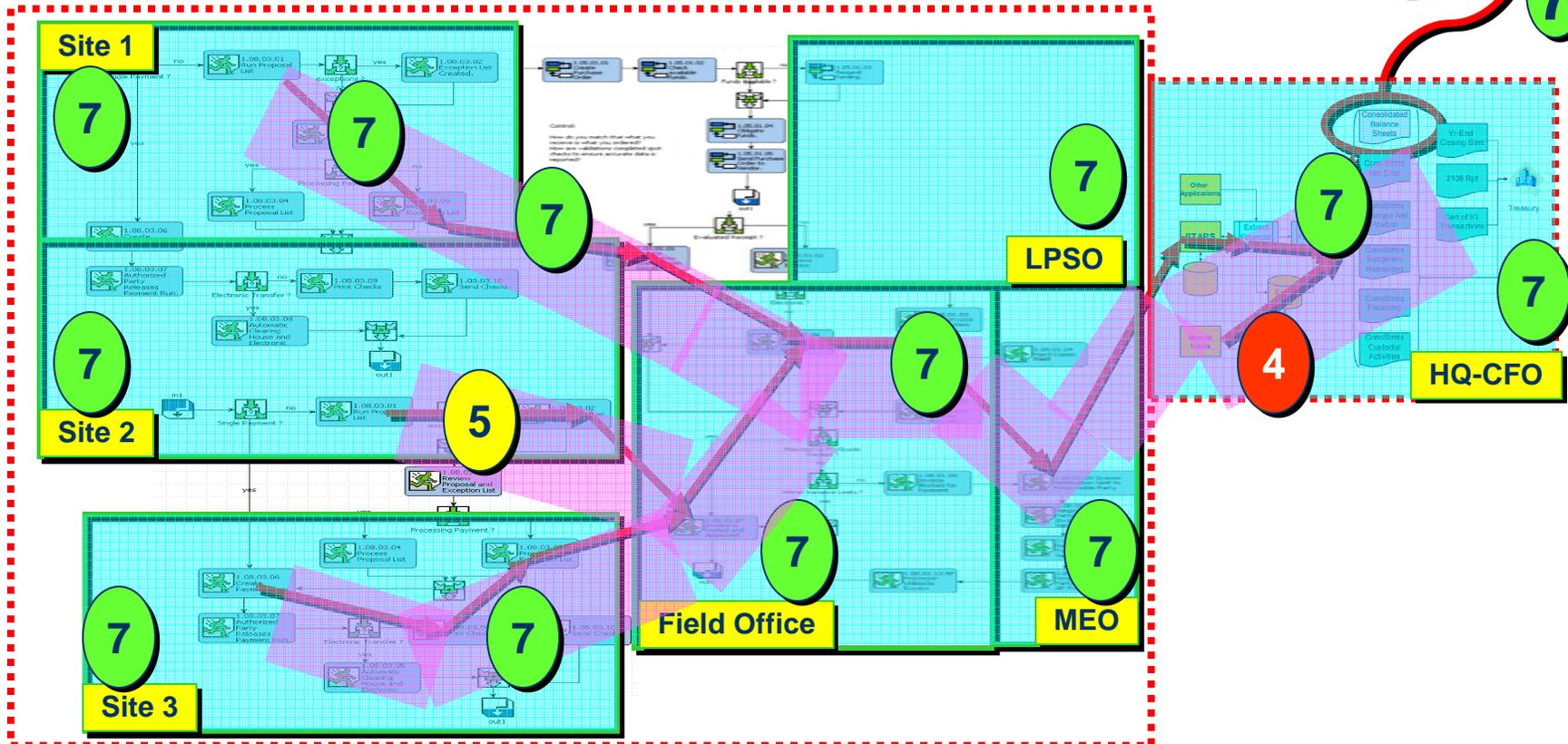
Controls Operating Effectively



No Material Weaknesses

Balance Sheet	
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7





New FY 2007 Ratings

Rating	Control Sets	Processes / Entity Areas	Assurance
3	<p>Significant Design / Operational Deficiency <u>HIGH</u> probability of the risk occurring.</p> <p>Focus on probability of risk occurrence</p>	<p>Significant Deficiency <u>HIGH</u> probability of not detecting or preventing fraudulent and/or erroneous transactions WITH a significant exposure to unreliable, inaccurate and/or untimely financial reporting.</p> <p>Focus on probability and exposure from deficiencies</p>	<p>Material Weakness Focus on probability / significance of misstatement of Financial Statements</p>
4	<p>Design / Operational Deficiency <u>MORE</u> than a remote possibility of the risk occurring.</p>	<p>Moderate Deficiency <u>MODERATE</u> probability of not detecting or preventing fraudulent and/or erroneous transactions WITH a significant exposure to unreliable, inaccurate and/or untimely financial reporting.</p>	<p>Reportable Condition <u>More than a remote likelihood</u> for a misstatement of financial statements AND the misstatement may be of a more than inconsequential magnitude</p>
5	<p>Minor Design /Operational Deficiency <u>ONLY</u> a remote possibility of the risk occurring</p>	<p>Minor Deficiency <u>LOW</u> probability of not detecting or preventing fraudulent and/or erroneous transactions OR an insignificant exposure to unreliable, inaccurate and/or untimely financial reporting.</p>	<p>Control Deficiency <u>A remote likelihood</u> for a misstatement of financial statements OR the misstatement may be of an inconsequential magnitude.</p>
6	<p>Designed Effectively <u>LESS</u> than a remote possibility of the risk occurring.</p>	<p>Designed Effectively to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>	<p>Effectively Designed Controls to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>
7	<p>Operating Effectively <u>LESS</u> than a remote possibility of the risk occurring.</p>	<p>Operating Effectively to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>	<p>Effectively Operating Controls to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>



Questions

Break





A-123 FY 2007 Execution



Scope and Strategy for FY 2007

- **Multi-year implementation**

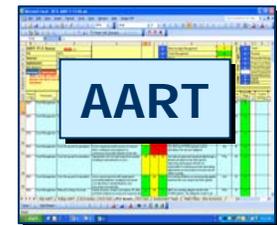
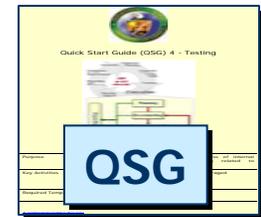
- **Focus on**
 - FY 2007 scope first
 - [Feds] making significant progress on FY 2008 scope to ensure timely completion
 - [Contractors] defining FY 2008 scope based on risk-based cyclical approach (guidance will be provided later)
 - Realignment of FY 2006 results

- **Realignment of FY 2006 data for new AART features**
 - Design effectiveness ratings
 - Test ratings
 - Financial statement assertion linkage (PERCV)
 - Control mode



What's New in FY 2007

- **A-123 Business Enhancements:**
 - Clarification and Tracking of PERCV
 - Design and Operational Control Effectiveness Ratings redefined
 - Control mode tracking: Preventive and Detective
 - Enhanced focus on roles and responsibilities (Remediation, Oversight, etc.)
 - Greater focus on Entity Controls
- **QSGs Improvements:**
 - More focus on context and concepts versus AART
 - Concrete Examples which carry through all phases
 - Better Definition of Terms
- **Tool Improvements:**
 - Integrated – *A single tool supporting all phases*
 - Additional Functionality
 - Easier to Use
 - Self Assessment Capability
 - Oversight tracking
- **Enhanced Support**
 - Targeted Training
 - Help Desk





What's New in the AART ?

Major AART Enhancements / Changes:

- Integration of Tools (AART, Assurance, CAP)
- Import button for Site rollups with data validation instead of "Copy Paste Special"
- Ability to Delete rows in ECS
- Ability for a single CAP to remediate multiple PCS processes and ECS sub-categories
- Improved Ease of Use and data integrity
- New Tabs: Oversight, Statistics
- Self Assessment capabilities
- Removed detail Testing attributes (universe, samples etc)
- Streamlined (mostly automated) upgrade process from FY06 AART
- Streamlined (mostly automated) Patch (bug fix) and AART Enhancement process

The New AART Tool Suite



Upgrade from FY06

A screenshot of a Microsoft Excel spreadsheet titled "AART Tool Suite v4 (25).xls". The spreadsheet is mostly blank, with a large circular logo of the Department of Energy in the center. Below the logo, the text reads "Department of Energy", "FY07 A-123 Product Tool Suite", and "Release 4.0". A small dialog box titled "AART Type:" is open on the right side of the spreadsheet, with the text "Please select your location type:" and four radio button options: "Lead Program Secretarial Office (PGM)", "Field Office (FO)", "Site", and "Corporate Department". The "OK" and "Cancel" buttons are at the bottom of the dialog box. The Excel interface includes a menu bar (File, Edit, View, Insert, Format, Tools, Data, Window, Help, Adobe PDF), a toolbar, and a status bar at the bottom showing "Ready". The Windows taskbar is visible at the very bottom of the image, showing the start button and several open applications.



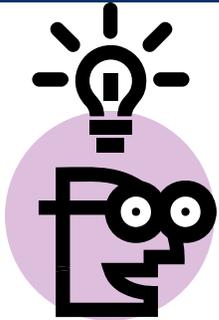
Live Demo

- **AART**
 - **Upgrade process**
Detail Upgrade instructions are available
 -
 - **Look & Feel of new AART**
 - **Navigation**
 - **Oversight**
 - **Statistics**
- **QSGs**





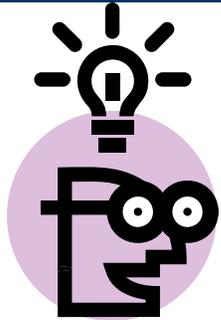
Don't Forget: AART Upgrade Process



- Backup your Current AART, CAP Tracking and Assurance tools.
- Download FY2007 AART and save to local drive
- Select “customer” specific information
 - Location Type: LPSO, CD, FO, Site
 - Location Code: Some location codes have been changed to make them contractor independent
- Run the upgrade
- Reopen the upgraded AART
- Validate Data



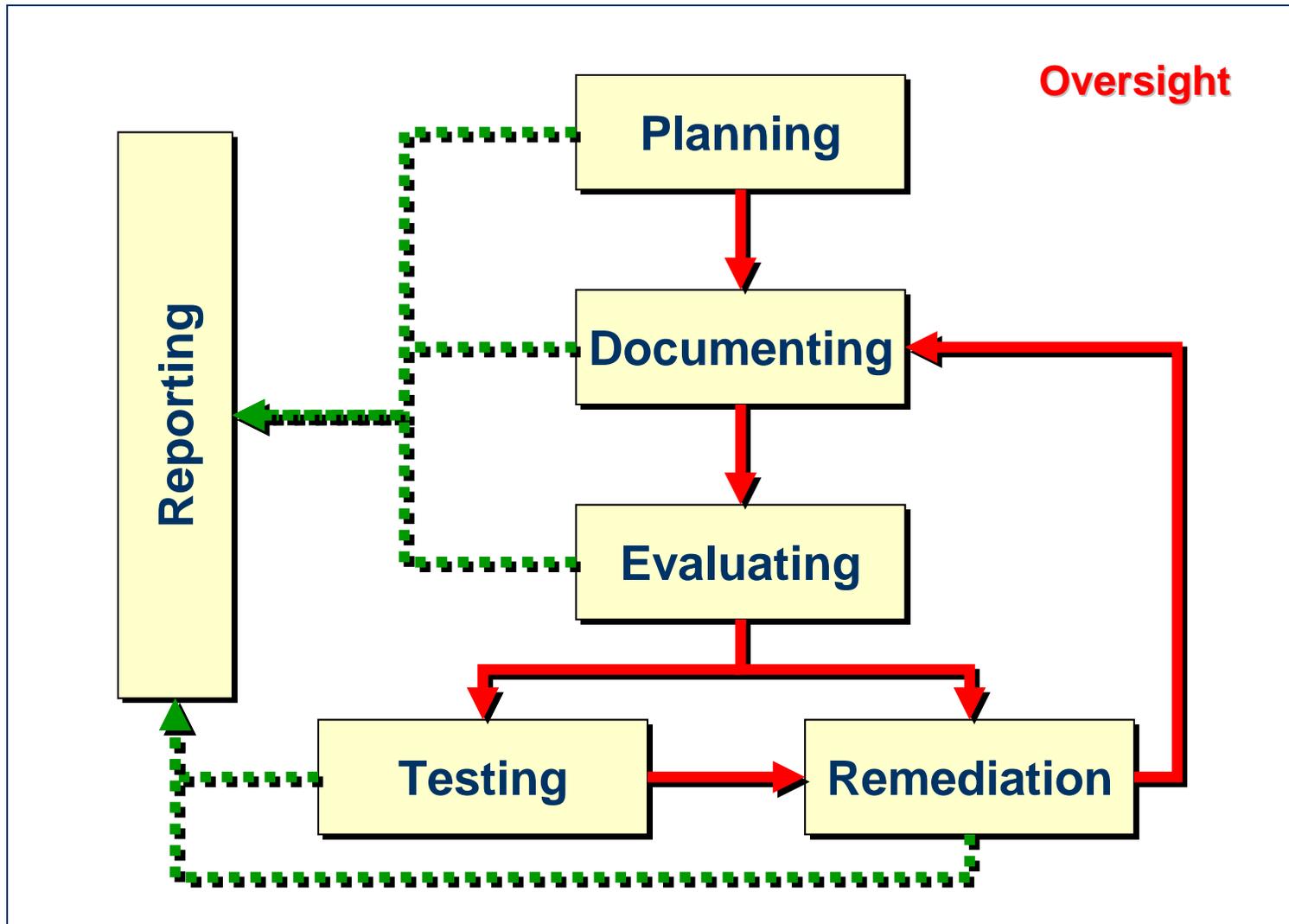
Don't Forget: New AART Process



- **If you want to create a New AART**
 - Download FY2007 AART and save to local drive
 - Select “customer” specific information
 - Location Type: LPSO, CD, FO, Site
 - Location Code: Some location codes have been changed to make them contractor independent

