

Summary of Key A-123 Decisions From the Planning Phase



**U.S. Department of Energy
February 15, 2006**

SUMMARY OF KEY A-123 DECISIONS FROM THE PLANNING PHASE

This document provides a summary of key decisions made by the Department of Energy (DOE) Senior Assessment Team, A-123 Project Management Team (PMT) and the Office of Chief Financial Officer. Additional discussions of selected areas may be found in the Department's December 30, 2005, A-123 Implementation Plan Addendum (Attachment 1).

Scope of Financial Reports

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

- Consolidated Balance Sheets
- Consolidated Statements of Net Cost
- Consolidated Statements of Changes in Net Position
- Consolidated Statements of Financing
- Combined Statements of Budgetary Resources
- Statement of Custodial Assets

This decision was based on two key factors. First, the Department implemented a new Oracle-based accounting system in FY 2005 on the heels of an A-76 competition for accounting services. Transition issues surrounding implementation of the new system led to a disclaimer of opinion on the Department's FY 2005 financial statements. The SAT decided that the most critical financial reporting areas that could benefit from the rigors of an A-123 assessment were the principle financial statements. As such, the assessment work would not only satisfy the requirements of A-123, but also support the Department's efforts to regain an opinion on its statements. In addition, given the level of remediation required to address the financial control and reporting issues and the strain it places on resources that may otherwise be dedicated to A-123 assessments, the SAT decided that this scope represents a reasonable goal over the next two years.

For FY 2008, the SAT has established a goal to expand the scope, at a minimum, to include selected budgetary reports.

Materiality and Material Accounts

The SAT defined two materiality levels in accordance with Office of Management and Budget (OMB) Circular A-123 – Reporting Materiality and Planning Materiality.

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.

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.

The SAT set Reporting Materiality at 1% of Total Assets (\$1.193 billion, calculated as 1% x Total Assets of \$119.3 billion), consistent with the President's Council on Integrity and Efficiency Financial Audit Manual (FAM) approach. Planning Materiality was set at .75% of Total Assets (\$895 million, calculated as .75% of Total Assets of \$119.3 billion) based on discussions with the Department's financial statement auditors, the Inspector General and other agencies.

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).

Attachment 2 represents the Department's corporate Material Accounts Listing. Individual sites may add material accounts as necessary to reflect qualitative factors.

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.

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.

A 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.

A 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.).

The process cycles were developed based on Oracle best practices. The processes were developed based on analysis of Joint Financial Management Improvement Program manuals and the Council of Sponsoring Organizations (COSO) Internal Control Framework. All have been tailored to "fit" DOE operations. Attachment 3 lists the Department's 5 process cycles, 19 processes and 98 sample sub-processes. In addition, it provides definitions for the sample sub-processes. Currently, each site identifies its specific sub-processes based on local operating procedures, using the sample sub-processes as a guide for categorizing and grouping.

3-Year Implementation Approach

Based on the PMT assessment of site capabilities and the need to integrate A-123 activities with remediations required to address the Department's financial control and reporting issues, the Department has decided to pursue a 3-year implementation strategy. The table below provides a brief overview of the Department's strategy through FY 2008.

Department of Energy 3-Year A-123 Implementation Strategy		
FY 2006	FY 2007	FY 2008
<ul style="list-style-type: none"> • Complete documenting, evaluating and testing of high-risk sub-processes that relate directly to financial statement and Tiger Team¹ findings and recommendations at Financial Service Centers.² • Complete documenting, evaluating and testing of all high-risk sub-processes at non-Service Center sites. • Provide a qualified assurance on November 15, 2006, due to limited scope. 	<ul style="list-style-type: none"> • Complete documenting, evaluating and testing of remaining high-risk sub-processes at Financial Service Centers. • Complete documenting, evaluating and testing of medium and low-risk sub-processes at all sites, including Financial Service Centers. • Provide a complete assurance on November 15, 2007 (qualified or unqualified). 	<ul style="list-style-type: none"> • Complete a full A-123 assessment at all sites based on the cyclical, risk-based approach outlined in the CFO Council A-123 Implementation Guide. • Expand scope of financial reports to include selected budgetary reports (specific reports to be determined). • Provide a complete assurance on November 15, 2008 (qualified or unqualified).

