Department of Energy

Office of the Chief Financial Officer

Implementing OMB A-123, Appendix A

FY07 DOE A-123 Quick Start Guides

Version 4.0

November 2006

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DOE A-123 at a Glance

Version 4.0

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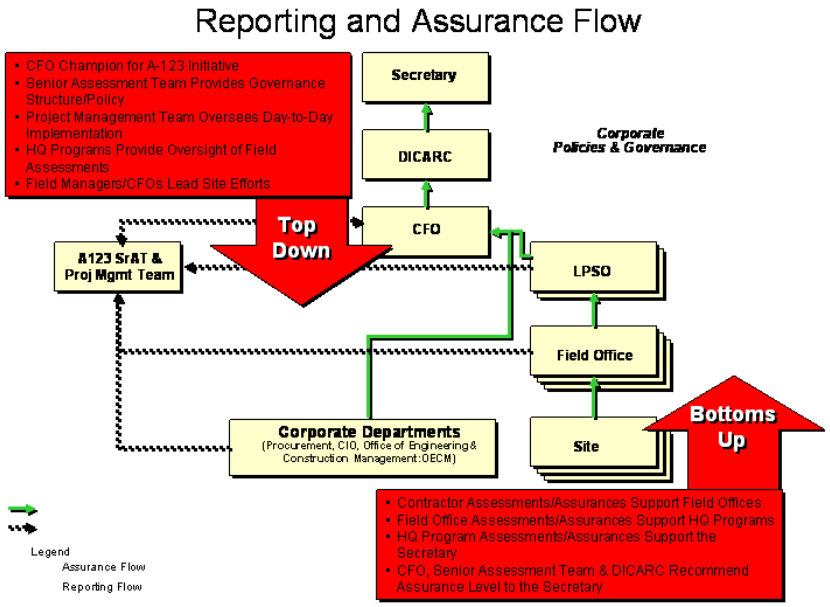
BACKGROUND

In December 2004, the Office of Management and Budget (OMB) released a revised Circular A-123. While changes were made throughout the document, the most critical changes were concentrated in the newly added Appendix A, Internal Control over Financial Reporting. The primary changes were strengthened documentation, monitoring and testing requirements. The documentation requirements not only became more detailed, but were also expanded to include both documentation of internal controls and documentation of the methodology and process used to make the attestations. Testing was strengthened by requiring tests of the operating effectiveness of controls. Monitoring was strengthened by requiring a continuous cycle of evaluation, testing and, where necessary, remediation of those controls that are not designed or operating effectively. The ultimate intent of the revised Circular was to "strengthen the process management uses to assess internal control over financial reporting." The Department of Energy (Department or DOE) understands that it is management's fundamental responsibility to develop and maintain effective internal control. As such, it has established a corporate program to effectively implement and manage the requirements of OMB A-123, Appendix A.

GOVERNANCE STRUCTURE / RESPONSIBILITIES

The Department manages its A-123 program through a defined governance structure and by means of a top-down implementation approach. This governance structure, and the associated reporting and assurance flow, is depicted below.



A. Responsibilities

This governance structure and the responsibilities of the respective Departmental Elements are as follows:

- **Secretary of Energy** – signs the annual assurance statement on the Department's effectiveness of internal control over financial reporting as of June 30 for the fiscal year being reported. The annual assurance statement is included in the Department's annual Performance and Accountability Report, issued November 15 of each year.

- **Departmental Internal Control and Audit Review Council (DICARC)** – provides senior management oversight of the Department's internal control program. DICARC reviews and approves material weaknesses in internal control over financial reporting as identified by the annual Appendix A, assessment process and determines the level of Secretarial assurance the Department should provide on its internal control over financial reporting. (DICARC also reviews and approves material weaknesses in internal controls, and the level of Secretarial assurance provided, for annual assessments of internal control required by the Federal Managers' Financial Integrity Act and the Federal Financial Management Improvement Act.)

- **Departmental Chief Financial Officer (CFO)** – established a Senior Assessment Team and an A-123 Project Management Team to oversee the Department's efforts to implement the requirements of Appendix A.

- **Senior Assessment Team (SrAT)** – recommends to the DICARC the level of Secretarial assurance the Department should provide on its internal control over financial reporting. The SrAT also:
    - identifies the material accounts from the Department's quarterly and annual financial statements upon which the annual assessment of internal control over financial reporting will be based;
    - identifies key financial and business processes that impact the material accounts and the;
    - identifies the Departmental elements, Corporate Departments, and major site and facilities management contractors that will be included in the assessment;
    - evaluates, on an overall basis, the design and operation of internal control over financial reporting based in large part on the quarterly and annual assessments from Heads of Headquarters and Field Elements; and,
    - develops a process for identifying changes in the internal control environment from June 30 to fiscal year-end that could potentially impact the effectiveness of internal control over financial reporting.

  The membership of the SrAT includes the following:

    - Director, Office of Internal Review (serves as Chairperson)
    - Director, Office of Financial Management
    - Director, Energy Finance and Accounting Service Center
    - NNSA Field Chief Financial Officer/Director, Office of Field Financial Management
    - Chief Financial Officer, Oak Ridge Operations Office
    - Chief Financial Officer, Savannah River Operations Office
    - Ex Officio representatives (e.g., Office of Inspector General staff) (non-voting technical advisors)

- **Headquarters A-123 Project Management Team (PMT)** – provides operational oversight of, and support for, evaluations of internal control

over financial reporting being conducted by Departmental elements, Corporate Departments, and major site and facilities management contractors. The A-123 PMT also supports the corporate governance and policy-making responsibilities of the SrAT by developing and maintaining policy, guidance, tools, templates, and other items necessary for the Department's implementation of Appendix A.

- **Heads of Headquarters and Field Elements** – develops and maintains effective systems of internal control; conducts assessments of internal control over financial reporting; and reports results (quarterly status reports and annual assurance statements) on the financial-reporting related internal controls under their cognizance. Heads of Headquarters Elements, in this context, refers to Lead Program Secretarial Offices and Corporate Departments (e.g., the Office of Headquarters Procurement Services, the Office of the Chief Information Officer and the Office of Engineering and Construction Management). Heads of Field Elements, in this context, refers to Field Office Managers. Heads of Headquarters and Field Elements may delegate these responsibilities (with the exception of the signing of the annual assurance statement) to others, such as the resident A-123 Assessment Teams; any such delegation shall be documented in writing.

- **Field Chief Financial Officers** – supports the Head of Field Elements' assessments and provides liaison with the major site and facilities management contractors under its cognizance. Field CFOs may delegate these responsibilities to others, such as the resident A-123 Assessment Teams; this delegation does not need to be documented in writing.

- **A-123 Assessment Teams** – established by Heads of Headquarters and Field Elements, with major site and facilities management contractor involvement as appropriate, to conduct evaluations of the effectiveness of internal control over financial reporting. A-123 Assessment Teams also:
    - conduct an evaluation based on material accounts and key financial and business processes identified by the SrAT;
    - develop test plans;
    - prepare quarterly status reports on progress in assessing systems of internal controls; and,
    - prepare annual assertions on internal control over financial reporting.

- **Major Site and Facilities Management Contractors** – implements, under the direction and oversight of the cognizant Field Element, the requirements of Appendix A, as applicable.

Scope / Materiality / Process Identification

The Department has clearly defined the scope of reporting to be considered, materiality levels and key processes as detailed below. Material accounts have been developed at the corporate level and are driven down to programs and sites as applicable. To ensure consistent evaluation, testing and reporting, the PMT has also defined standard process cycles and related processes that have been deployed across the complex. This approach will provide the needed consistency and structure to ensure an effective implementation.

B. SCOPE OF FINANCIAL REPORTS

The Department's SrAT established a scope of financial reports for fiscal years (FY) 2006 and 2007 that covers the Department's six principle financial statements. These statements include:

1. **Consolidated Balance Sheet:** Captures assets, liabilities and net position components of the Department.

2. **Consolidated Statements of Net Cost:** Summarizes the Department's operating costs by the seven long-term goals identified in the Department's Strategic Plan. Also includes "Net Cost of Transferred Operations."

3. **Consolidated Statements of Changes in Net Position:** Presents accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

4. **Combined Statement of Budgetary Resources:** Provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year.

5. **Consolidated Statements of Financing:** Reconciles the obligations incurred to finance operations with the net cost of operations**.**

6. **Consolidated Statements of Custodial Activities**: Identifies revenues collected by the Department on behalf of others.

The decision was made to limit the FY 2006/2007 evaluation to the Department's six principal financial statements due to the implementation of a new, Oracle-based accounting system in FY 2005. Transition issues and other factors associated with the implementation of this new financial system resulted in a disclaimer of opinion on the Department's FY 2005 financial statements. The SrAT decided that the most critical financial reporting areas that could benefit from the rigors of an A-123 assessment were the principal financial statements. As such, the current assessment work will not only satisfy the requirements of A-123, but also support the Department's efforts to regain an opinion on its statements.

C. MATERIALITY

Department of Energy Methodology

Materiality determination is a complex analysis that requires professional judgment and consideration of various quantitative and qualitative measures. The SrAT defined two quantitative materiality levels in accordance with Office of Management and Budget (OMB) Circular A-123, Appendix A:

Reporting Materiality is the overall materiality that serves as the threshold for reporting weaknesses in internal controls that could result in a material misstatement of a financial report. The SrAT set Reporting Materiality at 1% of Total Assets, consistent with the President's Council on Integrity and Efficiency Financial Audit Manual (FAM) approach.

Planning Materiality, which is generally a percentage of reporting or overall materiality, is used to determine significant accounts, elements or disclosures in a financial report. Planning Materiality is calculated at two levels – Departmental and site. An account is considered to be material at the Departmental Level if the account balance is $\geq$ .75% of Total Assets ($895 million). An account that is material at the Departmental level is considered to be material at the site level if the site's account balance is $\geq$ .75% of the total account balance. For example, if the total accounts payable balance for the Department is $1 billion, accounts payable will be material at any site that has an accounts payable balance $\geq$ $7.5 million (.75% of $1 billion).

In addition, the SrAT considered a number of qualitative factors when assessing the significance of an account, such as susceptibility to loss due to fraud, volume of activity, complexity, nature of the account, etc. The Department also considered the accounts and cycles identified by the independent financial statement auditor.

Additionally, in FY 2007 the Department will identify the financial report assertions associated with each material account for documentation purposes and to assist in testing. Financial reporting assertions are defined as representations by management that are embodied in the financial statements and are classified in the following broad categories:

Presentation and Disclosure – Financial statement account is properly classified, described and disclosed.

Existence or Occurrence – Assets or liabilities exist at a given date and whether recorded transactions occurred during a given period.

Rights and Obligations – Assets are the rights of the entity and liabilities are obligations of the entity at a given date.

Completeness and Accuracy – All transactions and accounts that should be presented are included.

Valuation and Allocation – Assets, liabilities, equities, revenues and expenses have been included at appropriate amounts.

FY 2007 Material Accounts

FY 2007 material accounts will remain consistent with those used during the FY 2006 assessment. The Department's three-year implementation approach requires the material accounts to remain fairly constant so that processes and status against the Department's commitments to OMB can be adequately tracked. The Department has determined that based on the methodology outlined above, no new material accounts have been identified at the Departmental level. Federal sites, however, will determine whether significant changes have occurred at their location or at contractor locations over which they have cognizance, which would necessitate a change to their material accounts.

D. KEY PROCESS CYCLES AND PROCESSES

To support the consistent assessment of internal control over financial reporting, the Department has established 5 standard process cycles and 19 standard processes around which A-123 assessments will be performed. The process cycles and related key processes are listed below:

Procure to Pay (P2P) cycle comprises the Purchasing and Payment Processes including: *Acquisition*; *Inventory Management*; *Payable Management*; and *Travel*. Some examples of specific areas that may contain risks are approving requisitions, issuing RFP's, maintaining and selecting vendors, awarding contracts, maintaining obligations, receiving and managing goods or services, approving and paying invoices, tracking funds, monitoring continuing resolutions, managing travel and purchase cards.

Budget to Close (B2C) basically encompasses Financial and/or Accounting Processes such as: *General Ledger Management*; *Funds Management*; *Funds Balance with Treasury*; *Cost Management*; *Insurance*; *Grants*; and *Loans*. Sub-processes include such activities as budgeting, journal entries, costing reconciliations, financial reporting and include closing activities at month, quarter, and year-end.

Projects to Assets (P2A) involves *Project Cost Management*; *Property Management*; and *Seized Property Management* processes. Selected sub-processes that fall within this process cycle are managing large projects including capturing all costs and managing to budget; capturing costs for reimbursable expenses; creating and monitoring assets; monitoring depreciation; and controlling property.

Quote to Cash (Q2C) consists of *Revenue Management*; and *Receivable Management*. The Sub-Processes attached to this process cycle include invoicing for reimbursable expenses, as well as any other expected revenues through to managing accounts receivable and receiving cash.

Enterprise Resource Management (ERM) incorporates all aspects of *Human Resources*; *Payroll*; and *Benefits*. The sub-processes include the full gamut of activities from hiring and managing employees to executing benefits for all employees and retirees. This includes calculating liabilities, as well as creating accruals.

In the context of A-123, Appendix A, a:

Process Cycle is an-end-to end sequence of events consisting of the methods and records used to establish, identify, assemble, analyze, classify and record transactions. The process cycles were developed based on Enterprise Resource Planning best practices.

Process is the highest-level categorization of activities within a process cycle. This level aggregates various sub-processes against which A-123 assessments are performed. The processes were developed based on analysis of Joint Financial Management Improvement Program manuals and the Council of Sponsoring Organizations (COSO) Internal Control Framework. These processes have been tailored to "fit" DOE financial management operations.

Sub-process is the lowest level categorization of activities within a process cycle or process. Sub-processes define the specific grouping of activities against which controls are directly assessed (e.g. controls and related risks are identified at this level and evaluation and testing are performed at this level).

IMPLEMENTATION APPROACH

Due to the interdependencies of the A-123 and current DOE remediation activities (including timing of process redesigns, resource sharing, etc.), the Department has elected to pursue a three-year implementation strategy. This strategy will provide a "complete" (qualified or unqualified) assurance in FY 2008. In FY 2007, Federal sites will assess the remaining high-risk areas (those not covered in FY 2006), as well as medium and low risk activities. Some low-risk activities may be deferred until 2008 for Federal sites that will be most heavily involved in implementing corrective actions to address current and future financial statement audit issues. This will position Federal sites to begin using a cyclical risk-based testing approach starting in FY 2009, after completion of their baseline activities in FY 2008. Major Site and Facilities Management Contractors (Site contractors), on the other hand, will complete documentation and testing of all medium- and low-risk activities in FY 2007. Site contractors will begin using a cyclical risk-based testing approach starting in FY 2008, after completion of their baseline activities in FY 2007.

E. PLANNING

All key decisions that drive the A-123 assessment are made during the Planning phase, and as such planning is one of the most critical steps in the assessment process. The Planning phase of the A-123 program requires the Headquarter and Field Elements to establish A-123 Assessment Teams, determine their contractor management strategy, select relevant material accounts and complete an A-123 Implementation Plan.

F. DOCUMENTING

The A-123 Assessment Teams will document its understanding of the entity's internal control over financial reporting. The form and extent of documentation depends in part on the nature and complexity of the controls; the more extensive and complex the controls, the more extensive the documentation.

The A-123 Assessment Teams will also document the assessment process of internal control over financial reporting including:

(1) Establishing respective teams, their authority and members;
(2) Identifying contracting actions if contractors are used to perform or assist in the assessment;
(3) Communicating with site management and employees regarding the assessment;
(4) Identifying key decisions;
(5) Assessing methodology and guidance;
(6) Assessing internal controls at the entity, process, transaction and application levels;
(7) Testing controls and related results;
(8) Identifying deficiencies and suggestions for improvement; and
(9) Implementing and monitoring corrective actions.

The Department has developed an automated A-123 Assessment and Reporting Tool (AART) Suite in which to capture summary-level implementation information. However, completing the AART Tool Suite throughout the A-123 phases does not represent sufficient documentation, although it is a critical part. Source Documentation and A-123 Detailed Documentation supporting the information in the AART Tool Suite will be maintained locally and will be readily available in the event of an audit or other review.

G. EVALUATING

The assessment of internal controls must include evaluation at the entity level and the process, transaction or application level. The SrAT will 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 Departmental Headquarters and Field Elements.

Assessing Internal Controls at the Entity Level (Headquarters and Field)

Assessments of internal controls will include an evaluation of the five components (or standards) of internal controls. These components represent the minimum level of quality acceptable for internal controls and provide the basis against which internal controls are to be evaluated.

a. Control Environment. The assessment of internal controls should include obtaining a sufficient knowledge of the control environment to understand management's attitude, awareness and actions concerning the control environment.

b. Risk Assessment. The assessment of internal controls should include obtaining sufficient knowledge of the entity's process on how management considers risks relevant to financial reporting objectives and decides on actions to address those risks.

c. Control Activities. Control activities are the policies and procedures that help ensure that management directives are carried out and that management's assertions in its financial reporting are valid. The assessment should include obtaining an understanding of the control activities applicable at the entity level.

d. Information and Communications. The assessment should include obtaining an understanding of the information system(s) relevant to financial reporting.

e. Monitoring. The assessment should include obtaining an understanding of the major types of activities the entity uses to monitor internal control over financial reporting, including the source of the information related to those activities and how those activities are used to initiate corrective actions.

Entity level controls can have a pervasive effect on an organization. In order to maintain the consistency of entity control evaluations throughout the Department, the five entity level internal control components mentioned above—as well as 32 related entity sub-categories—are pre-defined in the AART Tool Suite. All 32 entity control sub-categories are documented, evaluated and tested as part of A-123 implementation.

All Departmental Elements implementing A-123 are required to document, evaluate and test entity level controls. These Departmental Elements include major site and facilities management contractors, Field Offices, Lead Program Secretarial Offices and Corporate Departments.

Assessing Internal Controls at the Process, Transaction, or Application Level (Headquarters and Field)

The SrAT will annually identify each financial report, significant account or group of accounts and major classes of transactions to be covered in the assessment based on risk assessments and materiality determinations. The A-123 Assessment Teams will perform the following as part of their assessments at the process, transaction, or application level:

a. Evaluate, Based on Annual Guidance, the Major Accounts and Processes. The assessment will include obtaining an understanding of the specific processes and documented workflow involved in each class of transactions.

b. Understand the Financial Reporting Process. The assessment will include obtaining an understanding of the process and workflow that links the accounting system to the financial report(s). Often times, financial information is not directly transferable from the accounting system to the financial report, but requires intervening calculations, summarizations, etc.

c. Gain an Understanding of Control Design. The assessment will include preparing control evaluation(s) for each significant account or group of accounts that aligns specific controls with management's assertions for each account or group of accounts. An individual assessment of the potential effectiveness of the design of the in place controls for each account or group of accounts will be made considering the risk of error and the ability of the controls to prevent or detect such errors.

d. Identify Controls Not Adequately Designed. The assessment will include determining whether controls established by management are designed effectively. Controls determined to be not designed effectively go straight into remediation.

e. Test Controls and Assess Compliance. The assessment will include testing those controls determined to be designed effectively.

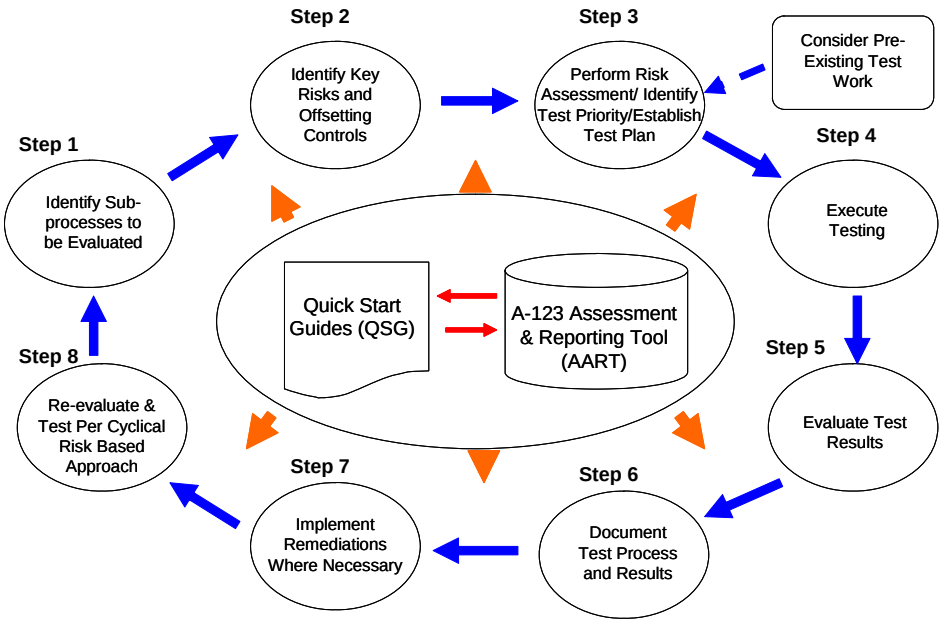
Process-level controls are assessed by major site and facilities management contractors, Field Offices, and certain LPSOs whose mission functions impact material accounts. All Departmental Elements implementing A-123 are not required to document, evaluate and test these "process level" controls.

LPSOs That Perform Process-Level Control Assessments
Office of Environmental Management – Environmental Liability **Office of Civilian Radioactive Waste Management** – Environmental Liability, Contingencies and Commitments (Spent Nuclear Fuel Litigation Liability) **Office of Legacy Management** – Environmental Liability, Pensions and Other Actuarial Liabilities

H. TESTING

The Department has developed a standard testing protocol that includes consideration of the results of control design effectiveness, relative risk and the overall impact of individual controls on financial reporting. The following chart provides a high-level overview of the Department's testing cycle.

Testing Cycle Overview



I. REMEDIATION

As part of the Department's process for implementing A-123, reporting tools have been developed that track processes and controls requiring remediation. This will ensure that any systemic issues that result in qualification of the Department's A-123 assurance are adequately tracked until corrective actions have been taken and the related controls have been re-documented and tested. The SrAT will work with the responsible officials and personnel to determine which deficiencies are cost beneficial to correct. Corrective action plans, including targeted milestones and completion dates, will be obtained and progress will be monitored. The SrAT may, at its discretion, track findings considered to be less than a reportable condition.

J. REPORTING AND ASSURANCE

OMB A-123, Appendix A, requires the Secretary of Energy to make an annual assurance statement on the effectiveness of internal controls over financial reporting. In support of this requirement and to ensure there is a sound basis for the assurance statement, the SrAT requires quarterly reports, annual assurances, and the identification of deficiencies. Based on this information, the SrAT will recommend to the CFO which reportable conditions, when aggregated, may be deemed material weaknesses to the Department as a whole. The SrAT will also consider these deficiencies when recommending to the CFO the level of Secretarial assurance the Department should provide on its internal control over financial reporting. The CFO, along with other senior management members of the DICARC, will make the final determination on which, if any, material weaknesses will be identified for the Department and the level of Secretarial assurance to be included in the PAR. To ensure accurate assessment and reporting of control effectiveness in the PAR, the SrAT will 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.

K. Oversight

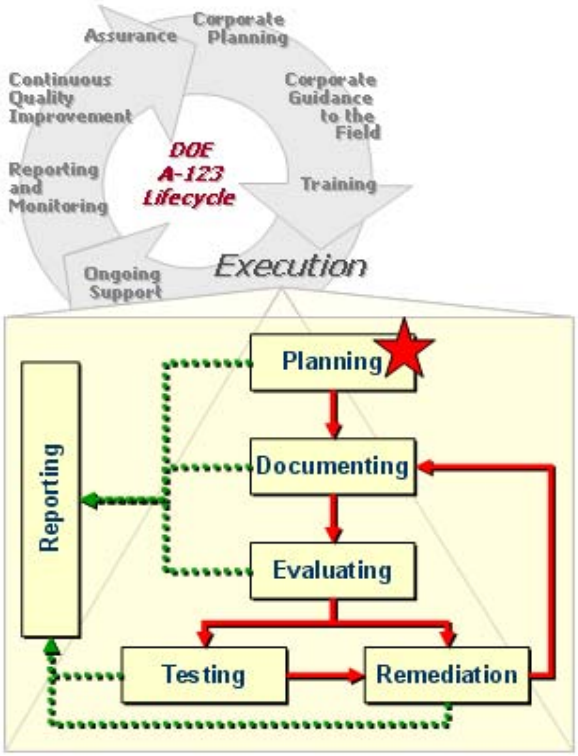
The Department conducts oversight activities throughout all phases of A-123 implementation. Key oversight activities include: ensuring timely completion of A-123 milestones to meet Departmental commitments to OMB; ensuring that professional judgment decisions are reasonable; and ensuring the consistency, completeness and accuracy of data resulting from implementation efforts. Completion and documentation of these oversight activities allows the Department to identify and share best practices, as well as identify and resolve common problems, challenges and barriers to implementation.

The Department also monitors its A-123 implementation efforts on a routine and ongoing basis. The Department established a Continuous Quality Improvement (CQI) initiative that evaluates key quantitative aspects of Department-wide implementation efforts such as implementation scope by risk area and status by phase of implementation, as well as key qualitative aspects such as completeness, timeliness and general trending information. These monitoring activities help ensure compliance with OMB requirements and Departmental guidelines; they also ensure timely completion of A-123 milestones to meet Departmental commitments to OMB.

DOE IMPLEMENTATION RESOURCES

To facilitate Department-wide A-123 implementation, the PMT has developed Quick Start Guides based on the seven steps in the A-123 Process: Planning, Documenting, Evaluating, Testing, Remediation, Reporting and Assurance, and Oversight. These guides provide direction and guidance on how to complete each step of the process. In addition to the guides, various tools such as the AART Tool Suite and related materials have also been created. These guides, tools, and related materials assist in organizing, tracking, reporting and overseeing all A-123 activities and can be found on the DOE A-123 Website.

Quick Start Guide 1 - Planning



Purpose	• Define a plan for the local implementation of A-123 within DOE's methodology framework by defining scope and responsibilities.
Key Activities	• Establish Local Assessment Team • Determine oversight and management strategy • Identify Material Accounts and Processes • Complete implementation plan
Required Templates	• Implementation Plan (Form & Content) • AART Tool Suite

http://www.cfo.doe.gov/progliaison/doeA123/index.htm

A-123Helpdesk@hq.doe.gov

Users who have completed an A-123 cycle in FY06 may have already completed many of the activities described herein. However, the Planning Guide must be reviewed to update the Implementation Plan for FY07 based on the new guidance.

The examples throughout these guides are based on a Procure to Pay (P2P) process cycle scenario, within a government agency. The business cycle from Requisitioning goods and services through the Payment of invoices is used to exemplify inherent process risks and controls, as well as entity risks and controls within a large organization.

End note references are provided with more detailed information at the end of the guide.

DOCUMENT LEGEND

Note box	AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation → Detailed Documentation Requirements
Tip box	

INTRO

OBJECTIVE

Develop and update the A-123 Local Implementation Plan, schedule and resources using the guidelines provided by DOE. Identify local Processes that impact the relevant Material Accounts to understand the scope, schedule and resources required to complete the A-123 assessment.

AART TOOL SUITE

The AART Tool Suite is intended to be used to capture, track, monitor and report key data about the A-123 implementation. The tool also facilitates the oversight activities of Field Offices and Lead Program Secretarial Officers (LPSOs) over the elements under their cognizance, facilitating the aggregation of the findings and providing support for the development of the local and Agency annual assurance statements.

Prior to initiating the new annual A-123 cycle, the AART tool must be set up[1] for new users, or an upgrade of the tool is required in order to migrate any existing data into the new fiscal year version (see AART Upgrade instructions on the DOE A-123 Website).