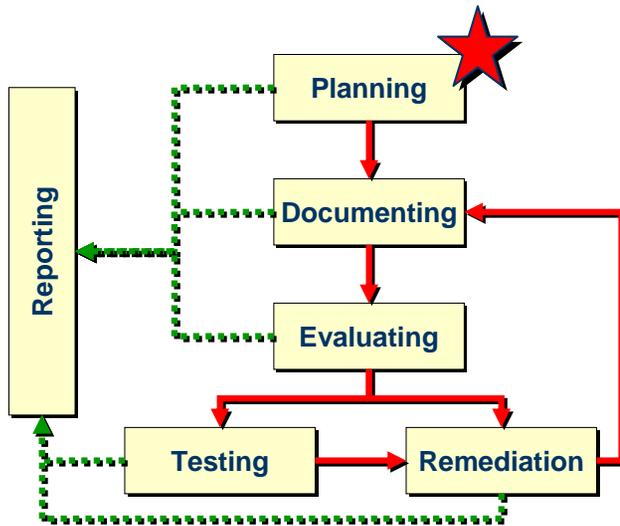


Methodology Overview





Planning Phase



- **Key Concepts:**

- Implementation Strategy
- Material Accounts
- Process vs Entity
- Allocating Material Accounts to Processes



Implementation Strategy Considerations

- Areas of Cognizance & Accountability Chain
- Business Objective / Cost & Benefits
- Site Assessment Team Make-up / Governance
- Resources Required
- Contractor strategy
- Schedule and Milestones
- Priorities
- Quality Assurance Process
- Leveraging Opportunities
- Success Measures

These and other considerations should be captured in your Implementation Plan as appropriate



Material Accounts

Balance Sheet	
Assets	MM\$
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Liabilities	
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- **Departmental level Accounts**

- 0.75% of Total Assets or Expenditures
- Other qualitative criteria

- **Local level Accounts**

- 0.75% of Total Departmental Account Balance



Other Material Accounts Considerations

- All FY 2006 Material Accounts carry forward to FY 2007 to maintain comparability through the three year baseline assessment
- Site should evaluate the need for Material Account changes based on
 - Changes in Allottee
 - Organizational changes
 - Changes resulting from contractor mergers or splits
 - New contract awards
- Any proposed changes must be approved by PMT



Entity vs Process Controls

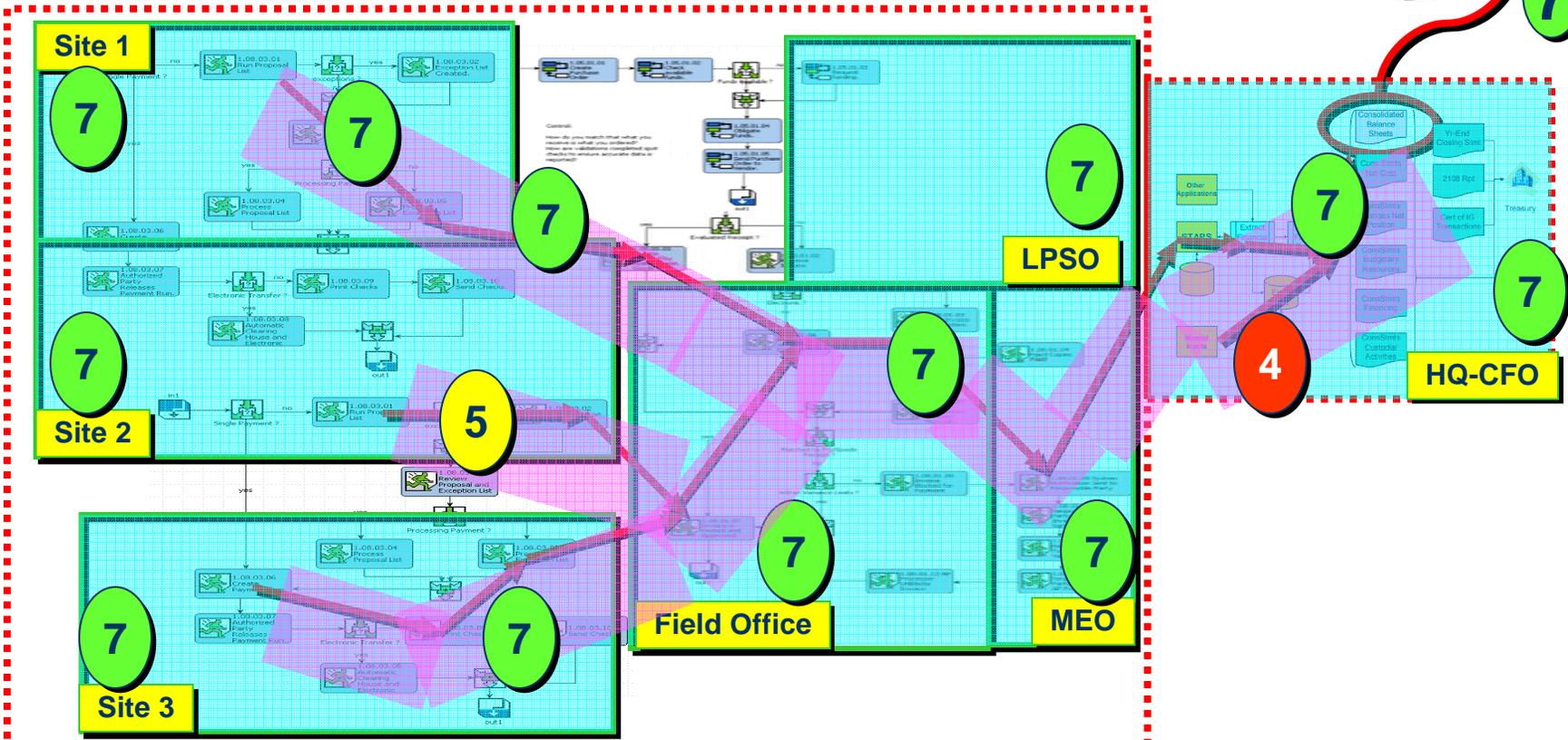
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Controls Operating Effectively

No Material Weaknesses

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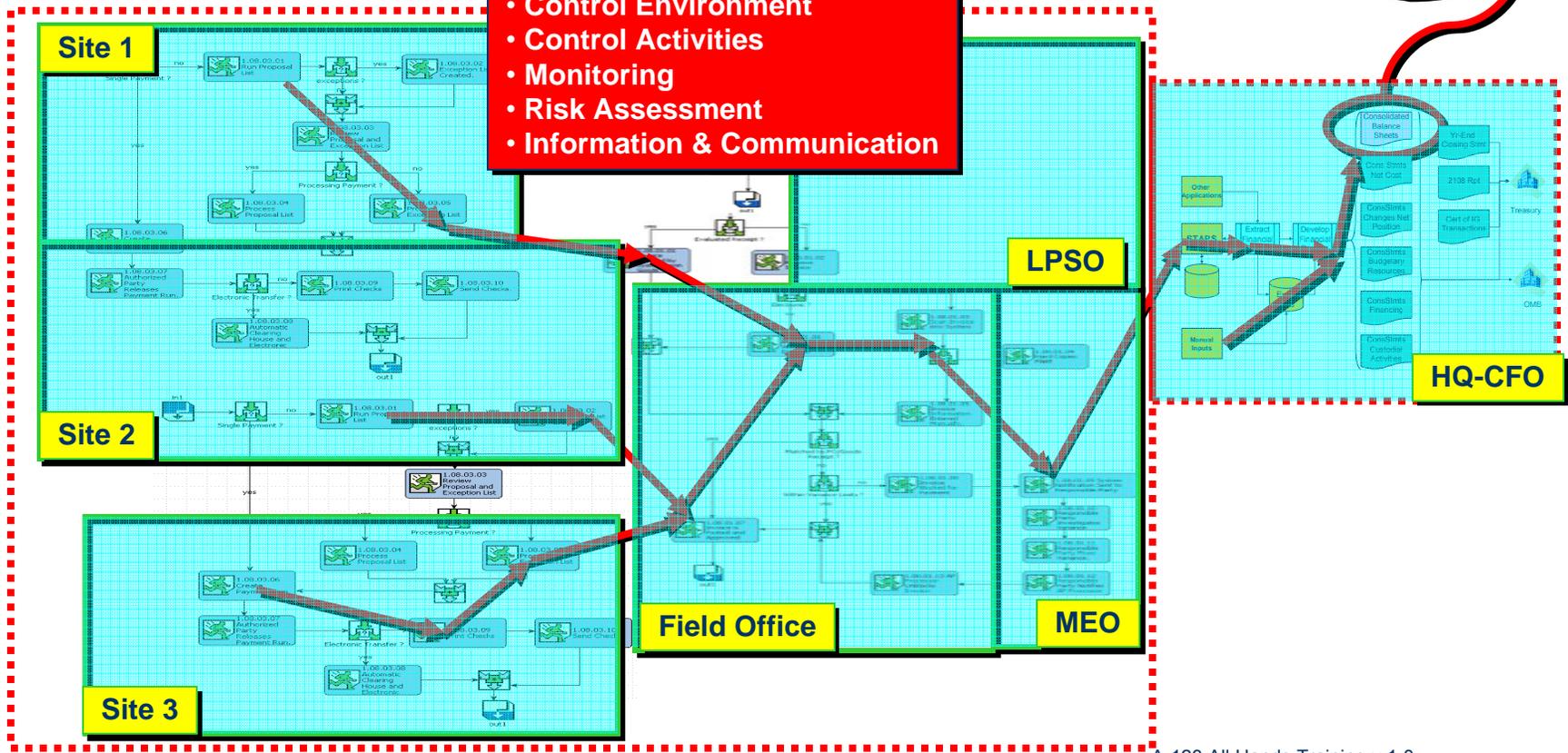
Entity vs Process Controls: Entity Controls

- Entity Controls relate to the *organization as a whole and are not specific to processes*.
- Good Entity Controls ensure the integrity and effectiveness of the organization and its leadership.
- Entity Control evaluations focus on 5 Standard Entity Areas.