Leveraging Other Internal Control Reviews

The Department has established "Quick Start Guides" that govern the implementation of A-123 across the DOE complex. Separate guides are maintained for each critical phase of A-123 including: Planning, Documenting, Evaluating, Testing and Reporting. The approach outlined in these guides stresses the thoughtful leveraging/coordination of other internal control reviews to avoid duplication of effort and ensure the most efficient use of resources. Some key internal control reviews that may be leveraged include:

- Federal Managers' Financial Integrity Act (FMFIA) – The management controls related to financial activities that would normally be reviewed as part of FMFIA are now being covered by A-123 Appendix A assessments. Because the A-123 assessments are more rigorous, sites may eliminate the requirement for a separate FMFIA assessment in areas covered by A-123. However, reference to that reliance and the results must be made in FMFIA reporting.
- Inspector General, Defense Contract Audit Agency, Government Accountability Office and other external reviews and audits – Sites may leverage testing results from existing reviews and audits to support A-123 testing requirements as long as the testing occurred

¹ The Department established a Tiger Team to identify and coordinate remediations necessary to resolve the financial control and reporting issues resulting from our FY 2005 financial statement audit.

² Applies to Financial Service Centers in Maryland, Tennessee and Albuquerque.

within 12 months of the assurance date and no significant system, process or control changes have taken place during the period since the testing was performed. Sites must still evaluate the adequacy of the testing, document the test approach and results and provide an independent interpretation of the results.

- Departmental Financial Statement Audits – The Department allows sites to use the results of financial statement audits to support the evaluation of control design effectiveness. If a control is deemed not effective by the auditors and the Department agrees, the site may consider the controls not effective and proceed to remediation. However, financial statement audit results may not be used to support the assertion that a control is designed effectively. The site must do their own evaluation to support this conclusion. This approach acknowledges the potential need to correct items identified by the auditors prior to evaluation and testing, while ensuring that only site assessments support positive results. This avoids any potential independence and accountability issues.
- Contractor Internal Audits – The Department’s Major Site and Facilities Management Contractors have internal audit groups that routinely perform management and internal control audits. Sites may leverage the results of these audits as long as the testing occurred within 12 months of the assurance date and no significant system, process or control changes have taken place during the period since the testing was performed. Sites must still evaluate the adequacy of the testing, document the test approach and results and provide an independent interpretation of the results.

In addition to leveraging specific internal control reviews, the Department established a Tiger Team to identify and coordinate remediations necessary to resolve the financial control and reporting issues resulting from our FY 2005 financial statement audit. The Tiger Team and the Department’s A-123 PMT are working together to integrate documenting, evaluating and testing activities to eliminate potential duplication of effort, ensure efficient utilization of resources and support both financial statement and A-123 goals.

Other Departmental Decisions

To capture other key decisions relating to A-123 implementation, the Department’s Chief Financial Officer issued Interim Guidance for OMB Circular A-123, *Management’s Responsibility for Internal Control* (Attachment 4). This document contains information on more detailed decisions related to roles and responsibilities, documentation standards, evaluating and testing and other relevant areas.

**Addendum to the Department of
Energy OMB Circular A-123
Appendix A Implementation Plan,
Dated August 31, 2005**



December 30, 2005

This addendum complements the Department's A-123 Implementation Plan submitted to the Office of Management and Budget (OMB) on August 31, 2005. Specifically, Section A of this document includes requested clarifications on: (1) Scope and materiality; (2) Strategy for major site and facilities management contractors; (3) Impact of the Department's Federal Managers' Financial Integrity Act (FMFIA) Significant Issue on the FY 2006 A-123 Program; and (4) Critical milestones for FY 2006 implementation. Section B provides supplemental information to address the A-123 scoring criteria for the President's Management Agenda.

SECTION A- SUPPLEMENT TO AUGUST 31, 2005 IMPLEMENTATION PLAN

1. SCOPE OF FINANCIAL REPORTS AND MATERIALITY DETERMINATIONS

Scope of Financial Reports

DOE plans to include the six principal consolidated financial statements in the scope of its initial A-123 assessment.

In accordance with OMB Circular A-123, the Senior Assessment Team (SAT) identified the following financial reports to be significant and, therefore, subject to the internal control assessment.

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.

Materiality

As defined in OMB Circular A-123, "Materiality for financial reporting is the risk of error or misstatement that could occur in a financial report that would impact management's or a user's decisions or conclusions based on such a report." Management must consider how an error would affect management or operations that

rely on the key financial reports within the assessment scope. An error that would materially affect the day-to-day decisions based on these key reports would be considered a material error. Materiality determination is a complex analysis that requires professional judgment and consideration of various quantitative and qualitative measures.

The following examples of qualitative factors will also be considered by the SAT when assessing the significance of an account: susceptibility to loss due to fraud; volume of activity; complexity; nature of the account; accounting and reporting complexities associated with the account; exposure to losses; existence of intragovernmental and intradepartmental transactions; changes in the account since previous reporting period; and viability and sensitivity of the program. In addition, the Department will consider the accounts and cycles identified by the independent financial statement auditor for FY 2006.