A-123 CYCLICAL REVIEWS

The department will move to a cyclical testing approach in FY08/FY09. In the interim, the FY 2007 Annual Guidance provides direction on how to handle activities that were evaluated in prior years and need attention in the current year.

A. Establish Assessment Team

1. Define the local Attester. The Attester is responsible for the yearly A-123 Assurance. The Attester should designate an A-123 Project Lead to manage the local A-123 implementation on a day to day basis, if desired.

   a. For Field evaluations the Attester is the Field Office Manager, while each LPSO and the Director of relevant Corporate Departments are the Attesters for their respective headquarters evaluations.

   b. The Attester for the Contractor evaluations is at the discretion of the field office. However, the field office manager is the ultimate attester for all activities under his/her cognizance.

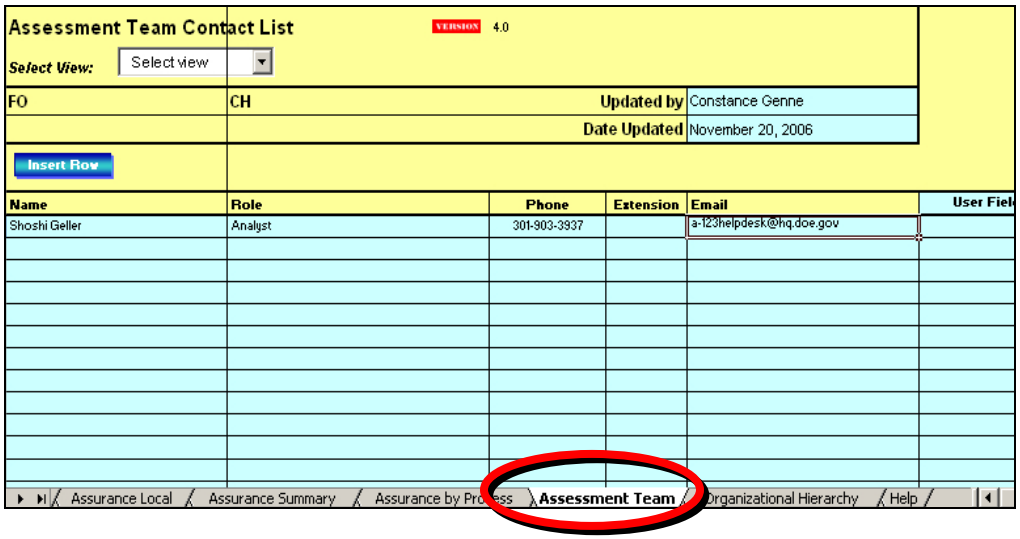
2. Identify resources for the assessment team. It is recommended that the assessment team be comprised of members from all organizational components impacted, including (where appropriate) personnel from the following areas with a good understanding of the financial business processes and the financial data involved:

   a. Accounting/Finance
   b. Information Technology
   c. General Counsel
   d. Procurement
   e. Human Resources
   f. Facilities and Administration
   g. Budget
   h. Internal Review

3. Define roles and responsibilities for all Assessment Team members.

Local AART

4. Record the Assessment Team members and their roles in the Assessment Team tab of the local AART.



B. Define the Scope of the Assessment

1. Validate the reporting structure for the elements under your cognizance, as identified in the DOE Annual Guidance, to ensure accuracy of oversight responsibilities. Ensure that the related codes are reflected in the AART (Note: some codes have changed for FY07).

   If any inaccuracies are identified, or changes are required during the year, inform the A-123 Helpdesk immediately.

2. All elements will be required to complete the Entity Control Assessment. Be sure to include this requirement in your scope of work.

3. Review the Material Accounts listing provided by DOE to understand which DOE Corporate Material Accounts are relevant to your location. In addition, determine whether changes are required to the material accounts assigned to your location based on the FY07 Annual Guidance[2].

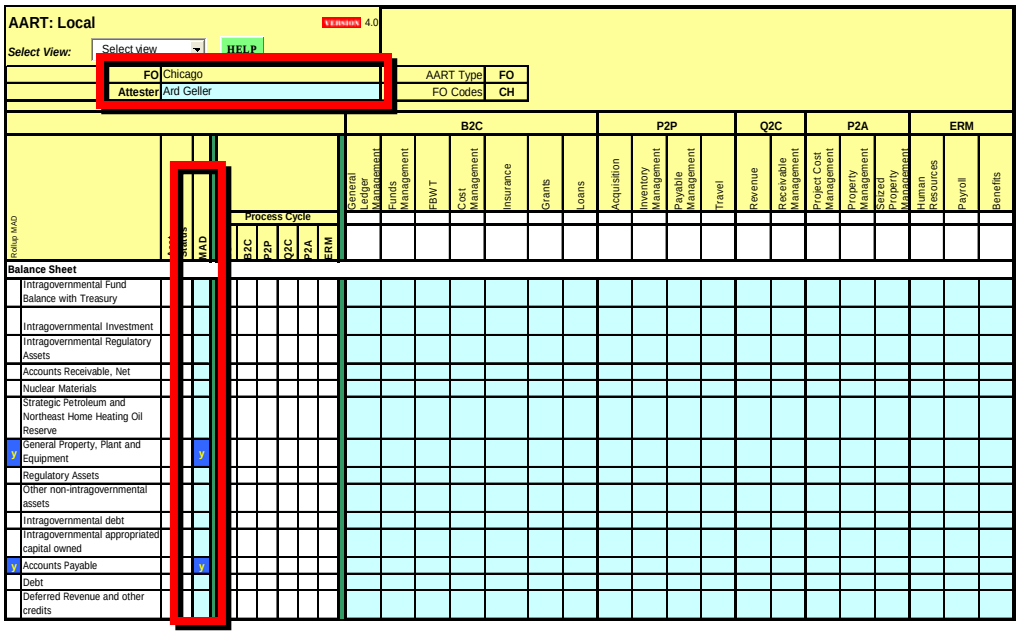
> *Note: Additional accounts and or sub-processes for evaluation may be identified by Headquarters as part of the corporate high-risk listing to be provided at a later date.*

4. Record the Attester in the Attester Field of the Local AART.

5. Record your relevant Material Accounts in the Material Account Definition (MAD) column in the Local AART tab by placing a "Y" in the appropriate row of the MAD column.

Local AART

> *The material accounts can either be manually entered in the AART or recorded by copying and pasting (paste special[3]) from the FY 2007 Operational Guidance - Material Accounts reference spreadsheet.*



Local AART

6. If you are an LPSO[4] or Corporate Department and the PMT has not identified any material accounts and process activities for your evaluation, enter a "Y" in the MAD column corresponding to the "No Processes Identified, only Entity Controls" row of the Local AART tab.

AART: Local VERSION 4.0

Select View: Select view HELP

FO	Chicago	AART Type	FO
Attester	Ard Geller	FO Codes	CH

				Process Cycle						B2C							P2P				Q2C	
Rollup MAD		Acct Status	MAD	EC	B2C	P2P	Q2C	P2A	ERM	General Ledger Management	Funds Management	FBWT	Cost Management	Insurance	Grants	Loans	Acquisition	Inventory Management	Payable Management	Travel	Revenue	Receivable Management
Balance Sheet																						
	Intragovernmental Fund Balance with Treasury																					
	Intragovernmental Investment																					
Statement of Financing																						
	Budgetary resources, obligated, obligations incurred																					
	Less: Spending authority from offsetting collections and recoveries																					
	Obligations net of offsetting collections and recoveries																					
	Other resources, Imputed financing from costs absorbed by others																					
	Nuclear waste fund, Offsetting receipts, deferred																					
	Components not requiring or generating resources: Depreciation and amortization																					
Statement of Custodial Activities																						
	No material accounts identified																					
Other																						
y	No processes identified, only entity controls		y	0																		

7. Identify all standard DOE processes[5] performed at your location that impact the respective material accounts.

> It is often easier to see the Process Account allocation by considering which GL-Accounts aggregate into the Material Account and then determining which sub-processes impact those GL-Accounts.

Local AART

8. Record the Material Account and Process allocation by entering a "Y" in the corresponding column (process) and row (material account) of the Local AART tab. Typically, multiple processes will need to be identified for each Material Account.

AART: Local VERSION 4.0

Select View: Select view HELP

FO	Chicago	AART Type	FO
Attester	Ard Geller	FO Codes	CH

Hookup MAD		Acct Status	MAD	Process Cycle: EC	B2C	P2P	Q2C	P2A	ERM	B2C: General Ledger Management	Funds Management	FBWT	Cost Management	Insurance	Grants	Loans	P2P: Acquisition	Inventory Management	Payable Management	Travel	Q2C: Revenue	Receivable Management	P2A: Project Cost Management	Property Management	Seized Property Management	ERM: Human Resources	Payroll	Benefits
										y			y				y	y	y	y			y	y	y			
										0			0				0	0	0	0			0	0	0			
Balance Sheet																												
	Intragovernmental Fund Balance with Treasury																											
	Intragovernmental Investment																											
	Intragovernmental Regulatory Assets																											
	Accounts Receivable, Net																											
	Nuclear Materials																											
	Strategic Petroleum and Northeast Home Heating Oil Reserve																											
y	General Property, Plant and Equipment	0	y	0	0	0		0		y			y				y						y	y	y			
	Regulatory Assets																											
	Other non-intragovernmental assets																											
	Intragovernmental debt																											
	Intragovernmental appropriated capital owned																											
y	Accounts Payable	0	y	0	0	0				y							y	y	y	y								

C. Determine level of effort required, identify required resources and develop timelines

1. Determine the level of effort required for the implementation and include it in the implementation plan. Some considerations may include;
   a. Defined Scope for your location
   b. Source Documentation[6] requirements
   c. Detailed A-123 Documentation[7] requirements
   d. Planning and Execution of Testing
      i) Availability of existing testing results that can be leveraged
      ii) Need for new tests
   e. Accomplishing required reporting
   f. Management and monitoring remediation activities
   g. Development of Assurance statement
   h. Updates to AART Tool Suite
   i. Oversight Responsibilities

2. Determine the different types and levels of resources (human capital and financial) required throughout your A-123 Implementation. Types of resources may include:
   a. Fully Dedicated Resources: likely to be the Local Assessment Team
   b. Support Resources: resources within the organization required to assist in specific areas of the implementation (i.e. Accounts Payable clerks to help define an undocumented process).
   c. A-123 Contractor Support Resources: contractors specifically engaged to assist with the A-123 Implementation.

3. Define your implementation and assessment project plan which must comply with DOE Milestones provided in the Annual Guidance. Some considerations may include:
    a. Availability of resources
    b. Scope of implementation
    c. Oversight activities and guidance from oversight teams
    d. Local reporting/completion dates versus corporate dates

D. Complete or Update Implementation Plan

A-123 Detailed Documentation

1. Complete the Implementation Plan using the Implementation Plan Form & Content provided on the DOE A-123 Website.

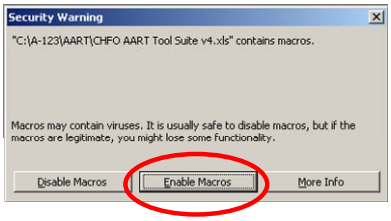
2. The submission of the Implementation Plan is discussed as part of the standard reporting in the QSG Reporting and Assurance Prep Guide.

SUPPLEMENTARY INFORMATION AND DEFINITIONS

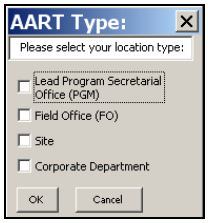
[1] New Tool Setup:

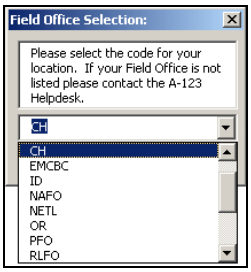
Step1 – Download the AART Tool Suite v4 from the DOE A-123 Website.

Step2 – When opening the tool always Click "Enable Macros.

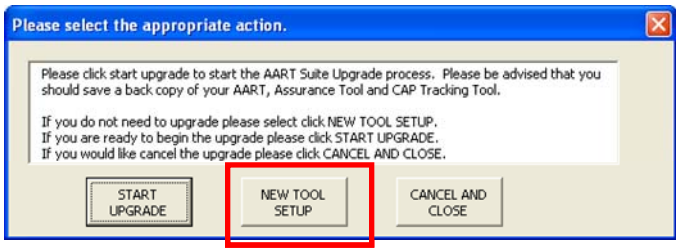


Step3 – Select Location Type and Location Code.





Step4 – Click "New Tool Setup" to setup the new tool.



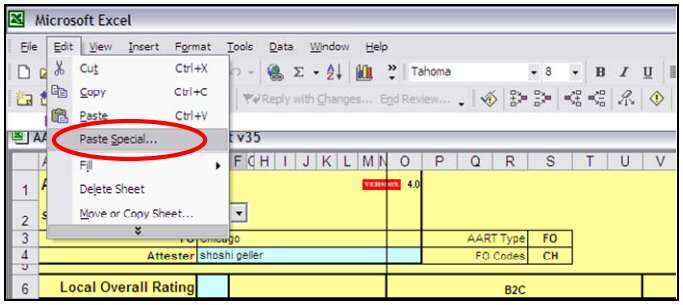
Step5 – After a successful upgrade notification, you will be prompted to save and close the file.

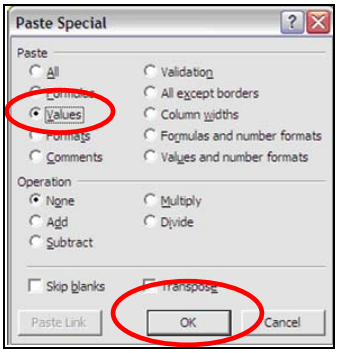
[2] For FY 2007, Federal sites will need to determine whether significant changes have occurred in the operating environment at their location—and at contractor locations over which they have cognizance—which might change their material accounts. Operational changes that might drive a change in material 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.).

[3] PASTE SPECIAL: Go to Edit –> Paste Special and select the "Values" radio button. Click OK and ensure the column populates correctly.





[4] The following table identifies LPSOs and Corporate Departments that are required to report:

LPSO	A-123 Scope
Environmental Management (EM)	- Environmental Liability
Civilian Radioactive Waste Management (RW)	- Environmental Liability - Contingencies and Commitments (Spent Nuclear Fuel Litigation Liability)
Legacy Management (LM)	- Environmental Liability - Pensions and Other Actuarial Liabilities
National Nuclear Security Administration (NNSA)	- Entity only
Science (SC)	- Entity only
Fossil Energy (FE)	- Entity only
Nuclear Energy (NE)	- Entity only
Energy Efficiency and Renewable Energy (EE)	- Entity only

[5] Process cycle to process allocation:

Process Cycle	Process
Budget to Close (B2C)	General Ledger Management
	Funds Management
	Funds Balance with Treasury (FBWT)
	Cost Management
	Insurance
	Grants
	Loans
Procure to Pay (P2P)	Acquisition
	Inventory Management
	Payable Management
	Travel
Quote to Cash (Q2C)	Revenue
	Receivable Management
Project to Asset (P2A)	Project Cost Management
	Property Management
	Seized Property Management
Enterprise Resource Management (ERM)	Human Resources
	Payroll
	Benefits

[6] Source documentation consists of (among other things):

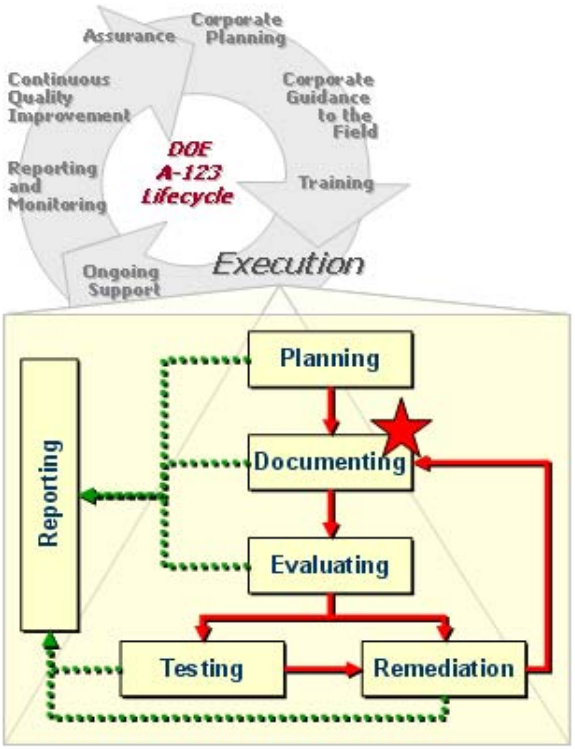
Process – Process maps, desk procedures, detailed process narratives and other materials that outline the specific processes and related process controls to be evaluated.

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

[7] A-123 Detailed Documentation consists (among other things):

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

Quick Start Guide (QSG) 2 - Documenting



Purpose	• Manage/develop documentation required for evaluating internal controls over financial reporting that will withstand the rigors of audit and record documentation attributes into the AART.
Key Activities	Identify and Record • Entity Level Risks and Controls • Processes and Sub-Processes • Sub-Process Risks and Controls • Financial Statement Assertions • Location of Source and Detailed Documentation
Required Templates	• AART Tool Suite • Implementation Plan

http://www.cfo.doe.gov/progliaison/doeA123/index.htm

A-123Helpdesk@hq.doe.gov

Users who have completed an A-123 cycle in FY06 may have already completed many of the activities described herein. It is still recommended that the Documenting Guide be reviewed to ensure that your organization is in compliance with all additional FY07 guidance.

The examples throughout these guides are based on a Procure to Pay (P2P) process cycle scenario, within a government agency. The business cycle from Requisitioning goods and services through the Payment of invoices is used to exemplify process risks and controls, as well as entity risks and controls within a large organization.

End note references are provided with more detailed information at the end of the guide.

DOCUMENT LEGEND

Note box	AART AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation → Detailed Documentation Requirements
Tip box	

INTRO

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 key management objectives[1]: control environment, control activities, monitoring, risk assessment, and information and communication.

Entity controls cross cut all program activities (financial and non-financial). However, the A-123 evaluation focuses only on Entity Controls relevant to financial management areas that directly or indirectly impact financial reporting. As such, all of the Entity Controls (financial and operational) will need to be considered as they relate to and impact the following Financial Management Areas:

- Purchase card program management
- CO/COR roles and responsibilities
- Budget execution (carryover balances, prior year deobs., expired approps. mgmt, etc.)
- Financial management performance metrics
- Procurement (requisitions, purchase orders, etc.)
- Field/Site CFO liaison/operational awareness
- Proprietary/cuff systems
- Audit resolution and follow-up (financial related)
- Funds distribution
- Travel management/oversight
- Cost management (including accruals)
- Funds control

NOTE: This is not an exhaustive list of the financial management areas that could be impacted. Locations should independently evaluate what other financial management areas should be considered.

PROCESS CONTROLS

Good Process Controls ensure the ***integrity and accuracy of the business transactions*** as they impact the financial statements from a **P**resentation and disclosure; **E**xistence and occurrence; **R**ights and obligations; **C**ompleteness and accuracy and **V**aluation or allocation (PERCV[2]) perspective.

In some cases, Process Controls may supplement Entity Controls to mitigate the same type of risk. An example of this is Segregation of Duties where proper procedures and policies are put in place and are supplemented by automated system controls at the process level.

Completing the AART Tool Suite is a requirement; however the data in the AART is summarized data and does not fulfill the complete A-123 Documentation requirements. Detailed A-123 Documentation and Source documentation[3] should be maintained locally and be readily available in the event of an audit or other review.

Entity Control Summary (ECS)

A. Identify and Record Entity Inherent Risk Statement[4]

1. Review the standard ECS sub-categories and determine the inherent risk statements associated with each of these sub-categories. There may be multiple risk statements associated with each sub-category, at least one inherent risk statement must be entered for each sub-category. Consider among other things the following,

    a. What could go wrong? [Behavior]
    b. What effect would it have [Result]

*A well formulated risk statement would include a clear definition of **behavior** and/or action and the **negative result** if this behavior and/or action should occur.*

Examples:

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.

Area: Control Activity **Sub-Category:** Segregation of Duties

Risk Statement: An employee who creates a requisition and also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of government funds.

ECS-ASSESS

2. Record your risk statements in the ECS-Assess tab of the AART Tool Suite in the row associated with the appropriate Area and Sub-Category:

AART: ECS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

Ref Col	Cycle	Area	Sub-Category	Risks
	EC	Control Environment	Integrity and Ethical Values	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.
	EC	Control Activities	Segregation of Duties	An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of governement funds.

If you have more than one inherent risk statement per sub-category, select the sub-category then insert additional rows by clicking the "insert row" button. If you need to delete an additional row click the "delete row" button on the ECS-Assess tab.

3. Repeat these steps for all 32 sub-categories.

B. Assign the Inherent Risk Rating[5] (Likelihood and Impact)

1. **LIKELIHOOD** - Determine the likelihood of the inherent risk specified by the risk statement occurring. Likelihood is a measure of the relative potential that the inherent risk might occur given the general environment[6]. In determining Likelihood, consider among other things the following,

   a. Organizational Culture
      - i) Stability and focus of leadership
      - ii) Vision imparted by leadership to the organization
      - iii) Variety of backgrounds/knowledge of personnel
      - iv) Stability of workforce
      - v) Skill level and technical competence of workforce

b. Type of organization
   i) Co-location
   ii) Size of distributed offices
   iii) Size of business units
c. Technological maturity
   i) Level of integration

2. **IMPACT** - Determine the relative magnitude of the impact if the inherent risk specified by the risk statement occurs. Impact is a measure of the magnitude/severity of the effect the risk's occurrence might cause given the general environment, considering both the nature and extent of the effect of the risk's occurrence. In determining Impact, consider among other things the following:

   a. Span of Control (breadth of organizations impacted)
   b. Potential Liability due to type of business

Examples:

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).

Area: Control Activity **Sub-Category:** Segregation of Duties

Risk Statement: An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of government funds.

Risk Likelihood: **HIGH** – A decentralized organization with high turnover and a high number of requisitioning and approving officials.

Risk Impact: **LOW** – Total annual requisitions are less than $1M in a $10B operation.

ECS-ASSESS

3. Record the Likelihood and Impact Ratings for the associated inherent risk specified by the risk statements in the ECS-Assess tab of your AART Tool Suite:

AART: ECS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment
	EC	Control Environment	Integrity and Ethical Values	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	L	H	H
	EC	Control Activities	Segregation of Duties	An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of governement funds.	L	H	H

The overall Inherent Risk Assessment Rating will be automatically calculated for each risk statement based on the following rules:

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

A-123 Detailed Documentation

4. Document the inherent risk assessment rationale, explaining the reason for selecting the Likelihood and Impact ratings and record in the Detailed A-123 Documentation.

C. Identify and Record Key Entity Controls[7]

1. Collect all existing documentation related to the specified Entity risk statements and standard Sub-Categories, for example:

    a. Code of Ethics
    b. Policies & Procedures (Conflict of Interest Policies)
    c. Organizational Structure Diagrams
    d. HR Handbooks
    e. IT controls (e.g. Security Profiles, Disaster Recovery Procedures)

2. Using source documentation, identify the existing controls that mitigate each inherent risk specified by the risk statement. To further identify the key controls, consider among other things the following:

    a. Priority and criticality of the control in mitigating the risk (key controls)
    b. Control Mode: Preventive[P] and Detective[D][8]
    c. Level of Automation (i.e. Manual, Partially Automated or Automated)
    d. Single Control or Multiple Controls (Control Set) can mitigate a specific risk

Examples:

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.

Control Set: **To promote and enforce ethical behavior:**

To promote and enforce ethical behavior:
(1) Management has posted their integrity and ethical ideals in a guidance document entitled "Code of Conduct" on their website and in hard copies, and is distributed to all employees.[P]
(2) All employees on every level must read, accept, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P]
(3) Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P]
(4) Annual employee appraisals include a section to discuss employees' behavior. [D]
(5) Management maintains an open door policy to ensure that any unethical behavior is reported and management looks into any reports. [D]
(6) Management encourages anonymous e-mails to report unethical behavior. [D]
(7) Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D]
(8) Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]

Area: Control Activity **Sub-Category:** Segregation of Duties

Risk Statement: An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of government funds.

Control Set: **To prevent fraud, waste and/or abuse.**

(1) Yearly issuance of a management statement highlighting the importance of internal controls including the segregation of duties in all business and financial activities. [P/Man]
(2) Workflow technology is implemented to enforce limits of authority management. [P/Aut]
(3) Security rules are set up such that no single user ID can be assigned the roles of creating a requisition and approving that requisition; approving a requisition and creating the corresponding Obligation; and creating the obligation and paying the invoice. [P/Aut]
(4) Only 3 Administrators have the authorization to create and / or change security profiles and workflow rules. [P/Man]
(5) Workflow technology is implemented to automate work flow message distribution to monitor expenditures and approvals. [D/Pau]

AART

ECS-ASSESS

3. Record the key controls in the AART as a control set in the AART ECS-Assess tab in a single cell in the row associated with the related risk statement. Together, these controls represent the control set.

AART: ECS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row Delete Row

Overall Entity Control Ratings

y	Control Environment
y	Control Activities
y	Information and Communication
y	Risk Assessment
y	Monitoring

Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment	Control
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	H	To promote and enforce ethical behavior: • Management has posted their integrity and ethical ideals 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, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P] • Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]

Control Set

STOP

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

D. Identify and Record Control Set Attributes

1. Determine the Control Set Mode of the key controls contained in each control Set: Preventive (P), Detective (D), or Both (P&D)[9].
2. Determine if the Control Set is Entirely Automated (Aut), Entirely Manual (Man), or Partially Automated (Pau).
3. Determine the Control Set Frequency at which each control set is executed. In the case where controls within the control set are executed at different intervals (some monthly, some daily, etc), the frequency of the most critical key control should be indicated.

