

OMB Circular A-123, Appendix A

Fiscal Year 2008 Annual Guidance



**United States Department of Energy
Office of Internal Review
A-123 Project Management Team**

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OMB Circular A-123, Appendix A Fiscal Year (FY) 2008 Annual Guidance

I. Purpose

The purpose of the A-123 *Annual Guidance* is to provide updated operating protocols for the Department of Energy's (Department or DOE) implementation of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A (Internal Control over Financial Reporting). This guidance facilitates planning for the upcoming fiscal year's implementation of Appendix A by establishing the Department's expectations. Questions regarding the guidance should be directed to the A-123 Help Desk at A-123Helpdesk@hq.doe.gov, or 301-903-3937.

II. Applicability

The A-123 *Annual Guidance* provides information to Departmental elements, including the National Nuclear Security Administration, Corporate Departments, and the Department's major site and facilities management contractors identified in Attachment 1. (Unless otherwise noted, Departmental elements are generally referred to as "sites" throughout the guidance.)

Note that cognizant field A-123 leads may establish more stringent standards/requirements than those outlined in this guidance and related "Quick Start Guides" based on site specific needs and preferences (e.g. a site may require more detailed documentation than the corporate requirements).

III. Operating Assumptions

The operating assumptions described below provide high-level guidelines for the FY 2008 assessment.

A. Key Milestones: The Department has established the following key milestones for its FY 2008 implementation of Appendix A. Note that updated Implementation Plans are no longer required with quarterly reporting; however, sites should report any issues or significant changes to their implementation strategy on an on-going basis.

- **January 30, 2008** – 1st Quarterly AART submissions due from field elements and Headquarters elements (Lead Program Secretarial Offices (LPSO) and Corporate Departments (CD)), respectively.
- **April 30, 2008** – 2nd Quarterly AART Submissions due from field elements and Headquarters elements, respectively.
- **June 30, 2008** – Final date for completion of FY 2008 testing.
- **July 30, 2008** – 3rd Quarterly AART submissions and preliminary A-123 assurances due from field elements and Headquarters elements, respectively.

- **September 1, 2008** – Final FY 2008 assurances due from field elements.
- **September 15, 2008** – Final FY 2008 assurances due from Headquarters elements.

B. Assessment Scope: FY 2008 scope will remain consistent with the three-year implementation approach adopted by the Department and approved by OMB.

- **Federal Sites:** Complete evaluation and testing of all low-risk activities. All high and medium-risk activities not evaluated in FY 2006 and FY 2007 should also be tested in FY 2008 to complete the baseline assessment.
- **Contractor Sites:** Completed the baseline assessment (all high, medium and low-risk activities) in FY 2007. Contractors will now proceed in accordance with the Cyclical Risk-based Testing approach (See section IV.A.). Contractors should also use FY 2008 as an opportunity to: a) review and refine the identification and description of key risks and controls; b) Complete any required remediations; c) pursue any efficiency improvement opportunities that may have been identified; d) re-assess “inherent” risk ratings; and c) improve existing documentation.

C. Material Accounts: The Department's three-year implementation approach requires the material accounts to remain fairly constant so that progress against the Department's commitments to OMB can be adequately tracked. FY 2008 material accounts will remain consistent with those used throughout the baseline assessment. Federal sites, however, will need to determine whether significant changes have occurred in the operating environment at their location—and at contractor locations over which they have cognizance—which might change their material accounts. Operational changes that might drive a change in material accounts include, but are not necessarily limited to, the following:

- Changes in allottee
- Changes in organizational cognizance
- Changes resulting from reorganizations
- Changes resulting from a contractor merger or split
- Changes resulting from a new contract award

Any proposed change to material accounts must be approved by the A-123 PMT. Once approved, sites will immediately flag the account(s) in the A-123 Assessment and Reporting Tool (AART) as being applicable and update its Appendix A documents accordingly (e.g., *Implementation Plan*, process documentation, etc.).

D. Organizational and Process Changes: Organizational and process changes at any level may have impacts on the corporate implementation of Appendix A. Sites should be aware of any such changes on an on-going basis and highlight those changes in updates to their *Implementation Plans*. Such changes could include, but are not necessarily limited to, the following:

- Changes in composition of the A-123 assessment team or senior management personnel (e.g., change in CFO, field element manager, etc.)
- Changes in implementation approach, contracting strategy or contractors
- Changes in allottee status, organizational structure or reporting chain of command

Sites should immediately notify the A-123 PMT if they determine that a change to their AART is needed. The A-123 PMT will make any changes to the AART, as necessary.

E. Oversight: In FY 2008, LPSOs and field elements will continue to oversee Appendix A implementation activities for any sites under their cognizance. Oversight is multifaceted, but some of the key aspects of oversight for which both LPSOs and field elements are responsible include:

- Ensuring that A-123 Assessment Teams comprise the appropriate mix of skills and resources
- Ensuring that professional judgment decisions are reasonable
- Ensuring the consistency, completeness and accuracy of data resulting from implementation activities
- Identifying and sharing possible best practices and identifying and resolving problems, challenges and barriers
- Coordinating with other Departmental elements as needed
- Ensuring timely completion of evaluation activities and all key reporting milestones are met.

