

CFMA Meeting Denver CO August 2010

Status of OMB A-123 Implementation FY 2010

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History

Sept. – Jan 10	Labs following FMA three year cycle testing for areas to test
Jan 29	P. Martin(DOE) issues new guidance which changes the approach, defined focus area, required documentation
Feb – April	Labs requested P. Martin & DOE to change
May 10	Sr. Assessment Team (SrAT) issued attached revised guidance, Marty Conger is on the Team, Guidance gives relief from submitting excessive documentation, P. Martin is no longer running the program, entity level is submitted by labs to DOE
July 30	Preliminary results due in any format. Need to address requirement in revised guidance
Aug 9	M&O Assurance as part of FMFIA submission OMB A-123 should be include in Lab Contractor Assurance Systems (see Attached)

Path Forward

7/21/10	Dean Childs from SrAT will briefed on how NNSA is proceeding -Key decision for SrAT (see attached slide) <u>Concept:</u> 1) Standard Risk (risk catalog) 2) Site specific processes and controls 3) No more narrative and flow charts, more important for process owner to identify control for risk 4) Benefit- DOE can now compare labs
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Supplemental Guidance
Department of Energy FY 2010 OMB Circular A-123 Implementation

The following document provides supplemental guidance that supersedes and/or clarifies prior guidance provided for the Department of Energy's fiscal year (FY) 2010 OMB Circular A-123 internal controls assessment implementation.¹

I. Submission of Test Plans to the Headquarters Office of Risk Management

Effective immediately, neither Federal nor contractor sites are required to submit copies of all test plans to the Headquarters Office of Risk Management (ORM). As such, the timing of the preparation of test plans may be adjusted to accommodate the availability of local resources and other factors impacting the site's test strategy. Please note that this does not relieve the requirement for sites to prepare test plans for all activities in their scope and to complete testing (including recording results in the test plans) by the prescribed due dates.

This change is being made in light of additional controls added to require Field Chief Financial Officers (FCFO) to provide individual assurances as to the performance of compliant assessments at their sites and all contractor locations under their cognizance. Inherent in this requirement is for FCFOs to design and implement processes for ensuring the sufficiency of Federal and contractor test plans (Note: More detailed guidance on the CFO assurance and oversight requirements will be issued shortly). In addition, the ORM may elect to request samples of test plans at any time to accomplish its Federal oversight and Quality Assurance (QA) responsibilities.

II. Submission of Process Documentation to the Headquarters Office of Risk Management

Effective immediately, neither Federal nor contractor sites are required to submit copies of all process documentation to the ORM. As such, the timing of the preparation of documents may be adjusted to accommodate the availability of local resources and other factors impacting the site's documentation strategy. Please note that this does not relieve the requirement for sites to prepare process documentation for all activities in their scope.

This change is being made in light of additional controls added to require FCFOs to provide individual assurances as to the performance of compliant assessments at their sites and all contractor locations under their cognizance. Inherent in this requirement is for FCFOs to design and implement processes for ensuring the sufficiency of Federal and contractor process documentation (Note: More detailed guidance on the CFO assurance and oversight requirements will be issued shortly). In addition, the ORM may elect to request samples of process documentation at any time to accomplish its Federal oversight and QA responsibilities.

¹ This guidance does not apply to the NNSA FY 2010 A-123 process implementation.

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III. Identification of Controls

Process documentation and testing of controls should focus on “Key Controls.” Testing is only required for key controls; however, where practical, it is recommended that sites attempt to document all relevant controls to help identify any potential efficiency opportunities.

IV. Risk-based assessment cycle

The Department is currently adhering to a three year cycle for testing/re-testing control sets in accordance with OMB’s recommendations. Specifically, all “Key Controls” to mitigate High, Medium and Low inherent risks must be tested at a minimum every three years.

The three year cycle should be observed if the following apply:

- a) The SrAT or the Office of Risk Management has not identified specific test areas in the current year;
- b) There have been no significant organizational, process, control, system or other changes that would impact the controls and reliance on the prior testing;
- c) There has been no increase in the “Inherent Risk” level;
- d) The control/process is not in remediation;
- e) There are no known weaknesses in the control system; and
- f) There are no other reasons to believe the prior test results are no longer valid or that the control is not operating effectively.

If any of the above apply, the control should be tested in the current cycle. Also, keep in mind that “Inherent Risk” should be re-assessed on an on-going basis, but no less frequently than annually to support this requirement.

V. Reliance on Prior Year A-123 testing

Sites may rely on prior year A-123 testing results so long as the tests were performed within the cycles noted in Section IV above, criteria a through e of Section IV have been met, and testing was performed in accordance with current testing requirements.