> ***Control Set Frequency Options:***
>
> ***A*** *= Annually* ***M*** *= Monthly* ***W*** *= Weekly* ***R*** *= Recurring**
> ***Q*** *= Quarterly* ***B*** *= Biweekly* ***D*** *= Daily*
>
> **Recurring frequency is a control that executes every time an activity or transaction is run. This may be numerous times in one day.*

ECS-ASSESS

4. Using the drop down boxes, record the appropriate values for the attributes of the specified <u>control sets</u>.

AART: ECS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

Overall Entity Control Ratings

y	Control Environment	
y	Control Activities	
y	Information and Communication	
y	Risk Assessment	
y	Monitoring	

Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment	Controls	Prev/ Det	Cntl Type	Cntl Freq
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	H	To promote and enforce ethical behavior: • Management has posted their integrity and ethic ideals in a guidance document entitled "Code of Conduct" on their website and in hard copies, and i distributed to all employees.[P] • All employees on every level must read, accept, and sign a document indicating they understand ar will follow the guidance as outlined in the "Code of Conduct". [P] • Meetings are conducted that include integrity an ethical values as an agenda item and employees a required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediate once an allegation of unethical or illegal behavior h been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illega indiscretions. [D]	P&D	Man	M
	EC	Control Environment	Management's Commitment to Competence								
	EC	Control Activities	Segregation of Duties	An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of governement funds.	L	H	H	To prevent fraud, waste and/or abuse: • Security rules are set up such that no single use can be assigned the roles of creating a requisition approving that requisition; approving a requisition a creating the corresponding Obligation; and creating the obligation and paying the invoice. [P] • Workflow technology is implemented to automat work flow message distribution to monitor expenditures and approvals. [P] • Workflow technology is implemented to enforce limits of authority management. [P] • Only 3 Administrators have the authorization to create and / or change security profiles and workflo rules. [P]	P&D	Aut	R

E. Record Location of Source and Detailed A-123 Documentation[10]

1. In accordance with local documentation management policies, identify the location where the Source Documentation and the Detailed A-123 Documentation are maintained. Consider the following examples,

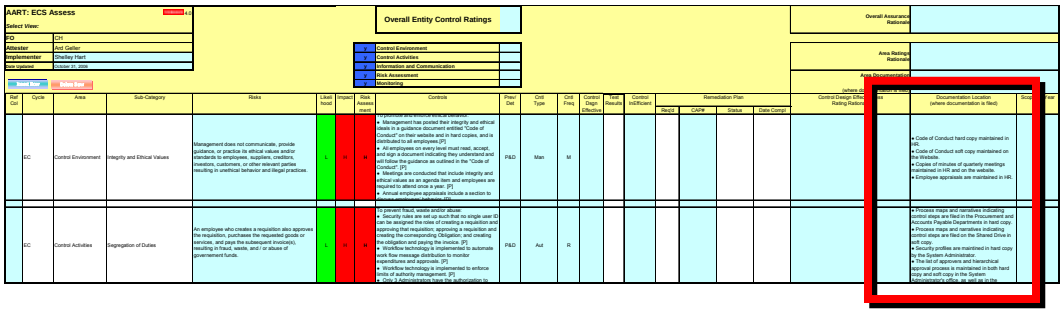
   a. Reference to available corporate policy
   b. Hardcopy version stored in a specific location
   c. Softcopy version stored on a shared drive
   d. Softcopy version stored on a website

Examples:

Corporate Code of Ethics [Available on organization website]
HR Recruiting Policy in HR Dept
H:\DOE\HQ\Policies [Shared Local Drive]
IT Department/System Security Handbook
H:\DOE\HQ\A-123 Detail Docs\Risk Assessment Rationale [Shared Local Drive]

ECS-ASSESS

2. Record the location where the source documentation and the detailed A-123 documentation reside in order to facilitate ready access to documentation for reviews or to respond to special requests:



THIS COMPLETES THE DOCUMENTING PHASE OF ECS

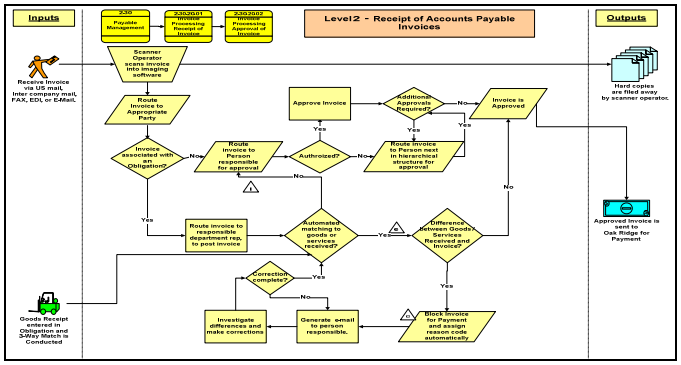
Process Control Summary (PCS)

F. Collect process control source documentation.

1. Collect all existing source documentation relating to the standard PCS processes and sub-processes, for example:

    a. Process Flow Diagrams
    b. Narratives
    c. Desk Guides
    d. Business Process Procedures
    e. System Application Documentation

Example:



DOE HQ has developed a process mapping Form and Content guide that may be used in updating or creating new documentation.

The Process Mapping Documentation Instructions and Form and Content document can be found on the DOE A-123 Website.

2. Regardless of form, validate that process/sub-process source documentation meets the following minimum A-123 requirements,

    a. Must present Key process steps/activities with sufficient detail to ensure understanding
    b. Should segregate into manageable sub-processes
    c. Must identify key Risk Statements
    d. Must identify key controls and their relation to the risks
    e. Type/Mode and Frequency of controls (e.g. Automated/manual, preventive/detective, annual/recurring, etc.) should be captured

    Adequate documentation of processes will support completion of the AART and the evaluation of controls.

3. If source documentation does not exist or is incomplete, ensure the development of required documentation.

G. Identify and Record Sub-Processes

1. In the PCS Assess tab the processes annotated with a "Y" represent those that are related to your material accounts and require further evaluation.

2. For those relevant processes, use your existing source documentation to identify the sub-processes, and associate them with the standard DOE processes identified in the AART.

PCS-ASSESS

3. Using the drop down list, select the standard processes and enter your relevant sub-processes into the PCS-Assess tab (you must repeat the process selection for each sub-process entered).

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

B2C		General Ledger Management
		Funds Management
		FBWT
		Cost Management
		Insurance
		Grants
		Loans
P2P	y	Acquisition
	y	Inventory Management
	y	Payable Management

Insert Row | Delete Row

Ref Col	Process Cycle	Processes	Sub-Processes		Risks	Likelihood	Impact	Risk Assessment	Controls
	P2P	Acquisition	Create Requisition						
	P2P	Inventory Management	Receive Goods & Services						
	P2P	Payable Management	Payee Information Maintenance						
	P2P	Payable Management	Disbursing						
	P2P	Payable Management	Invoice						

H. Identify and Record Inherent Risk Statements

1. Using the source documentation, identify all inherent risks at the activity[11] level related to the sub-process. Consider key financial statement assertions (PERCV[12]) to validate the completeness of the identified risk statement.

    a. What could go wrong in the **P**resentation and disclosure of financial information in the financial statements? [Behavior] and How significant could it be? [Impact]

    b. What could go wrong in the **E**xistence or occurrence of financial information in the financial statements? [Behavior] How significant could it be? [Impact]

    c. What could go wrong in the **R**ights and obligations of financial information in the financial statements? [Behavior] How significant could it be? [Impact]

    d. What could go wrong in the **C**ompleteness and accuracy of financial information in the financial statements? [Behavior] How significant could it be? [Impact]

    e. What could go wrong in the **V**aluation or allocation of financial information in the financial statements? [Behavior] How significant could it be? [Impact]

*A well formulated risk statement would include a clear definition of **fraudulent, wasteful and/or erroneous activities** and the **negative result** if these activities were to occur.*

Process: Payable Management **Sub-Process:** Disbursing

Risk Statement 1: Payments may be made in excess of approved contract amounts, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Risk Statement 2: Duplicate payments may be made for a single invoice, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Process: Payable Management **Sub-Process:** Invoice

Risk Statement 3: An invoice may be paid without receipt of goods or services, resulting in loss to the Government.

AART

PCS-ASSESS

2. Record your risk statements in the AART PCS-Assess tab in the row associated with the appropriate Process and Sub-Process: **(NOTE: There must be at least one risk statement for each sub-process)**

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

Ref Col	Process Cycle	Processes	Sub-Processes	Risks
	P2P	Payable Management	Disbursing	Invoice amount exceeds obligation and approved funding, resulting in non-compliance with the Anti-Deficiency Act.
	P2P	Payable Management	Disbursing	Duplicate payments may be made, resulting in extraordinary burden to the government due to potential loss of unrecoverable funds.
	P2P	Payable Management	Invoice	Invoice is approved for payment without receipt of goods and / or services, resulting in loss of funds to government and potential non-compliance with the Anti-Deficiency Act.

If you have more than one inherent risk statement per sub-process, select the sub-process then insert additional rows by clicking the "insert row" button. If you need to delete an additional row click the "delete row" button on the PCS-Assess tab.

AART

PCS-ASSESS

5. Record all of the financial statement assertions that are applicable to the inherent risk statement. Insert a "y" in the appropriate P,E,R,C, or V column.

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

B2C		General Ledger Management	
		Funds Management	
		FBWT	
		Cost Management	
		Insurance	
		Grants	
		Loans	
P2P	y	Acquisition	
	y	Inventory Management	
	y	Payable Management	

P2P	y
Q2C	
P2A	
ERM	

Insert Row | Delete Row

Ref Col	Process Cycle	Processes	Sub-Processes	Risks	Likelihood	Impact	Risk Assessment	Controls	Pr/D	P	E	R	C	V
	P2P	Payable Management	Disbursing	Invoice amount exceeds obligation and approved funding, resulting in non-compliance with the Anti-Deficiency Act.						Y	Y		Y	Y
	P2P	Payable Management	Disbursing	Duplicate payments may be made, resulting in extraordinary burden to the government due to potential loss of unrecoverable funds.						Y	Y		Y	Y
	P2P	Payable Management	Invoice	Invoice is approved for payment without receipt of goods and / or services, resulting in loss of funds to government and potential non-compliance with the Anti-Deficiency Act.						Y	Y		Y	Y

I. Assign the Inherent Risk Rating (Likelihood and Impact)

1. Determine the likelihood of the inherent risk statement occurring. Likelihood is the relative potential that the risk will occur in the "General" environment. In determining likelihood, consider among other things the following:

    a. Number of transactions
    b. Number of people with access
    c. Liquidity of assets or inherent susceptibility to theft or misuse

2. Determine the relative magnitude of the risk impact if the inherent risk specified by the risk statement should occur. Impact is a measure of the magnitude/severity of the effect the risk might cause. In determining the Impact, consider among other things the following:

    a. Value of individual transactions
    b. Non-Compliance with laws and regulations
    c. Legal ramifications
    d. Public Relations impacts

Examples:

Process: Payable Management **Sub-Process:** Disbursing

Risk Statement 1: Payments may be made in excess of approved contract amounts, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Risk Likelihood: LOW - Payments relate to a small business unit with few, non-complex contracts.

Risk Impact: HIGH - Dollar value of payment transactions on contracts is 20% of operating budget.

Risk Statement 2: Duplicate payments may be made for a single invoice, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Risk Likelihood: HIGH - Payments relate to a decentralized business unit with multiple payment locations and thousands of payment transactions per month.

Risk Impact: LOW - Total value of all payment transactions is less than 0.5% of total operating budget.

Process: Payable Management **Sub-Process:** Invoice

Risk Statement: An invoice may be paid without receipt of goods or services, resulting in loss to the Government.

Risk Likelihood: HIGH - Payments relate to a 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.).

Impact: HIGH - Purchasing is the primary business activity and 90% of revenue results from the re-sale of procured goods.

AART

PCS-ASSESS

3. Record the Likelihood and Impact ratings in the PCS-Assess tab of the AART Tool Suite for the occurrence of the associated inherent risk, specified by the risk statement.

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

B2C

P2P y y y

Insert Row Delete Row

Ref Col	Process Cycle	Processes	Sub-Processes	Risks	Likelihood	Impact	Risk Assessment
	P2P	Payable Management	Disbursing	Invoice amount exceeds obligation and approved funding, resulting in non-compliance with the Anti-Deficiency Act.	L	H	H
	P2P	Payable Management	Disbursing	Duplicate payments may be made, resulting in extraordinary burden to the government due to potential loss of unrecoverable funds.	L	M	L
	P2P	Payable Management	Disbursing	Invoice is approved for payment without receipt of goods and / or services, resulting in loss of funds to government and potential non-compliance with the Anti-Deficiency Act.	L	L	L

A-123 Detailed Documentation

4. Document, in the Detailed A-123 Documentation, the risk assessment rationale, explaining the reason for selecting the Likelihood and Impact ratings.

5. Repeat steps from Section G for all risk statements.

J. Identify and Record Key Process Controls[13]

1. Using source documentation, identify the existing controls that mitigate each risk statement. To further identify the key controls (which collectively represent a control set) consider, among other things, the following:

    a. Priority and criticality of the control in mitigating the risk (key controls)
    b. Control Mode: Preventive[P] and Detective[D][14]
    c. Level of Automation (i.e. Manual, Partially Automated or Automated)
    d. Single Control or Multiple Controls (Control Set) can mitigate a specific risk

2. Examples of control set statements are:

Process: Payable Management **Sub-Process:** Disbursing

Risk Statement 1: Payments may be made in excess of approved contract amounts, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Control Set: To comply with Anti-Deficiency Act

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

Risk Statement 2: Duplicate payments may be made for a single invoice, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Control Set: To prevent loss of funds.

(1) System rejects entry of duplicate invoice numbers.[P/Aut]
(2) System issues a warning if invoice numbers are different and amounts and payee are the same.[P/Pau]
(3) Monthly report of potentially duplicate invoices is generated and reviewed by AP Supervisor.[D/Pau]

Process: Payable Management **Sub-Process:** Invoice

Risk Statement: An invoice may be paid without receipt of goods or services, resulting in loss to the Government.

Control Set: To prevent loss of funds.

(1) Goods and / or services received are posted to contract in receiving system which updates accounting system. [P/Pau]
(2) Invoice is posted to contract and is automatically placed on hold if the goods and / or services have not been posted. [P/Aut]
(3) If the invoice is in excess of the amount posted for receipt of goods and / or services, the invoice is placed on hold. [P/Aut]
(4) An e-mail notification is sent to appropriate parties advising them that the invoice has been placed on hold and the reason for the hold. [P/Pau]

AART

PCS-ASSESS

3. Record the key controls in the PCS-Assess tab in a single cell in the row associated with the related risk statement. Together, these controls represent the control set:

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

B2C	General Ledger Management
	Funds Management
	FBWT
	Cost Management
	Insurance
	Grants
	Loans
P2P	y Acquisition
	y Inventory Management
	y Payable Management

Ref Col	Process Cycle	Processes	Sub-Processes	Risks	Likelihood	Impact	Risk Assessment	Controls
	P2P	Payable Management	Disbursing	Invoice amount exceeds obligation and approved funding, resulting in non-compliance with the Anti-Deficiency Act.	L	H	H	To ensure that payments do not exceed approved funding: • An invoice posted to an obligation in excess of approved, funded amount, is automatically placed on hold with appropriate reason code. (P) • An e-mail is generated and sent to the appropriate parties. (P) • A follow up report listing these invoices is sent to Budget, Procurement and A/P Managers. (P) • If the hold is overriden, and an invoice is paid regardless of these controls, an additional set of e-mails and reports is generated and sent to Budget, Procurement and A/P Managers. (D)
	P2P	Payable Management	Disbursing	Duplicate payments may be made, resulting in extraordinary burden to the government due to potential loss of unrecoverable funds.	L	M	L	To eliminate duplicate payments: • An invoice is entered and the number already exists, it is automatically rejected. (P) • An invoice is entered and the number is different, but the obligation is fully depleted, the three-way matching functionality will automatically cause the invoice to be placed on hold with the reason code that the invoice is in excess of the contract / received quantities and / or amounts. (P) • The duplicate invoice cannot be manually released for payment without changes in the contract and/or receipts to support the invoice. (P) • An e-mail is generated and sent to responsible party advising of discrepancy. (P) • A report is generated listing all invoices that are on hold with reason codes and is reviewed by the Accounting Manager weekly. (D)
	P2P	Payable Management	Disbursing	Invoice is approved for payment without receipt of goods and / or services, resulting in loss of funds to government and potential non-compliance with the Anti-Deficiency Act.	L	L	L	To ensure that the government has received the goods and / or services that the invoice contains: • Goods and / or services are posted to contract. (P) • Invoice is posted to contract and is automatically placed on hold if the goods and / or services have not been posted. (P) • If the invoice is in excess of the amount posted for receipt of goods and / or services, the invoice is placed on hold. (P) • An e-mail notification is sent to appropriate parties advising them that the invoice has been placed on hold and the reason for the hold. (P) • An A/P aging report with reason codes for invoices on hold is generated and reveiwed by Accounts Payable Manager. (D)

Control Set

Control Set

Control Set

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

K. Identify and Record Control Set Attributes

1. Determine the Mode of the Control Set based on of the key controls contained in each control Set: Preventive (P), Detective (D), or Both (P&D).
2. Determine if the Control Set is Entirely Automated (Aut), Entirely Manual (Man), or Partially Automated (Pau).

3. Determine the Control Frequency at which each control set is executed. In the case where controls within the control set are executed at different intervals (some monthly, some daily, etc), the frequency of the most critical key control should be indicated.

Control Frequency Options:

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

**Recurring frequency is a control that executes every time an activity or transaction is run. This may be numerous times in one day.*

AART

PCS-ASSESS

4. Using the drop down boxes, record the appropriate values for the attributes of the specified <u>control sets</u>.

AART: PCS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row | Delete Row

B2C		General Ledger Management	
		Funds Management	
		FBWT	
		Cost Management	
		Insurance	
		Grants	
		Loans	
P2P	y	Acquisition	
	y	Inventory Management	
	y	Payable Management	

P2P	y	Travel	
Q2C		Revenue	
		Receivable Management	
P2A		Project Cost Management	
		Property Management	
		Seized Property Management	
ERM		Human Resources	
		Payroll	
		Benefits	

Ref Col	Process Cycle	Processes	Sub-Processes	Risks	Likelihood	Impact	Risk Assessment	Controls	Prev/ Det	P	E	R	C	V	Cntl Type	Cntl Freq	Control Design Effective	Test Results	Control Inefficient
	P2P	Payable Management	Payee Information Maintenance	Vendor has expired CCR number and an A/P invoice is posted and paid, resulting in payment to unapproved vendor.	L	L	L	To ensure that all vendors are active: • The Vendor Numbers are matched to the CCR database on a regular basis. (P) • Reports are generated weekly with the expiration dates, and those approaching expiration dates with open contracts highlighted. This report is sent to all pertinent parties. (P) • Follow up workflow notifications are sent as expiration dates approach. (P) • When an invoice is posted to a Vendor with an expired CCR number, the invoice is blocked for payment and notification sent to appropriate persons	P&D	Y			Y		Aut	R			
	P2P	Payable Management	Disbursing	Terms of payment negotiated in contract may be overridden when invoice is posted causing late payment that results in interest penalties.	L	H	H	To ensure that contract terms are adhered to: • When an invoice is entered in the system of record payment terms are checked against those stored in the contract / vendor record. (P) • If the payment terms are different from the contract/ vendor record, a message is generated instructing entry clerk to check payment terms. (P) • New payment terms are entered and stored in the vendor record for future use. (P) • A report is generated listing invoice postings that	P&D		Y		Y	Y	PAu	R			
	P2P	Payable Management	Disbursing	Due date may be calculated incorrectly, resulting in loss of discounts and / or unnecessary costs (such as interest penalties) to the government placing the DOE in non-compliance with the Prompt Pay Act. May also be non-compliant with the Anti-Deficiency Act since funds earmarked for one project are used to pay	M	H	H	To ensure compliance with Prompt Pay Act: • System will automatically calculate due date with appropriate discounts at the time invoice is posted based on the terms in the contract. (P) • Accounts payable system will automatically pay	P&D	Y		Y	Y	Y	Aut	R			

L. Record Location of Source and Detail Documentation

A-123 Detailed Documentation

1. In accordance with your site's documentation management policies, identify the location where the Source and Detailed A-123 Documentation reside. Consider among other things the following examples,

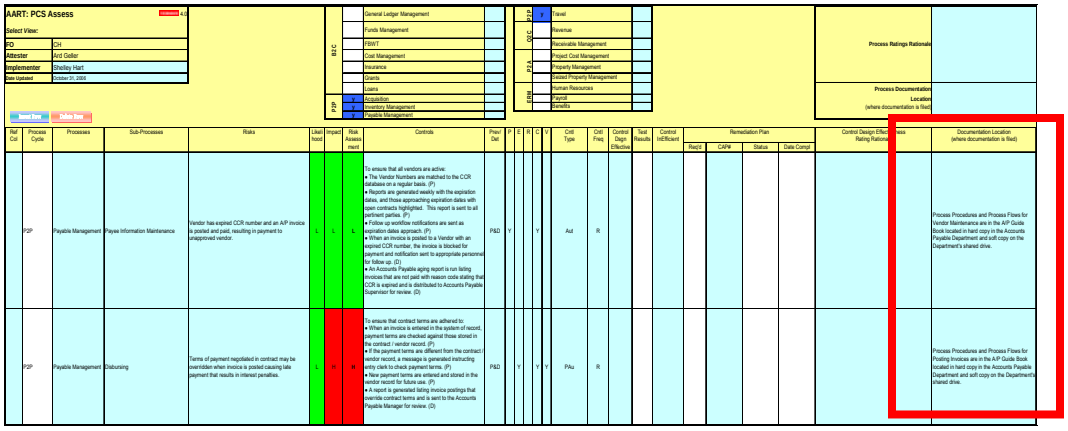
   a. Hardcopy version stored in a specific location
   b. Softcopy version stored on a shared drive
   c. Softcopy version stored on a website

Examples:

AP Application Documentation in AP Dept
H:\DOE\HQ\Procedures
IT Department/System Security Handbook

PCS-ASSESS

2. Record the location where the source and Detailed A-123 documentation reside in the AART in order to facilitate quick access during reviews and upon request:



THIS COMPLETES THE DOCUMENTING PHASE OF PCS

M. Update the Implementation Plan

A-123 Detailed Documentation

1. Capture the status and barriers as well as any significant deviations encountered during the documenting phase.

Major changes to the Implementation Plan will need to be reported in the Quarterly Report.

SUPPLEMENTARY INFORMATION AND DEFINITIONS

[1] Key questions that should be considered for ECS:

- Has the management established and maintained an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management? (Control Environment)
- Has management initiated internal control activities to help ensure that their directives are carried out and are effective and efficient in accomplishing the agency's control objectives? (Control Activities)
- Has management established internal control monitoring that assesses the quality of performance over time and ensures that the findings of audits and other reviews are promptly resolved? (Monitoring)
- Has management assessed the risks the agency faces from both external and internal sources? (Risk Assessment)
- Has management communicated the importance of timely and appropriate information and communication throughout the organization to ensure that internal control and other responsibilities can be carried out effectively? (Information and Communication)

[2] As defined in the GAO/PCIE FAM Financial Statement assertions are Management's representations that are embodied in the account balance, transaction class, and disclosure components of the financial statements. The primary assertions are:

- Presentation and disclosure – the particular components of the financial statements are properly classified described and disclosed.
- Existence or occurrence – an entity's assets or liabilities exist at a given date and recorded transactions have occurred during a given period.
- Rights and obligations – assets are the rights of the entity and liabilities are the obligations of the entity at a given date.
- Completeness and accuracy – all transactions and accounts that should be presented in the financial statements are so included
- Valuation or allocation – asset, liability, revenue and expense components have been included in the financial statements at appropriate amounts.

[3] The Source Documentation refers to materials that: Process - outline the specific processes and related process controls to be evaluated, Entity - that identify or support/represent the specific entity controls to be evaluated. The Detailed A-123 Documentation includes materials required to be developed and maintained throughout the A-123 process, such as implementation plans, test plans, corrective action plans, documentation of professional judgment decisions, etc.

[4] Inherent risk statement – this 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 controls.

[5] Inherent risk rating – this is the perceived likelihood and impact of a specified risk occurring in an environment absent of mitigating controls.

[6] General Environment is not the control environment. General Environment would include things such as: number of cardholders in a Purchase Card Program; liquidity of assets at risk; stability of staff, etc.

[7] Key controls are controls that have the greatest and the most critical impact in mitigating risk occurrence. For A-123, key controls are recorded in the AART as members of a control set. For both process and entity activities, there are likely to be numerous other controls that mitigate a specific risk; these should be maintained in Source Documentation.

[8] A preventive control is a control that reduces the likelihood and impact of a risk occurring. A detective control is a control that captures preventive control failures and/or early detection of risk occurence.

[9] A preventive control is a control that reduces the likelihood and impact of a risk occurring. A detective control is a control that captures preventive control failures and/or early detection of risk occurence.

[10] Source Documentation includes policies, procedures, process maps, and other documentation created or maintained inside and outside of the A-123 program which supports the identified Areas / Sub-Categories, Processes / Sub-Processes, Risks and Controls. Testing plans, rating rationale details, or any other documentation used to support an A-123 related decision are included as part of the A-123 Detailed Documentation.

[11] Activities are the lowest level of the decomposition of sub-processes and represent the actual steps and/or transactions executed. Risks typically are associated with activities.

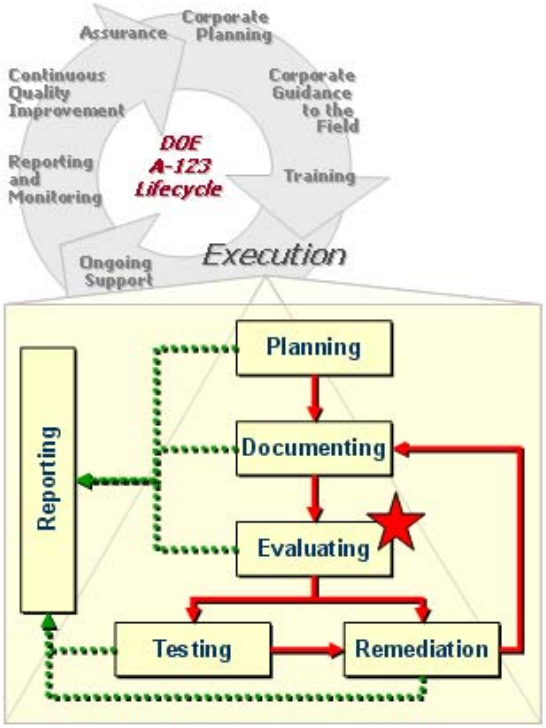
[12] Key considerations that should be considered for PCS in relation to PERCV:

- Risks affecting Presentation and disclosure– the particular components of the financial statements are properly classified described and disclosed.
- Risks affecting Existence or occurrence – an entity's assets or liabilities exist at a given date and recorded transactions have occurred during a given period.
- Risks affecting Rights and obligations – assets are the rights of the entity and liabilities are the obligations of the entity at a given date.
- Risks affecting Completeness and accuracy – all transactions and accounts that should be presented in the financial statements are so included
- Risks affecting Valuation or allocation – asset, liability, revenue and expense components have been included in the financial statements at appropriate amounts.

[13] Key controls are controls that have the greatest and the most critical impact in mitigating risk occurrence. For A-123 key controls are recorded in the AART and are treated as a control set. For both process and entity activities, there are likely to be numerous other controls that mitigate a specific risk; these should be maintained in Source Documentation.

[14] A preventive control is a control that reduces the likelihood and impact of a risk occurring. A detective control is a control that captures preventive control failures and/or early detection of risk occurence.

Quick Start Guide (QSG) 3 - Evaluating



Purpose	• Evaluate the Design Effectiveness of internal controls over financial reporting related to departmental financial statements.
Key Activities	• Rate Control Design Effectiveness for controls at the following levels: o Entity and Process Control Sets at the Risk Level o Entity Controls at the Area Level o Process Controls at the Process Level o Overall Entity Control Environment • Record Rationales for the ratings provided • Identify efficiency opportunities (optional/ recommended)
Required Templates	• AART Tool Suite • Implementation Plan

http://www.cfo.doe.gov/progliaison/doeA123/index.htm

A-123Helpdesk@hq.doe.gov

Users who have completed an A-123 cycle in FY06 may have already completed many of the activities described herein. It is still recommended that the Evaluating Guide be reviewed to ensure that all additional FY07 guidance is incorporated into your local FY07 A-123 Implementation.

The examples throughout these guides are based on a Procure to Pay (P2P) process cycle scenario, within a government agency. The business cycle from Requisitioning goods and services through to Payment of invoices is used to exemplify inherent process risks and controls, as well as inherent entity risks and controls within a large organization.

DOCUMENT LEGEND

Note box	AART AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation → Detailed Documentation Requirements
Tip box	

INTRO

OBJECTIVE

Evaluate and Assess, using professional judgment, the effectiveness of the design of your control sets in mitigating risks.

RATING DESCRIPTIONS

A consistent rating scheme has been developed to support capturing professional judgment assessments of the control sets at the risk level as well as the summary (area/process) and assurance levels.

The following table provides an explanation of the ratings for each of the above areas.