Entity Areas

- Control Environment
- Control Activities
- Monitoring
- Risk Assessment
- Information & Communication

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Entity Controls: Standard ECS Areas and Sub-Categories



Entity Area	Entity Sub-Category
Control Environment	Integrity and Ethical Values Management's Commitment to Competence Management Philosophy and Operating Style Organizational Structure Assignment of Authority and Responsibility Human Resources Policies and Practices Relationship with Oversight Agencies
Control Activities	Appropriate Documentation and of Transactions and Internal Controls Exist Top Level Reviews of Actual Performance Accurate and Timely Recording of Transactions and Events Reviews by Management at the Functional or Activity Level Segregation of Duties Access Restrictions to and Accountability for Resources and Records Physical Control over Vulnerable Assets Management of Human Capital Controls over Information Processing Establishment and Review of Performance Measures and Indicators Proper Execution of Transactions and Events
Information & Communications	Information Systems – General Control Information Systems – Application Controls Internal Relevant, Reliable, and Timely Communications External Relevant, Reliable, and Timely Communications
Risk Assessment	Clear, Consistent Agency Objectives Identify Risks and Risk Factors, Internal and External Risk Analysis and Actions
Monitoring	Regular Management and Supervisory Activities Separate Evaluation of Controls Policies and Procedures for Audit Findings Review and Evaluate Findings Develop Action Plan in Response to Findings Complete Findings and Action Plan



Process Cycles and Processes



Budget to Close (B2C)

- General Ledger Management
- Funds Management
- Funds Balance with Treasury
- Cost Management
- Insurance
- Grants
- Loans



Procure to Pay (P2P)

- Acquisition
- Inventory Management
- Payable Management
- Travel



Quote to Cash (Q2C)

- Revenue
- Receivable Management



Projects to Assets (P2A)

- Project Cost Management
- Property Management
- Seized Property Management



Enterprise Resource Management (ERM)

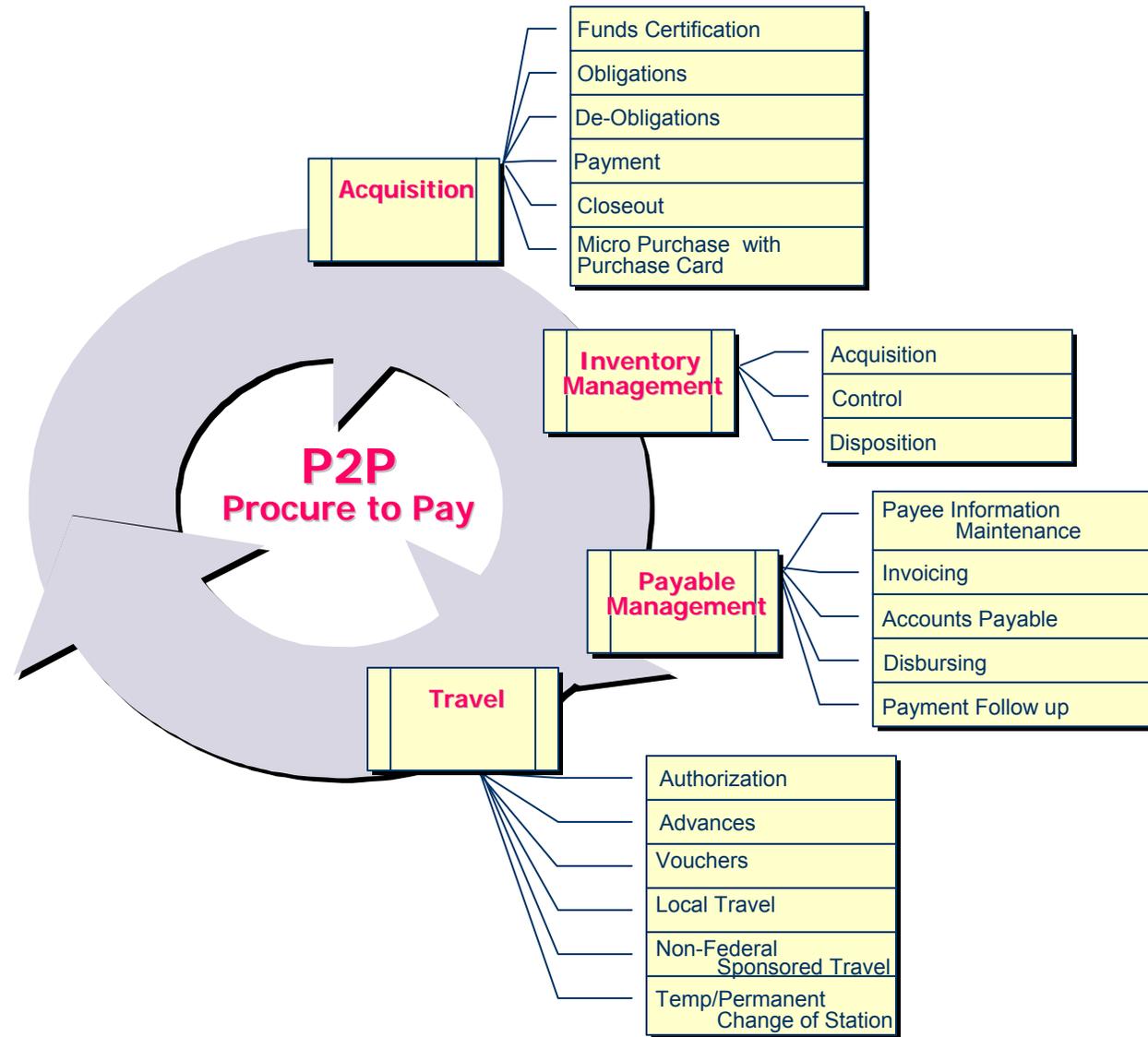
- Human Resources
- Payroll
- Benefits

Source:

Processes: JFMIP – Joint Financial Management Improvement Program

Process Cycles: Oracle / ERP Systems

Example: Procure to Pay Process Cycle and Processes/Sub-Processes

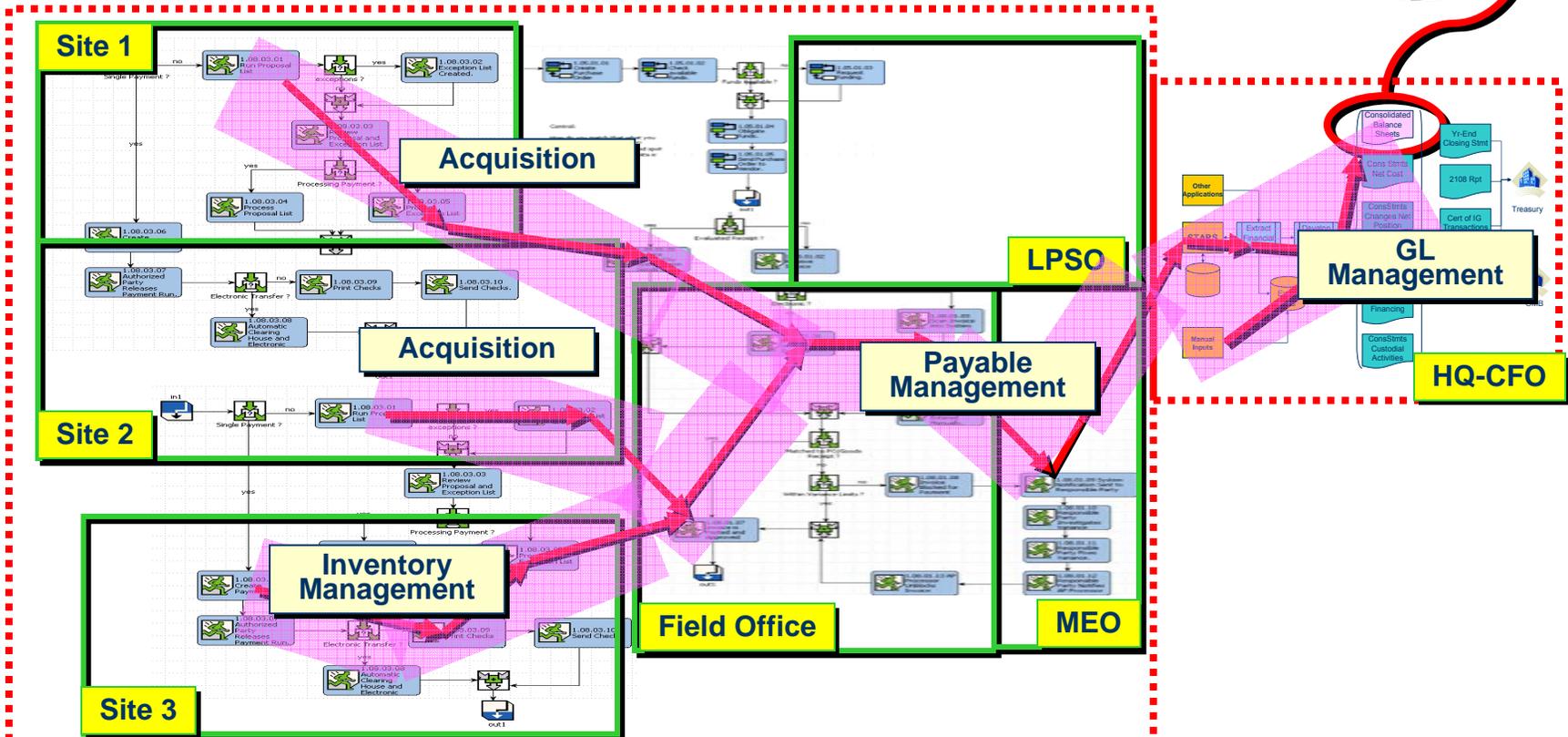


Allocating Material Accounts to Processes



Identify Processes affecting Material Accounts

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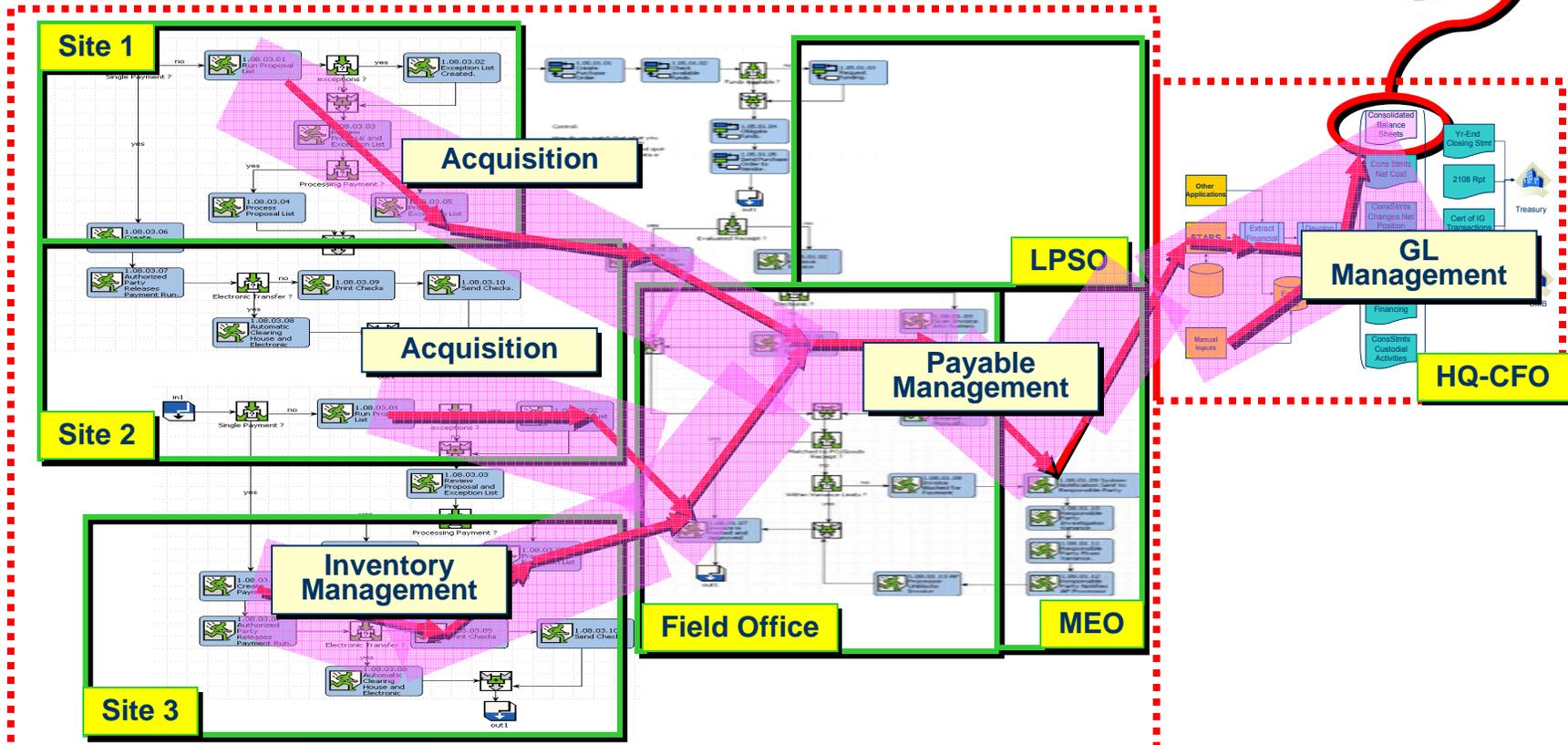




Process vs Entity Controls: Process Controls

- Process Controls ensure the *integrity and accuracy of the business transactions* as they impact the financial statements (PERCV)
- In some cases, Process Controls may supplement Entity Controls to mitigate the same type of risk.