The Department will establish different material amounts, discussed below, to ensure appropriate determinations throughout the assessment process.

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.

Planning Materiality is used to determine significant accounts, elements or disclosures in a financial report. Planning materiality is generally a percentage of reporting or overall materiality.

Department of Energy Methodology

The Department has defined reporting materiality as 1% of total assets¹. Generally, management's planning materiality level would need to be lower than the reporting materiality. As such, the Department has adopted a threshold of 75% of the reporting materiality for determining its planning materiality and considers an account included in the Department's six consolidated financial statements to be material if the account balance is $\geq .75\%$ of Total Assets.

Material accounts have been identified and are available on the Department's A-123 website at: <http://www.cfo.doe.gov/progliaison/doeA123/index.htm>. Additionally, 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:

¹ Based on the President's Council on Integrity and Efficiency Financial Audit Manual (FAM) which defines audit materiality as: *Larger of Assets or Expenditures X 1% = FAM Materiality.*

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.

Compliance – Transactions are in compliance with applicable laws and regulations.

Safeguarding – All assets have been safeguarded against fraud and abuse.

Documentation – Documentation of internal control and all transactions and other significant events is ready for examination.

Key Process Cycles & Processes

To support the assessment of internal control over financial reporting, the Department has identified five process cycles based on ORACLE best practices. To support the five process cycles, nineteen related key processes have been identified. These key processes are based on Joint Financial Management Improvement Program manuals and the COSO Internal Control Framework and have been tailored to Departmental operations. These serve as standard cycles and processes to ensure consistent evaluation and reporting across the DOE complex. Sites will identify sub-processes, risks and controls to support each process as applicable. The process cycles and related key processes are listed below:

Procure to Pay (P2P): Acquisition; Inventory Management; Payable Management; and Travel.

Budget to Close (B2C): General Ledger Management; Funds Management; Funds Balance with Treasury; Cost Management; Insurance; Grants; and Loans.

Projects to Assets (P2A): Project Cost Management; Property Management; and Seized Property Management.

Quote to Cash (Q2C): Revenue Management; and Receivable Management.

Enterprise Resource Management (ERM): Human Resources; Payroll; and Benefits.

2. *STRATEGY FOR MAJOR SITE AND FACILITIES MANAGEMENT CONTRACTORS*

Requirements to comply with A-123 extend to major site and facilities management contractors (integrated and FAR-based, non-integrated contractors) to the extent that they maintain a material balance in key accounts of the Department. Contractors identified to be material, under the direction of their cognizant field site assessment team, will perform A-123 assessments that meet the standards established by the Department. However, maximum flexibility will be provided to cognizant site assessment teams and their contractors in determining how assessments will be conducted to ensure they are performed in the most effective, efficient and cost beneficial manner. Field CFOs will manage their contractors' assessment activities and will report on their implementation strategy and status, including the cost to implement the program, on a quarterly basis.

In addition, contractors identified as having accounts material to the Department who are directly covered by SAS 70 examinations performed at their parent company may leverage the results to support A-123 assessments; however, consideration must be given to whether a Type II (organization has had its control objectives and control activities examined by an independent accounting and auditing firm) SAS 70 report exists and if it is sufficient in scope. If a Type II SAS 70 report is unqualified and contains no testing exceptions then it should be deemed to be reliable with no further testing required in those areas covered by the Type II SAS 70 report. Please note that the Department will not encourage the conduct of SAS 70 examinations for the sole purpose of meeting the requirements of A-123.

3. *IMPACT OF FMFIA SIGNIFICANT ISSUE REMEDIATION ON THE FY 2006 A-123 PROGRAM*

The Department reported a significant issue in the area of financial control and reporting as a result of its FY 2005 FMFIA review. Similarly, the Department's auditors reported an "audit material weakness" related to the issue. These issues ultimately resulted in a disclaimer of opinion on the Department's FY 2005 Financial Statements. As a result of these conditions, the Department established a corporate Tiger Team to identify, prioritize and develop a plan for the corrective actions required to mitigate these issues. Many of the corrective actions are already under way and others will begin in the near future.

Due to the impact of the financial control and reporting challenges on the Department, the decision was made to focus resources on the highest risk activities. As such, FY 2006 A-123 activities at the Department's three accounting service centers (Energy Finance and Accounting, Oak Ridge and National Nuclear Security Administration), will focus on the remediation, documentation, evaluation and testing of key processes identified as having the greatest impact on the FY 2006 financial statement audit opinion. As time allows, additional areas will be included in the assessment at the service centers.

All other Departmental sites (including contractor locations) will implement complete A-123 assessment programs covering all material accounts in FY 2006.