	Control Set (Design)	Control Set (Testing)	Summary Ratings (PCS Process, ECS Area, ECS Overall Environment)	Assurance Ratings
3	***Significant Design Deficiency*** Significant deficiency(ies) in the control set design exist such that there is a ***HIGH*** probability of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Significant Operational Deficiency*** Significant deficiency(ies) in the control set operation exists such that there is a ***HIGH*** probability of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Significant Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***HIGH*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***WITH*** a significant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Material Weakness*** More than a remote likelihood for a misstatement of financial statements and reports ***AND*** the misstatement may be of a material magnitude.
4	***Design Deficiency*** Deficiency(ies) in the control set design exist such that there is ***MORE*** than a remote possibility of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Operational Deficiency*** Deficiency(ies) in the control set operation exists such that there is ***MORE*** than a remote possibility of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***MODERATE*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***WITH*** a significant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Reportable Condition*** More than a remote likelihood for a misstatement of financial statements and reports ***AND*** the misstatement may be of a more than inconsequential magnitude.
5	***Minor Design Deficiency*** Deficiency(ies) in the control set design exist such that there is ***ONLY*** a remote possibility of the risk occurring. This **may not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Minor Operational Deficiency*** Deficiency(ies) in the control set operation exists such that there is ***ONLY*** a remote possibility of the risk occurring. This **may not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Minor Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***LOW*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***OR*** an insignificant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Control Deficiency*** A remote likelihood for a misstatement of financial statements and reports ***OR*** the misstatement may be of an inconsequential magnitude.
6	***Designed Effective*** Control set design is effective such that there is ***LESS*** *than a remote* possibility of the risk occurring. This **should not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	**N/A**	***Designed Effectively*** Controls are designed effectively to detect and/or prevent fraudulent and erroneous transactions ***AND*** ensure reliable, accurate and timely financial reporting.	***Effectively designed controls***
7	**N/A**	***Operating Effectively*** Control set is operating effectively such that there is ***LESS*** than a remote possibility of the risk occurring. This **should not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Operating Effectively*** Controls are operating effectively to detect and/or prevent fraudulent and erroneous transactions ***AND*** ensure reliable, accurate and timely financial reporting.	***Effectively operating controls***

EVALUTION AT THE SUMMARY LEVELS

As specified in the AART methodology, sites will summarize the results of Control Set/Risk level ratings to provide ratings at the Process, Entity Area and Overall Entity Environment levels. The table below shows the possible ratings at various stages of completion of the evaluation of specific PCS Process and/or ECS Areas.

IF completion of Control Design Effectiveness assessment is:	***AND*** Test ratings are:	***THEN*** possible Summary Ratings are:
Some evaluated	Some/None tested	5, 4, 3, [blank]
All evaluated	Some/None tested	6, 5, 4, 3
	All	7, 5, 4, 3

Completing the AART Tool Suite is a requirement; however the data in the AART is summarized data and does not fulfill the complete A-123 Documentation requirements (i.e., A-123 Detail Documentation and appropriate Source Documentation are required).

Entity Control Summary (ECS)

A. Analyze, rate and record the effectiveness of the control set design in mitigating the identified inherent risks

1. Analyze each inherent risk statement and the design of the corresponding control set, and, based on professional judgment and the rating scale guidance provided, rate the perceived effectiveness of the design to mitigate the risk. To support this decision, consider among other things the following:

    a. Degree of automation of the control set
    b. Type of control set
    c. Mode of the control set
    d. Frequency of execution of the control set
    e. Existence of primary and backup controls
    f. Risk Assessment rating
    g. Relative exposure
    h. Potential for risk occurrence

Examples:

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.

Control Set: **To promote and enforce ethical behavior:**

6

(1) Management has posted their integrity and ethical ideals in a guidance document entitled "Code of Conduct" on their website and in hard copies, and is distributed to all employees.[P/Man]
(2) All employees on every level must read, accept, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P/Man]
(3) Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P/Man]
(4) Annual employee appraisals include a section to discuss employees' behavior. [D/Man]
(5) Management maintains an open door policy to ensure that any unethical behavior is reported and management looks into any reports. [D/Man]
(6) Management encourages anonymous e-mails to report unethical behavior. [D/Man]
(7) Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D/Man]
(8) Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D/Man]

Area: Control Activity **Sub-Category:** Segregation of Duties

Risk Statement: An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of government funds.

Control Set: **To prevent fraud, waste and / or abuse.**

6

(1)Management publishes an internal control manual (distributed to all employees) that requires segregation of duties in all financial activities. [P/Man]
(2) Security rules are set up such that no single user ID can be assigned the roles of creating a requisition and approving that requisition; approving a requisition and creating the corresponding Obligation; and creating the obligation and paying the invoice. [P/Aut]
(3) Workflow technology is implemented to automate work flow message distribution to monitor expenditures and approvals. [P/Pau]
(4) Workflow technology is implemented to enforce limits of authority management. [P/Aut]
(5) Only 3 Administrators have the authorization to create and / or change security profiles and workflow rules. [P/Man]

AART

ECS-ASSESS

2. Record your Control Design Effectiveness rating for the control set in the Control Design Effective column of the ECS-Assess tab.

AART: ECS Assess VERSION 4.0

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Insert Row Delete Row

Overall Entity Control Ratings

y	Control Environment	
y	Control Activities	
y	Information and Communication	
y	Risk Assessment	
y	Monitoring	

Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment	Controls	Prev/ Det	Cntl Type	Cntl Freq	Control Dsgn Effective
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	H	To promote and enforce ethical behavior: • Management has posted their integrity and ethical ideals 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, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P] • Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]	P&D	Man		6
	EC	Control Activities	Segregation of Duties	An employee who creates a requisition also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of governement funds.	L	H	H	To prevent fraud, waste and/or abuse: • Security rules are set up such that no single user ID can be assigned the roles of creating a requisition and approving that requisition; approving a requisition and creating the corresponding Obligation; and creating the obligation and paying the invoice. [P] • Workflow technology is implemented to automate work flow message distribution to monitor expenditures and approvals. [P] • Workflow technology is implemented to enforce limits of authority management. [P] • Only 3 Administrators have the authorization to create and / or change security profiles and workflow rules. [P]	P&D	Aut		6

NOTE: The design effectiveness rating should not be changed until the activity is remediated, re-documented and re-evaluated

A-123 Detailed Documentation

3. Document, in the Detailed A-123 Documentation, the rationale used to determine the control set design effectiveness rating as it relates to the particular risk statement. Explain the reason for assigning the specific rating and minimally include:

   a. The logic employed to develop the numeric rating provided in the Control Design Effectiveness Rating.

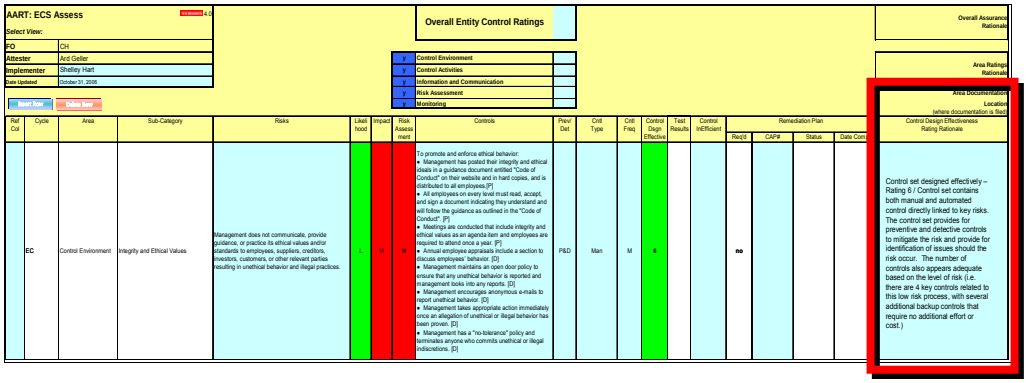
   b. Any analysis and other factors used in support of the numeric rating

<u>A well formulated rationale</u>: Control set designed effectively – Rating 6 / Control set contains both manual and automated control 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 (i.e. there are 4 key controls related to this low risk process, with several additional backup controls that require no additional effort or cost.)

AART

ECS-ASSESS

4. Record a summarized rationale in the Rationale column of the ECS-Assess tab.



AART: ECS Assess

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Overall Entity Control Ratings

1	Control Environment
2	Control Activities
3	Information and Communication
4	Risk Assessment
5	Monitoring

Overall Assurance Rationale

Area Ratings Rationale

Area Documentation Location (where documentation is filed)

Ref Cd	Cycle	Area	Sub-Category	Risks	Likelihood	Impact	Risk Assessment	Controls	Prev/Det	Cntl Type	Cntl Freq	Control Degn Effective	Test Results	Control Inefficient	Remediation Plan: Req'd	CAP#	Status	Date Com	Control Design Effectiveness Rating Rationale
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	M	To promote and enforce ethical behavior: • Management has posted their integrity and ethical ideals 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, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P] • Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]	P&D	Man	M	6			no				Control set designed effectively – Rating 6 / Control set contains both manual and automated control directly linked to key risks. The control set provides for preventive and detective controls to mitigate the risk and provide for identification of issues should the risk occur. The number of controls also appears adequate based on the level of risk (i.e. there are 4 key controls related to this low risk process, with several additional backup controls that require no additional effort or cost.)

AART

ECS-ASSESS

A-123 Detailed Documentation

5. While the control set design may be effective, A-123 evaluations should also assess efficiency where possible. If during the course of the evaluation, opportunities to improve the efficiency of controls are identified (e.g. numerous duplicative controls, some of which can be deleted; manual controls that should be automated; detective controls that could be converted to preventive; etc.), record a "yes" in the Efficiency Opportunities Identified column. The nature of the potential efficiency should be recorded in the Detailed A-123 Documentation. Use of this efficiency column will allow the site to provide a tickler to address the efficiency issues when time permits.

6. Repeat these steps to rate all control sets at the risk activity level.

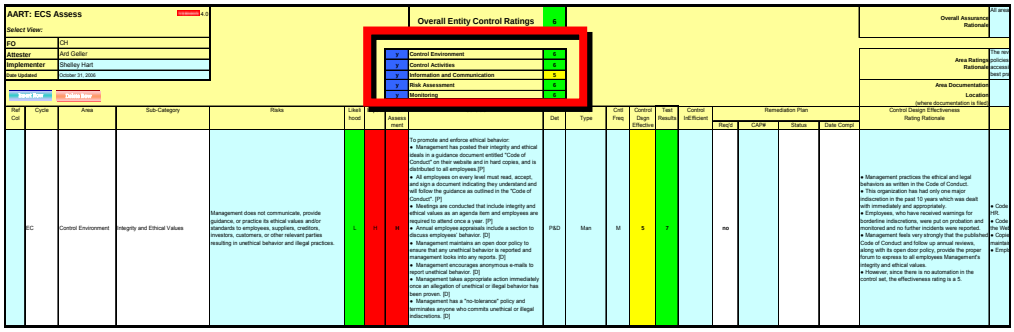
B. Assess the design effectiveness of the controls at the Entity Area level.

1. In determining the control set's design effectiveness for control sets at the Area Level, consider, among other things, the effectiveness rating for each control set and its relationship to the respective risk assessment rating. Also consider exposure at the Area level and potential for risk occurrence.

AART

ECS-ASSESS

2. Record your Control Design Effectiveness rating for the specific Entity control Area in the header of the ECS-Assess tab.



AART: ECS Assess

Select View:

FO	CH
Attester	Ant Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Overall Entity Control Ratings: 6

y	Control Environment	5
y	Control Activities	5
y	Information and Communication	5
y	Risk Assessment	6
y	Monitoring	5

Overall Assurance Rationale: All areas

Area Ratings Rationale: The rev policies access best pra

Area Documentation Location (where documentation is filed):

Ref Col	Cycle	Area	Sub-Category	Risks	Likelihood			Assessment		Det	Type	Cntl Freq	Control Design Effective	Test Results	Control Inefficient	Remediation Plan				Control Design Effectiveness Rating Rationale	
																Req#	CAP#	Status	Date Compl		
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	H	To promote and enforce ethical behavior: • Management has posted their integrity and ethical ideals 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, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct". [P] • Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]	P&D	Man	M	5	7	no					• Management practices the ethical and legal behaviors as written in the Code of Conduct. • This organization has had only one major indiscretion in the past 10 years which was dealt with immediately and appropriately. • Employees, who have received warnings for borderline indiscretions, were put on probation and monitored and no further incidents were reported. • Management feels very strongly that the published Code of Conduct and follow up annual reviews, along with its open door policy, provide the proper forum to express to all employees Management's integrity and ethical values. • However, since there is no automation in the control set, the effectiveness rating is a 5.	• Code HR • Code the Web • Copie maintai • Empl

3. Repeat these steps for all 5 Entity Areas.

A-123 Detailed Documentation

4. Document the rationale used to determine the Area Control Design Effectiveness rating in the Detailed A-123 Documentation. Explain, in detail, the reason for assigning the specific rating and minimally include the following:

   a. The logic employed to develop the number rating provided in the Control Design Effectiveness rating

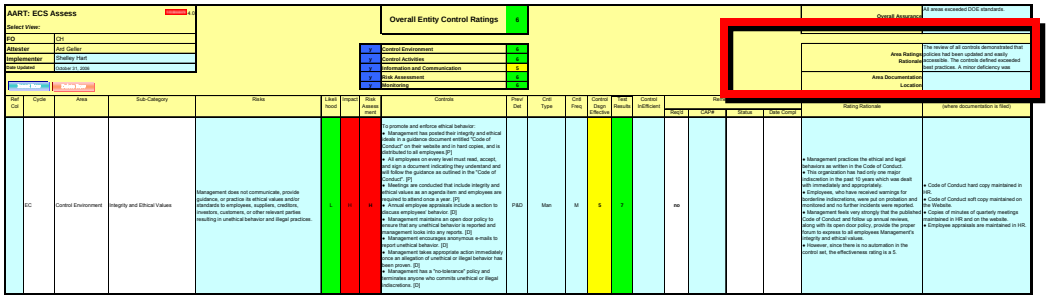
   b. Any analysis and other factors used in support of the numeric rating

<u>A well formulated rationale</u>: Control set designed effectively – Efficiencies identified – Rating 6 / While deficiencies were noted in one sub-category supporting this area, it was a low risk activity. In addition, only one of 5 key controls failed and there is no evidence of risk occurrence. While the area will be remediated, the control failure should not negatively impact the overall operation of the control set and would not increase the likelihood of risk occurrence beyond less than remote. The site also identified opportunities to automate the annual ethics training program to gain greater efficiencies and strengthen the manual control currently used.

AART

ECS-ASSESS

5. Summarize the rationale for all Entity Area Ratings in the Rationale cell in the header of the ECS-Assess tab.



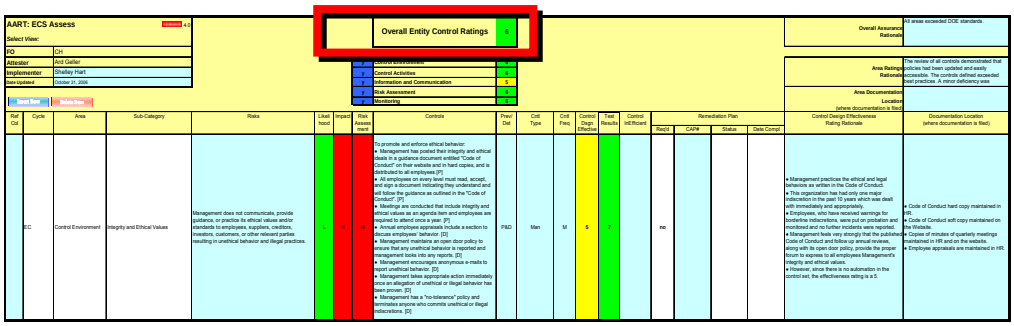
C. Evaluate and Assess the organization's Overall Entity Control Environment Rating

1. In determining the Overall Entity Control Environment rating, consider the cumulative impact of the Entity Area ratings.

AART

ECS-ASSESS

2. Record your Control Design Effectiveness ratings for the Entity's Overall Entity Control Environment in the header of the ECS-Assess tab.



The overall control environment rating will roll-up to the Local AART. The Overall Entity Control Environment rating affects all relevant Material Accounts independently of the effectiveness ratings of the Process Control sets.

A-123 Detailed Documentation

3. Document the rationale used to determine the Overall Entity Control Environment Rating in the Detailed A-123 Documentation. Explain, in detail, the reason for assigning the specific rating and minimally include the following:

   a. The logic employed to develop the number rating provided in the Control Design Effectiveness rating

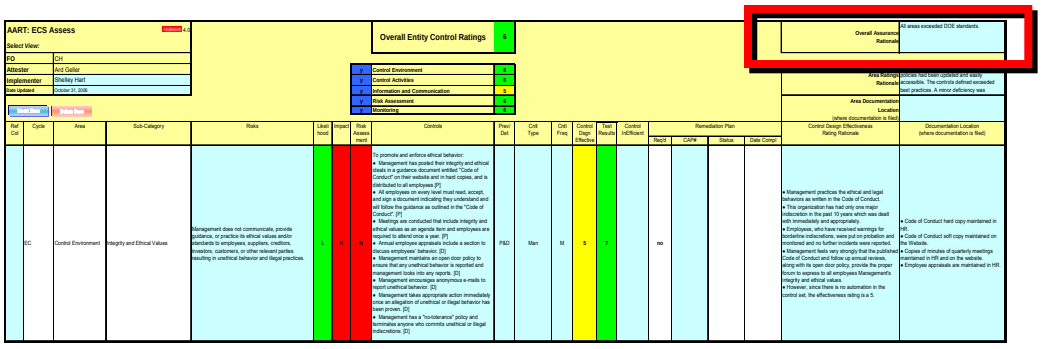
   b. Any analysis and other factors used in support of the numeric rating

<u>A well formulated rationale</u>: Control set contains a design deficiency – Rating 4 / Based on the three identified Control Deficiencies related to high-risk activities in the "Monitoring" entity area, we have rated the overall entity area as a 4 (Control Deficiency) to ensure that adequate consideration is given to these issues as they relate to area.

AART

ECS-ASSESS

4. Summarize the rationale in the Rationale column of the Overall Entity Level in the header of the ECS-Assess.



AART: ECS Assess

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

Overall Entity Control Ratings: 5

1	Control Environment	5
2	Control Activities	5
3	Information and Communication	5
4	Risk Assessment	5
5	Monitoring	5

Overall Assurance Rationale: All areas exceeded DOE standards.

Area Ratings Rationale: Policies had been updated and easily accessible. The controls defined exceeded best practices. A minor deficiency was

Area Documentation Location (where documentation is filed):

Ref Cd	Cycle	Area	Sub-Category	Risks	Likeli hood	Impact	Risk Assess ment	Controls	Prev/ Det	Crtl Type	Crtl Freq	Control Design Effective	Test Results	Control sufficient	Remediation Plan: Rec'd	CAP#	Status	Date Compl	Control Design Effectiveness Rating Rationale	Documentation Location (where documentation is filed)
	EC	Control Environment	Integrity and Ethical Values	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.	L	H	M	To promote and enforce ethical behavior: • Management has posted their integrity and ethical ideals 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, and sign a document indicating they understand and will follow the guidance as outlined in the "Code of Conduct".[P] • Meetings are conducted that include integrity and ethical values as an agenda item and employees are required to attend once a year. [P] • 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 anonymous e-mails to report unethical behavior. [D] • Management takes appropriate action immediately once an allegation of unethical or illegal behavior has been proven. [D] • Management has a "no-tolerance" policy and terminates anyone who commits unethical or illegal indiscretions. [D]	P&D	Man	M	5	7		no				• Management practices the ethical and legal behaviors as written in the Code of Conduct. • This organization has had only one major indiscretion in the past 10 years which was dealt with immediately and appropriately. • Employees, who have received warnings for borderline indiscretions, were put on probation and monitored and no further incidents were reported. • Management feels very strongly that the published Code of Conduct and follow up annual reviews, along with its open door policy, provide the proper forum to express to all employees Management's integrity and ethical values. • However, since there is no automation in the control set, the effectiveness rating is a 5.	• Code of Conduct hard copy maintained in HR. • Code of Conduct soft copy maintained on the Website. • Copies of minutes of quarterly meetings maintained in HR and on the website. • Employee appraisals are maintained in HR.

Process Control Summary (PCS)

D. Analyze, rate and record the effectiveness of the control set design in mitigating the identified inherent risks

1. Analyze each inherent risk statement and the design of the corresponding control set, and based on professional judgment and the rating scale provided, rate the effectiveness of the control set design to mitigate the risk specified by the risk statement. Consider among others things, the following:

    a. Degree of automation of the control set
    b. Type of control set
    c. Mode of the control set
    d. Frequency of execution of the control set
    e. Existence of primary and backup controls
    f. Risk Assessment rating
    g. Relative exposure
    h. Potential for risk occurrence

Example:

Process: Payable Management **Sub-Process:** Disbursing

Risk Statement 1: Payments may be made in excess of approved contract amounts, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Control Set: To comply with Anti-Deficiency Act

6

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

Risk Statement 2: Duplicate payments may be made for a single invoice, resulting in loss to the Government (if not detected) and an increase in improper payment percentages reported to OMB (if later detected).

Control Set: To prevent loss of funds.

6

(1) System rejects entry of duplicate invoice numbers.[P/Aut]
(2) System issues a warning if invoice numbers are different and amounts and payee are the same.[P/Pau]
(3) Monthly report of potentially duplicate invoices is generated and reviewed by AP Supervisor.[D/Pau]

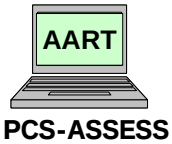
Process: Payable Management **Sub-Process:** Invoice

Risk Statement: An invoice may be paid without receipt of goods or services, resulting in loss to the Government.

Control Set: To prevent loss of funds.

6

(1) Goods and / or services received are posted to contract in receiving system which updates accounting system. [P/Pau]
(2) Invoice is posted to contract and is automatically placed on hold if the goods and / or services have not been posted. [P/Aut]
(3) If the invoice is in excess of the amount posted for receipt of goods and / or services, the invoice is placed on hold. [P/Aut]
(4) An e-mail notification is sent to appropriate parties advising them that the invoice has been placed on hold and the reason for the hold. [P/Pau]



2. Record your Control Design Effectiveness rating for the control set in the Control Design Effective column of the PCS-Assess.

AART: PCS Assess (Version 4.0)

Select View:

FO	CH
Attester	Ard Geller
Implementer	Shelley Hart
Date Updated	October 31, 2006

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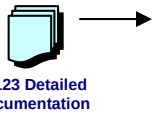
B2C		General Ledger Management	
		Funds Management	
		FBWT	
		Cost Management	
		Insurance	
		Grants	
		Loans	
P2P	y	Acquisition	
	y	Inventory Management	
	y	Payable Management	

P2P	y	Travel
C2C		Revenue
		Receivable Management
P2A		Project Cost Management
		Property Management
		Seized Property Management
E-HR		Human Resources
		Payroll
		Benefits

Ref Col	Process Cycle	Processes	Sub-Processes	Risks	Likelihood	Impact	Risk Assessment	Controls	Prev/ Det	P	E	R	C	V	Cntl Type	Cntl Freq	Control Dsgn Effective
	P2P	Payable Management	Disbursing	Invoice amount exceeds obligation and approved funding, resulting in non-compliance with the Anti-Deficiency Act.	L	H	H	To ensure that payments do not exceed approved funding: • An invoice posted to an obligation in excess of approved, funded amount, is automatically placed on hold with appropriate reason code. (P) • An e-mail is generated and sent to the appropriate parties. (P) • A follow up report listing these invoices is sent to Budget, Procurement and A/P Managers. (P) • If the hold is overriden, and an invoice is paid regardless of these controls, an additional set of e-mails and reports is generated and sent to Budget, Procurement and A/P Managers. (D)	P&D	Y	Y		Y	Y	Aut	R	6
	P2P	Payable Management	Disbursing	Duplicate payments may be made, resulting in extraordinary burden to the government due to potential loss of unrecoverable funds.	L	M	L	To eliminate duplicate payments: • An invoice is entered and the number already exists, it is automatically rejected. (P) • An invoice is entered and the number is different, but the obligation is fully depleted, the three-way matching functionality will automatically cause the invoice to be placed on hold with the reason code that the invoice is in excess of the contract / received quantities and / or amounts. (P) • The duplicate invoice cannot be manually released for payment without changes in the contract and/or receipts to support the invoice. (P) • An e-mail is generated and sent to responsible party advising of discrepancy. (P) • A report is generated listing all invoices that are on hold with reason codes and is reviewed by the Accounting Manager weekly. (D)	P&D	Y	Y		Y	Y	Aut	R	6
	P2P	Payable Management	Invoice	Invoice is approved for payment without receipt of goods and / or services, resulting in loss of funds to government and potential non-compliance with the Anti-Deficiency Act.	L	L	L	To ensure that the government has received the goods and / or services that the invoice contains: • Goods and / or services are posted to contract. (P) • Invoice is posted to contract and is automatically placed on hold if the goods and / or services have not been posted. (P) • If the invoice is in excess of the amount posted for receipt of goods and / or services, the invoice is placed on hold. (P) • An e-mail notification is sent to appropriate parties advising them that the invoice has been placed on hold and the reason for the hold. (P) • An A/P aging report with reason codes for invoices on hold is generated and reveiwed by Accounts Payable Manager. (D)	P&D	Y	Y		Y	Y	Aut	R	6

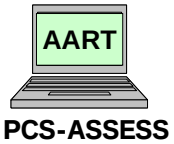


3. Document the rationale used to determine the control design effectiveness rating, for the particular risk specified in the corresponding risk statement, in the Detail A-123 Documentation. Explain the reason for assigning the specific rating and minimally include the following:

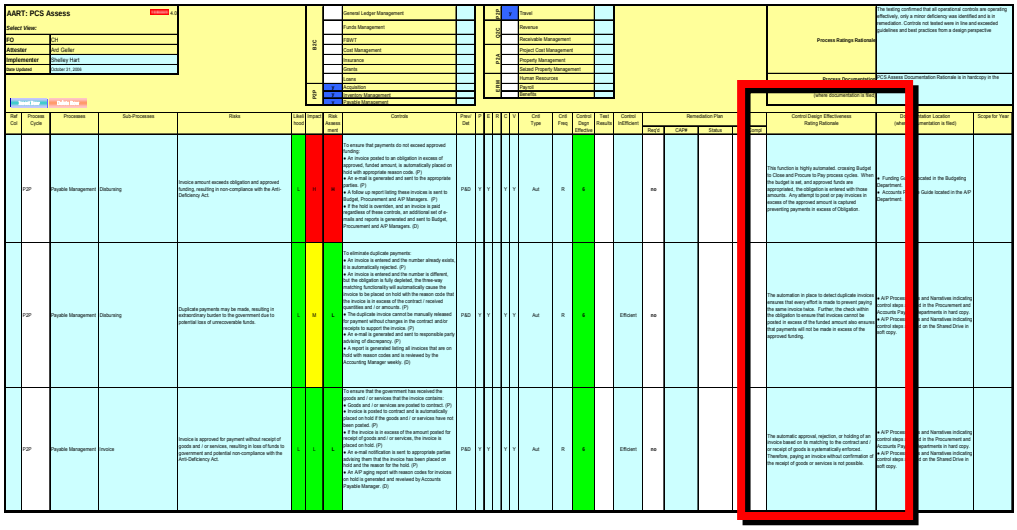
   a. The logic employed to develop the number rating provided in the control design effectiveness rating.

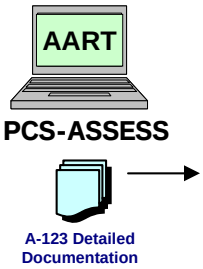
   b. Any analysis and other factors used in support of the numeric rating.

<u>A well formulated rationale</u>: Control set designed effectively – Rating 6 / Control set contains both manual and automated control directly linked to key risks. The control set provides for preventive and detective controls to mitigate the risk and provide for identification of issues should the risk occur. The number of controls also appears adequate based on the level of risk (i.e. there are 4 key controls related to this low risk process, with several additional backup controls that require no additional effort or cost.)