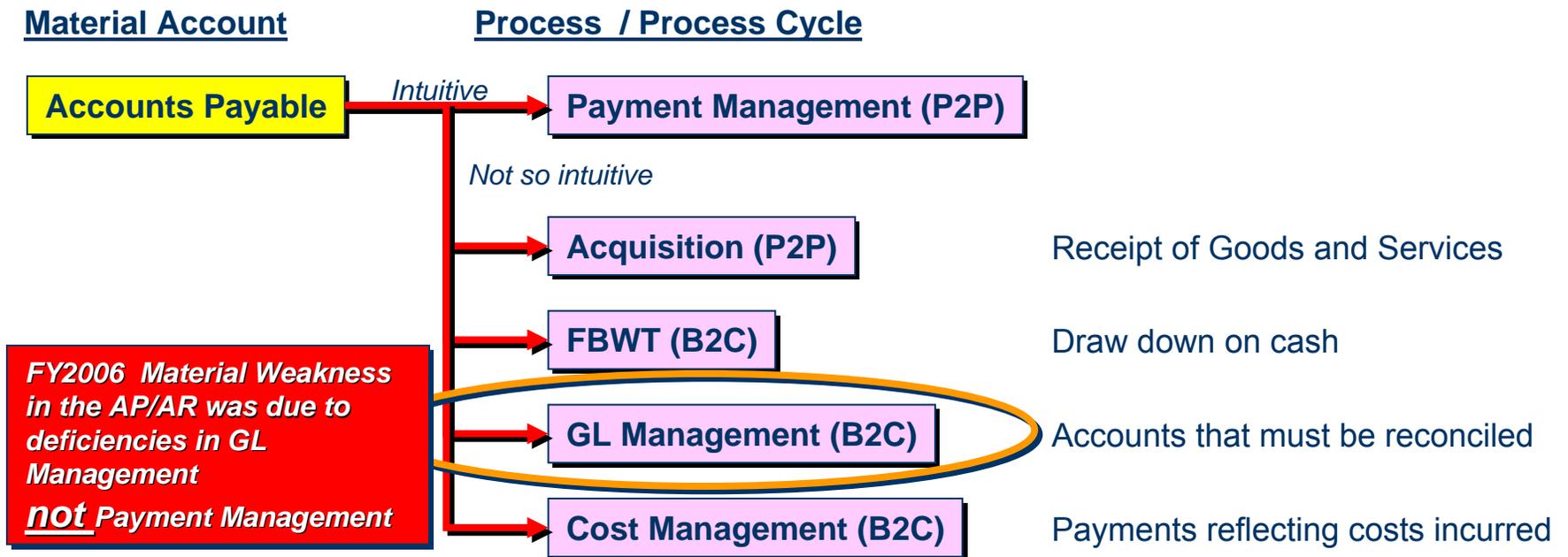
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Example “Material Accounts” (Report Line Item) to Process Allocation

Think Beyond the Material Account Title

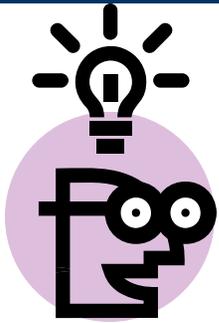


Remember: You need to only evaluate a process once, AART will assign evaluation results to the affected Material Accounts

..... and looking at the GL Accounts may help you with identifying the not so intuitive processes



Don't Forget: Planning



- Have a sound implementation strategy & leverage cost & benefits
- Define Material Account changes & get PMT approval
- Entity is as important as Process
- All ECS Sub Categories need to be evaluated
- Think beyond the material account title
.....GL Accounts may also assist in Material Account to Process allocation
- Select process many times for different Material Accounts but you will evaluate process only once



Live Demo

- **Material Accounts Selection**
- **Material Accounts to Process Allocation**

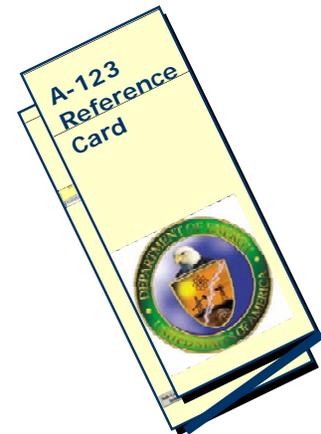




Recap/Questions

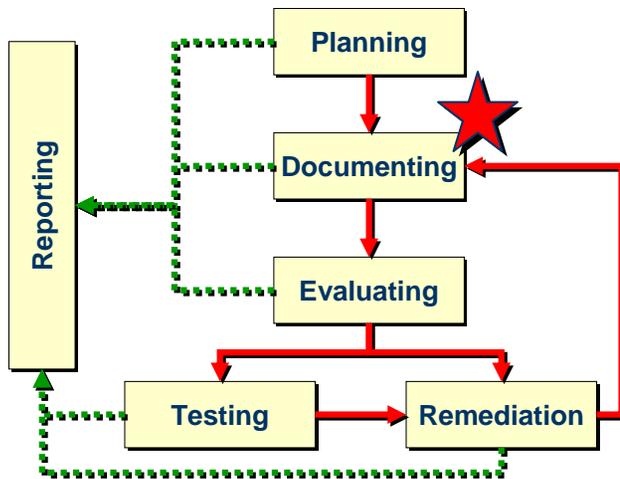
Key Activities in Planning

- Establish Assessment Team
- Determine Implementation Strategy
- Identify Material Accounts and Processes (Local AART)
- Complete Implementation Plan form and content





Documenting Phase



- **Key Concepts:**

- How to Identify and Define Risks
- Financial Statement Assertions (PERCV)
- How to Assign Risk Ratings (Risk Assessment)
- How to Identify and Define Controls/Control Sets
- Types of Documentation

Identify and Define Inherent Risk Statements



- The DOE A-123 approach is based on evaluating controls to offset the inherent risk statement
- The Inherent Risk Statement is: The statement of the perceived negative impact that could occur relative to an ECS sub-category or PCS Sub-Process activity, regardless of the presence of mitigating controls.
 - The statement defines both:
 - **What could go wrong?** [Behavior]
 - **What affect would it have** [Result]
- Risk statements should be identified to cover
 - the end to end process and should consider all financial statement assertions (PERCV)
 - All entity areas



PERCV- Financial Reporting Assertions

- **Presentation and disclosure** – *is it recorded in the right place*
 - the particular components of the financial statements are properly classified, described and disclosed
- **Existence or occurrence** – *did it happen and when*
 - an entity's assets or liabilities exist at a given date and recorded transactions have occurred during a given period
- **Rights and obligations** – *do we own or owe what we think we do*
 - assets are the rights of the entity and liabilities are the obligations of the entity at a given date
- **Completeness and accuracy** – *is anything missing*
 - all transactions and accounts that should be presented in the financial statements are so included
- **Valuation or allocation** – *are the numbers right*
 - asset, liability, revenue and expense components have been included in the financial statements at appropriate amounts



Role of PERCV

- Serves as link between risks at your level to the material accounts at the financial statements level
- Benefits:
 - More effective Risk Assessment
 - Provides better focus of resources on internal controls
 - Improves Corrective Action Planning
 - Facilitates Identifying Gaps in Risk Definitions

Examples of Inherent Risk Statements: Process Risk Statements



Process: *Payable Management*

Sub-Process: *Disbursing*

Risk Statement #1:

Invalid or duplicate Payment may be made in excess of approved contract amount, resulting in loss to Government (if not detected) and ***[Behavior]***
an increase in improper payment percentages reported to OMB (*if later detected*). ***[Result]***

Examples of Inherent Risk Statements: Process Risk Statements



Process: *Payable Management*

Sub-Process: *Disbursing*

Risk Statement #1:

Invalid or duplicate Payment may be made in excess of approved contract amount, resulting in loss to Government (if not detected) and ***[Behavior]***
an increase in improper payment percentages reported to OMB (*if later detected*). ***[Result]***

Relation to PERCV:

Existence and occurrence: Liabilities/Payables recorded do not exist.

Rights and Obligations: Liabilities/Payables do not reflect valid obligations of the entity.

Valuation or allocation: Expenses/Payments are inappropriately recorded/valued in financial statements.

Examples of Inherent Risk Statements: Entity Risk Statements



Area: *Control Environment* **Sub-Category:** *Integrity and Ethical Values*

Risk Statement:

[Behavior]

Management does not communicate, provide guidance, or practice its ethical values and/or standards to employees, suppliers, creditors, investors, customers, or other relevant parties

resulting in unethical behavior and illegal practices.

[Result]

NOTE: PERCV does not apply to Entity risks



Inherent Risk Rating/Assessment

- **Inherent Risk Rating/Assessment is:** The perceived likelihood and impact of a specified risk occurring in the **General Environment**, assuming the absence of mitigating controls.
 - **Risk Likelihood:** measure of the relative potential that the inherent risk represented by the risk statement might occur given the general environment.
 - **Risk Impact:** the measure of the magnitude/severity of the effect the risk might cause given the general environment, considering both the nature and extent of the effect of the risk.

Likelihood	+	Impact	=	Inherent Risk Assessment
Low		Low		Low
Low		Moderate		Low
Low		High		High
Moderate		Low		Low
Moderate		Moderate		Moderate
Moderate		High		High
High		Low		Moderate
High		Moderate		High
High		High		High

General Environment vs. Control Environment



- **General Environment Might Include:**

- Number transactions
- organizational structure
- liquidity of assets;
- skill/Knowledge of staff;
- turnover rates;
- value of transactions;
- span of control;
- political sensitivities



**A-123 Risk
Assessment**

- **Control Environment Might Include:**

- Level of control automation;
- number of primary and backup controls;
- control mode;
- knowledge of past performance (e.g. whether fraud or errors have been identified in the past), etc.



**A-123 Risk
Assessment**



Example of Inherent Risk Rating/Assessment: Entity Risk Statements

Area: Control Environment

Sub-Category: Integrity and Ethical Values

Risk Statement:

Management does not communicate, provide guidance, or practice its ethical values and/or standards to employees, suppliers, creditors, investors, customers, or other relevant parties resulting in unethical behavior and illegal practices.

Risk Likelihood: Low

An organization of 20 people co-located in a war room type of environment with strong, visible leadership.

Risk Impact: High

Business units responsible for the management of the nuclear material stockpile (high financial liabilities should risk occur).

Risk Rating/Assessment:

$$\begin{array}{ccccc} \text{Low} & + & \text{High} & = & \text{High} \\ \text{Likelihood} & & \text{Impact} & & \text{Rating} \end{array}$$



Examples of Inherent Risk Rating/Assessment: Process Risks

Process: Payable Management Sub-Process: Disbursing

Risk Statement #1:

*An invoice may be paid without receipt of goods or services,
resulting in loss to Government.*

[Behavior]

[Result]

Risk Likelihood: **High**

Payments relate to a highly decentralized business unit with multiple payment locations and thousands of payment transactions per month related to the purchase of highly liquid assets (e.g. PCs, software, PDAs, etc)

Risk Impact: **High**

Purchasing is the primary business activity and 90% of revenue results from resale of procured goods

Risk Rating/Assessment:

$$\begin{array}{ccccc} \text{High} & + & \text{High} & = & \text{High} \\ \text{Likelihood} & & \text{Impact} & & \text{Rating} \end{array}$$



Key Controls/Control Set

- **Key Controls are:** Controls that have the greatest and most critical impact in mitigating risk occurrence.
- **A Control Set is:** A logical grouping of key controls designed to mitigate a common risk statement.

Note: All key controls to offset a specific risk identified by a risk statement (i.e. the control set) MUST be recorded in a single cell and in the row corresponding to the risk statement.

AART: ECS Assess					Overall Entity Control Ratings			
Select View:								
FO	CH				y Control Environment			
Attester	Ard Geller				y Control Activities			
Implementer	Shelley Hart				y Information and Communication			
Date Updated	October 31, 2006				y Risk Assessment			
Insert Row					Delete Row			
Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment	Control
EC		Control Environment	Integrity and Ethical Values	<div style="border: 2px solid red; padding: 5px;"> Risk #1 Management does not communicate, provide guidance, or practice its ethical values and/or standards to employees, suppliers, creditors, investors, customers, or other relevant parties resulting in unethical behavior and illegal practices. </div>	L	H	H	<div style="border: 2px solid red; padding: 5px;"> Control Set Control #1: promote and enforce ethical behavior; file in a guidance document entitled "Code of Conduct" on their website and in hard copies, and is distributed to all employees. [P] All employees on every level must read, accept, sign a document indicating they understand and follow the guidance as outlined in the "Code of Conduct". [P] Control #2: Management enforces integrity and ethical values as a requirement if employees are hired to attend once a year. [P] Control #3: Annual employee appraisals include a section to discuss employees' behavior. [D] Management maintains an open door policy to ensure that any unethical behavior is reported and management looks into any reports. [D] Management encourages and sends e-mails to employees to report unethical behavior. [D] Management takes appropriate action immediately upon an allegation of unethical or illegal behavior has been proven. [D] Management has a "no-tolerance" policy and punishes anyone who commits unethical or illegal actions. [D] </div>



Example of Control Set

Process: Payable Management Sub-Process: Disbursing

Risk Statement #1:

Payment may be made in excess of approved contract amount, resulting in loss to the government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Control Set:

- (Control #1) System automatically closes contracts when receipts and invoices have been posted and paid equal to the amount of the contract.
- (Control #2) Invoices in excess of contract are automatically rejected with the reason code indicating that the contract is complete.
- (Control #3) Rejected invoices are sent back to appropriate departments for follow-up.

Identifying and Recording Control Set Attributes



- **Control Set Mode**

- ***Preventive (P)***: Control that reduces the likelihood and impact of a risk occurring.
- ***Detective (D)***: Control that is put into place to identify a preventive control failure and/or the occurrence of a risk.