The AART provides tools to assist cognizant organizations in evaluating progress and ensuring that oversight objectives are accomplished.

F. Corrective Actions: In FY 2008, sites will continue to remediate controls identified as not designed or operating effectively, document corrective actions taken, and report on the status of those actions as appropriate. To that end, the Corrective Action Plan tab of the AART should be used to track corrective action plans, including progress and status in accomplishing needed remediations.

IV. Implementation Changes

The following sections identify key changes for the FY 2008 assessment cycle. Every effort has been made to limit changes to those necessary to meet core requirements, address known deficiencies/issues or streamline assessment activities.

A. Cyclical Risk-Based Testing: In FY 2008, the Department will implement a cyclical, risk-based testing approach. Contractors will fully implement this approach in FY 2008 and Federal sites will be required to implement this approach in FY 2009, after completing their baseline assessment.

The cyclical approach requires that all sub-process be tested no less than once every three years. The AART tool has been modified to contain an “Annual Risk-based Controls Assessment” (ARCA) tab which will identify the minimum scope for each year, based on the date the sub-process was last tested. The scope may then be further adjusted locally to accelerate or delay testing of specific sub-processes based on consideration of a number of management factors including: high-risk areas identified by the Project Management Team (PMT); areas of concern to local management; significant process or system changes; organizational or contract changes, etc.

The PMT will provide detailed training on how to use the ARCA tab to identify the scope for the year. Once the scope is identified, sites will: a) develop or validate the accuracy of documentation for each sub-process/subcategory to be tested; b) evaluate/re-evaluate the control design effectiveness; and c) complete testing of the key controls for the sub-process/subcategory. The documenting, evaluating and testing procedures remain essentially unchanged from FY 2007.

B. Contract Transitions/New Starts: Site, facility management contractor transitions and new starts are a common occurrence and have a significant impact on the Department’s A-123 implementation strategy. In FY 2008, the Department is implementing the following protocols for dealing with these situations:

- 1) Cognizant field office A-123 leads should notify the PMT of any planned contract transitions or new starts to take place during the year and the proposed A-123 strategy for the new contractor. PMT will work with the field site to finalize and approve the approach.
- 2) In determining the appropriate A-123 strategy, the field office and PMT will consider factors including:
 - Whether the contract is a transition or new start
 - Whether the contractor is FAR-based or “Integrated”
 - The timing of the transition (e.g. late or early in the A-123 cycle, etc.)
 - Whether the new contractor will “assume” the systems of the old contractor or implement new systems
 - The extent of organization and process changes resulting from the transition
 - Factors that may significantly alter risk (e.g. higher/lower contract value; system changes, etc.)
 - Other factors as appropriate
- 3) The cognizant field office may choose to have the new contractor: a) Assume the AART of the previous contractor and maintain/modify the established cycle; or b) Establish a new AART and baseline implementation plan not to exceed 2 years.

- 4) The ARCA tool will allow cognizant field offices to set custom implementation schedules.
- 5) A final assurance should be required from the legacy contractor prior to closure of the old contract.

C. Risk Assessment: Risk assessments will continue to be performed primarily based on inherent risk. This risk assessment will factor in the inherent likelihood that a risk *may* occur, and the inherent impact if the risk *does* occur, considering the general environment (not the control environment) in which the control functions. However, sites may raise (but not lower) risk based on any factors they deem appropriate, regardless of inherent risk. In making these decisions, sites should consider that the risk should be a driver for determining the extent of testing to be performed.

D. Documentation Requirements: The following changes to documentation requirements will be in effect for FY 2008 and retroactively:

- Sites will no longer be required to record the documentation location in the AART. While this is no longer a requirement, sites are still encouraged to do so in cases where all A-123 documentation is not centrally maintained.
- Sites are no longer required to maintain written documentation on the rationales for determining risk ratings (likelihood and impact) for each key risk. However, sites must be prepared to describe their rationale upon request to support audits and reviews by the PMT. While no longer a requirement, sites are encouraged to continue documenting these rationales to some extent as it may be difficult to recall the rationales over time or when institutional knowledge is lost.
- Completion of required fields in the AART Assurance tab represents adequate documentation to support the site's year-end assurance. Previous Quick Start Guide references to updating "more detailed documentation" have been removed.
- Rationales for professional judgment decisions documented elsewhere in the AART do not require additional, more detailed documentation (e.g. rationale for control design effectiveness ratings) outside the tool.

All other documentation requirements including those related to development of Implementation Plans, corrective action plans and test plans remain unchanged. As noted in the Applicability section, cognizant field organizations may elect to continue the more detailed documentation for their Federal activities and contractors under their cognizance.