4. Summarize the rationale for the Control Design Effectiveness rating in the Rationale column of the PCS-Assess tab.





5. While the control set design may be effective, A-123 evaluations should also assess efficiency where possible. If during the course of the evaluation opportunities to improve the efficiency of controls are identified (e.g. numerous duplicative controls, some of which can be deleted; manual controls that should be automated; detective controls that could be converted to preventive; etc.), record a "yes" in the Efficiency Opportunities column. The nature of the potential efficiency should be recorded in the Detailed A-123 Documentation. Use of this efficiency column will allow the site to provide a tickler to address the efficiency issues when time permits.

6. Repeat these steps to rate all control sets' associated inherent risk at the sub-process' activity level.

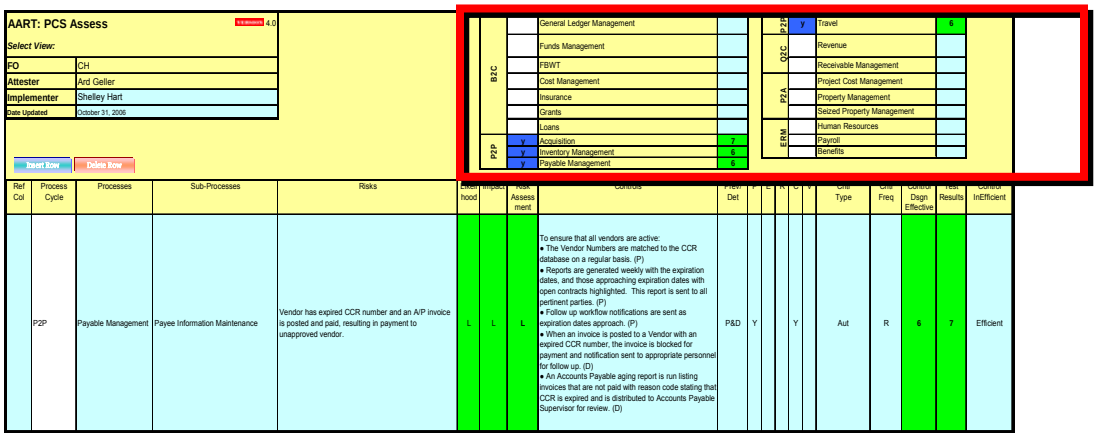
E. Assess the control design effectiveness of the control sets at the Process Level

1. In determining the control design effectiveness of the control sets at the Process Level, consider among other things the effectiveness ratings for each control set and its relationship to the respective risk assessment rating. Also consider exposure at the process level and the potential for risk occurrence.

AART

PCS-ASSESS

2. Record your Control Design Effectiveness ratings for the specific Process in the header of the PCS-Assess tab.



3. Repeat this step for all Processes with a "y" indicator in the header.

A-123 Detailed Documentation

4. Document the rationale used to determine the Process Control Design Effectiveness rating in the Detailed A-123 Documentation. Explain the reason for assigning the specific rating and minimally include the following:

   a. The logic employed to develop the number rating provided in the control design effectiveness rating.

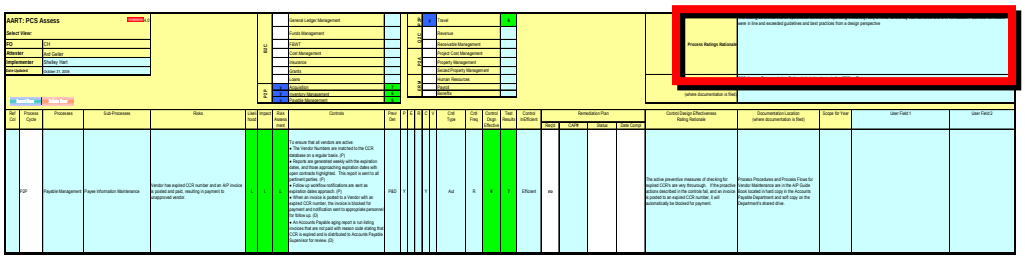
   b. Any analysis and other factors used in support of the numeric rating.

<u>A well formulated rationale</u>: While deficiencies were noted in one sub-process supporting the Payable Management process, it was control set mitigating a low risk. In addition, only one of 5 key controls failed and there is no evidence of risk occurrence. While the process will be remediated, the control failure should not negatively impact the overall operation of the control set and would not increase the likelihood of risk occurrence beyond less than remote. While deficiencies were noted in one sub-process supporting the GL Management process, it was a low risk activity. In addition, only one of 4 key controls failed and there is no evidence of risk occurrence. While the process will be remediated, the control failure should not negatively impact the overall operation of the control set and would not increase the likelihood of risk occurrence beyond less than remote.

AART

PCS-ASSESS

5. Summarize the rationale for all Process Ratings in the Rationale cell in the header of the PCS-Assess tab.



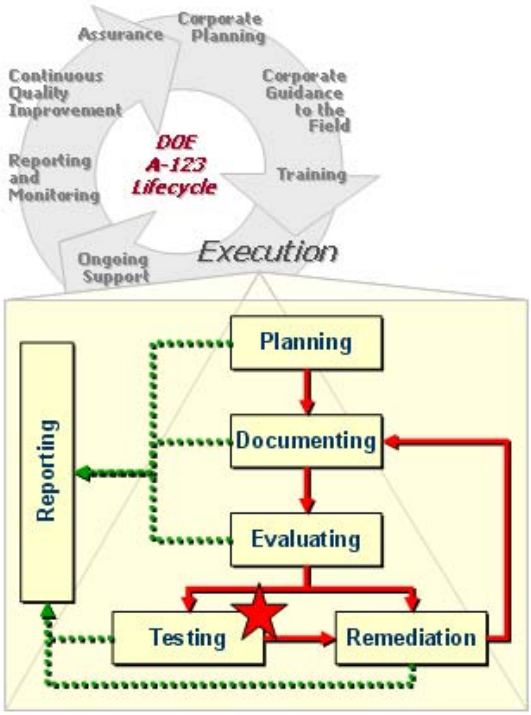
F. Update the Implementation Plan

A-123 Detailed Documentation

1. Capture the status and barriers as well as any significant deviations encountered during the evaluating phase.

Major changes to the Implementation Plan will need to be reported in the Quarterly Report.

Quick Start Guide (QSG) 4 - Testing



Purpose	• Validate the operational effectiveness of internal controls over financial reporting related to departmental financial statements.
Key Activities	• Identify existing tests that can be leveraged • Develop test plans • Conduct dual-purpose testing • Rate and record test results
Required Templates	• AART Tool Suite • Implementation Plan

http://www.cfo.doe.gov/progliaison/doeA123/index.htm

A-123Helpdesk@hq.doe.gov

Users who have completed an A-123 cycle in FY06 may have already completed many of the activities described herein. However, the Testing guide should be reviewed to ensure that FY07 guidance is incorporated into your A-123 Implementation

The examples throughout these guides are based on a Procure to Pay (P2P) process cycle scenario, within a government agency. The business cycle from Requisitioning goods and services through to Payment of invoices is used to exemplify inherent process risks and controls, as well as inherent entity risks and controls within a large organization.

End note references are provided with more detailed information at the end of the guide.

DOCUMENT LEGEND

Note box	AART AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation Detailed Documentation Requirements
Tip box	

INTRO

OBJECTIVE

Validate the operational effectiveness of control sets in mitigating occurrence of related risks.

SCOPE

Testing scope is limited to control sets that are effectively designed or have minor design deficiencies (rated as 5 or 6). All deficient control sets (rated as 3 or 4) will require remediation prior to testing and will be indicated with "REM" in the ECS/PCS Test tab in the "Control Design Effective" and "Risk Assessment" columns.

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 (i.e., during control operation); and,
2. Determining whether the risk actually occurred (and its subsequent impact) as a result of the control failure, where reasonable and appropriate.

Sites should perform additional procedures, as necessary, to implement the use of dual purpose testing.

RATINGS

A consistent rating scheme has been developed to support capturing testing results of the operational effectiveness of control sets at the risk level as well as the summary (area/process) and assurance levels.

The following table provides an explanation of the ratings for each of the above areas.

Quick Start Guide 4 – Testing

	Control Set (Design)	Control Set (Testing)	Summary Ratings (PCS Process, ECS Area, ECS Overall Environment)	Assurance Ratings
3	***Significant Design Deficiency*** Significant deficiency(ies) in the control set design exist such that there is a ***HIGH*** probability of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Significant Operational Deficiency*** Significant deficiency(ies) in the control set operation exists such that there is a ***HIGH*** probability of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Significant Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***HIGH*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***WITH*** a significant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Material Weakness*** More than a remote likelihood for a misstatement of financial statements and reports ***AND*** the misstatement may be of a material magnitude.
4	***Design Deficiency*** Deficiency(ies) in the control set design exist such that there is ***MORE*** than a remote possibility of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Operational Deficiency*** Deficiency(ies) in the control set operation exists such that there is ***MORE*** than a remote possibility of the risk occurring. This **may** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***MODERATE*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***WITH*** a significant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Reportable Condition*** More than a remote likelihood for a misstatement of financial statements and reports ***AND*** the misstatement may be of a more than inconsequential magnitude.
5	***Minor Design Deficiency*** Deficiency(ies) in the control set design exist such that there is ***ONLY*** a remote possibility of the risk occurring. This **may not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Minor Operational Deficiency*** Deficiency(ies) in the control set operation exists such that there is ***ONLY*** a remote possibility of the risk occurring. This **may not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Minor Deficiency*** Control deficiency(ies) (design or operational) exist that create a ***LOW*** probability of not detecting or preventing fraudulent and/or erroneous transactions ***OR*** an insignificant exposure to unreliable, inaccurate and/or untimely financial reporting.	***Control Deficiency*** A remote likelihood for a misstatement of financial statements and reports ***OR*** the misstatement may be of an inconsequential magnitude.
6	***Designed Effective*** Control set design is effective such that there is ***LESS*** *than a remote* possibility of the risk occurring. This **should not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	**N/A**	***Designed Effectively*** Controls are designed effectively to detect and/or prevent fraudulent and erroneous transactions ***AND*** ensure reliable, accurate and timely financial reporting.	***Effectively designed controls***
7	**N/A**	***Operating Effectively*** Control set is operating effectively such that there is ***LESS*** than a remote possibility of the risk occurring. This **should not** adversely affect the organization's ability to meet its internal control objectives for the specified risk.	***Operating Effectively*** Controls are operating effectively to detect and/or prevent fraudulent and erroneous transactions ***AND*** ensure reliable, accurate and timely financial reporting.	***Effectively operating controls***

Because of the similarity of the testing methodology for both Entity and Process controls, they are discussed together in this guide, but providing examples for both.

TESTING

A. Define overall testing approach

1. Prioritize your testing approach based on:
   a. Risk Assessment
   b. Control Design Effectiveness ratings
   c. Logical groupings of controls/control sets within a test scenario
   d. Resource availability
   e. Complexity of testing protocol
   f. Timing of related transactions/activity to be tested
   g. Periodicity of control execution (when can they be tested)
   h. Other site specific considerations

2. Determine if any testing has recently been performed that may satisfy the A-123 requirements for selected controls within a control set. To satisfy A-123 requirements:
   a. Testing must have been performed within 12 months of the assurance date
   b. Tests must directly address the key controls and the related risk identified in the AART
   c. No significant system, process or control changes should have taken place since the date of testing
   d. Documentation must include key attributes including, type of test, sample size, sampling criteria, universe, timing of execution, actual results, number and nature of exceptions/errors identified, etc.

   An independent interpretation of the results must still be documented in the Detailed A-123 Documentation.

Sites may utilize testing performed as part of internal or external reviews and/or audits (e.g. 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.*

3. Attester should determine if additional testing guidance is required to set testing standards to support his required level of assurance. Such guidance might include,
   a. Minimum sample sizes
   b. Maximum acceptable error rates
   c. Additional documentation requirements
   d. Independent standards for test performance

B. Develop test strategy and plans

1. Develop a test strategy for each process, supported by test plans for each control set. The strategy would consider:

    a. Ability to consolidate testing of multiple controls within and or between control sets.
    b. How to validate quality and completeness of all required testing for each process.
    c. Approach for weighting of results for specific control sets.
    d. Additional guidance provided by the attester

A-123 Detailed Documentation

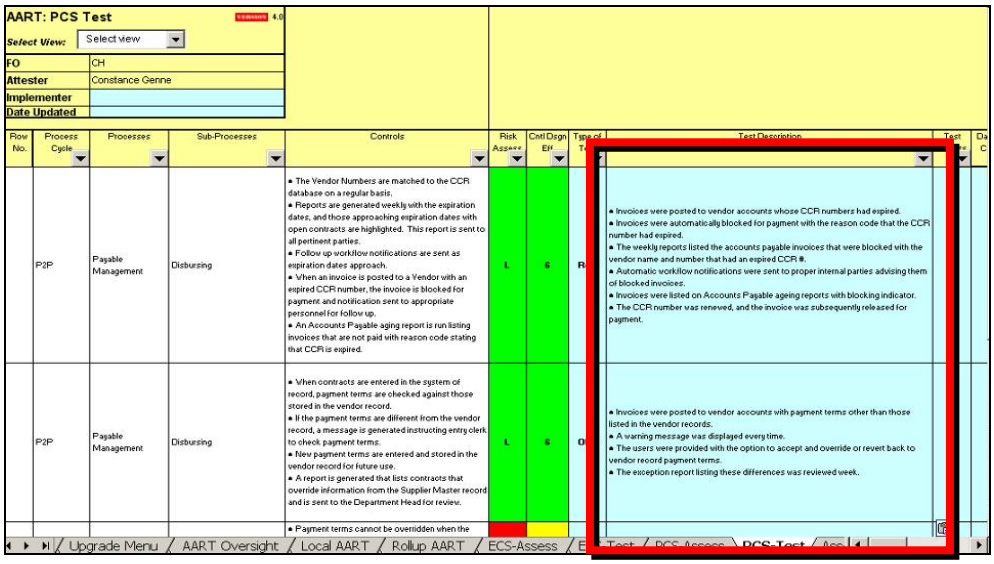
2. Develop and document test plans for each control set as part of the Detailed A-123 Documentation. The plan should define specific test activities to address each control within the control set. Some of the key elements of the test plan include:

    a. Description of objective
    b. Type of test
    c. Procedures of the test being performed
    d. Acceptable error thresholds
    e. Explanation of the extensiveness of tests
    f. Universe from which the sample size was selected
    g. Sample size
    h. Timeframes of execution
    i. Resources assigned
    j. Date executed
    k. Approver
    l. Who performed the test

AART

ECS / PCS Test

3. Record a summary description[1] of the test plan, associated with each control set, in the ECS/PCS Test tab of the AART. At a minimum, include:



C. Execute test plans

A-123 Detailed Documentation

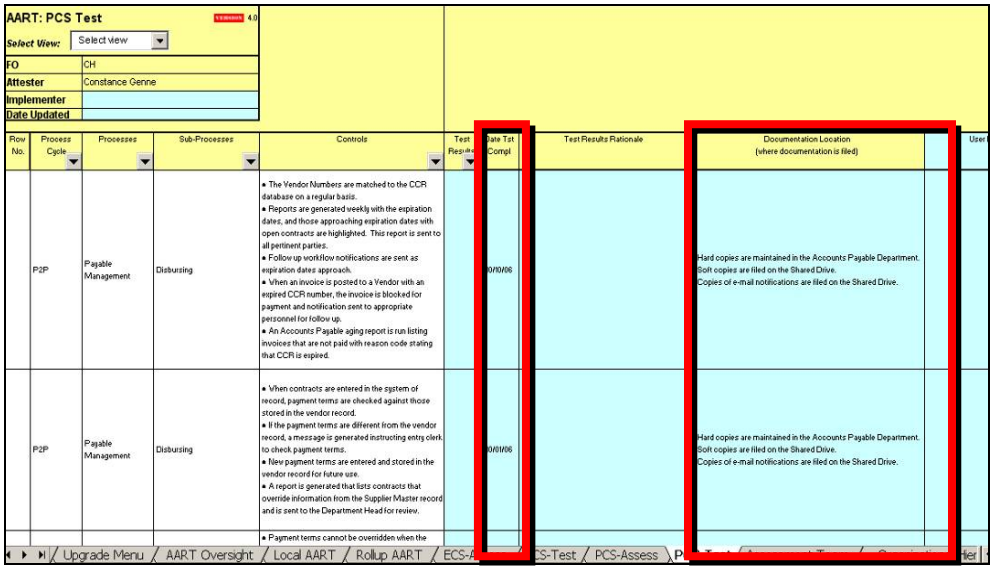
1. Execute the test plans. Update the plans in the Detailed A-123 Documentation with all relevant details and findings. This should, at a minimum, include:

   a. Date test executed
   b. Description of test findings
   c. Name(s) of person(s) performing test
   d. Any variations to the test plan attributes (e.g. the sample size was changed from 65 to 100)
   e. Number and percentage of failures
   f. Nature of failures
   g. Occurrence of risk and frequency of occurrence (where applicable)

AART

ECS / PCS Test

2. Record the test date and the location of the Detailed A-123 Documentation in the applicable columns of the ECS/PCS Test tab in the AART.



AART: PCS Test

Select View: Select view

FO	CH
Attester	Constance Genne
Implementer	
Date Updated	

Row No.	Process Cycle	Processes	Sub-Processes	Controls	Test Results	Date Tst Compl	Test Results Rationale	Documentation Location (where documentation is filed)	User
	P2P	Payable Management	Disbursing	• The Vendor Numbers are matched to the CCR database on a regular basis. • Reports are generated weekly with the expiration dates, and those approaching expiration dates with open contracts are highlighted. This report is sent to all pertinent parties. • Follow up workflow notifications are sent as expiration dates approach. • When an invoice is posted to a Vendor with an expired CCR number, the invoice is blocked for payment and notification sent to appropriate personnel for follow up. • An Accounts Payable aging report is run listing invoices that are not paid with reason code stating that CCR is expired.		00/00/06		Hard copies are maintained in the Accounts Payable Department. Soft copies are filed on the Shared Drive. Copies of e-mail notifications are filed on the Shared Drive.	
	P2P	Payable Management	Disbursing	• When contracts are entered in the system of record, payment terms are checked against those stored in the vendor record. • If the payment terms are different from the vendor record, a message is generated instructing entry clerk to check payment terms. • New payment terms are entered and stored in the vendor record for future use. • A report is generated that lists contracts that override information from the Supplier Master record and is sent to the Department Head for review. • Payment terms cannot be overridden when the		00/00/06		Hard copies are maintained in the Accounts Payable Department. Soft copies are filed on the Shared Drive. Copies of e-mail notifications are filed on the Shared Drive.	

Upgrade Menu / AART Oversight / Local AART / Rollup AART / ECS-A... / ...CS-Test / PCS-Assess / P...

D. Evaluate test results

1. Evaluate the test results and rate the effectiveness of the control set operation in mitigating the risk associated with the specified risk statement. In rating the operational effectiveness, you should consider, among other things:

    a. Whether operational failures occurred
    b. Number of controls in the control set
    c. How many controls failed
    d. How many failures occurred for specific controls
    e. Risk assessment rating
    f. Nature of the control failures
    g. Whether control failures resulted in Risk occurrence
    h. Type of control
    i. Combined performance of Primary and Backup controls
    j. Risk Assessment rating
    k. Relative exposure
    l. Potential for risk occurrence

Example:

<u>A well formulated rationale</u>: Control set operates effectively – Rating 7 / Testing covered six key controls designed to mitigate the associated risk. While control failures were identified in one of the key controls, the number of failures were below the maximum acceptable error threshold. In addition, the control set contained multiple preventive and detective controls that worked effectively to offset the control failures. Based on these results, the control failure will not negatively impact the overall operation of the control set and will not increase the likelihood of risk occurrence beyond 'less than remote'.

A-123 Detailed Documentation

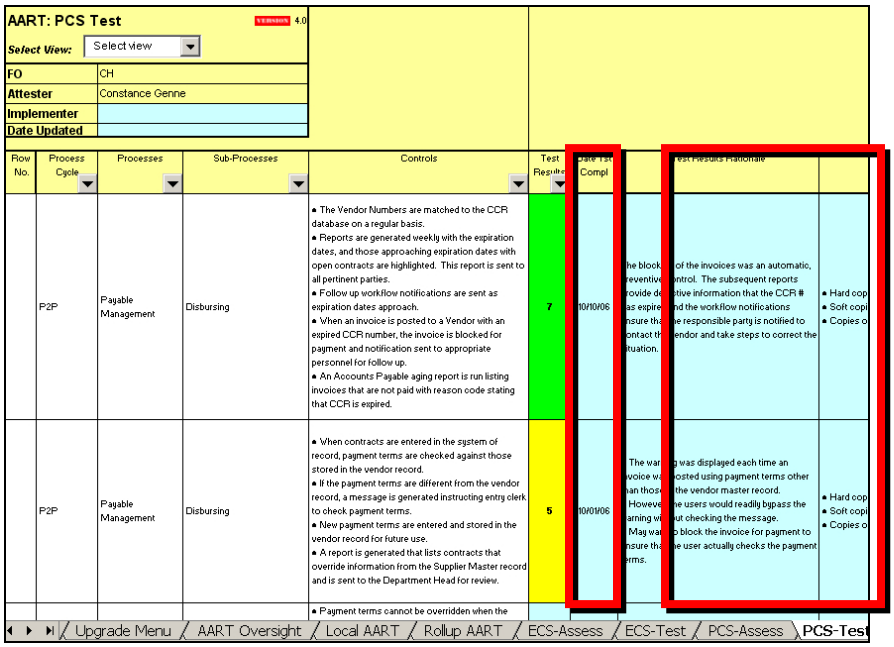
2. Record in your Detailed A-123 Documentation the rationale used in determining the test results ratings.

AART

ECS / PCS Test

3. Record the rating and a summary of the rationale into the ECS/PCS Test tab of the AART.

> After a control set has been tested, ***DO NOT*** go back into the ECS or PCS Assess worksheets and change the Control Design Effectiveness rating based on test results.



AART: PCS Test 4.0

Select View: Select view

FO	CH
Attester	Constance Genne
Implementer	
Date Updated	

Row No.	Process Cycle	Processes	Sub-Processes	Controls	Test Results	Date Test Compl		Test Results Rationale	
	P2P	Payable Management	Disbursing	▪ The Vendor Numbers are matched to the CCR database on a regular basis. ▪ Reports are generated weekly with the expiration dates, and those approaching expiration dates with open contracts are highlighted. This report is sent to all pertinent parties. ▪ Follow up workflow notifications are sent as expiration dates approach. ▪ When an invoice is posted to a Vendor with an expired CCR number, the invoice is blocked for payment and notification sent to appropriate personnel for follow up. ▪ An Accounts Payable aging report is run listing invoices that are not paid with reason code stating that CCR is expired.	7	10/10/06	he block of the invoices was an automatic, reventive control. The subsequent reports rovide de tive information that the CCR # as expire nd the workflow notifications nsure tha he responsible party is notified to ontact th endor and take steps to correct the tuation.	▪ Hard cop ▪ Soft copi ▪ Copies o
	P2P	Payable Management	Disbursing	▪ When contracts are entered in the system of record, payment terms are checked against those stored in the vendor record. ▪ If the payment terms are different from the vendor record, a message is generated instructing entry clerk to check payment terms. ▪ New payment terms are entered and stored in the vendor record for future use. ▪ A report is generated that lists contracts that override information from the Supplier Master record and is sent to the Department Head for review.	5	10/01/06	The war g was displayed each time an voice w osted using payment terms other han those the vendor master record. However he users would readily bypass the arning w ut checking the message. May wa o block the invoice for payment to nsure tha he user actually checks the payment rms.	▪ Hard cop ▪ Soft copi ▪ Copies o
				▪ Payment terms cannot be overridden when the					

Upgrade Menu / AART Oversight / Local AART / Rollup AART / ECS-Assess / ECS-Test / PCS-Assess / PCS-Test

E. Evaluate and update the Area and Process level ratings to reflect the results from testing

AART

ECS/PCS Assess

1. Define the Area/Process level ratings based on the results of testing at the control set level. In determining the operational control effectiveness of the controls at the Area and Process Level, consider among other things the effectiveness ratings for each control set and their relationship to the respective risk assessment rating. Also, consider exposure to the Area/Process level and the potential for risk occurrence.

A-123 Detailed Documentation

2. Document the rationale used to update the Area/Process Ratings in the Detailed A-123 Documentation. Explain, in detail, the reason for assigning the specific rating and minimally include the following:

   a. The logic employed to develop the number rating provided in the Control Design Effectiveness rating

   b. Any analysis and other factors used in support of the numeric rating

Examples:

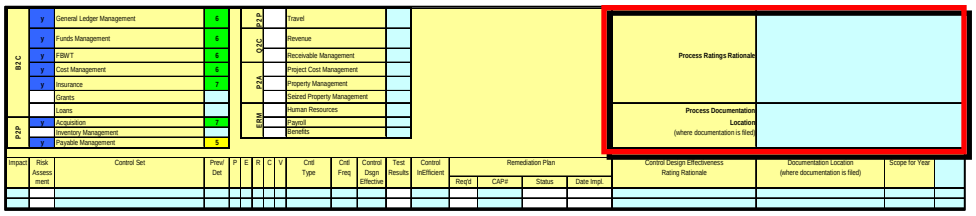
<u>A well formulated rationale (Entity Area)</u>: Area controls operate effectively – Efficiencies identified – Rating 7 / While deficiencies were noted in one sub-category supporting this monitoring, the deficiency was limited to one control set related to a low risk activity. In addition, only one of 5 key controls failed and there is no evidence of risk occurrence. While the area will be remediated, the control failure should not negatively impact the overall operation of the control set and should not increase the likelihood of risk occurrence beyond 'less than remote'. The site also identified opportunities to automate annual ethics training notifications to gain greater efficiencies.

<u>A well formulated rationale (Process)</u>: Process controls operate effectively – Efficiencies identified – Rating 7 / While deficiencies were noted in one sub-process supporting the Payment Management process, the deficiency was limited to one control set related to a low risk activity. In addition, only one of 5 key controls failed and there is no evidence of risk occurrence. While the process will be remediated, the control failure should not negatively impact the overall operation of the control set and should not increase the likelihood of risk occurrence beyond less than remote. The site also identified opportunities to further automate the accruals process to gain greater efficiencies.

AART

ECS Assess

3. Update/record your rationale in the header of the PCS/ECS Assess tab.

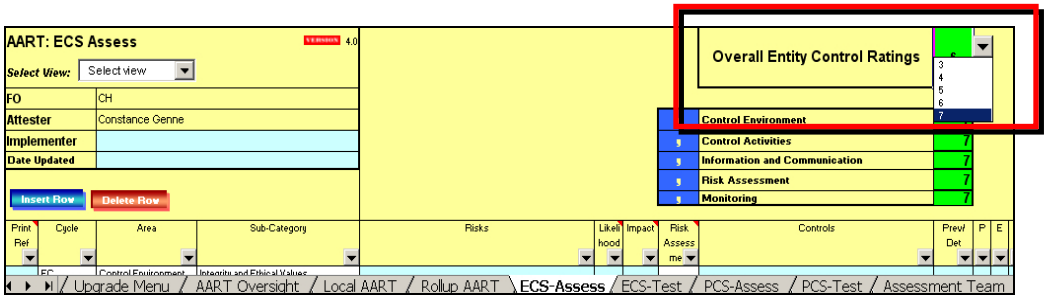


4. In determining the Overall Entity Control Environment rating, consider the cumulative impact of the Area level ratings.