- **Control Set Type**

- Entirely Automated (Aut), Entirely Manual (Man), or Partially Automated (Pau)

- **Control Set Frequency**

- ***A*** = Annually, ***M*** = Monthly, ***W*** = Weekly, ***R*** = Recurring, ***Q*** = Quarterly, ***B*** = Biweekly, ***D*** = Daily



Documentation Types

Source Documentation:



Process – Process maps, desk procedures, detailed process narratives and other materials that outline the specific processes and related process controls to be evaluated.

Entity – Corporate policies, Code of ethics, policies and procedures, etc. that identify or support/represent the specific entity controls to be evaluated.

Detailed A-123 Documentation:



Implementation plans, test plans, corrective action plans, documentation of professional judgment decisions, etc., required to be developed and maintained throughout the A-123 process.

Serves as detailed backup and rationale for data reflected in the AART.

AART:

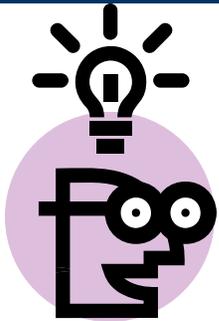
Category	Control	Location of Documentation	Other
...
...
...
...

Summary

Location of Documentation



Don't Forget: Documenting



- A-123 is based on inherent risk
- Relationship to Financial Statement Assertions (PERCV) is critical
- Risk assessment considers “general environment” not “controlled environment”
- Always think of “Control Sets” as mitigating risks
- AART is not the only documentation required for A-123



Live Demo

Process (PCS)

- Entry of Processes & Sub-processes
- Entry of Risks
- Risk assessment
- PERCV
- Entry of Control Sets
- Control Set attributes

Entity (ECS)

- Areas & Sub-categories

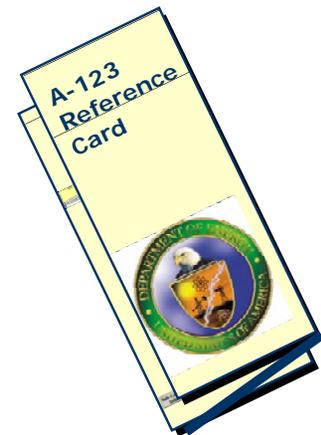




Recap/Questions

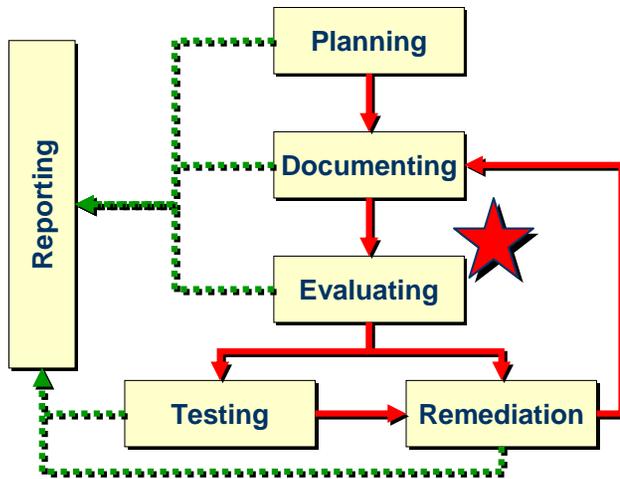
Key Activities in Documenting

- ECS: Entity
 - Identify and record Entity Level Risks
 - Complete Risk Assessment (Likelihood and Impact)
 - Identify and record Control Sets and relevant attributes
 - Location of Source and Detailed A-123 Documentation
- PCS: Process
 - Identify and record Processes and Sub-Processes
 - Identify and record Sub-Process Risks
 - Complete Risk Assessment (Likelihood and Impact)
 - Identify and record Control Sets and relevant attributes
 - Record applicable Financial Statement Assertions
 - Location of Source and Detailed A-123 Documentation





Evaluating Phase



- **Key Concepts:**
 - Control Set Design Effectiveness Ratings

DOE A-123 Methodology

Process Controls (PCS)

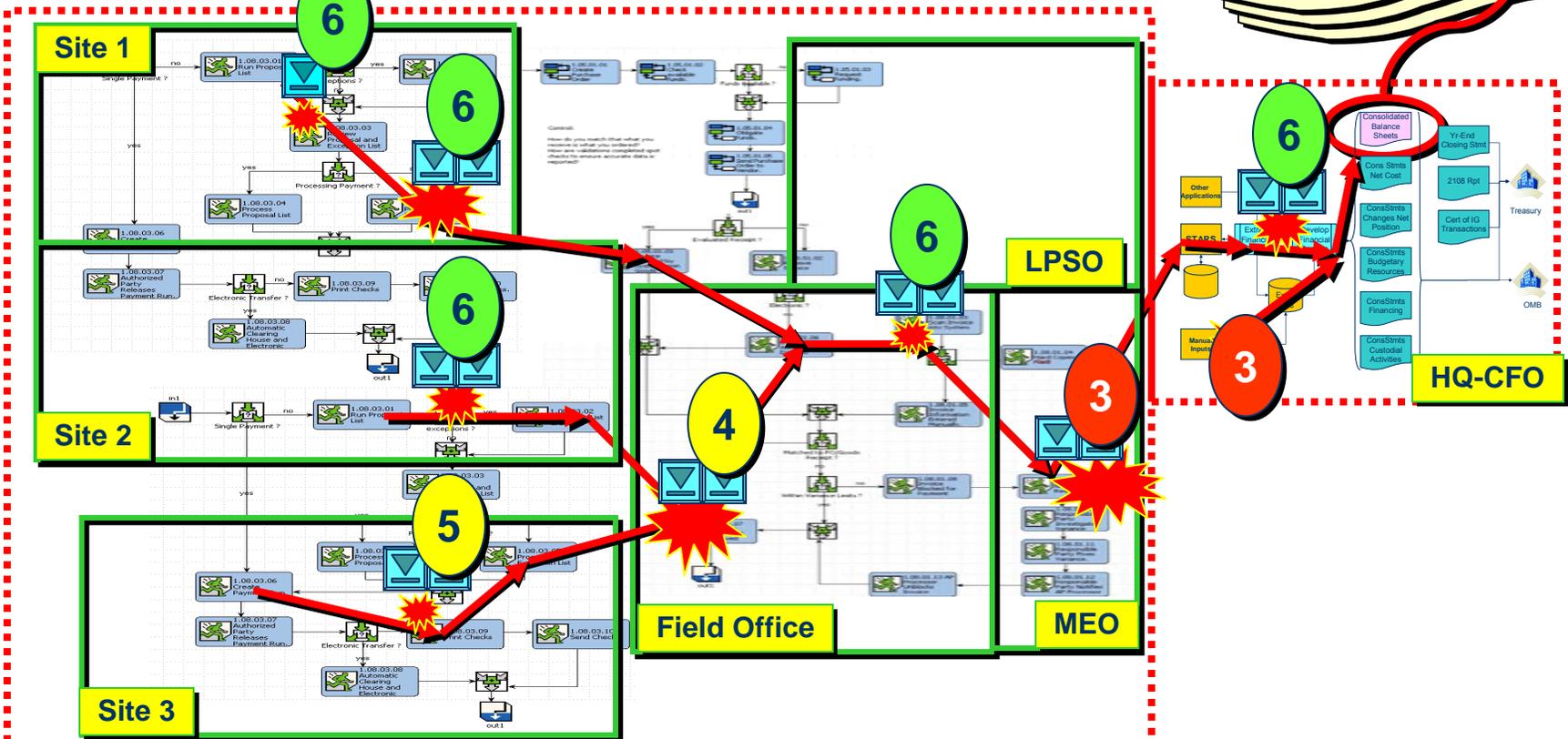


Evaluate Design Effectiveness of Controls

Effective Deficient Ineffective

Balance Sheet

Assets	MM\$
- Accounts Receivable	1,326,769
Liabilities	
- Accounts Payable	2,546,769



Control Set Design Effectiveness Ratings Changes from FY 2006



Rating	NEW FY 2007	OLD FY 2006
3	<u>Significant Design Deficiency</u> HIGH probability of the risk occurring.	<u>Material Weakness</u> More than a remote likelihood of material misstatement of Financial Statement
4	<u>Design Deficiency</u> MORE than a remote possibility of the risk occurring.	<u>Reportable Condition</u> More than a remote likelihood and more than inconsequential misstatement of Financial Statement
5	<u>Minor Design Deficiency</u> ONLY a remote possibility of the risk occurring	<u>Control Deficiency</u> Only a remote likelihood and more than inconsequential misstatement of Financial Statement
6	<u>Designed Effectively</u> LESS than a remote possibility of the risk occurring.	<u>Designed Effectively</u> The control will prevent or detect a misstatement of Financial Statements.
7	<u>N/A</u> (only used to rate operational effectiveness)	<u>N/A</u> (only used to rate operational effectiveness)
	Focus on probability of risk occurrence	Focus on financial statement impact

Control Set Design Effectiveness Ratings Definitions



Rating	Control Set (Design)
3	<p style="text-align: center;"><u>Significant Design Deficiency</u></p> <p>Significant deficiency(ies) in the control set design exist such that there is a <u>HIGH probability</u> of the risk occurring. This <u>may</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
4	<p style="text-align: center;"><u>Design Deficiency</u></p> <p>Deficiency(ies) in the control set design exist such that there is <u>MORE than a remote possibility</u> of the risk occurring. This <u>may</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
5	<p style="text-align: center;"><u>Minor Design Deficiency</u></p> <p>Deficiency(ies) in the control set design exist such that there is <u>ONLY a remote possibility</u> of the risk occurring. This <u>may not</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
6	<p style="text-align: center;"><u>Designed Effectively</u></p> <p>Control set design is effective such that there is <u>LESS than a remote possibility</u> of the risk occurring. This <u>should not</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk</p>
7	<p style="text-align: center;"><u>N/A</u></p> <p style="text-align: center;">(only used to rate operational effectiveness)</p>



Control Set Design Considerations

- Design **Effectiveness** Rating Decisions should consider:
 - Degree of automation of the control set
 - Type and mode of control set
 - Frequency of execution of the control set
 - Existence of primary and backup controls
 - Risk Assessment rating
 - Relative exposure
 - Potential for risk occurrence
- Design **Efficiency opportunities** include:
 - Automation of manual controls
 - Elimination of duplicative controls
 - Consolidation of multiple controls into a more effective control
 - Alteration of control frequency
 - Transition from detective to preventive controls
 - Alignment of numbers and complexity of controls with level of risk



Example of Design Effectiveness Rationale

Area: Control Environment Sub-Category: Integrity and Ethical Values

Control Set for Risk #1

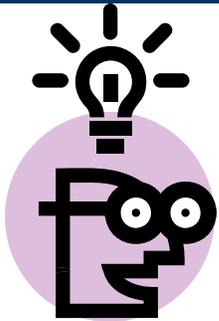
Rating: **6** *Control Set designed effectively*

Efficiencies opportunities: YES

- **Rationale for Rating:** Control set contains both manual and automated controls directly linked to key risks. The control set provides for preventive and detective controls to mitigate the risk and provides for identification of issues should the risk occur. The number of controls also appears adequate based on the level of risk (there are 4 key controls related to this high risk area with numerous additional backup controls).
- **Efficiency Opportunities:** An opportunity to gain efficiencies and strengthen the currently manual control was identified by automating the annual ethics training program (web based training) and also linking it to the new hire workflow process.



Don't Forget: Evaluating



- Rationale for Ratings should be included in Detailed A-123 Documentation
- Design effectiveness ratings for Control Sets determined to be effective should not be changed based on testing results - change only after Control Set has been remediated, re-documented, and re-evaluated.
- Leverage the A-123 evaluation to identify opportunities for improving efficiency of business operations (Integrated A-123 approach)



Live Demo

Process (PCS)

- Evaluate Control Design effectiveness at the Control Set level
- Evaluate Control Design effectiveness at the Process level

Entity (ECS)

- Evaluate at the Overall Entity level

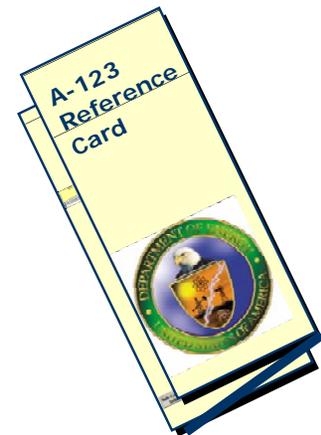




Recap/Questions

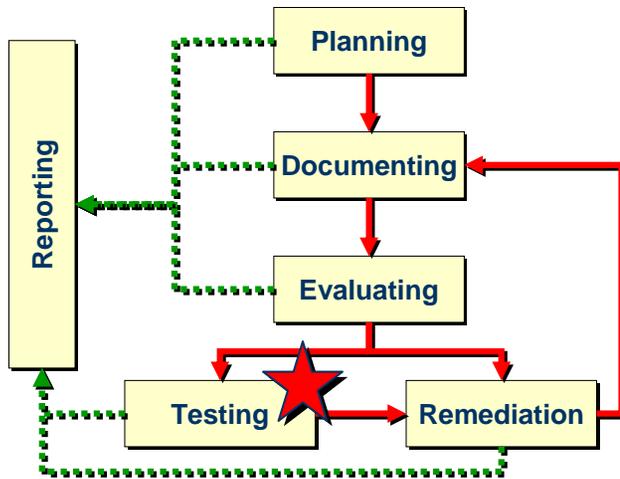
Key Activities in Evaluating

- Assess and record Control Design Effectiveness rating and Rationale
- Record location of Source and Detail documentation in Supporting Documentation column
- Summary Assessment of PCS processes and EC areas design effectiveness, with rationale and documentation.
- [ECS Only] Summary Assessment Overall Entity Control Environment, with rationale and documentation.