4. CRITICAL MILESTONES – FY 2006*

Milestone	Target Date
FY 2006 Process	
Issue Initial DOE Implementation Plan to OMB	8/31/05 (Compl.)
Issue A-123 Interim Guidance	10/24/05 (Compl.)
Revised Material Accounts Listing Posted	11/18/05 (Compl.)
1 st Quarterly A-123 Report	1/15/06
Complete Planning Phase** - Identify Material Accounts - Develop Site Implementation Plans	1/15/06
Complete Documentation Phase - Identify Processes and Sub-processes - Identify Processes and Sub-processes for Initial Remediation - Document Processes, Sub-processes and Related Controls - Identify Risks and Related Controls	2/15/06
Summary of Key Financial Decisions from the Planning Phase to OMB	2/15/06
Complete Evaluation Phase - Perform Risk Assessment - Assess Control Design Effectiveness	3/15/06
Complete Test Plans	3/30/06
Summary of A-123 Test Plan or Status to OMB	4/3/06
2 nd Quarterly A-123 Report	4/15/06
3 rd Quarterly A-123 Report	7/15/06
Complete Testing Phase	9/1/06
Field Reporting/Assertions to LPSO / cc: CFO	9/15/06
HQ Program Reporting/Assertions to CFO	9/30/06
SAT Recommends to CFO the Level of Assurance and Issues to be Reported	10/6/06
CFO Makes Final Recommendation to DICARC	10/8/06
Secretarial Assurance Provided in Performance & Accountability Report	11/15/06

* The FY 2006 Critical Milestones reflect the Department's current internal implementation goals.

** See the attachment to this document for a depiction of the DOE process flow and a summary of program phases.

SECTION B – A-123 SCORING CRITERIA FOR THE PRESIDENT’S MANAGEMENT AGENDA

1. MANAGEMENT OVERSIGHT & ORGANIZATION

Implementation of A-123 Appendix A requirements at the Department is being overseen by the SAT composed of senior level management (See section B.2. for complete SAT structure). The SAT drives policy and guidance for A-123 implementation and corporate oversight of the Department’s program. The A-123 effort is championed by the CFO who provides focus on crosscutting financial activities and ensures Secretarial involvement and support. The Deputy Chief Financial Officer and the Chief Financial Officer are briefed routinely on the Department’s implementation strategy to ensure the senior management is engaged in all phases of the A-123 process. The SAT and the site A-123 assessment team leads meet regularly to ensure consistency in complex-wide implementation.

The SAT is fully engaged and, through its Project Management Team, has overseen the development of key products including: Interim implementation guidance; “Quick Start” implementation guides; automated A-123 assessment and reporting tools; and an A-123 website for corporate sharing of information.

2. SENIOR ASSESMENT TEAM (SAT) OR EQUIVALENT STRUCTURE

The Department’s SAT oversees corporate implementation of A-123. The SAT is comprised of the following members: Director, Office Internal Review, Office of the Chief Financial Officer (Chairperson); Associate Chief Information Officer for Operations, Office of Chief Information Officer; Director, Office of Financial Management, Office of the Chief Financial Officer; Director, Energy Finance and Accounting Service Center; National Nuclear Security Administration Field Chief Financial Officer/Director, Office of Field Financial Management; Chief Financial Officer, Oak Ridge Operations Office; Chief Financial Officer, Savannah River Operations Office; and Office of Inspector General staff. Participation by other senior managers includes representatives from the Department’s programs and Power Marketing Administrations. The SAT Chairperson reports to the Chief Financial Officer.

The SAT’s primary responsibilities are: fostering an operational environment to support an on-going awareness of internal controls; determining those financial reports and major accounts covered by the Department’s assessment; ensuring assessment objectives are clearly communicated throughout the Department; monitoring progress of all assessments being performed; assessing the adequacy of assertions/reports provided by Heads of Departmental Elements; recommending to the CFO the Secretarial assertion on the adequacy of internal control over financial reporting; and monitoring the progress of implementing corrective actions.

To oversee the day-to-day A-123 process and ensure targeted implementation strategies are deployed, the Department has also established a formal Project Management Team (PMT) under the cognizance of the CFO’s Office of Internal

Review. A senior A-123 Project Manager has been assigned who is responsible for overseeing implementation of A-123 activities throughout the DOE complex and leading the PMT. The team is also responsible for ensuring the appropriate skills mix is available to implement A-123, developing guides and tools to support consistent implementation, providing Department-wide training and overseeing corporate reporting and validation efforts.