AART

ECS Assess

5. Update/record your Overall Entity Control Environment rating.



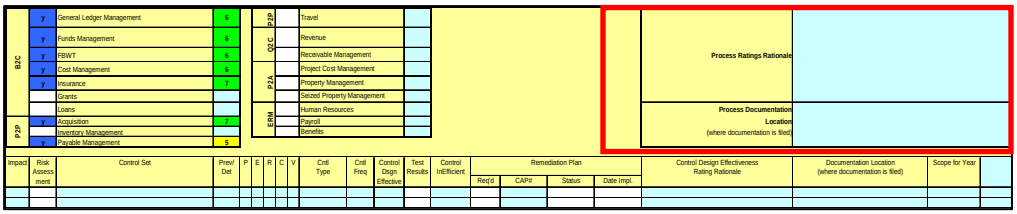
A-123 Detailed Documentation

6. Document the rationale used to update the Overall Entity Rating in the Detailed A-123 Documentation. Explain, in detail, the reason for assigning the specific rating and minimally include the following:

   a. The logic employed to develop the numeric rating provided in the Control Design Effectiveness rating
   b. Any analysis and other factors used in support of the numeric rating

Example:

<u>A well formulated rationale (Overall Control Environment)</u>: Control set contains operational deficiencies – Rating 4 / Based on the deficiencies in 3 Control Sets related to high-risk activities in the "Monitoring" entity area, and the resultant rating of 4 in that area, we have rated the overall entity area 4 (Control Deficiency) to ensure that adequate consideration is given to these issues as they relate to process controls.



F. Update the Implementation Plan

A-123 Detailed Documentation

1. Capture the status and barriers as well as any significant deviations encountered during the testing phase.

Major changes to the Implementation Plan will need to be reported in the Quarterly Report.

SUPPLEMENTARY INFORMATION AND DEFINITIONS

[1] Well formulated summary test description are as follows:

Area: Control Activity **Sub-Category:** Segregation of Duties

Risk Statement: An employee who creates a requisition and also approves the requisition, purchases the requested goods or services, and pays the subsequent invoice(s), resulting in fraud, waste, and / or abuse of government funds.

Objective: Validate operation of entity controls to ensure segregation of duties as they impact the requisitions area.

Control Set: To prevent fraud, waste and/or abuse

Control (1) Management publishes an internal control manual (distributed to all employees) that requires segregation of duties in all financial activities. [P] [M]
Control (2) Security rules are set up such that no single user ID can be assigned the roles of creating a requisition and approving that requisition; approving a requisition and creating the corresponding Obligation; and creating the obligation and paying the invoice. [P] [A]
Control (3) Workflow technology is implemented to automate work flow message distribution to monitor expenditures and approvals. [P] [A]
Control (4) Only 3 Administrators have the authorization to create and / or change security profiles and workflow rules. [P] [M]

Test Type: Mixed (See test description)

Test Description:

Test 1 (Control 1) – Observation/Inquiry – Observe whether requisitioning employees & managers are in possession of the manual and Inquire as to their knowledge of the segregation of duties requirement.
Test 2 (Control 2) – Re-perform – Re-perform steps to create a unique user ID and attempt to assign multiple roles.
Test 3 (Control 3) – Inspection – Inspect workflow e-mails received by two approving officials and reconcile to a report indicating number of requisitions approved to validate e-mail issuance and receipt.
Test 4 (Control 4) – Inspection – Inspect role assignment logs from workflow system to verify the number of administrators with create/change rights. (as of 10/1/05, 1/30/06 and 9/5/06)

Sample Test Plan Criteria for entity (scenario above):

Test #	Universe	Sample Size	Acceptable Error Threshold	Date Executed	Tester (s)	Approver
1	20 Employees 5 Managers	4 Employees 1 Manager	0	9/1/06 – 9/3/06	Miller/ Davis	Harris
2	N/A	1	0	9/4/06	Davis	Harris
3	5 AOs 50 Reqs	2 AOs 20 Reqs	0	9/4/06	Milled	Harris
4	N/A	3 logs per test descr.	0	9/5/06	Miller/ Davis	Harris

Process: Payable Management **Sub-Process:** Disbursing

Risk Statement: Duplicate payments may be made, resulting in overpayments causing extra costs and / or potential loss to the government for unrecoverable overpaid funds.

Objective: Validate the operation of manual and system process controls to avoid duplicative payments.

Control Set: **To prevent loss of funds.**

Control (1) System rejects entry of duplicate invoice numbers. [P] [A]
Control (2) System issues a warning if invoice numbers are different and amounts and payee are the same. [P] [A]
Control (3) Monthly report of potentially duplicate invoices is generated and reviewed by AP Supervisor. [D] [M]

Test Type: Mixed (See test description)

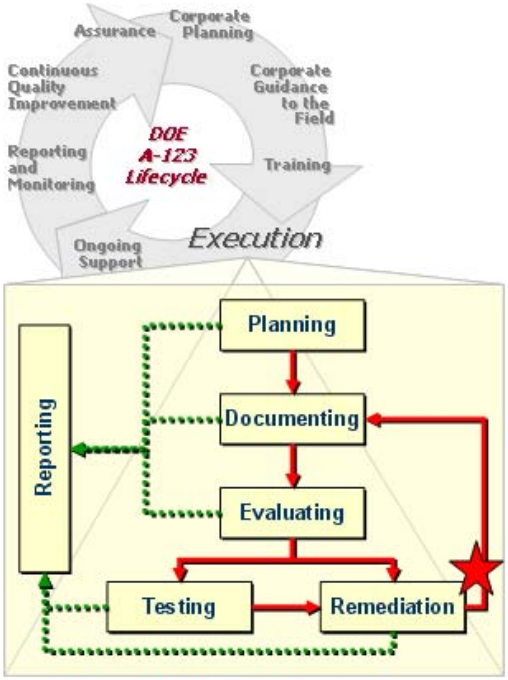
Test Description:

Test 1 (Control 1) – Observation/Re-performance – Perform steps necessary to enter a duplicate invoice number for payment and observe functionality of control.
Test 2 (Control 2) - Observation/Re-performance – Perform steps necessary to enter an invoice for payment with a unique invoice number, but amounts and payee are the same as a previous invoice on the contract and observe whether a warning is displayed by the system.
Test 3 (Control 2) – Observation – Observe an accounting technician and verify that they perform proper checks to ensure that payments are not duplicates prior to overriding the warning message.
Test 4 (Control 3) – Inquiry/Inspection – Inquire whether AP supervisor is receiving the monthly report of potentially duplicative invoices and inspect files to identify evidence that the report was reviewed and annotated with results of the monthly review.

Sample Test Plan Criteria for process (scenario above):

Test #	Universe	Sample Size	Acceptable Error Threshold	Date Executed	Tester (s)	Approver
1	N/A	1	0	9/1/06	Miller/ Davis	Harris
2	N/A	1	0	9/2/06	Davis	Harris
3	2 Techs	1 Tech *	0	9/3/06	Milled	Harris
4	12 Reports per Year	3 Reports	0	9/4/06	Miller/ Davis	Harris
NOTE: Sample size depends on the number of invoices meeting the criteria processed during the day of testing.						

Quick Start Guide 5 - Remediation



Purpose	• Monitor and track remediation of internal control deficiencies identified during the A-123 assessment.
Key Activities	• Define Scope • Develop Strategy • Develop and Execute Plans • Monitor and Track progress
Required Templates	• Implementation Plan (Form & Content) • AART Tool Suite

http://www.cfo.doe.gov/progliaison/doeA123/index.htm

A-123Helpdesk@hq.doe.gov

Users who have completed an A-123 cycle in FY06 may have already completed many of the activities described herein. However, the Remediation Guide should be reviewed to ensure that FY07 guidance is incorporated into your A-123 Implementation.

End note references identify more detailed information that is provided at the end of the guide.

DOCUMENT LEGEND

Note box	AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation → Detailed Documentation Requirements
Tip box	

INTRO

OBJECTIVE

The objective of remediation is to take appropriate corrective actions to ensure that controls over financial reporting (entity and process) are designed and operating effectively to offset related risks.

RESPONSIBILITIES

A-123 Assessment Team – The local A-123 assessment team is responsible for:

a) Identifying the scope of remediation activities.
b) Developing an overall remediation strategy to ensure corrective actions are accomplished in an effective and efficient manner, and ensuring that A-123 remediation activities are coordinated with other identified remediations (e.g., those identified through financial statement audits, self-assessment, IG/GAO audits, etc.).
c) Ensuring that corrective action plans are developed and executed to address controls determined to be ineffectively designed or operating.
d) Monitoring, tracking and reporting on the status of corrective actions.
e) Re-assessing proper documentation and control design and operation once remediation activities have been completed (recycle through all A-123 phases beginning with Documenting).

Local Business Units – Local Business units (e.g. accounts payable department, systems operations, etc.) are responsible for:

a) Developing and executing corrective action plans.
b) Implementing process/control changes.
c) Re-documenting processes to reflect changes effected during remediation.

STAGES OF REMEDIATION

To consider remediation complete to support an A-123 evaluation, four key stages must be completed:

a) Planning – An action plan containing key milestones to correct the deficiency(ies) must be developed.
b) Execution – Key corrective action milestones must be completed.
c) Documentation – Process/entity control documentation must be updated to reflect the changes made.
d) Implementation – The process/entity control changes must be implemented and operational for a sufficient time in order to assess their operational effectiveness.

A. Define the scope of the Remediation

Remediation is required for all control sets rated as “3” (Significant Deficiency) or “4” (Deficiency) in control design effectiveness and “3” (Significant Deficiency), “4” (Deficiency) and “5” (Minor Deficiency) in operational effectiveness. All control sets requiring remediation are automatically identified in the PCS/ECS Assess tabs of the AART tool suite with “yes” in the Remediation Req’d column.

Sites should identify and group remediation activities by process or entity area to provide a less fragmented view of remediation activities required and to support better planning.

AART: PCS Assess — VERSION 4.0

Select View: Select view — HELP

FO	CH
Attester	Tom Foley, CFO
Implementer	Cornell Williams
Date Updated	June 30, 2006

Insert Row — Delete Row

B2C	y	Travel	6
	y	Revenue	
		Receivabl	6
	y	Project Co	6
		Property M	5
	y	Seized Pr	
		Human R	6
P2P	y	Payroll	6
	y	Benefits	6
	y		

Ref Col	Process Cycle	Processes	Sub-Processes	Inherent Risk	Likelihood	Impact	Risk Assessment	Control Dsgn Effective	Test Results	Efficiencies Opportunities Identified	Remediation Plan Req’d	CAP#	Status	Date Impl.
	P2P	Payable Management	Disbursing	Vendor to be paid may not be active CCR vendor, resulting in payment to unapproved vendor.	L	L	L	6	7		no			
	P2P	Payable Management	Disbursing	Terms of payment negotiated in contract may be overridden and incorrect terms may be utilized to calculate due dates, resulting in incorrect payment date and extraordinary burden to the government and non-compliance with the prompt payment act.	L	L	L	6	5		yes			

B. Develop Remediation strategy

1. Develop a remediation strategy for each process and entity area, supported by an action plan or plans covering the related control sets requiring remediation. In developing the remediation strategy, consider among other things the following:

   a. Relationship of deficiencies to any other remediation activities planned or underway (e.g. financial statement remediations, IG/GAO audit finding corrective actions, etc.). Remediations need to be coordinated to leverage resources and avoid duplicative or contradictory corrective actions.

   b. Breadth of organizations that should be engaged in remediation activities (e.g. accounting operations, CIO, HR, financial policy, etc.).

   c. Opportunities to consolidate remediation activities into action plans by process/entity area.

   d. Opportunities to consolidate remediation activities across processes/entity areas into action plans by functional area (e.g. training issues, systems issues, resource issues, etc.).

   e. The priority for conducting remediation activities based on risk and potential impact on financial statement audit activities.

   f. How to validate the quality and completeness of remediation activities.

C. Develop corrective action plans (CAPs) and record CAP attributes into the AART

A-123 Detailed Documentation

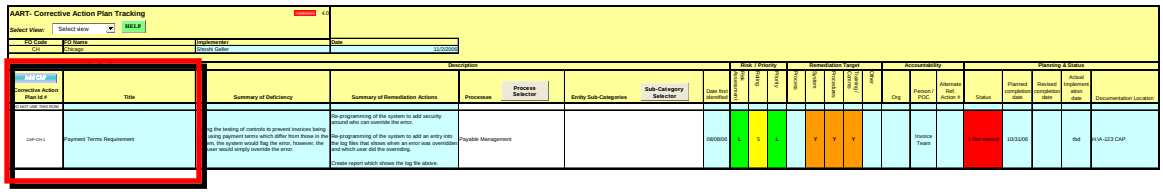
1. Once a remediation strategy has been developed, ensure that corrective action plans are developed and executed in accordance with the remediation strategy. Action plans may vary based on the business unit requirements and/or the remediation activity, and will be part of the Detailed A-123 Documentation. Action Plans must minimally include the following criteria:
   a. All the supporting information for the required CAP Fields as described below
   b. Detailed step-by-step action plan and associated milestones and other relevant dates
   c. Signature of authorized individual approving the plan
   d. Signature of authorized individual confirming completion

> While specific business units may be responsible for carrying out remediation activities, the A-123 team should review action plans to ensure that they focus on the root cause and appear responsive to the issues identified.
>
> If the action plans do not contain the above listed criteria, Detailed A-123 Documentation must be completed by the A-123 assessment team. A CAP Form and Content is available on the DOE A-123 Website.

AART

CAP Track

2. Record the following attributes of each CAP in the CAP Track tab of the AART Tool Suite.
   a. Identification
      i) **CAP Plan ID** – An automatically generated unique CAP Tracking ID specific to location. This number will automatically be assigned when a CAP is "ADDED[1]" to the CAP Tracking tool.
      ii) **Title** – Name identifying the remediation actions (e.g., upgrade duplicate invoice logic in accounting system)



AART- Corrective Action Plan Tracking

Select View: Select view HELP

FO Code	FO Name	Implementer	Date
CH	Chicago	Dmitrii Geller	11/2/2006

	Description						Risk / Priority			Remediation Target				Accountability			Planning & Status				
Add CAP Corrective Action Plan Id #	Title	Summary of Deficiency	Summary of Remediation Actions	Processes Process Selector	Entity Sub-Categories Sub-Category Selector	Date first identified	Risk Assessment	Severity	Priority	Processes	Risk Assessment	Procedures	Accounting Controls	Auditor	Org	Person / POC	Alternate / Ref. action #	Status	Planned completion date	Slewised completion date	Actual implementation date	Documentation Location
CLICK ADD THIS ROW																					
CAP-CH-1	Payment Terms Requirement	...g the testing of controls to prevent invoices being ...using payment terms which differ from those in the ...em, the system would flag the error, however, the ...user would simply override the error.	Re-programming of the system to add security around who can override the error. Re-programming of the system to add an entry into the log files that shows when an error was overridden and which user did the overriding. Create report which shows the log file above.	Payable Management		08/08/06	L	S	L		Y	Y	Y			Invoice Team		Not started	10/31/06		tbd	N/A- 123 CAP

b. Description

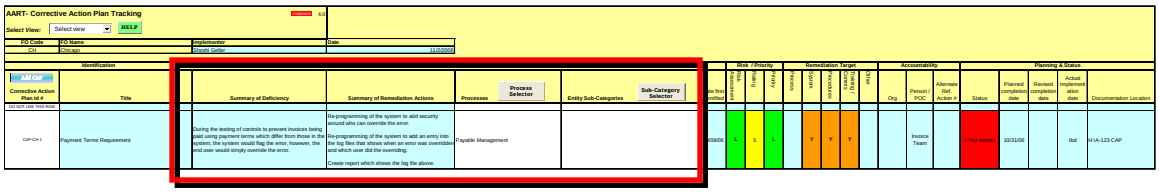
i) **Summary of Deficiency** – Summarize the deficiencies that have been identified for the respective entity sub-categories/processes.

ii) **Summary of Remediation Actions** – Summary of the actions that are being taken to fix the identified control set deficiencies.

iii) **Processes**[2] – Selection of process(es) that will be effected/remediated. Multiple Entity Sub-Categories and processes may be assigned to a single CAP.

iv) **Entity Sub-Categories**[3] - Selection of entity sub-category(ies) that will be effected/remediated. Multiple processes and Entity Sub-Categories can be assigned to a single CAP.

v) **Date first identified**

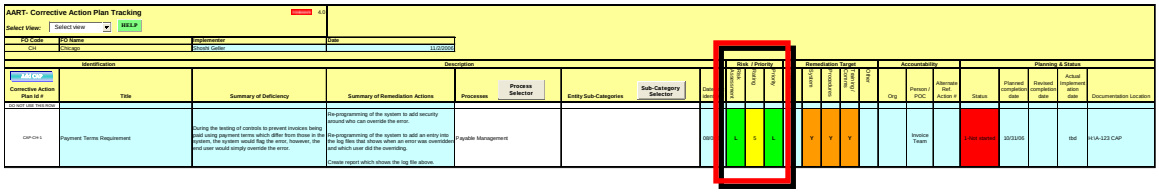


c. Risk/Priority

i) **Risk Assessment** – Select the highest risk assessment rating for all the risk statements for which control sets are being remediated (e.g. two low risk statements and one high risk statement associated with control sets targeted for the remediation actions, the risk assessment for the CAP should be high).

ii) **Rating** - Select the lowest control effectiveness rating for all the control sets that are being remediated (e.g., two control sets were rated as 4 and one as a 3; the CAP rating should be a 3)

iii) **Priority** – Based on the Risk Assessment and Rating assign a priority to ensure high risk areas with significant deficiencies are remediated first.



d. Remediation Target (*The remediation target identifies the focus of the remediation activity. A single CAP may have multiple remediation targets.)*

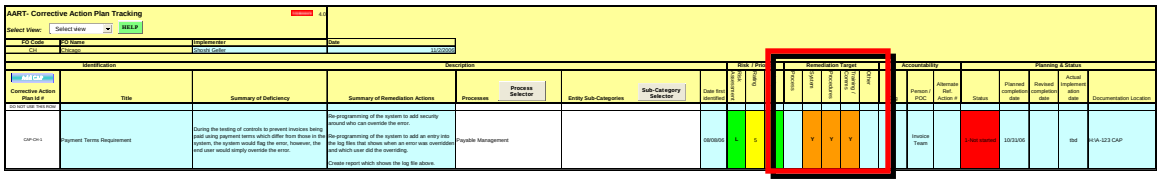
i) **Process** – Changes to the tasks and activities are required

ii) **System** – Changes or new functionality needs to be implemented in the computer applications supporting the business.

iii) **Procedures** – Changes to the documentation (e.g. desk guides, user manuals, system administration manuals, policies, etc.) are required

iv) **Training/Communication** – Conduct or update training and/or communications to ensure proper execution of the controls (e.g. user unawareness and education of existing procedures, new implementation training requirements)

v) **Other**

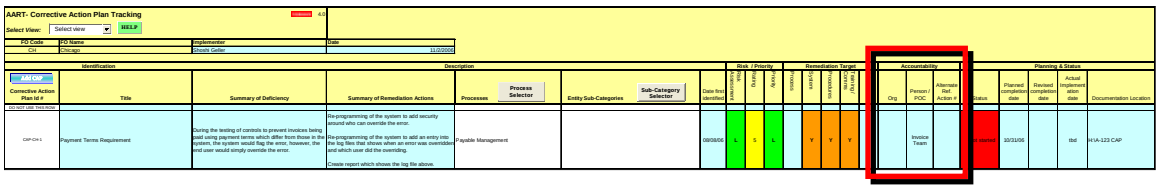


e. Accountability

i) **Organization** – business unit responsible for the remediation

ii) **Person/POC** – contact person within the business unit

iii) **Alternate Ref. Action** – alternate corrective action references or audit resolution references (e.g., DART, Tiger Team, and FY06 CAP references, if applicable)



f. Planning and Status

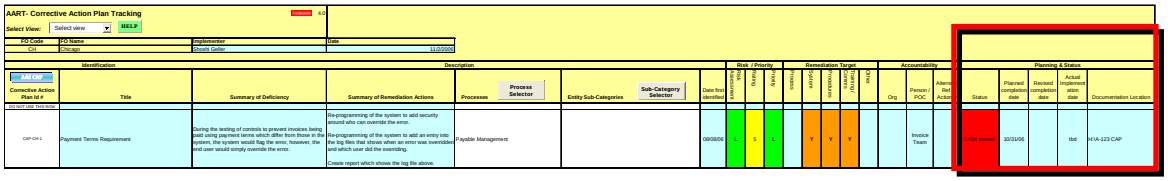
i) **Status**

ii) **Planned Completion Date** – date when all required activities are expected to be ready for production

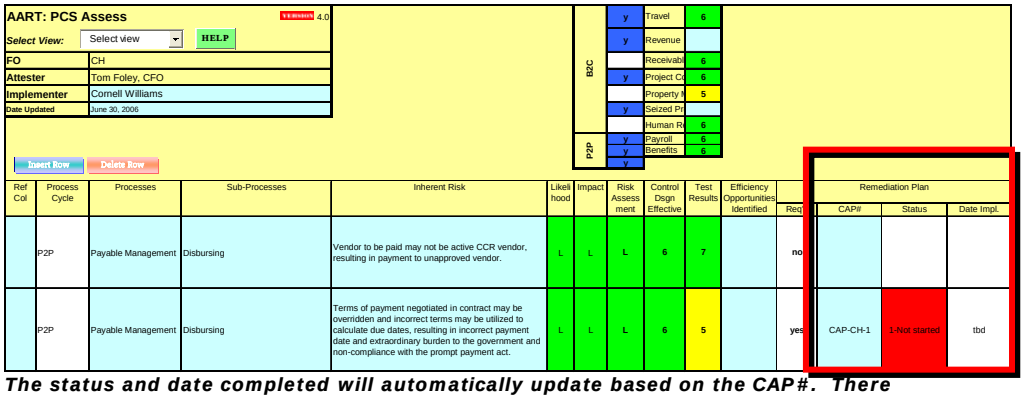
iii) **Revised Completion Date** – all activities required to go into production have been completed

iv) **Actual Implementation Date** – when fixes/changes go-live in the production environment and become part of the operational business

v) **Documentation Location**



3. After having "added" a CAP in the CAP Track Tab record, the assigned CAP number in the PCS/ECS Assess tabs for all affected control sets being remediated by that CAP will be generated. A single CAP number may be associated with multiple control sets (Entity and/or Process)[4].



AART: PCS Assess — Version 4.0

Select View: Select view — HELP

FO	CH
Attester	Tom Foley, CFO
Implementer	Cornell Williams
Date Updated	June 30, 2006

Insert Row — Delete Row

B2C	y	Travel	6	
	y	Revenue		
		Receivabl	6	
	y	Project Co	6	
		Property M	5	
	y	Seized Pr		
		Human R	6	
P2P	y	Payroll	6	
	y	Benefits	6	
	y			

Ref Col	Process Cycle	Processes	Sub-Processes	Inherent Risk	Likelihood	Impact	Risk Assessment	Control Dsgn Effective	Test Results	Efficiency Opportunities Identified	Req	Remediation Plan CAP#	Status	Date Impl.
	P2P	Payable Management	Disbursing	Vendor to be paid may not be active CCR vendor, resulting in payment to unapproved vendor.	L	L	L	6	7		no			
	P2P	Payable Management	Disbursing	Terms of payment negotiated in contract may be overridden and incorrect terms may be utilized to calculate due dates, resulting in incorrect payment date and extraordinary burden to the government and non-compliance with the prompt payment act.	L	L	L	6	5		yes	CAP-CH-1	1-Not started	tbd

The status and date completed will automatically update based on the CAP#. There must be an active CAP in the CAP Track tab for this functionality to work correctly.

D. Execute and monitor remediation activities

CAP Track

The A-123 assessment team should monitor the execution of remediation activities on an on-going basis and obtain periodic status updates to support quarterly A-123 reporting and other ad hoc reporting required by OMB or management. Once activities are completed, the CAP Track tab must be updated.

> While rare, not all remediations result in changes to the key control set. For example, remediation may have focused on "re-staffing" - a manual control that had gone unperformed due to attrition requirements.

E. Reassess results of remediation

1. Once a specific CAP has been assigned a "4-completed" status in the CAP Track tab, re-assess all remediated control sets using the A-123 methodology (documenting, evaluating and testing).

> If data is already in the cells, overwrite the existing data with the new information. If new sub-processes/risks have been created during the remediation, you must add these as you follow the A-123 methodology.

F. Update the Implementation Plan

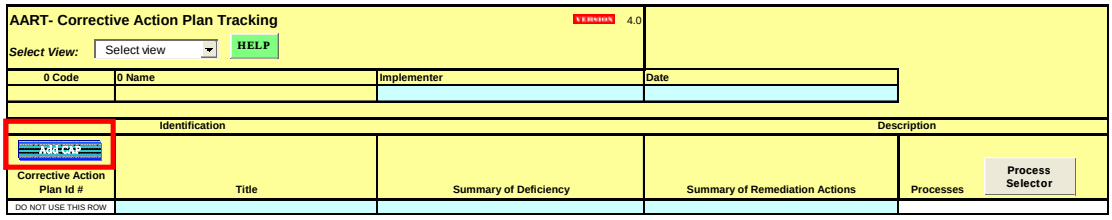
A-123 Detailed Documentation

1. Capture the status and barriers as well as any significant deviations encountered during the remediation phase.

Major changes to the Implementation Plan will need to be reported in the Quarterly Report.

SUPPLEMENTARY INFORMATION AND DEFINITIONS

[1] To add additional CAP rows, select a cell under the header (below row 7; for the first CAP entry you must select the row with the "DO NOT USE THIS ROW" text to add the first CAP), and Click "ADD CAP" button to add a CAP to the bottom of the list:

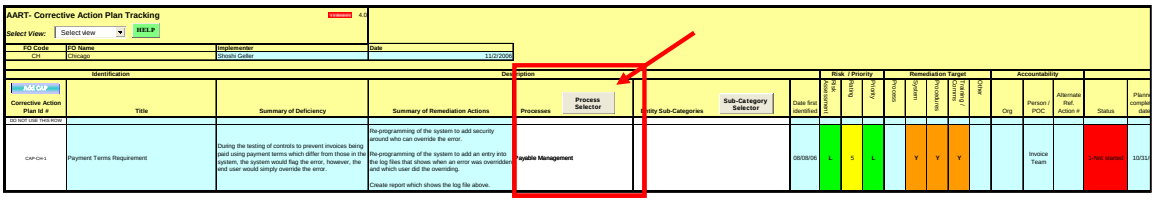


The newly inserted CAP will have a default status of "1-Not Started" and Implementation date of "TBD".

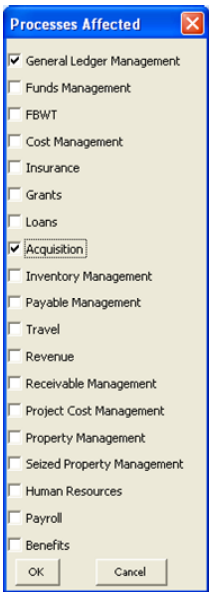
[2] To select affected processes for the specific CAP:

STEP 1: Select the CAP ID row that you wish you assign processes to.

STEP 2: Click the Process Selector button in the Processes' header of row.



STEP 3: Select the appropriate processes by clicking on the selection boxes and click OK.