Testing Phase



- **Key Concepts:**

- Dual Purpose Testing
- Test Strategy
- Reliance on Existing Testing
- Test Plan
- Evaluate and Update Test Ratings



Dual-Purpose Testing

- A-123 employs a dual purpose testing approach. There are two steps to using dual-purpose testing:
 1. Determining whether a control failure occurred (control operation); and,
 2. Determining whether the risk actually occurred (impact) as a result of the control failure, where reasonable and appropriate.

Focus on probability and exposure from deficiencies



Testing Ratings Changes from FY 2006

Rating	NEW FY 2007	OLD FY 2006
3	<u>Significant Operational Deficiency</u> HIGH probability of the risk occurring.	<div style="background-color: red; color: white; text-align: center; padding: 50px;">Fail</div>
4	<u>Operational Deficiency</u> MORE than a remote possibility of the risk occurring.	
5	<u>Minor Operational Deficiency</u> ONLY a remote possibility of the risk occurring	
6	<u>N/A</u> (only used to rate design effectiveness)	
7	<u>Operating Effectively</u> LESS than a remote possibility of the risk occurring.	

Focus on probability of risk occurrence

Focus on Pass or Fail of Testing

Control Set Operational Effectiveness Ratings Definitions



Rating	Control Set (Operational Testing)
3	<p align="center"><u>Significant Operational Deficiency</u></p> <p>Significant deficiency(ies) in the control set operation exist such that there is a <u>HIGH probability</u> of the risk occurring. This <u>may</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
4	<p align="center"><u>Operational Deficiency</u></p> <p>Deficiency(ies) in the control set operation exist such that there is <u>MORE than a remote possibility</u> of the risk occurring. This <u>may</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
5	<p align="center"><u>Minor Operational Deficiency</u></p> <p>Deficiency(ies) in the control set operation exist such that there is <u>ONLY a remote possibility</u> of the risk occurring. This <u>may not</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk.</p>
6	<p align="center"><u>N/A</u></p> <p align="center">(only used to rate design effectiveness)</p>
7	<p align="center"><u>Operating Effectively</u></p> <p>Control set is operating effectively such that there is <u>LESS than a remote possibility</u> of the risk occurring. This <u>should not</u> adversely affect the organization's ability to meet its internal control objectives for the specified risk</p>



Test Strategy

- A Test Strategy represents site's high-level approach for ensuring efficiency, effectiveness and quality of testing activities for each process/entity area. This strategy would consider:
 - Ability to consolidate testing of multiple controls within and or between control sets.
 - How to validate quality and completeness of all required testing for each process.
 - Approach for weighting of results for specific control sets.
 - Additional guidance provided by the attester
- The Test Strategy is supported by Test Plans for each Control Set.
- Leverage existing tests, where possible



Reliance on Existing Testing

- Criteria for reliance:
 - Must have been performed within 12 months of the assurance date
 - No significant process/control changes should have occurred since testing
 - Must directly address the key controls and the related risk statement identified in the AART
 - Documentation must include same key attributes as if the test were performed locally

Sites may utilize testing performed as part of internal or external reviews and/or audits (e.g. Contractor Internal Audits, FFMIA, FMFIA, SAS-70, IG/GAO audits). Sites **may not** utilize financial statement audits as a basis in determining that controls are operating **effectively**. However, if those audits identify controls that are **not operating effectively**, and management agrees, these results may be relied upon to place the controls in remediation.



Test Plan

- A Test Plan identifies the detailed approach and steps employed to test the operational effectiveness of specific control sets in mitigating the inherent risk specified. Test plans should:
 - Identify how dual-purpose testing will be accomplished (where appropriate)
 - Define specific test activities to address each control within the control set
 - Contain all key elements identified in the Testing Quick Start Guide (e.g. sample size, universe, acceptable error threshold, type of tests, etc)



Types of Tests

- **Inquiry – *ask a question***
 - Interview staff to validate knowledge of a policy or requirement
 - Conduct a survey to obtain or validate information

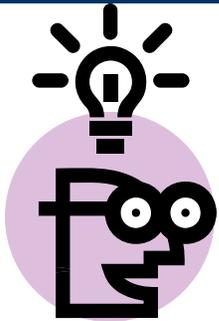
- **Inspection – *did it happen***
 - Review sample of source documents for evidence of control execution
 - Review exception reports and related documentation to identify preventive control failures and validate follow-up for risk occurrence
 - Reconcile process/system documentation to actual operation

- **Observation – *watch it happen***
 - Monitor personnel to validate execution of manual controls
 - Observe occurrence of automated controls (e.g. popup warnings)

- **Re-performing – *make it happen***
 - Enter an illegal transaction to test control operation
 - Enter a valid transaction to test control operation



Don't Forget: Testing



- Rationale for Ratings should be included in Detailed A-123 Documentation
- Design effectiveness ratings for Control Sets determined to be effective should not be changed based on testing results - change only after Control Set has been remediated, re-documented, and re-evaluated.
- Use of contractor internal audit staff is not prohibited



Live Demo

- **Enter Operational Control Effectiveness ratings**
- **Reassess Process level ratings**
- **Enter rationale for ratings**

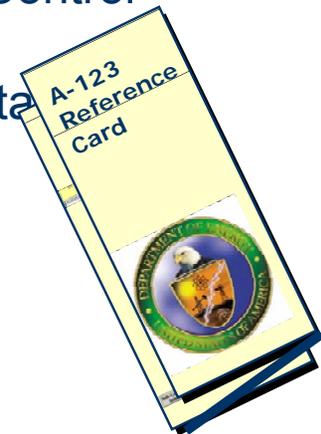




Recap/Questions

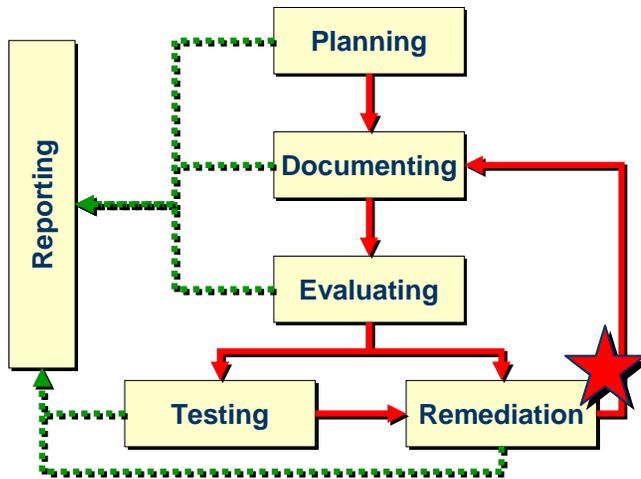
Key Activities in Testing

- Collect existing and approved A-123 tests
- For all risk activities with effective ratings create a test strategy and detailed test plans
- Execute test plans.
- Assess and rate test results.
- Summarize rationale and enter Source and Detailed Documentation location
- Re-assess the design effectiveness rating and assign operational effectiveness ratings at the Process, Area level and Overall Control Environment.
- Enter summary rationale and location of supporting documents





Remediation Phase



- **Key Concepts:**

- Roles of A-123 Assessment Team vs Business Unit
- Remediation Scope
- Remediation Strategy
- Corrective Action Plans (CAPs)

Responsibilities of Local A-123 Assessment Team vs. Business Units



Local A-123 Assessment Team

- Identify Remediation Scope
- Develop Remediation Strategy
- Ensure Development and Execution of CAPs:
- Validate completion of Remediation activities and re-assess the affected control sets.

Business Units

- Develop and Execute CAPs
- Re-document processes to reflect changes made during remediation.
- Implement process/control changes.



Remediation Scope for FY 2007

Scope

- Remediation is Required for all Control Sets Rated:
 - 3 or 4 in control design effectiveness
 - 3, 4 or 5 in operational (test) effectiveness



Remediation Strategy and Stages

Remediation Strategy

- **The Remediation Strategy represents the site's high-level approach for ensuring efficiency, effectiveness and quality of remediation activities for each process/entity area.**
- **The Remediation Strategy should consider:**
 - Relationship of deficiencies to other remediation activities
 - Breadth of organizations to be engaged
 - Opportunities to consolidate remediations by process/entity area
 - Priority for conducting remediations
 - Process for validating the quality and completeness of remediation activities

Stages of Remediation

1. **Remediation Planning**
 - Develop corrective action plan (CAP) with key milestones to correct deficiency(ies)
2. **Execution**
 - Complete key corrective action milestones
3. **Updating Source Documentation**
 - Update process/entity control documentation to reflect the changes
4. **Implementation**
 - Implement process/entity control changes
 - Changes must be operational for sufficient time prior to re-assessing their operational effectiveness

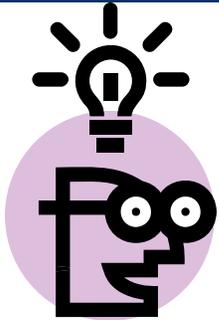


Corrective Action Plans (CAPs)

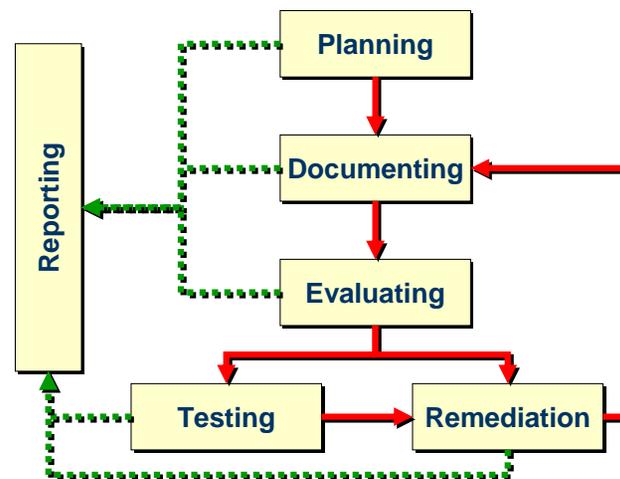
- **Corrective actions should focus on root cause resolution and not just minimizing symptoms.**
- **A CAP Form and Content is provided on the DOE A-123 Website but alternative formats are acceptable provided that, at a minimum, they include the following:**
 - All information required to populate the “CAP Track” tab within the AART
 - Detailed step-by-step corrective actions with associated milestones and target completion dates
 - Signature of authorized individual approving the plan
 - Signature of authorized individual confirming the implementation of the remediation action



Don't Forget: Remediation



- A-123 Team versus Business Unit roles
- Develop an integrated remediation strategy
- Focus on root causes not just symptoms
- Remediation is not complete until changes have been documented and are operational
- All remediated controls must be reassessed through the A-123 process.