3. ***COMMUNICATIONS STRATEGY & BRIEFINGS***

Communications with all levels of the organization (including senior management and accountable Federal and contractor staff tasked with implementation) occurs on a routine basis. Frequent meetings are held with the SAT, senior management, Field CFOs, site/program team leads and other personnel involved in A-123 implementation. These meetings focus on policy and implementation issues and ensure corporate buy-in and consistent implementation. In addition, the PMT has established an A-123 website to share Government-wide and DOE policy/guidance, implementation guides, assessment/reporting tools, reference materials and other pertinent information. To complement the website, the PMT also established an A-123 Hotline and an E-mail Helpdesk to address technical and policy questions. The Department further ensures open communication via A-123 communiqués and recurring A-123 training sessions.

4. ***TOP-DOWN APPROACH COMPONENT INTEGRATION***

The Department's A-123 implementation strategy employs a corporate top-down approach. This approach consists of planning and developing processes from an agency-wide perspective. It focuses on reviewing key agency-wide financial statements and identifying the material accounts and the related process cycles and processes for those accounts. The SAT and PMT deploy the A-123 program via Department-wide policy/guidance and corporate "Quick Start Guides" that provide structure and drive consistency from the top down. Site assessment team activities are monitored on an on-going basis to ensure compliance with corporate policy and guidance. The Department's communications strategy (B.2.) ensures that all components of the agency are well informed and engaged in program implementation.

5. ***RESOURCES IDENTIFIED CONTRACTOR VS IN-HOUSE***

The Department has chosen an implementation approach that leverages in-house expertise to the maximum extent practicable to ensure the most cost-effective A-123 program. A support service contractor has been acquired (on-board June 2005) to assist in developing and implementing the Department's program. The contractor brings with it corporate Sarbanes-Oxley experience, as well as Government financial management expertise, which has allowed DOE to structure a program that bridges the gap between public and private sector implementation. The firm will also be engaged to support corporate mapping of key processes. The Department will retain the services of a certified public accounting firm to facilitate independent assessment of the Department's program as necessary.

Due to the well scripted and structured implementation program developed by the SAT and the PMT, the day-to-day activities may be largely resourced through the use of in-house expertise found within the CFO communities. For example, each of the Department's integrated contractors has an internal audit group staffed with audit professionals that are well versed in internal control evaluation techniques. Similarly, Departmental Federal sites maintain internal review capabilities, including the same skills-mix for evaluating financial controls. In addition, the Department plans to leverage existing reviews/audits that meet the standards for A-123. Given the volume and scope of internal audits performed at the Department's contractor and Federal sites, we anticipate resource savings through these vehicles.

6. ***INTEGRATION WITH OTHER INTERNAL CONTROL EFFORTS***

The Department's A-123 program implementation is being closely aligned with other internal control efforts to avoid duplication of effort and leverage existing work to the extent practicable. For example, the A-123 PMT is working closely with the Tiger Team established to define a clear path forward in addressing the Department's financial control and reporting issues that led to a disclaimer of opinion on our FY 2005 financial statements. This coordination will allow for the identification of corporate issues that may be assessed/remediated one time for the complex versus independently at each DOE site. In addition, the Department's FMFIA Program is being adjusted to rely on the A-123 assessments in areas of commonality. Also, as mentioned in section B.5., the leveraging of existing review/audit work is a key component of the Department's program to ensure that on-going efforts are integrated into the A-123 program. The SAT and PMT will continue to look for additional opportunities to integrate other control efforts and drive program efficiencies.

7. ***SCOPE, MATERIALITY AND PROCESS IDENTIFICATION***

The Department has clearly defined the scope of reporting to be considered, materiality levels and key processes as detailed in section A.1. of this addendum. 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.

8. ***TEST PLAN***

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. To support the development and execution of test plans, the PMT has issued a detailed "Testing Quick Start Guide" that outlines the corporate process and has developed a corporate assessment tool that guides site teams through a systematic testing approach. The Department's current internal goal is to develop test plans by 3/30/06.