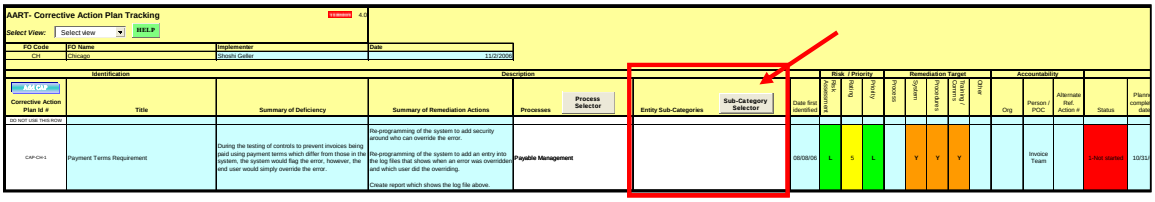


The processes will be automatically populated in the processes field of the selected CAP.

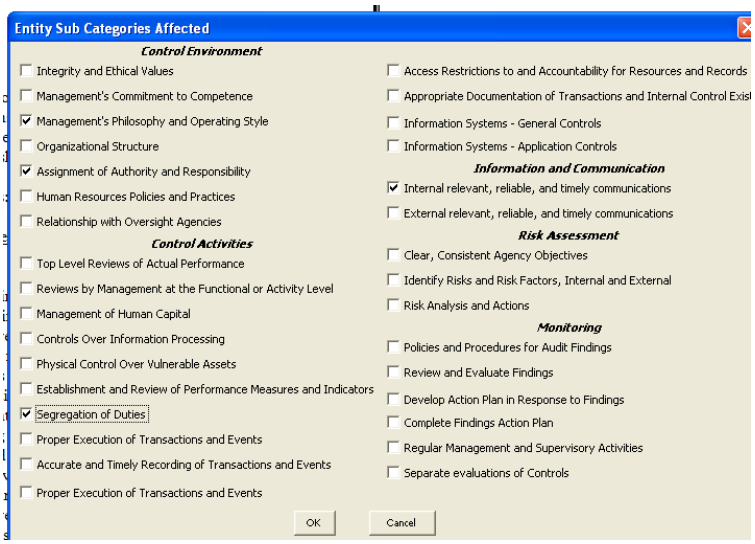
[3] To select effected entity sub-categories for the specific CAP:

STEP 1: Select the CAP ID row that you wish you assign entity sub-categories to.

STEP 2: Click the Sub-Category Selector button in the Entity Sub-Categories header of row.



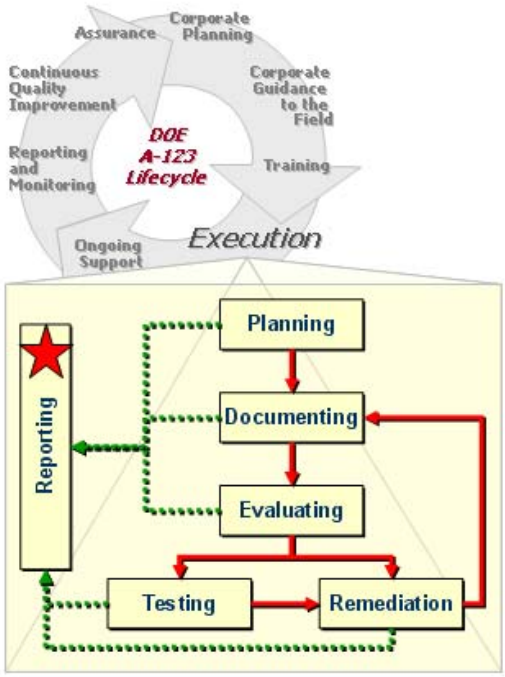
STEP 3: Select the appropriate entity sub-categories by clicking on the selection boxes and click OK.



The entity sub-categories will be automatically populated in the Entity Sub-Category field of the selected CAP.

[4] Only a single CAP number can be associated to control set.

Quick Start Guide 6 – Reporting and Assurance Prep



Purpose	• Report progress of the A-123 implementation. • Provide the yearly Assurance Statement and Report
Key Activities	• Develop and submit Quarterly Reports • Develop and submit annual assurance • Understand reporting criteria
Required Templates	• AART Tool Suite • Quarterly Report (Form & Content) • Implementation Plan • Assurance Report (Form & Content)

Quick Start Guide 6 – Reporting and Assurance Prep

The examples throughout these guides are based on a Procure to Pay (P2P) process cycle scenario, within a government agency. The business cycle from Requisitioning goods and services through to Payment of invoices is used to exemplify process risks and controls, as well as entity risks and controls within a large organization.

End note references indicate more detailed information is provided at the end of the guide.

DOCUMENT LEGEND

Note box	AART AART Input Color schemes indicate tab entry
Requirements box	A-123 Detailed Documentation → Detailed Documentation Requirements
Tip box	

Quick Start Guide 6 – Reporting and Assurance Prep

INTRO

OBJECTIVE

Provide SrAT, CFO, and oversight organizations with an ongoing report of A-123 Implementation progress, as well as, the necessary information to respond to OMB requests. A fixed schedule for all reporting entities has been established and is published in the FY07 Annual Guidance.

Out of cycle reporting may be required to support external reporting requirements or senior management needs.

QUARTERLY REPORTING

Field Offices will be required to consolidate (i.e., "roll-up") all Site AART data as part of the Field Office reporting requirements.

LPSOs, Corporate Departments and Field Offices will be required to submit a quarterly reporting packet that includes:

- Transmittal Memorandum
- Quarterly Report
- Current Implementation plan
- Corrective Action Plan(s)
- AART Tool Suites for the reporting unit – **NOTE**: Field Offices MUST also submit all Site AART Tool Suites

Once submitted, both qualitative and quantitative quarterly reviews will be conducted by the A-123 Project Management Team (PMT) on the reporting packets and the PMT will provide timely feedback to the reporting entities.

OUT OF CYCLE REPORTING

PMT will provide specific guidance as needed.

YEAR END ASSURANCE REPORTING

All data captured in the AART Tool Suite is the foundation for developing the annual Secretarial assurance statement required by OMB A-123, Appendix A.

The Assurance functionality of the AART Tool Suite facilitates a methodological and disciplined approach, as documented in this guide, to ensure consistency across all DOE reporting elements and effective support of the Secretarial assurance statement.

Two separate year end reports will be required (i.e., preliminary and final).

Quarterly Reporting

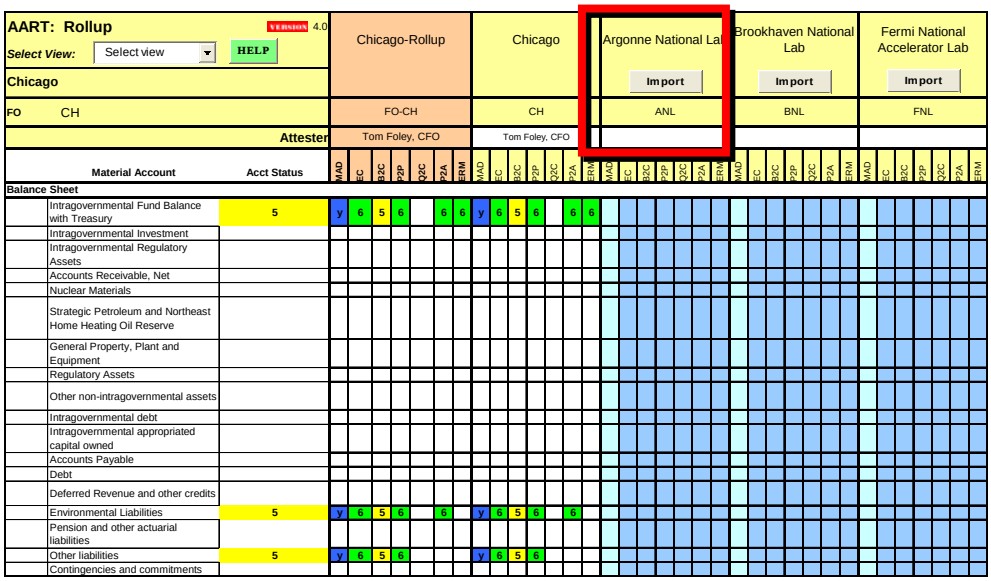
All Federal Field elements, as well as LPSOs and Corporate Departments, must report quarterly.

A. [FO Only] Consolidate Site data in the Rollup AART

1. Validate that the names of the Sites are current and complete on the Rollup AART tab.

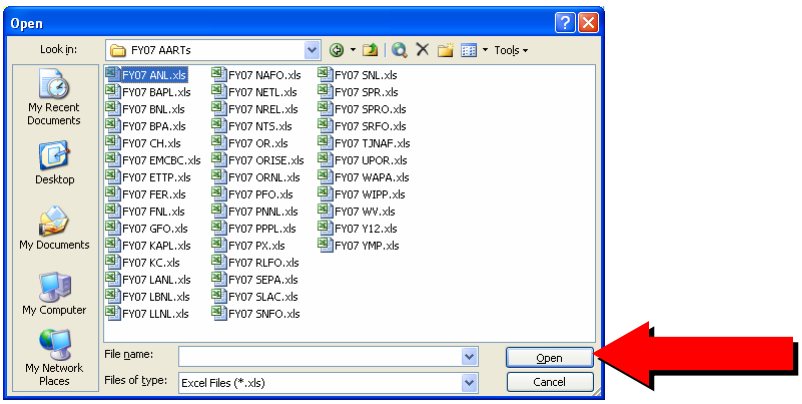
Rollup AART

2. Click the "Import" button to import the AART data for a specified Site.



Rollup AART

3. Select the respective Site AART file to be imported and click "Open".



4. Validate that the site data was appropriately imported for the selected location.

AART: Rollup VERSION 4.0

Select View: Select view HELP

Chicago

FO CH

			Chicago-Rollup							Chicago							Argonne National Lab (Import)							Brookhaven National Lab (Import)						
			FO-CH							CH							ANL							BNL						
		Attester	Tom Foley, CFO							Tom Foley, CFO							Michael Bartos, CFO													
	Material Account	**Acct Status**	MAD	EC	B2C	P2P	Q2C	P2A	ERM	MAD	EC	B2C	P2P	Q2C	P2A	ERM	MAD	EC	B2C	P2P	Q2C	P2A	ERM	MAD	EC	B2C	P2P	Q2C	P2A	ERM
Balance Sheet																														
	Intragovernmental Fund Balance with Treasury	5	y	6	5	6		6	6	y	6	5	6		6	6														
	Intragovernmental Investment																													
	Intragovernmental Regulatory Assets																													
	Accounts Receivable, Net																													
	Nuclear Materials	6	y	6		6											Y	6		6										
	Strategic Petroleum and Northeast Home Heating Oil Reserve																													
	General Property, Plant and Equipment	6	y	6	6												Y	6	6											
	Regulatory Assets																													
	Other non-intragovernmental assets																													
	Intragovernmental debt																													
	Intragovernmental appropriated capital owned																													
	Accounts Payable	6	y	6	6	6			6								Y	6	6	6			6							
	Debt																													
	Deferred Revenue and other credits																													
	Environmental Liabilities	5	y	6	5	6		6		y	6	5	6		6															
	Pension and other actuarial liabilities	6	y	6	6				6								Y	6	6				6							

The AART will automatically roll up the ratings from the various sites and show the aggregate impact on the Field Office Material Accounts in the Account Status column[1] Rollup AART tab.

5. Repeat for all Sites under your cognizance. This will consolidate the quarterly site AART data into the Rollup AART.

B. Prepare for Quarterly Reporting Submission

1. Review Local/Rollup AARTs for completeness and quality

   a. Validate proper incorporation of applicable Local AART data from the sites into the Rollup AART for completeness and correctness.

   b. Perform QA on the local AART for elements under your cognizance to ensure quality submission to PMT.

> The field element is accountable for the quality of all data submitted by the Sites under your cognizance.

i) Review progress metrics in the statistics tab[2] of the AART (% Completion, planned vs. actual progress, results, areas of remediation, assessment of deficient areas)

ii) Spot check of data

- Completeness and quality of Risk statements and control statement in the Control Sets
- Completeness and quality of test information capture in the AART.
- Incorporation and reasonableness of Rationale for ratings
- Recording of documentation location – to be used to calculate metrics on completion of Documenting phase.

2. Complete the Oversight tab in the Rollup AART.

   An oversight tab has been incorporated in the Rollup AART beginning in FY07. Cognizant Field Offices and LPSOs should review the questions stated in the tab and answer them based on their current status regarding addressing those issues. Where they cannot answer affirmatively, they should record a "NO" and remediate the issue. The oversight guide will provide more complete guidance on performing ongoing oversight activities.

3. Review and complete the Quarterly Report utilizing the standard Form and Content provided on the DOE A-123 website.

4. Update the Implementation Plan based on the standard form and content available on the DOE A-123 website.

C. Submit Quarterly Report

1. Develop your transmittal memorandum.

2. Compile your Quarterly Submission packet. It needs to include:

   a. Transmittal memo (signed by the head of the Departmental Element or delegated official. Any delegation must be documented and included as part of the submission packet)

   b. Completed Quarterly Report

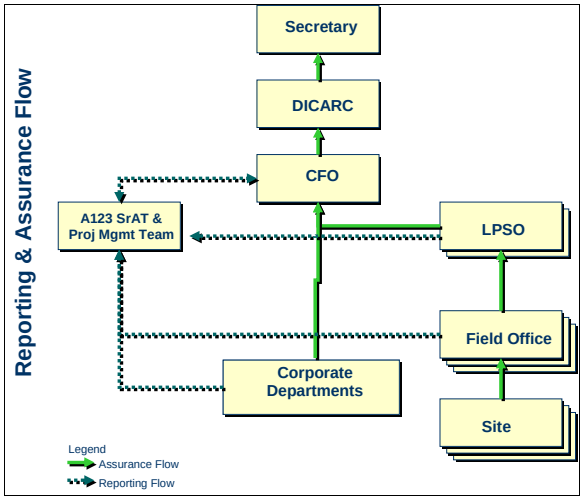
   c. Updated Implementation Plan (if changed significantly; indicate if an Implementation Plan is not being submitted)

   d. Corrective Action Plan(s)

   e. AART Tool Suite for the reporting unit

   f. [FO Only] All AARTs for the elements under your cognizance

3. Review the Reporting and Assurance Flow below and submit the Quarterly Submission packet as follows:



FIELD OFFICES

a. Send a copy to the Lead Program Secretarial Office (LPSO)

b. Send carbon copy to other Secretarial Offices that provide significant funding to the Site.

c. Send carbon copy to the Headquarters Office of the Chief Financial Officer / Office of Internal Review, and a copy to the A-123 PMT at ***A-123Helpdesk@hq.doe.gov***.

LPSO/CD

d. Send a copy to the Chief Financial Officer (CFO) with a carbon copy to the Headquarters Office of the Chief Financial Officer / Office of Internal Review.

e. Send a carbon copy to the A-123 PMT at ***A-123Helpdesk@hq.doe.gov***.

Reporting packages can be submitted exclusively via e-mail, with electronic versions of the packet acceptable in their native software formats (Word or Excel), except for the signed transmittal memo which must be in PDF format.

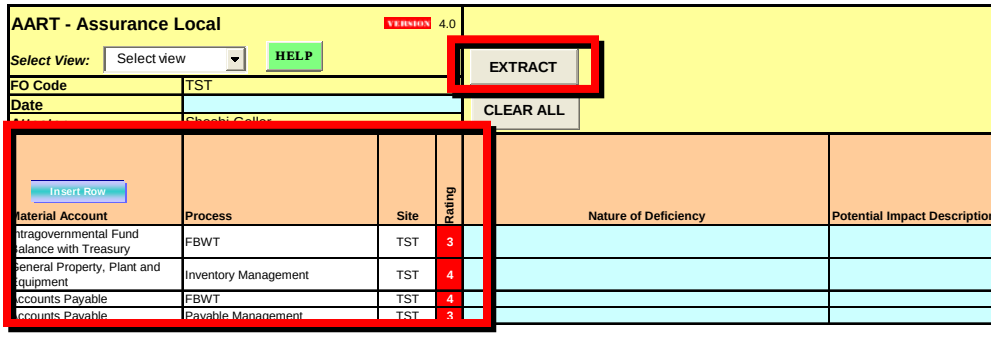
4. Refer to FY07 Annual Guidance for the reporting date deadlines.

YEAR END ASSURANCE REPORTING

D. Identify process deficiencies and impacts to the respective material accounts

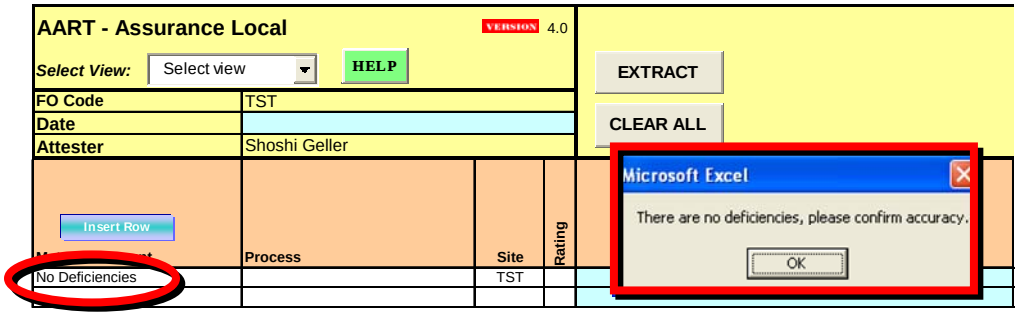
Assurance Local

1. Click on "EXTRACT" button on the Assurance Local tab. Data will automatically be populated with any process rated on the local AART with a rating of 3 or 4.



If there is data in the Assurance Local tab, click on the CLEAR ALL button prior to extracting the current assurance data to remove all values.

2. If there are no deficiencies found on the Local AART, a confirmation will appear. Click OK to close the box and the Assurance Local tool will be automatically populated with the phrase "No Deficiencies" and the Location Code.



3. If you have deficient processes they will automatically be populated in the Assurance Local tab of the AART. Review the list for completeness.

4. Assess the Nature of Deficiency**.** Consider the following:

   a. A brief description of the control(s) that are not working effectively.
   b. The key risk(s) that the control is designed to mitigate.
   c. Summary of test results that identified the deficiency (if applicable).
   d. Whether other key controls to offset the same risk were present and working effectively to mitigate the risk
   e. Whether there are any known instances where the control failures resulted in the risk actually occurring
   f. Whether there are any detective controls designed to identify problems after a risk may have occurred

Example:

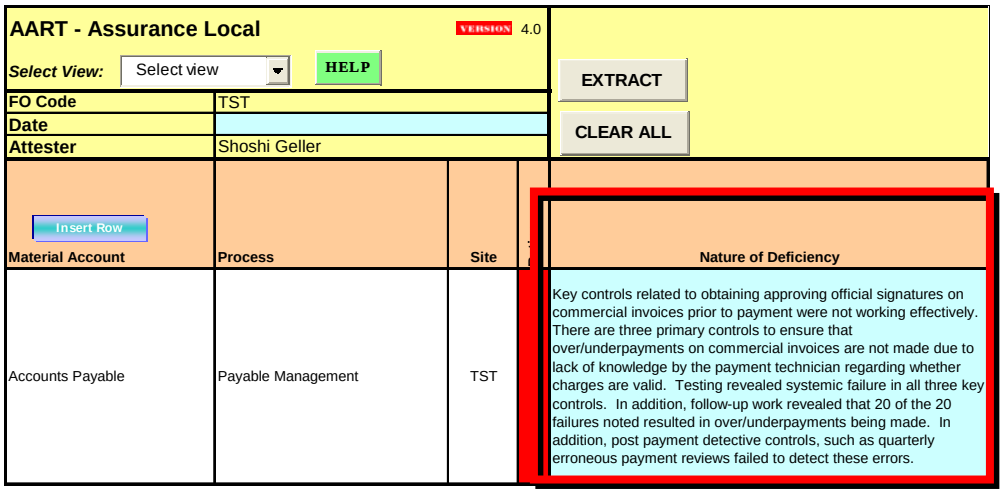
Material Account: Accounts Payable **Process:** Payable Management

Nature of Deficiency:

Key controls related to obtaining approving official signatures on commercial invoices prior to payment were not working effectively. There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors.

AART
Assurance Local

5. Use **Nature of Deficiency** column to provide a brief description of the nature of the deficiency. While brief, the narrative should be descriptive enough to provide the reader with a firm understanding of the problem. A more complete description should be included in the Detailed A-123 Documentation.



6. Assess the **Potential Impact** of the process deficiencies on the affected Material Account(s). Considerations may include:

   a. The nature of risk the control was designed to offset (e.g., a risk related to compliance with laws and regulations may not result in an actual impact on accounts)
   b. The results of testing (e.g., severity of test failures - did all or some controls to offset the risk fail, etc.)
   c. Whether the risk actually occurred as a result of the control failures (e.g., If one control over invoice approval failed, was the correct amount ultimately paid.)
   d. Results of additional testing (Note: Sites may opt to perform additional testing to get a better sense of how wide-spread the issue may be and how it might impact accounts.)
   e. The original likelihood and impact ratings at the risk and control set level
   f. Relative exposure (e.g., dollar amount and number of transaction affected by the control)
   g. Whether all transactions/dollars may be effected equally or have the same likelihood and impact of occurrence (e.g., would the nature of an invoice approval control failure indicate that federal invoices are impacted differently than commercial invoices?)
   h. Potential impact on the core financial reporting assertions (PERCV)
   i. Potential impact of any entity level control issues that may increase the impact of the deficiency
   j. Level of automation in the controls or lack thereof
   k. Existence of backup controls that were known to be working effectively, whether originally considered key controls or not
   l. Other criteria the site believes are important to its assessment

Example:

Material Account: Accounts Payable **Process:** Payable Management

Nature of Deficiency:

Key controls related to obtaining approving official signatures on commercial invoices prior to payment were not working effectively. There are three primary controls to ensure that over/underpayments on commercial are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that, 20 of the 20 failures noted resulted in over/underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors.

Potential Significant Impact

The control deficiency could potentially result in significant over/underpayments. Factors contributing to this determination include: the systemic failure of primary and backup controls; the number of actual over/under payments identified as a result of the failures during testing; the failure of post payment detective controls to identify the problem; the high inherent likelihood and impact for over/under payments; and other factors.

Potential Insignificant Impact

The control deficiency could potentially result in significant non-compliance with laws and regulations. However, occurrence of this risk has no direct impact on account balances. Factors contributing to this determination include: the nature of the risk the control was designed to offset; the results of testing, which identified systemic control failures and actual instances of failure to comply with regulations.

AART
Assurance Local

7. Record the Potential Impact summary and rationale for each Process by Material Account. While brief, the narrative should be descriptive enough to provide the reader with a firm understanding of the impact that could result from the control deficiency. A more complete description should be included in the Detailed A-123 Documentation.

AART - Assurance Local VERSION 4.0

Select View: Select view HELP

EXTRACT

CLEAR ALL

FO Code	TST
Date	
Attester	Shoshi Geller

Insert Row Material Account	Process	Site	Rating	Nature of Deficiency	Potential Impact Description
Accounts Payable	Payable Management	TST	3	Key controls related to obtaining approving official signatures on commercial invoices prior to payment were not working effectively. There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors.	The control deficiency could potentially result in significant over/underpayments. Factors contributing to this determination include: the systemic failure of primary and backup controls; the number of actual over/under payments identified as a result of the failures during testing; the failure of post payment detective controls to identify the problem; the high inherent likelihood and impact for over/under payments; and other factors.

AART
Assurance Local

8. Fill in Supporting Documentation and CAP Reference(s). These should include:
   a. Detailed documentation to provide more detail for the rationale
   b. Corrective Action Plan location
   c. CAP number(s)

AART - Assurance Local VERSION 4.0

Select View: Select view HELP

EXTRACT

CLEAR ALL

FO Code	TST
Date	
Attester	Shoshi Geller

Insert Row Material Account	Process	Site	Rating	Potential Impact Description	Supporting Documentation	CAP References
Accounts Payable	Payable Management	TST	3	The control deficiency could potentially result in significant over/underpayments. Factors contributing to this determination include: the systemic failure of primary and backup controls; the number of actual over/under payments identified as a result of the failures during testing; the failure of post payment detective controls to identify the problem; the high inherent likelihood and impact for over/under payments; and other factors.	Dean's office filing cabinet	CAP-TST-1, CAP-TST-2

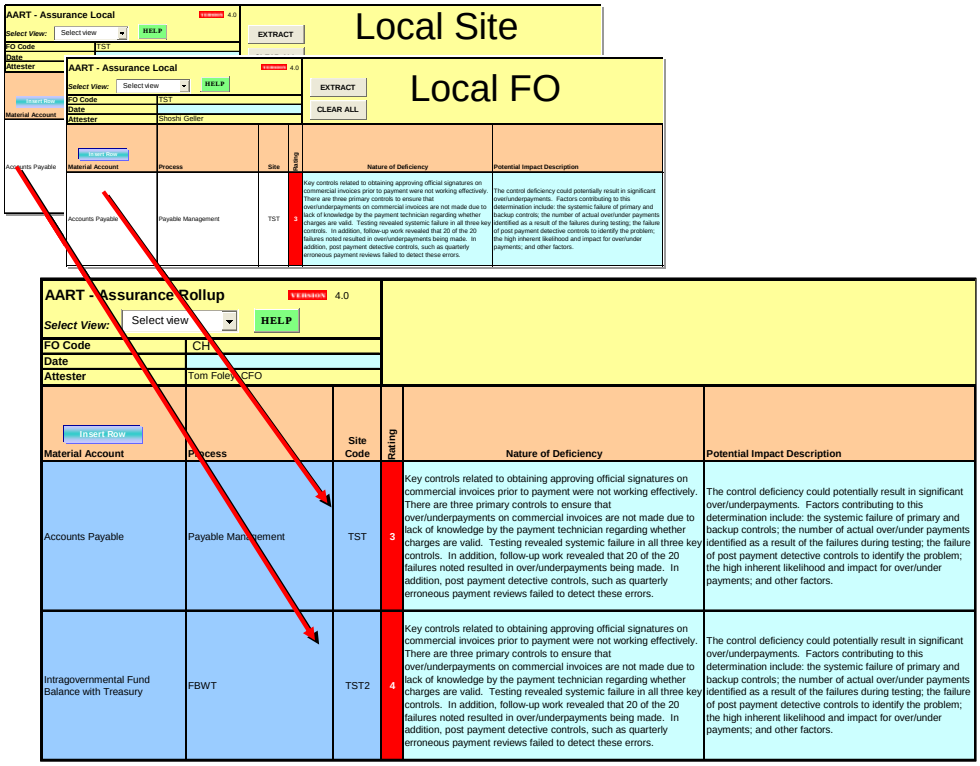
STOP

Documentation must be readily accessible and be made available upon request for validation purposes.

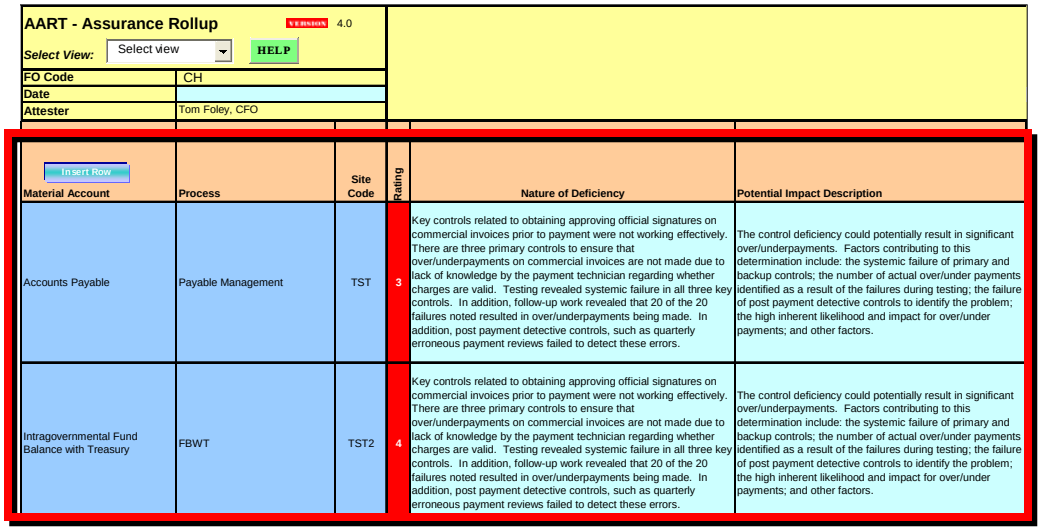
E. Aggregate Site data into the Field Office AART Tool Suite.