Live Demo

- **Enter a CAP**
- **Associate CAP to Processes and/or Entity being remediated**

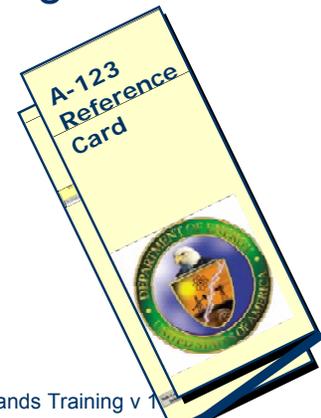




Recap/Questions

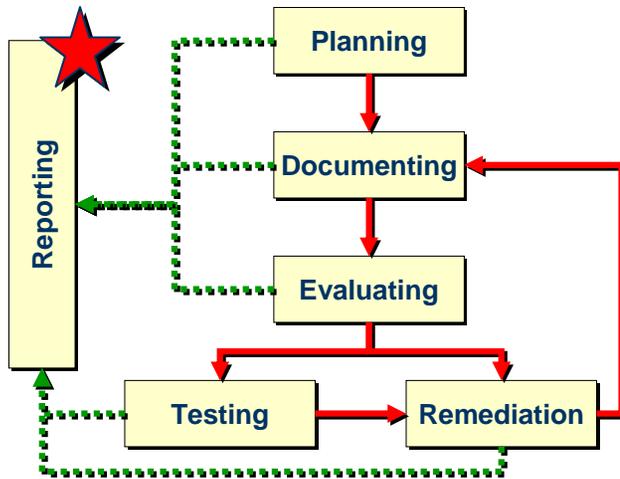
Key Activities in Remediation

- Create CAP in CAP Tracking tool for design deficient control sets (3 & 4) and operational deficient control sets (3, 4 & 5)
- Record CAP Attributes in CAP-Track
- Update CAP Tracking tool with Documentation Location
- Update PCS-Assess and ECS-Assess with corresponding CAP Number for each risk activities which requires remediation
- Coordinate and manage corrective action plan
- Update CAP Tracking tool with remediation status as needed
- Once remediation is complete re-assess the control sets starting with Documenting Phase of A-123 methodology





Reporting Phase



- **Key Concepts:**
 - Reporting Requirements
 - Quarterly Reporting
 - Preliminary Reporting
 - Final Reporting
 - Assurance Ratings
 - Assurance Methodology



Reporting Requirements

- Quarterly Reporting – Focus on progress, status, quality and barriers
- Preliminary Reporting – Focus on initial results
- Final Reporting – Focus on final assurance



Reporting

- **Common Preparation for all Reporting**

- [Field Office only] Roll-up and validate site data
- Perform Quality Assurance (QA):
 - Review progress metrics in the “Statistics” tab
 - Evaluate completeness and quality of inherent risk statements and control sets
 - Validate incorporation and reasonableness of rationales for ratings and other professional judgment decisions
 - Validate completeness of documentation locations
- Complete “Oversight” tab to ensure core oversight objectives have been addressed

- **Quarterly Reporting**

- Focus on Progress and Status
- Complete Quarterly Report Form and Content
- Update Implementation Plan

- **Preliminary Reporting**

- Define Preliminary results
- Report in accordance with PMT guidance

- **Final Assurance**

- Perform Assurance Analysis
- Define Final Assurance level
- Provide Final Assurance memorandum in accordance with established Form and Content



Quarterly Reporting Submission

- **Submission Package**

- Transmittal memo
- Completed Quarterly Report (Form & Content provided on A-123 website)
- Updated implementation plan (Form & Content provided on A-123 website)
- AART Tool suite for the reporting unit
- [FO Only] All AARTs for the elements under your cognizance

- **Field Office Submission**

- Hardcopy to the Lead Program Secretarial Office (LPSO)
- Carbon copy to
 - Other Secretarial Offices that provide significant funding to the Site.
 - Headquarters Office of the Chief Financial Officer / Office of Internal Review
 - A-123 Project Management Team.
- Electronic copy via e-mail to the A-123 Helpdesk at A-123Helpdesk@hq.doe.gov.

- **LPSO / Corporate Departments Submission**

- Hard copy to the Chief Financial Officer (CFO)
- Carbon copy to
 - Headquarters Office of the Chief Financial Officer / Office of Internal Review.
 - A-123 Project Management Team.
- Electronic copy via e-mail to the A-123 Helpdesk at A-123Helpdesk@hq.doe.gov .



Assurance Methodology

- Key Elements:
 - Process ratings of 3 and 4 and impact on specific Material Accounts
 - Entity ratings of 3 and 4
 - Nature and potential impact of deficiencies
 - Materiality thresholds

- Key Considerations:
 - Nature of the risk
 - Results of testing
 - Risk occurrence
 - Likelihood and Impact ratings
 - Impact on PERCV

A more detailed training on the Assurance process will be provided later in the year



Assurance Ratings

Rating	Assurance Definitions
3	<p style="text-align: center;"><u>Material Weakness</u></p> <p><u>More than a remote likelihood</u> for a misstatement of financial statements and reports <u>AND the misstatement may be of a material magnitude.</u></p>
4	<p style="text-align: center;"><u>Reportable Condition</u></p> <p><u>More than a remote likelihood</u> for a misstatement of financial statements and reports <u>AND the misstatement may be of a more than inconsequential magnitude</u></p>
5	<p style="text-align: center;"><u>Control Deficiency</u></p> <p><u>A remote likelihood</u> for a misstatement of financial statements and reports <u>OR the misstatement may be of an inconsequential magnitude.</u></p>
6	<p style="text-align: center;"><u>Effectively Designed Controls</u></p> <p>Controls are designed effectively to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>
7	<p style="text-align: center;"><u>Effectively Operating Controls</u></p> <p>Controls are operating effectively to detect and/or prevent fraudulent and erroneous transactions AND ensure reliable, accurate and timely financial reporting.</p>



Live Demo

- Quarterly Reporting
 - AART Field Office Rollup

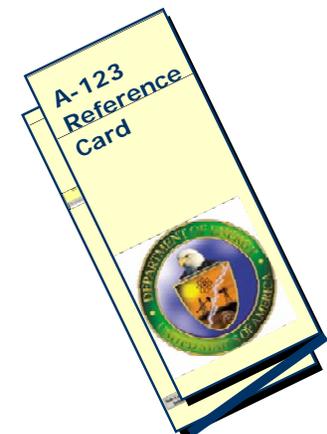


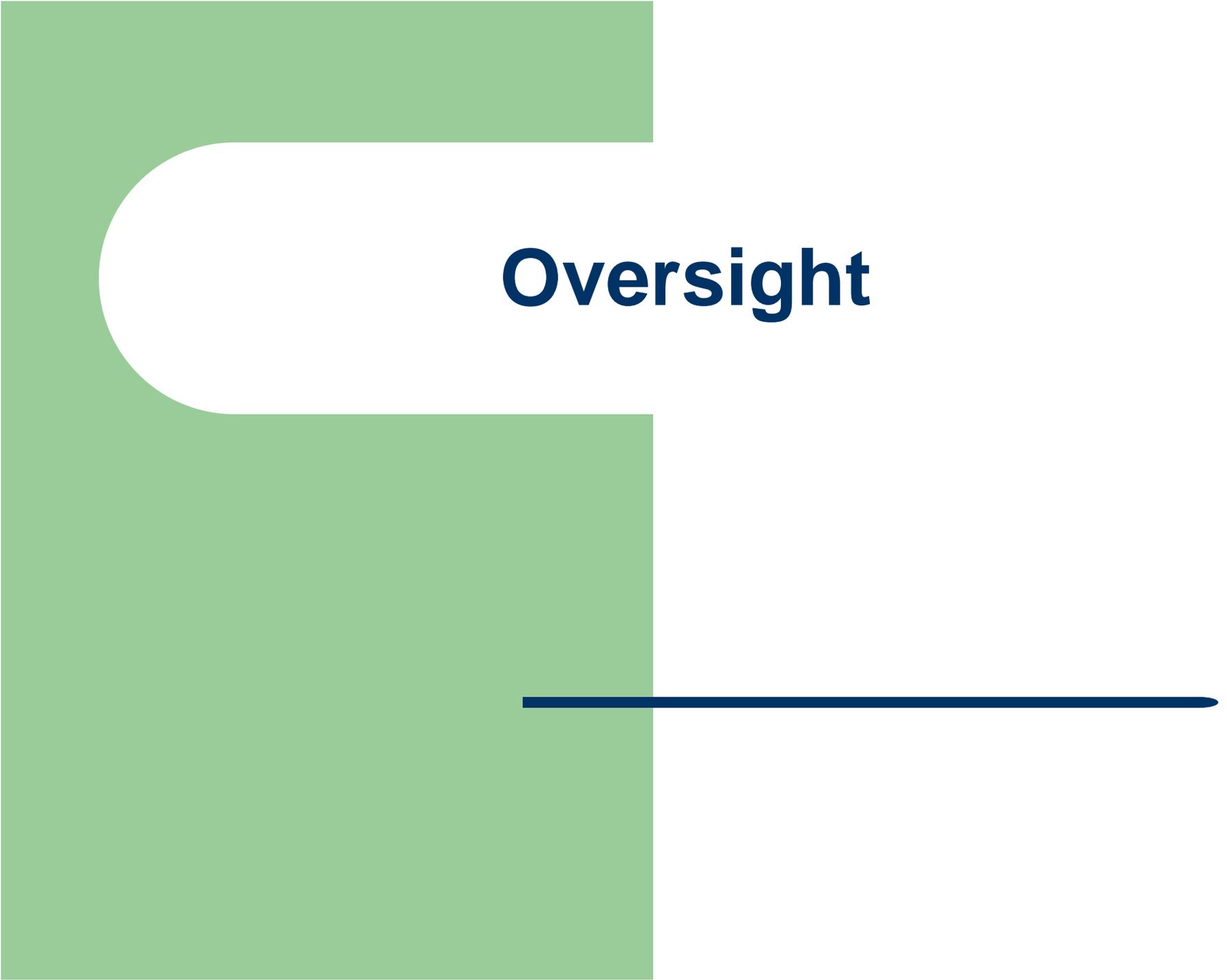


Recap/Questions

Key Activities in Reporting

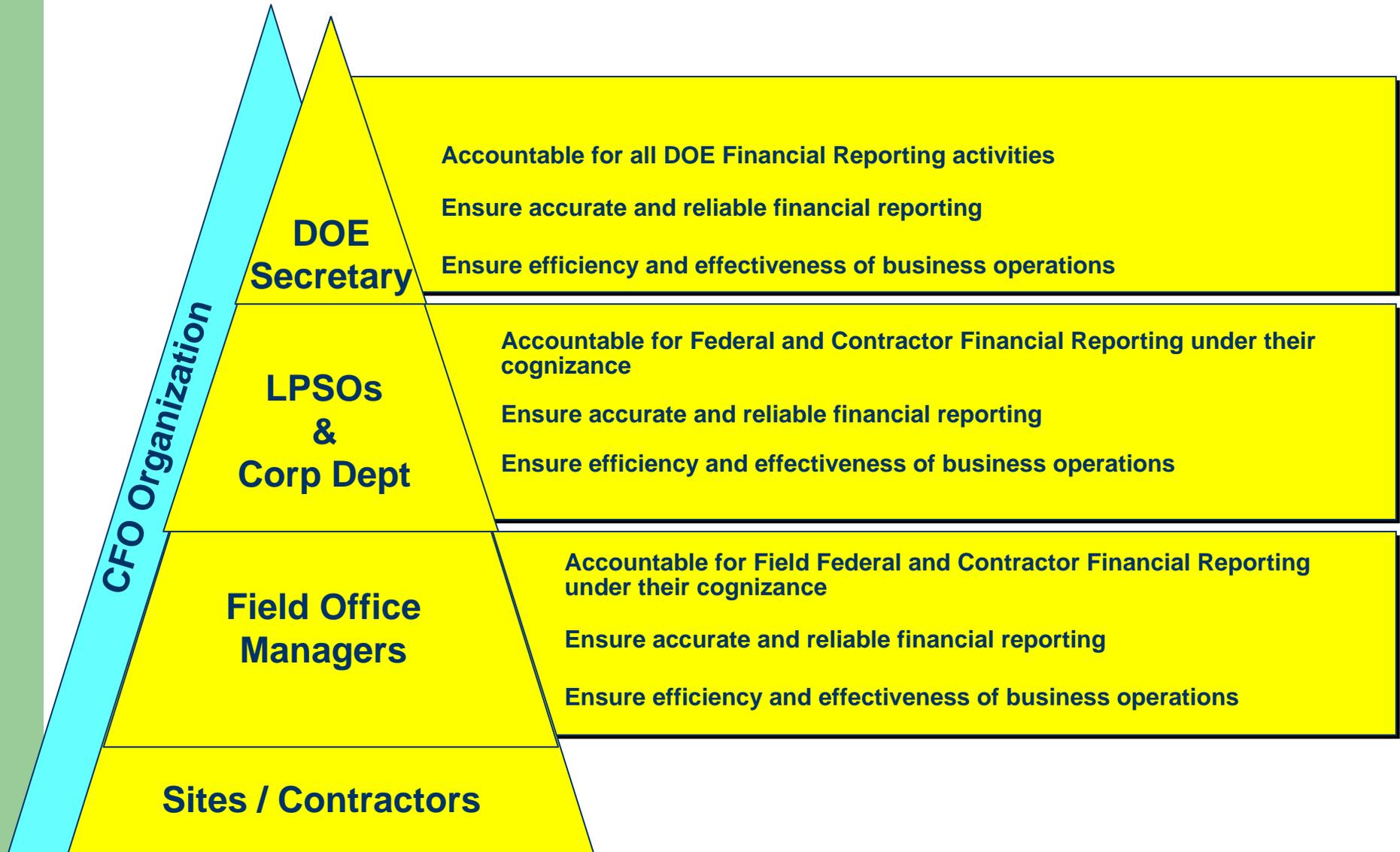
- Quarterly
 - [FO] Import and review site data into the AART
 - Quarterly Report Deck - Transmittal memo, Quarterly Report, updated Implementation Plan, AART Tool Suite, [FO only] all Site AARTs under your cognizance.
 - Submission format: eMail submission to A-123Helpdesk@hq.doe.gov; Hardcopy, Electronic Copy on CD
- Year End Assurance
 - Annual Assurance Prep: Extract and assess deficient controls by material account for Assurance Statement preparation
 - Assess material impact of deficiencies and identify Material Accounts and Processes with Material Weaknesses and Reportable Conditions
 - [FO Only] Rollup and assess deficiencies of cognizant sites
 - Submit Assurance Prep materials



A green rectangular background with a white rounded rectangle cutout on the left side. The word "Oversight" is written in blue text inside the white cutout. A blue horizontal line with a pointed right end is positioned below the word.