9. ***PROCESS REMEDIATION AND TRACKING***

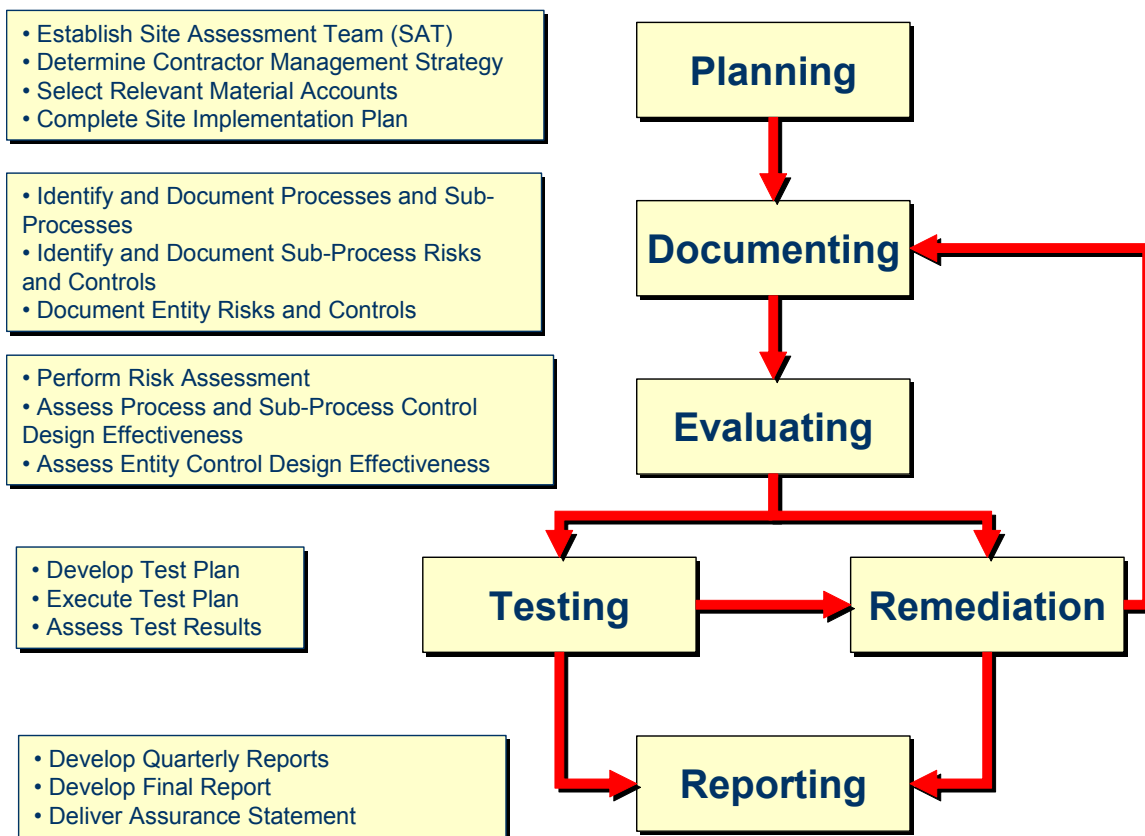
As part of the Department's process for implementing A-123, reporting tools have been developed that track processes and controls requiring remediation whether identified up front, during the evaluation phase or during final testing. Specific requirements for action plans and tracking are being incorporated into the Department's "Remediation Quick Start Guide." 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.

In addition, the Department established a corporate Tiger Team to identify and track corporate remediation activities required to address the financial control and reporting issues as identified in the FY 2005 Performance and Accountability Report. These issues are also being considered in the A-123 program to avoid duplication of effort.

10. ***TIMELINE***

Per the critical milestones identified in section A.4., the Department's current internal goal is to complete the required phases in-line with OMB's expectations.

Department of Energy FY 2006 A-123 Process Flow



Attachment 2
IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
AND RELATED KEY SITES

Internal control over financial reporting includes the Department's consolidated financial statements and other significant internal or external financial reports identified by management that could have a material effect on a significant spending, budgetary or other financial decisions or that are used to determine compliance with laws and regulations. As such, the Department must define the material accounts supporting these reports as the basis for the A-123 Assessment.

The President's Council on Integrity and Efficiency Financial Audit Manual (FAM) defines audit materiality as:

Larger of Assets or Expenditures X 1% = FAM Materiality

Generally, management's materiality level would need to be lower than the materiality level used for auditing purposes. As such, the Department has adopted a threshold of 75% of the FAM Materiality and considered an account included in the Department's six consolidated financial statements to be material if the account balance was $\geq .75\%$ of Total Assets. A similar methodology was applied to individual Field site and integrated contractor balances to identify the key sites (i.e. if an individual Field site balance for *Accounts Receivable* was $\geq .75\%$ of *Total Accounts Receivable* for the Department, that particular site would be identified as a "Key Site") and related material accounts. Please note, some Field sites have FAR-based non-integrated contractors that operate as major site and facilities management contractors. Because non-integrated contractors are not severable in the reports used to identify the key sites, site assessment teams should ensure that FAR-based non-integrated contractors under their cognizance are included in their assessments, as appropriate. Attachment 2 clarifies the process for identifying FAR-based non-integrated contractors that represent key sites and their related material accounts.

The listing in Attachment 1 identifies the accounts determined to be material to the FY 2006 Assessment of Internal Control over Financial Reporting and the related key sites. The determination of key sites was based on analysis of the Department's FY 2004 financial statements and supporting documentation; therefore, site assessment teams must ensure that the key sites accurately reflect site and/or integrated contracting changes that may have occurred subsequent to FY 2004.