VI. Period of Transactions Tested

While the “as of” date of assurance for the A-123 process is June 30, it is obviously impossible to perform all testing in the short 1 to 2 month period between June 30 and the date assurances are required. However, it is important that the period of transactions tested be sufficient to support the June 30 assurance. To meet this requirement, the following general guidance applies to the FY 2010 implementation:

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- 1) Tests should be designed to include transactions over a period sufficient to provide assurance that controls are working effectively not just as of June 30, but throughout the year as they impact the current fiscal year financial statement reporting.
- 2) Ideally, tests should include transactions from October 1 of the current fiscal year through the date of testing where possible.
- 3) Samples may be expanded to include transactions beginning July 1 of the prior assurance year, if necessary to obtain a viable, representative sample.
- 4) Date ranges for transactions should consider issues that may shorten the viable period for testing (e.g. dates new controls put in place; dates since processes/controls remediated; level of automation of controls; etc.).
- 5) If significant control or other changes take place between the date of testing and the date of assurance, sites should perform limited follow-up tests to confirm the continued reliance of results where feasible.

VII. June 1 Deliverable Requirements – Entity Controls

For the FY 2010 evaluation of Entity Controls, Sites are required to complete and submit one of the following by June 1, 2010:

- a) Complete the Entity Level Evaluation Sheets (Appendix D of the DOE FY 2010 A-123 Guidance) and submit to the Office of Risk Management.

OR

- b) Update the Entity Control information previously completed in the AART or FMA Tools and submit to the Office of Risk Management.

VIII. Documentation Required with the Year-end Assurance Memorandum

In addition to the annual assurance memorandum, the following documents are required to be submitted on the assurance date:

- a) Summary list of all processes, sub-processes, risks and key controls
- b) Risk assessment results for all risks (High, Medium and Low)
- c) Testing results to include: “last test date” and “pass/fail” results
- d) Corrective Action Plans for any issues determined to be “Reportable Conditions” or “Material Weaknesses.” Action plans for control deficiencies that do not meet the criteria for reportable condition or material weaknesses will be maintained and tracked locally.

Note: Additional and more specific guidance for year-end reporting requirements (e.g. required language, reporting process, levels of assurance, etc.) will be provided shortly.

CLAUSE H.3 – CONTRACTOR ASSURANCE SYSTEM

- (a) The Contractor shall develop a contractor assurance system that is executed by the Contractor's Board of Directors (or equivalent corporate oversight entity) and implemented throughout the Contractor's organization. This system provides reasonable assurance that the objectives of the contractor management systems are being accomplished and that the systems and controls will be effective and efficient. The contractor assurance system, at a minimum, shall include the following key attributes:
- (1) A comprehensive description of the assurance system with processes, key activities, and accountabilities clearly identified.
 - (2) A method for verifying/ensuring effective assurance system processes. Third party audits, peer reviews, independent assessments, and external certification (such as VPP and ISO 9001 or ISO 14001) may be used.
 - (3) Timely notification to the Contracting Officer of significant assurance system changes prior to the changes.
 - (4) Rigorous, risk-based, credible self-assessments, and feedback and improvement activities, including utilization of nationally recognized experts, and other independent reviews to assess and improve the Contractor's work process and to carry out independent risk and vulnerability studies.
 - (5) Identification and correction of negative performance/compliance trends before they become significant issues.
 - (6) Integration of the assurance system with other management systems including Integrated Safety Management.
 - (7) Metrics and targets to assess performance, including benchmarking of key functional areas with other DOE contractors, industry and research institutions. Assure development of metrics and targets that result in efficient and cost effective performance.
 - (8) Continuous feedback and performance improvement.
 - (9) An implementation plan (if needed) that considers and mitigates risks.
 - (10) Timely and appropriate communication to the Contracting Officer, including electronic access, of assurance related information.

The initial contractor assurance system description shall be approved by the Contracting Officer.

- (b) The Government may revise its level and/or mix of oversight of this contract when the Contracting Officer determines that the assurance system is or is not operating effectively.

Key Corporate Decisions

- **Scope of Approach**
 - Full financial management scope versus targeted assurance scope
- **Process Hierarchy**
 - Level of standardization (e.g. process, sub-process or risk)
 - Refinement of standards
- **Process Mapping/Documentation Requirements**
 - Local process mapping requirements versus corporate process documentation set
- **Documentation Requirements**
 - Rationale and detailed documentation requirements
 - Standardized approach to detailed documentation capture (e.g. Testing, CAPs, etc.)
- **Risk Approach/Cycles**
 - Cyclical versus Risk-based
- **Oversight Methods**
 - Methods
 - Systems
- **Tool Selection**
 - FMA, GRC or other