**Department of Energy Organizational Elements
Implementing OMB Circular A-123, Appendix A**

Program Name	PGM Code	Federal Field Office Name	FO Code	CSO	Site Name	Site Code	Contractor Name		
NNSA Administration	NNSA	National Nuclear Security Administration (Service Center) -- <i>Federal Activity</i> --	NAFO	(None)	Kansas City	KC	Honeywell FM&T		
					Lawrence Livermore National Lab	LLNL	University of California		
					Los Alamos National Lab	LANL	Los Alamos National Security, LLC		
					Nevada Test Site	NTS	National Security Technologies, LLC		
					Pantex	PX	BWXT Pantex		
					Y12	Y12	BWXT Y-12		
					Sandia National Lab	SNL	Lockheed Martin Sandia		
				RW	Yucca Mountain Project (YMP)	YMP	Bechtel SAIC Company, LLC		
				Pittsburgh -- <i>Federal Activity</i> --	PFO	(None)	Bettis Atomic Power Lab	BAPL	Bechtel Bettis
				Schenectady -- <i>Federal Activity</i> --	SNFO	(None)	Knolls Atomic Power Lab	KAPL	Knolls Atomic Power Lab
Science	SC	Oak Ridge -- <i>Federal Activity</i> --	OR	EM	East Tennessee Technology Park	ETTP	Bechtel Jacobs Company LLC		
					Oak Ridge National Lab	ORNL	UT-Battelle, LLC		
					Pacific Northwest National Lab	PNNL	Battelle Memorial Institute		
					Oak Ridge Inst. For Sci & Educ.	ORISE	Oak Ridge Assoc. Univ.		
					Thomas Jefferson National Acc. Fac.	TJNAF	Jefferson Science Associates		
					Stanford Linear Acc. Center	SLAC	Stanford University		

		Chicago -- <i>Federal Activity</i> --	CH	(None)	Argonne National Lab	ANL	University of Chicago Argonne, LLC
					Brookhaven National Lab	BNL	Brookhaven Science Assoc. (Battelle)
					Fermi National Accelerator Lab	FNL	Fermi Research Alliance, LLC
					Lawrence Berkeley National Lab	LBNL	University of California
					Princeton Plasma Physics Lab	PPPL	Princeton University
Fossil Energy	FE	Strategic Petroleum Reserve Office -- <i>Federal Activity</i> --	SPRO	(None)	Strategic Petroleum Reserve	SPR	DynMcDermott Petroleum Oper. Co.
		National Energy Technology Lab -- <i>Federal Activity</i> --	NETL	EE	National Renewable Energy Lab (reports under NETL for purposes of A-123)	NREL	Midwest Research Institute & Battelle
					Golden Field Office (reports under NETL for purposes of A-123)	GFO	-- <i>Federal Activity</i> --
Nuclear Energy	NE	Idaho -- <i>Federal Activity</i> --	ID	NE	Idaho National Lab	INL	Battelle Energy Alliance
					Advanced Mixed Waste Treatment Plant	AMWTP	Bechtel BWXT Idaho
Environmental Management	EM	EM Consolidated Business Center (EMCBC) -- <i>Federal Activity</i> --	EMCBC		West Valley	WV	West Valley Environmental Services
					Waste Isolation Pilot Plant	WIPP	Washington TRU Solutions
			Portsmouth Paducah Project Office (PPPO) -- <i>Federal Activity</i> -- (Reports under EMCBC)	(None)	Portsmouth	POR	UDS

					UPOR	LATA/Paralax
		Savannah River -- <i>Federal Activity</i> --	SRFO	(None)	Paducah PAD	Paducah Remediation Services
		Richland -- <i>Federal Activity</i> --	RLFO	(None)	Savannah River Site SRS	Washington Savannah River Company
					(None for purposes of A-123)	-- <i>Federal Activity</i> --
Power Marketing Administrations	PMA	Southeast Power Administration -- <i>Federal Activity</i> --	SEPA	(None)	(None)	-- <i>Federal Activity</i> --
		Southwest Power Administration -- <i>Federal Activity</i> --	SWPA	(None)	(None)	-- <i>Federal Activity</i> --
		Western Area Power Administration -- <i>Federal Activity</i> --	WAPA	(None)	(None)	-- <i>Federal Activity</i> --
		Bonneville Power Administration -- <i>Federal Activity</i> --	BPA	(None)	(None)	-- <i>Federal Activity</i> --
HQ CFO Organization	CFO	HQ CFO Organization -- <i>Federal Activity</i> --	CFO	(None)	(None)	-- <i>Federal Activity</i> --
Energy Efficiency and Renewable Energy	EE	(NREL & GFO report under NETL for purposes of A-123)				
Radioactive Waste	RW	(Yucca Mtn. reports under NNSA for purposes of A-123)				
Legacy Management	LM	(None)				-- <i>Federal Activity</i> --
HQ Procurement	HPROC	(None)				-- <i>Federal Activity</i> --
Office of Engineering & Construction Management	HOECM	(None)				-- <i>Federal Activity</i> --
HQ CIO	HCIO	(None)				-- <i>Federal Activity</i> --