A-123 Assessment and Reporting Tool (AART) Update Process

The material accounts that have been identified for a Field site and its integrated contractors and those identified by the cognizant Field site for their FAR-based non-integrated contractors will be used to populate the AART referenced in the *A-123 Quick Start Guides* to be used by the site assessment teams.

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FIELD SITES AND INTEGRATED CONTRACTORS**

Attachment 1

FINANCIAL STATEMENT	MATERIAL ACCOUNT	KEY SITES AND HEADQUARTERS PROGRAMS
BALANCE SHEET	Intragovernmental Fund Balance with Treasury	Sites: BPA; CH; National Energy Technology Laboratory; ID; NNSA-LANL; NNSA-LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA-AL Service Center; EMCBC; OR; OR- UT Battelle; PNR; RL; WAPA; SR; EFASC Headquarters Programs: EM; FE; NNSA; NE; SC; CF
BALANCE SHEET	Intragovernmental Investment	Site: EFASC Headquarters Program: CF
BALANCE SHEET	Intragovernmental Regulatory Assets	Site: BPA Headquarters Program: N/A
BALANCE SHEET	Accounts Receivable, Net	Sites: OR; WAPA; EFASC Headquarters Programs: SC; CF
BALANCE SHEET	Nuclear Materials	Sites: CH-University of CH, Argonne; NNSA-LANL; NNSA-AL Service Center; NNSA-BWXT Pantex; NNSA- Honeywell Federal Manufacturing & Technologies, LLC; NNSA-Lockheed Martin Sandia Corp; PNR-Bechtel Bettis, Inc.; SR-Westinghouse SR Company; Washington-Bechtel Jacobs Paducah; Washington-Bechtel Jacobs Portsmouth; EFASC Headquarters Programs: EM, SC, NNSA
BALANCE SHEET	Strategic Petroleum and Northeast Home Heating Oil Reserves	Site: SPRO Headquarters Program: FE
BALANCE SHEET	General Property, Plant and Equipment	Sites: BPA; CH-University of Chicago, Argonne; CH- Brookhaven Science Association; CH-Stanford University, SLAC; CH-UC,LBL; CH-Universities Research Association, Fermi Lab; NNSA-LANL; NNSA-LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA, AL Service Center; NNSA- Bechtel NV Corp.; NNSA-BWXT Pantex; NNSA-Honeywell; NNSA-BWXT Y-12 LLC; OR; OR-UT Battelle; PNR- Bechtel Bettis, Inc.; WAPA; SPRO; SR-Westinghouse SR Co.; SNR-KAPL; EFASC Headquarters Programs: EM; FE; NNSA; SC
BALANCE SHEET	Regulatory Assets	Sites: BPA; WAPA Headquarters Programs: N/A
BALANCE SHEET	Other Non-Intragovernmental Assets	Sites: BPA; CH-UC,LBL; NNSA-UC,LANL; NNSA-UC, LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA-BWXT Y-12 LLC; SPRO Headquarters Programs: FE; NNSA; SC
BALANCE SHEET	Intragovernmental Debt	Site: BPA Headquarters Program: N/A
BALANCE SHEET	Intragovernmental Appropriated Capital Owed	Sites: WAPA; SWPA Headquarters Programs: N/A

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FIELD SITES AND INTEGRATED CONTRACTORS**