Assurance Rollup

1. Rollup the Site Assurance Data from the Assurance Local tabs for all sites under your cognizance. Copy and paste ("paste special"[3]) all Site data into the Assurance Rollup tab of the Field Office AART Tool Suite.



2. Review and analyze all data in the Assurance Rollup tab.



F. Assess materiality of process deficiencies.

1. Review the **Assurance Summary tab**. The "y" is automatically populated and indicates Material Accounts with Deficiencies that need to be evaluated and assessed.

Assurance Summary

2. Fill in **Total Account Balance** for each Material Account that is identified as having a deficiency.

AART - Assurance Summary VERSION 4.0

Select View: Select view HELP

FO Code	TST
Date	November 5, 2006
Attester	Shoshi Geller
	No. Mat Acct

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Material Weakness Threshold ('000)	Assurance Rating	Rationale
	Balance Sheet				
y	Intragovernmental Fund Balance with Treasury	$ 15,000	$ 150		
	Intragovernmental Investment				
	Intragovernmental Regulatory Assets				
	Accounts Receivable, Net				
	Nuclear Materials				
	Strategic Petroleum and Northeast Home Heating Oil Reserve				
y	General Property, Plant and Equipment	$ 50,000	$ 500		
	Regulatory Assets				
y	Other non-intragovernmental assets	$ 6,900	$ 69		
	Intragovernmental debt				
	Intragovernmental appropriated capital owned				
y	Accounts Payable	$ 10,000	$ 100		

3. Material **Weakness Threshold** is automatically calculated and is **1%** of the **Total Account Balance**.

AART - Assurance Summary VERSION 4.0

Select View: Select view HELP

FO Code	TST
Date	November 5, 2006
Attester	Shoshi Geller
	No. Mat Acct

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Material Weakness Threshold ('000)	Assurance Rating	Rationale
	Balance Sheet				
y	Intragovernmental Fund Balance with Treasury	$ 15,000	$ 150		
	Intragovernmental Investment				
	Intragovernmental Regulatory Assets				
	Accounts Receivable, Net				
	Nuclear Materials				
	Strategic Petroleum and Northeast Home Heating Oil Reserve				
y	General Property, Plant and Equipment	$ 50,000	$ 500		
	Regulatory Assets				
y	Other non-intragovernmental assets	$ 6,900	$ 69		
	Intragovernmental debt				
	Intragovernmental appropriated capital owned				
y	Accounts Payable	$ 10,000	$ 100		

4. **Determine** whether material weaknesses or reportable conditions exist:

   a. A **material weakness** has been identified that could materially impact the account (i.e., creates more than a remote likelihood that a material misstatement of financial statement accounts may not be prevented or detected.) For this exercise, material misstatement at the field office level will be defined as a potential misstatement in a specific account that exceeds 1% of the total account balance for the field element or that the decision maker otherwise believes would materially mislead a user of the affected report.

   b. A **reportable condition** has been identified that could significantly impact the account (i.e., creates more than a remote likelihood for a misstatement of financial statements and the misstatement may be of a more than inconsequential magnitude.)

   c. **Not significant** deficiencies are deficiencies that do not rise to a reportable condition or material weakness level.

   d. Specific criteria to consider when determining the rating include (but are not limited to):

      1. The nature of the deficiency.
      2. The nature of risk the control was designed to offset (e.g., a risk related to compliance with laws and regulations may not result in an actual impact on reports.).
      3. The results of testing (e.g., severity of test failures - did all or some controls to offset the risk fail, etc.).
      4. Whether the risk actually occurred as a result of the control failures (e.g., if one control over invoice approval failed, was the correct amount ultimately paid.).
      5. Results of additional testing (Note: Sites may opt to perform additional testing to get a better sense of how wide-spread the issue may be and how it might impact accounts.).
      6. The original likelihood and impact ratings at the risk and control level.
      7. Whether all transactions/dollars may be affected equally or have the same likelihood and impact of occurrence (e.g., would the nature of an invoice approval control failure indicate that federal invoices are impacted differently than commercial invoices?).
      8. Potential impact on the core financial reporting assertions (PERCV).
      9. Potential impact of any entity level control issues that may increase the impact of the deficiency.
      10. Level of automation in the controls or lack thereof.
      11. Existence of backup controls that were known to be working effectively, whether originally considered key controls or not.
      12. Other criteria the site believes are important to its assessment.

Example:

Material Account: Accounts Payable **Process:** Payable Management

Nature of Deficiency (Significant):

There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors. Payments are a high risk activity for the site and, it is our professional judgment that the severity and impact of the deficiencies creates more than a remote likelihood that a material misstatement may not be prevented or detected.

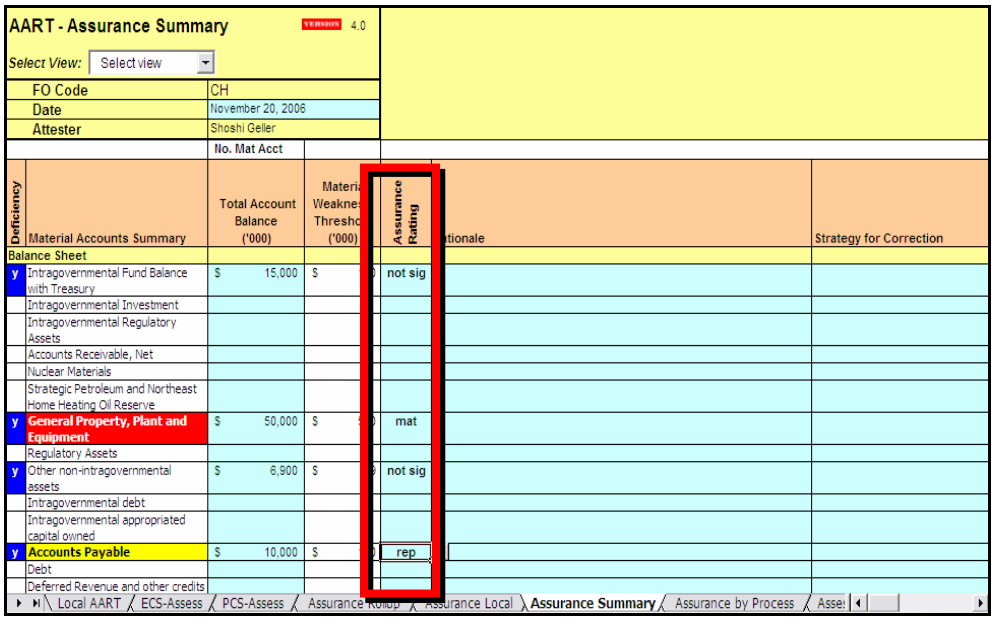
Nature of Deficiency (Insignificant):

There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in one of the key controls. However, follow-up work revealed that none of the failures noted during testing resulted in actual over/underpayments as the other key controls were effective backups to ensure the control objective was achieved. In addition, post payment detective controls, such as quarterly erroneous payment reviews have proven effective in detecting any errors that may occur. Based on the effectiveness of the control set taken as a whole, it is our professional judgment that there is not more than a remote likelihood that a material misstatement may not be prevented or detected.

AART

Assurance Summary

5. For all Material Accounts with identified deficiencies in the **Assurance Rating column** select, from the drop down box, material weakness, reportable condition, or not significant.



AART - Assurance Summary VERSION 4.0

Select View: Select view

FO Code	CH
Date	November 20, 2006
Attester	Shoshi Geller

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Materi Weakne Thresh ('000)	Assurance Rating	tionale	Strategy for Correction
		No. Mat Acct				
Balance Sheet						
y	Intragovernmental Fund Balance with Treasury	$ 15,000	$	not sig		
	Intragovernmental Investment					
	Intragovernmental Regulatory Assets					
	Accounts Receivable, Net					
	Nuclear Materials					
	Strategic Petroleum and Northeast Home Heating Oil Reserve					
y	General Property, Plant and Equipment	$ 50,000	$	mat		
	Regulatory Assets					
y	Other non-intragovernmental assets	$ 6,900	$	not sig		
	Intragovernmental debt					
	Intragovernmental appropriated capital owned					
y	Accounts Payable	$ 10,000	$	rep		
	Debt					
	Deferred Revenue and other credits					

Local AART / ECS-Assess / PCS-Assess / Assurance Rollup / Assurance Local / Assurance Summary / Assurance by Process / Asse

6. Record rationale for ***all*** accounts regardless of rating. While brief, the narrative should be descriptive enough to provide the reader with a firm understanding of the problem. This description might include (but is not limited to) the following:
   a. A summary of the nature of the deficiency (you may use language from the Local & Assurance Rollup Sheets to assist.).
   b. A summary of potential impacts (you may use language from the Local & Assurance Rollup Sheets to assist.).
   c. A summary statement on the key factors that drove the decision.
   d. A statement that there is or is not more than a remote likelihood that a material misstatement (affecting the noted account) may not be prevented or detected

AART - Assurance Summary VERSION 4.0

Select View: Select view HELP

FO Code	TST
Date	November 5, 2006
Attester	Shoshi Geller
	No. Mat Acct

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Material Weakness Threshold ('000)	Assurance Rating	Rationale
Balance Sheet					
y	Other non-intragovernmental assets	$ 6,900	$ 69	**not sig**	
	Intragovernmental debt				
	Intragovernmental appropriated capital owned				
y	**Accounts Payable**	$ 10,000	$ 100	**mat**	There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/ underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors. Payments are a high risk activity for the site and, it is our professional judgment that the severity and impact of the deficiencies creates more than a remote likelihood that a material misstatement may not be prevented or detected.

A-123 Detailed Documentation

7. Incorporate a complete discussion of the rationale and related **considerations** into the Detailed A-123 Documentation.

8. Develop a summary **Strategy for Correction** for each account with a material weakness or reportable condition based on the corrective action plans **identified** and in process at the local levels.

Example:

Material Account: Accounts Payable **Process:** Payable Management

Nature of Deficiency (Significant):

There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/ underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors. Payments are a high risk activity for the site and, it is our professional judgment that the severity and impact of the deficiencies creates more than a remote likelihood that a material misstatement may not be prevented or detected.

Nature of Deficiency (Insignificant):

There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in one of the key controls. However, follow-up work revealed that none of the failures noted during testing resulted in actual over/underpayments as the other key controls were effective backups to ensure the control objective was achieved. In addition, post payment detective controls, such as quarterly erroneous payment reviews have proven effective in detecting any errors that may occur. Based on the effectiveness of the control set taken as a whole, it is our professional judgment that there is not more than a remote likelihood that a material misstatement may not be prevented or detected.

Strategy for Correction:

Steps to correct the deficiency have already been taken. The key strategies for correction are to:

a) Do a 100% review of invoices for the last 12 months to identify any instances where the controls failed.
b) Recover/repay any over/under payments.
c) Perform monthly spot audits to ensure that controls are being implemented properly.
d) Retrain payment personnel and specifically link their performance ratings to adherence to control standards.
e) Revise quarterly erroneous payment review procedures to increase the likelihood of detecting such failures in the future

Assurance Summary

9. Record the **Strategy for Correction** summary for any material weakness or reportable condition ratings (not required for *not significant* items) into the Strategy for Correction column of the Assurance Summary tab.

AART - Assurance Summary Version 4.0

Select View: Select view HELP

FO Code	TST
Date	November 5, 2006
Attester	Shoshi Geller

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Material Weakness Threshold ('000)	Assurance Rating	Rationale	Strategy for Correction
	Balance Sheet					
	Other non-intragovernmental assets	$ 6,900	$ 69	not sig		
	Intragovernmental debt					
	Intragovernmental appropriated capital owned					
	Accounts Payable	$ 10,000	$ 100	mat	There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failu in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/ underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors. Payments are a high risk activity for the site and, it is our professional judgment that the severity and impact of the deficiencies creates more than a remote likelihood that a material misstatement may not be prevente or detected.	Steps to correct the deficiency have already been taken. The key strategies for correction are to: a) Do a 100% review of invoices for the last 12 months to identify any instances where the controls failed. b) Recover/repay any over/under payments. c) Perform monthly spot audits to ensure that controls are being implemented properly. d) Retrain payment personnel and specifically link their performance ratings to adherence to control standards. e) Revise quarterly erroneous payment review procedures to increase the likelihood of detecting such failures in the future

A-123 Detailed Documentation

10. Incorporate a complete discussion of the Strategy for Correction and related considerations into the Detailed A-123 Documentation.

Assurance Summary

11. Enter the location information of the Detailed A-123 Documentation in the **Supporting Documentation** field of the AART.

AART - Assurance Summary Version 4.0

Select View: Select view HELP

FO Code	TST
Da	November 5, 2006
Attester	Shoshi Geller

Deficiency	Material Accounts Summary	Total Account Balance ('000)	Material Weakness Threshold ('000)	Assurance Rating	Rationale	Strategy for Correction	Supporting Documentation
	Balance Sheet						
	Other non-intragovernmental assets	$ 6,900	$ 69	not sig			
	Intragovernmental debt						
	Intragovernmental appropriated capital owned						
	Accounts Payable	$ 10,000	$ 100	mat	There are three primary controls to ensure that over/underpayments on commercial invoices are not made due to lack of knowledge by the payment technician regarding whether charges are valid. Testing revealed systemic failure in all three key controls. In addition, follow-up work revealed that 20 of the 20 failures noted resulted in over/ underpayments being made. In addition, post payment detective controls, such as quarterly erroneous payment reviews failed to detect these errors. Payments are a high risk activity for the site and, it is our professional judgment that the severity and impact of the deficiencies creates more than a remote likelihood that a material misstatement may not be prevented or detected.	Steps to correct the deficiency have already been taken. The key strate for correction are to: a) Do a 100% review of invoices for the last 12 months to identify any instances where the controls failed. b) Recover/repay any over/under payments. c) Perform monthly spot audits to ensure that controls are being implemented properly. d) Retrain payment personnel and specifically link their performance rati to adherence to control standards. e) Revise quarterly erroneous payment review procedures to increase the likelihood of detecting such failures in the future	Dean's office filing cabinet

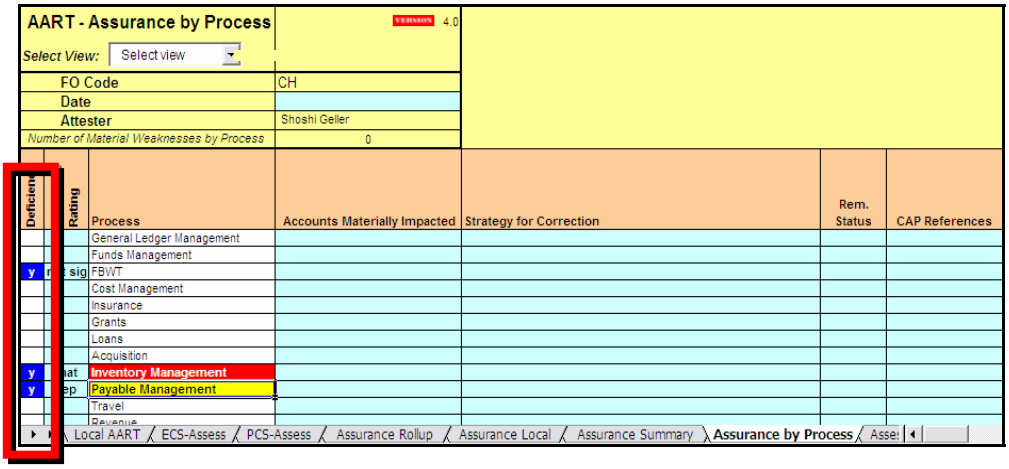
G. Update the Assurance by Process tab based on the information populated in the Assurance Summary tab.

AART

Assurance by Process

1. For all processes with deficiencies and identified by a "y", review the Assurance Summary tab and the Assurance Rollup tab to see if any deficiencies related to that process are the cause of a Material Weakness or Reportable Condition at the Account level.

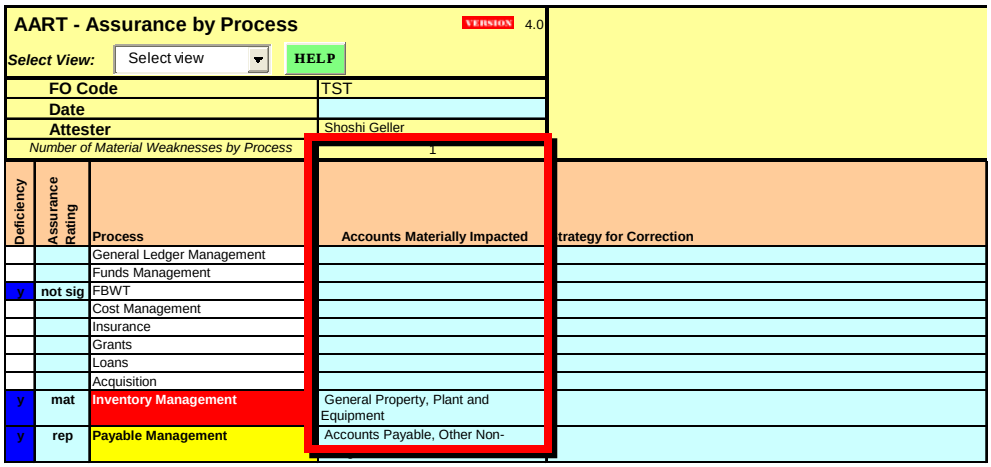
   Select the respective rating (i.e., material weakness, reportable condition, or not significant) from the drop down list to provide the **Assurance Rating**.



AART

Assurance by Process

2. Enter the Accounts that are materially impacted by the deficient processes (i.e., indicated as having material weaknesses or reportable conditions in the Assurance Rating column) into the **Accounts Materially Impacted** column.



Assurance by Process

3. Develop a summary **Strategy for Correction** for each process with a material weakness or reportable condition based on the corrective action plans identified and in process at the local levels.

AART - Assurance by Process VERSION 4.0

Select View: Select view HELP

FO Code	TST
Date	
Attester	Shoshi Geller
Number of Material Weaknesses by Process	1

Deficiency	Assurance Rating	Process	Accounts Materially Impacte	Strategy for Correction
		Acquisition		
y	mat	Inventory Management	General Property, Plant and Equipment	Steps to correct the deficiency have already been taken. The key strategies for correction are to: Do a 100% review of invoices for the last 12 months to identify any instances where the control failed. Recover/repay any over/under payments; Perform monthly spot audits to ensure that the controls are being implemented properly; Retrain paymen personnel and specifically link their performance ratings to adherence to control standards; Revise quarterly erroneous payment review procedure to increase the likelihood of detecting such failures in the future.

Assurance by Process

4. Fill in the **Remediation Status** and **CAP Reference(s)** column with appropriate status and reference information.

Z VERSION 4.0

Select View: Select view HELP

FO Code	TST
Date	
Attester	Shoshi Geller
Number of Material Weaknesses by Process	1

Deficiency	Assurance Rating	Process	Accounts Materially Impacted	Strategy for Correction	Rem. Status	CAP References
		Acquisition				
y	mat	Inventory Management	General Property, Plant and Equipment	Steps to correct the deficiency have already been taken. The key strategies for correction are to: Do a 100% review of invoices for the las 12 months to identify any instances where the control failed. Recover/repay any over/under payments; Perform monthly spot audits to ensure that the controls are being implemented properly; Retrain payme personnel and specifically link their performance ratings to adherence to control standards; Revise quarterly erroneous payment review procedure to increase the likelihood of detecting such failures in the future.	In Progress	CAP-TST-1

H. Year End Assurance Reporting

1. Complete the year end Assurance Report using the provided Assurance Report form and content, available on the DOE A-123 Website, and using the information compiled in the assurance tool.

2. Ensure completion of the Oversight tab in the Rollup AART.

   An oversight tab has been incorporated in the Rollup AART beginning in FY07. Cognizant Field Offices and LPSOs should review the questions stated in the tab and answer them based on their current status regarding addressing those issues. Where they cannot answer affirmatively, they should record a "NO" and remediate the issue. The oversight guide will provide more complete guidance on performing ongoing oversight activities.

3. Prepare the Assurance submission packet.

   a. Certified Transmittal memo (signed by the head of the Departmental element)
   b. Completed Assurance Statement (signed by the head of the Departmental element)
   c. Updated Implementation Plan (if changed significantly; indicate if an Implementation Plan is not being submitted)
   d. AART Tool Suite for the reporting unit (FO must include all Site AARTs)
   e. Corrective Action Plans for items in remediation

4. Submit the Assurance submission packet.

   FIELD OFFICE

   f. Send a copy to the Lead Program Secretarial Office (LPSO)
   g. Send carbon copy to other Secretarial Offices that provide significant funding to the Site.
   h. Send carbon copy to the Headquarters Office of the Chief Financial Officer / Office of Internal Review, and a copy to the A-123 PMT at ***A-123Helpdesk@hq.doe.gov***.

   LPSO/CD

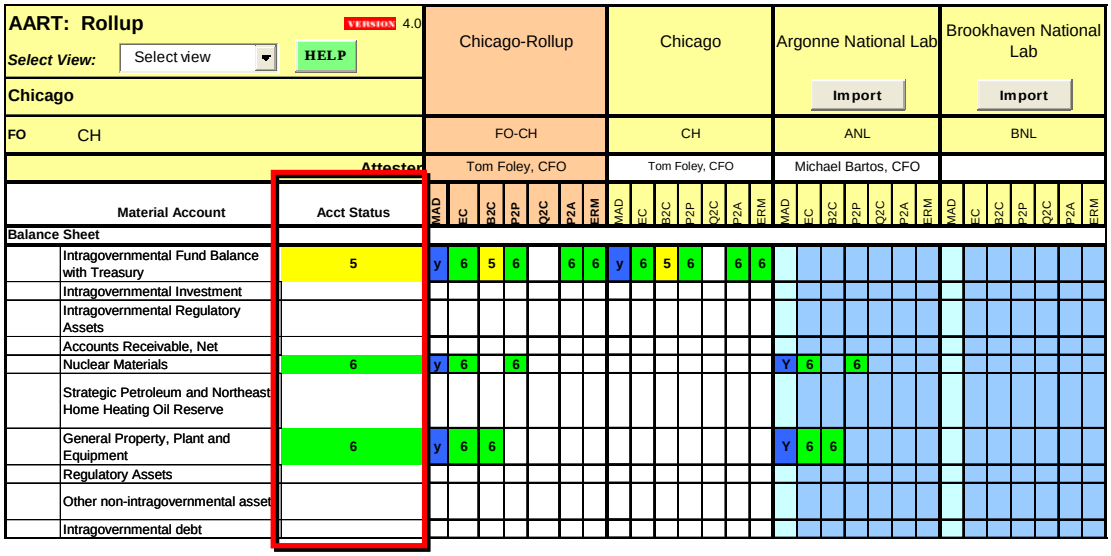
   i. Send a copy to the Chief Financial Officer (CFO) with a carbon copy to the Headquarters Office of the Chief Financial Officer / Office of Internal Review.
   j. Send a carbon copy to the A-123 PMT at ***A-123Helpdesk@hq.doe.gov***.

Reporting packages can be submitted exclusively via e-mail, with electronic versions of the packet acceptable in their native software formats (Word or Excel), except for the signed transmittal memo and the assurance statement which must be in PDF format.

5. Refer to FY07 Annual Guidance for required reporting dates.

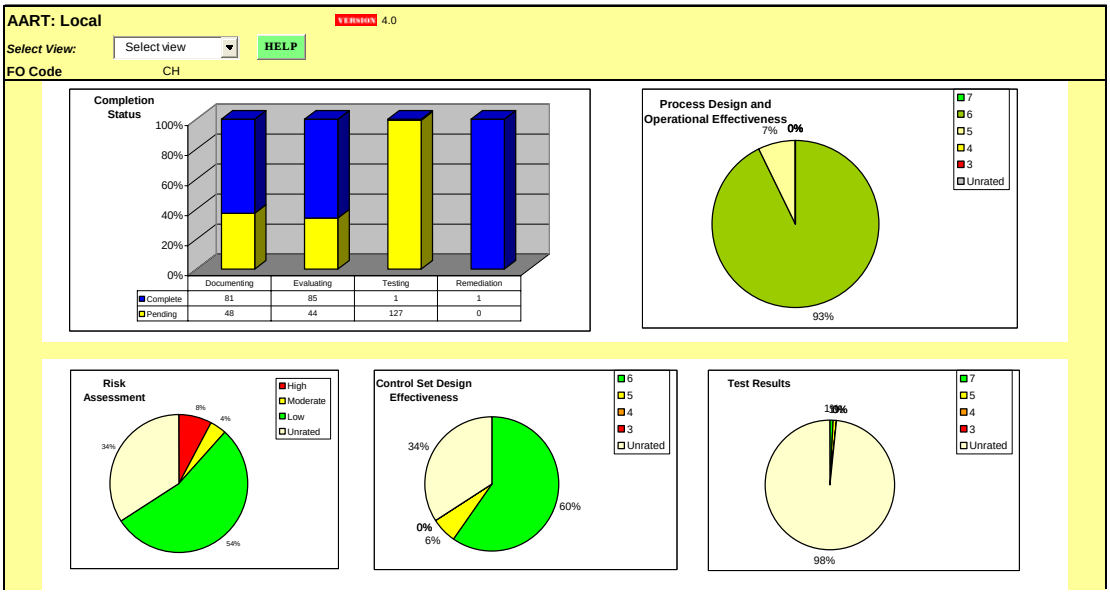
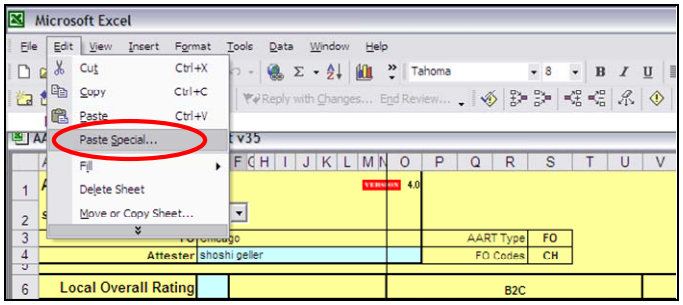
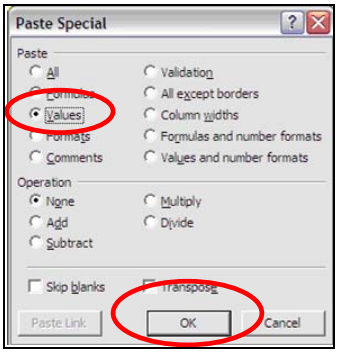
SUPPLEMENTARY INFORMATION AND DEFINITIONS

[1] The account status column of the Rollup AART provides the Field Office with the ability to quickly identify Material Accounts with process or entity control environment deficiencies across all elements under your cognizance.



The account status will display the lowest rating of the Material Account row. In the event that a Field Office Entity Control Environment is deemed deficient, that Overall EC rating will impact all accounts.

[2] The statistics tab includes charts displaying local progress and key metrics. Results are based on local data included in the AART (no "Rollup" data is included). An explanation of the charts is available below the charts on the statistics tab.



[3] PASTE SPECIAL: Go to Edit –> Paste Special and select the "Values" radio button. Click OK and ensure the column populates correctly.