Oversight

Management Accountability





Your Oversight Role

Financial Reports

Balance Sheet	
Assets	MMS
- Accounts Receivable	1,326,769
Liabilities	
- Accounts Payable	2,546,769

- Report Results
- Highlight successes & Failures
- Define Goals for Improvement

- Meet Internal & External Commitments
- Evaluate Costs/Benefits
- Define & Implement Lessons Learned
- Assess Progress and Results

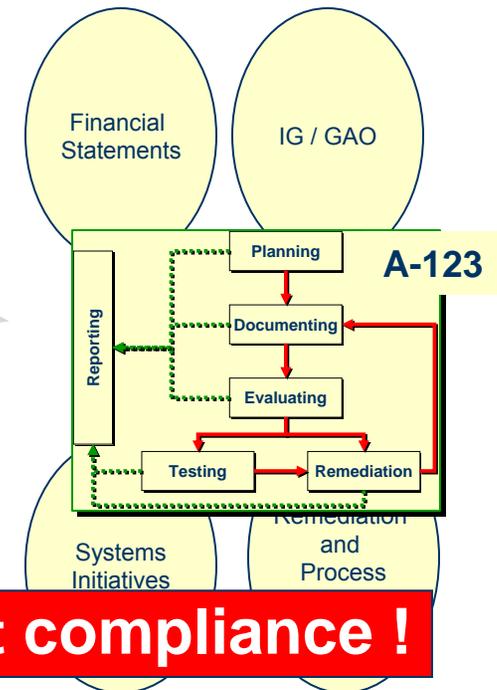


- Identify efficiencies and improvements
- Drive efficiencies
- Effect remediations
- Share best practices
- Link and ensure alignment with business objectives

Integrated Business Planning

- Identify business objectives
- Integrate A-123 plans with other activities
- Establish resource needs/goals
- Set up governance structures
- Institutionalize business improvement "approach"

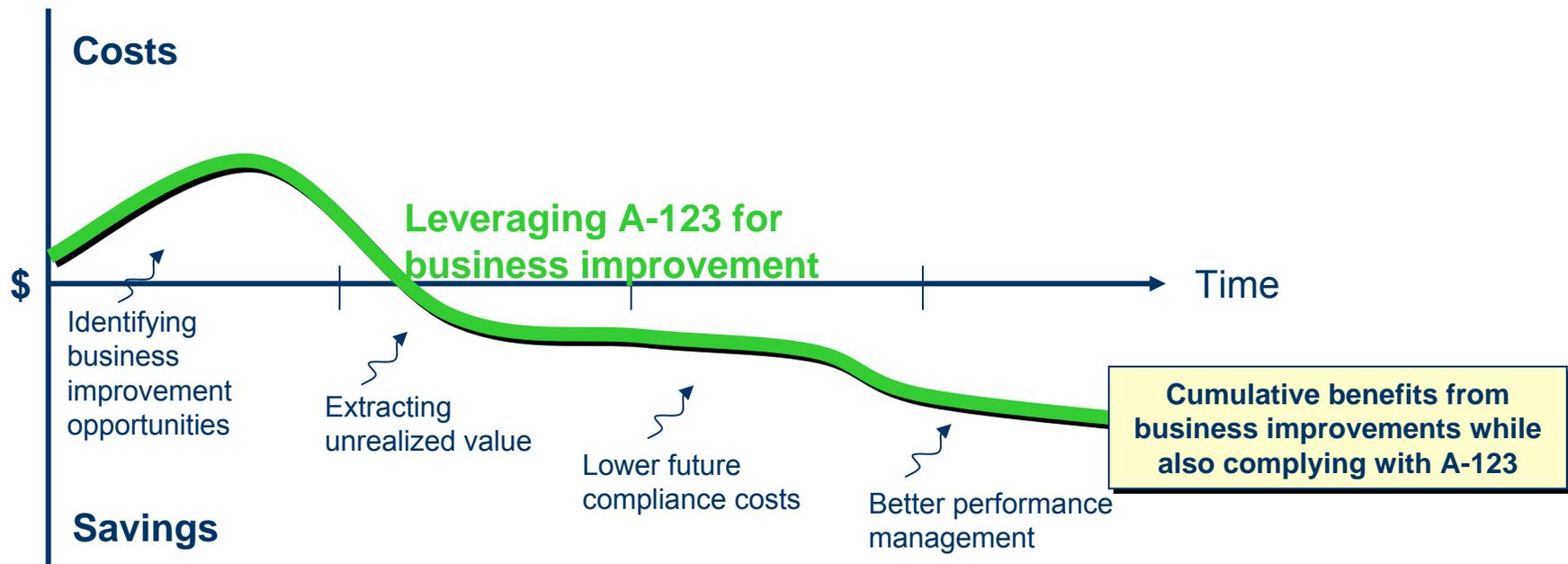
- Execute an integrated A-123 approach



Not just compliance !



Turning A-123 Costs into Benefits

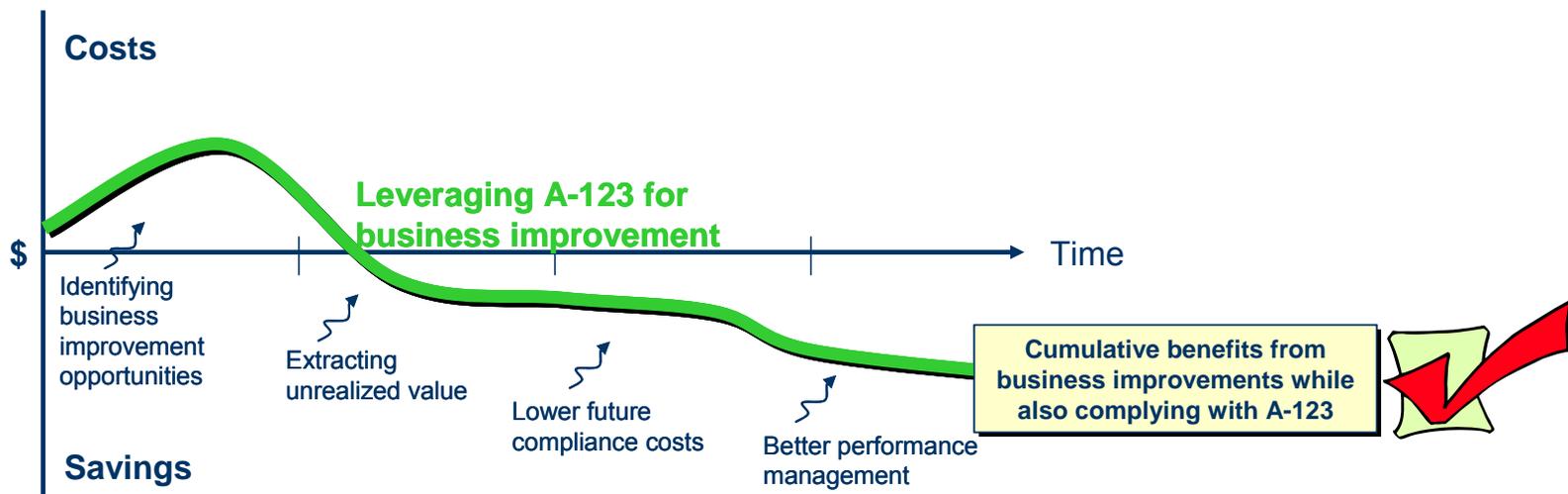


A-123 can be used, and should be used, as the foundation to your financial continuous improvement programs



Best Practices for Operational Success

- Institutionalize and promote A-123 business objectives as part of normal business operations
- Maintain strong communication with all sites under your cognizance
- Share knowledge, experience and best practices within your area of cognizance and with the Department
- Focus remediations on root causes versus symptoms
- Self assess and measure progress and success on an ongoing basis
- Leverage A-123 to create business benefits



Compliance Submission Timeline





Submissions Timeline

Date	Submission	Submitter
Jan 15 Jan 30, 2007	1st Quarterly Reports	Field elements Headquarters elements: <i>Lead Program Secretarial Offices (LPSO)</i> <i>and</i> <i>Corporate Departments (CD)</i>
April 15 April 30, 2007	2 nd Quarterly Reports	Field elements Headquarters elements
July 15 July 30, 2007	3 rd Quarterly Reports	Field elements Headquarters elements
July 31, 2007	Final date for completion of FY 2007 testing	
August 15, 2007	Preliminary FY 2007 Assurances	Field elements and Headquarters elements.
September 1, 2007 September 15, 2007	Final FY 2007 Assurances	Field elements Headquarters elements



How will PMT Support You

- **Key Contacts**

- Dean Childs A-123 Project Manager
- Mindy Bledsoe A-123 Assistant Project Manager
- Brian Boos A-123 Assistant Project Manager

- **How to reach us**

- Email: A-123Helpdesk@hq.doe.gov
- Helpdesk: (301) 903-3937

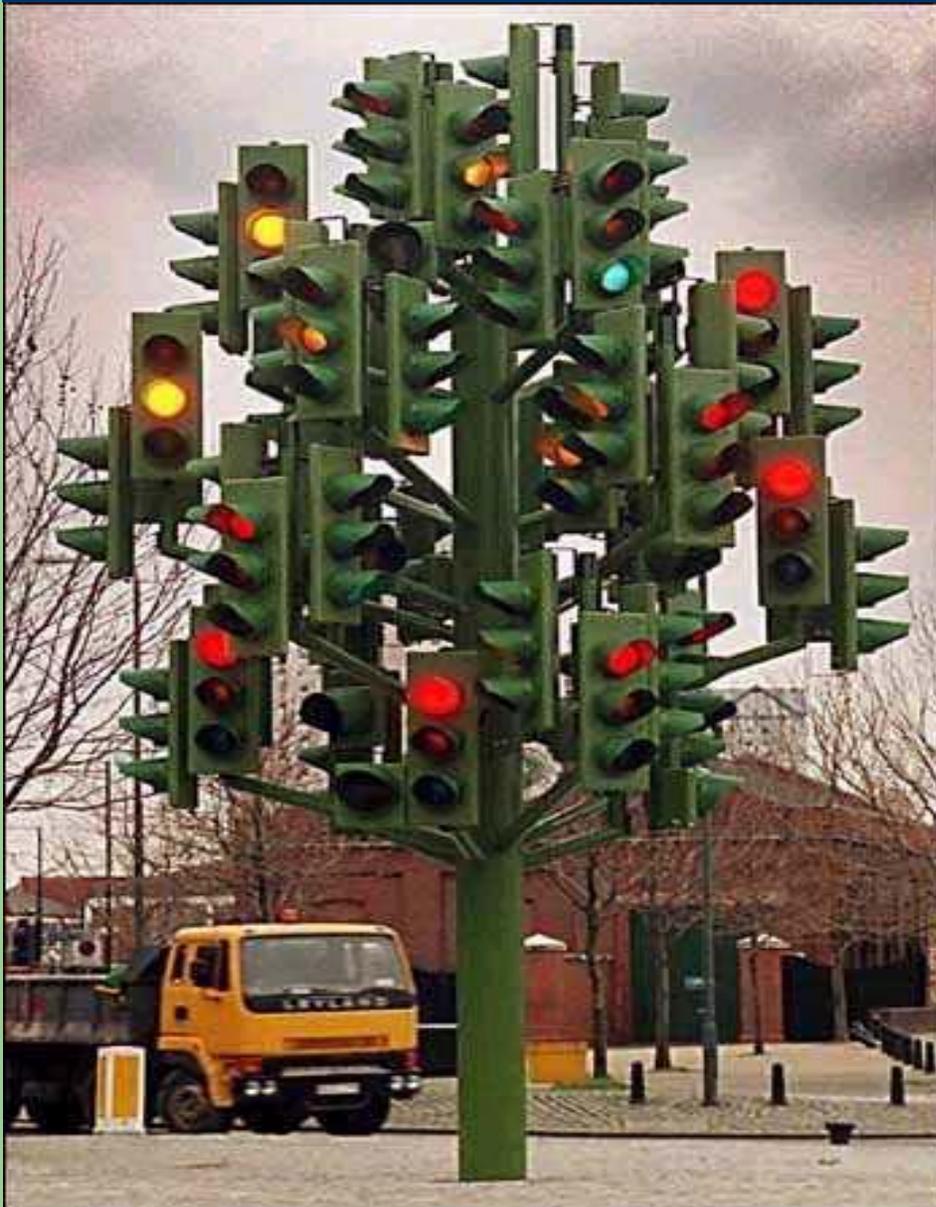
- **How to get additional information**

- Website: <http://www.cfo.doe.gov/progliaison/daeA123/index.htm>

Feedback



**Please complete the
Training Assessment Survey
before you leave !**



Questions ?

Discussion