Attachment 1

FINANCIAL STATEMENT	MATERIAL ACCOUNT	KEY SITES AND HEADQUARTERS PROGRAMS
BALANCE SHEET	Accounts Payable	Sites: BPA; CH-University of CH, Argonne; CH-Brookhaven Science Association; CH-UC, LBL; CH-Fermi Lab; National Energy Technology Laboratory; ID; ID-Bechtel B&W Idaho, LLC; NNSA-UC, LANL; NNSA-UC, LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA-AL, Service Center; NNSA-Bechtel SAIC Co., LLC; NNSA- Bechtel NV Corp.; NNSA-BWXT Pantex; NNSA-Honeywell; NNSA-BWXT Y-12 LLC; NREL Midwest Research; EMCBC; OR; OR-UT Battelle; OR-Bechtel Jacobs Co.; PNR-Bechtel Bettis, Inc.; RL; WAPA; SR; SR-Westinghouse SR Co.; SNR-KAPL; EFASC Programs: EE; EM; FE; NNSA; SC; BPA; WAPA;CF;NE
BALANCE SHEET	Debt	Site: BPA Headquarters Program: N/A
BALANCE SHEET	Deferred Revenue and Other Credits	Sites: BPA; NNSA-AL Service Center; EFASC Headquarters Programs: NNSA; CF
BALANCE SHEET	Environmental Liabilities	Sites: CH; ID-Bechtel B&W Idaho LLC; NNSA-UC, LLNL; NNSA-AL Service Center; EMCBC; OR; PNR Bechtel Bettis, Inc.; RL; SR; SNR-KAPL; EFASC Headquarters Programs: EM; LM; NE; NNSA; SC; CF
BALANCE SHEET	Pension and Other Actuarial Liabilities	Sites: CH-University of Chicago, Argonne; CH-Brookhaven; CH-Stanford University, SLAC; CH-UC, LBL; CH-Fermi Lab; ID-Bechtel B&W Idaho LLC; NNSA-UC, LANL; NNSA-UC, LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA-Bechtel NV Corp.; NNSA-Honeywell; NNSA-BWXT Y-12 LLC; EMCBC; OR-UT Battelle; OR-Bechtel Jacobs Co.; PNR-Bechtel Bettis, Inc.; RL; SR-Westinghouse SR Co.; SNR-KAPL; EFASC Headquarters Programs: EM; NNSA; NE; SC
BALANCE SHEET	Other Liabilities	Sites: BPA; CH; CH-UC,LBL; CH-Fermi Lab; National Energy Technology Laboratory; ID-Bechtel B&W Idaho LLC; NNSA-UC, LANL; NNSA-UC, LLNL; NNSA-Lockheed Martin Sandia Corp; NNSA-AL Service Center; NNSA-BWXT Y-12 LLC; OR-UT Battelle; SR-Westinghouse SR Co.; EFASC Headquarters Programs: EM; FE; NNSA; NE; SC; CF
BALANCE SHEET	Contingencies and Commitments	Site: EFASC Headquarters Program: CF
BALANCE SHEET	Unexpended Appropriations	Sites: CH; National Energy Technology Laboratory; ID; NNSA, AL Service Center; OR Financial Service Center; PNR; RL; SPRO; SR; EFASC Headquarters Programs: EM; FE; NNSA; NE; SC; CF
STATEMENT OF NET COSTS	Nuclear Weapon Stewardship Program Costs	Sites: NNSA-UC,LANL; NNSA-UC,LLNL;NNSA-AL Service Center; NNSA-Lockheed Martin Sandia Corp.;

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
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Attachment 1

FINANCIAL STATEMENT	MATERIAL ACCOUNT	KEY SITES AND HEADQUARTERS PROGRAMS
		NNSA-Bechtel NV Corp.; NNSA-BWXT Pantex LLC; NNSA-Honeywell; NNSA-BWXT Y-12 LLC; OR Financial Service Center; SR-Westinghouse SR Co.; SR-Westinghouse SR Co.; EFASC Headquarters Programs: EM; NNSA; CF; SC
STATEMENT OF NET COSTS	Nuclear Nonproliferation Program Costs	Sites: CH; CH-University of Chicago, Argonne; CH- Brookhaven; NNSA-UC, LANL; NNSA-UC, LLNL; NNSA- AL Service Center; NNSA-Lockheed Martin Sandia Corp.; NNSA-Bechtel NV Corp.; NNSA-BWXT Y-12 LLC; OR-UT Battelle; SR-Westinghouse SR Co.; EFASC Headquarters Programs: EM; NNSA; SC; CF
STATEMENT OF NET COSTS	Energy Security Program Costs	Sites: BPA; CH-University of CH, Argonne; National Energy Technology Laboratory; ID; ID-Bechtel B&W Idaho LLC; NNSA-UC, LANL; NNSA-AL Service Center; NNSA- Lockheed Martin, Sandia Corp.; NREL Midwest Research; OR-UT Battelle; WAPA; SEPA; SPRO-DynMcDermott; SWPA; EFASC Headquarters Programs: EE; EM; FE; NE; NNSA; SC; CF
STATEMENT OF NET COSTS	World-Class Scientific Research Capacity	Sites: CH; CH-University of CH, Argonne; CH-Brookhaven; CH- Stanford University SLAC; CH-UC,LBL; CH-Fermi Lab; CH-Princeton University, PPPL; NNSA-UC,LANL; NNSA-UC,LLNL; NNSA-Albuquerque Service Center; NNSA-Lockheed Martin Sandia Corp.; OR Financial Service Center; OR-UT Battelle; EFASC Headquarters Programs: EM; NNSA; SC; CF
STATEMENT OF NET COSTS	Environmental Management Program Costs	Sites: ID; ID-Bechtel B&W Idaho LLC; NNSA-UC, LANL; NNSA-UC LLNL; NNSA-AL Service Center; EMCBC; OH- West Valley Nuclear Services; OR Financial Service Center; OR-Bechtel Jacobs; RL; SR; SR-Westinghouse SR Co.; EFASC; Washington-Bechtel Jacobs, Paducah; Washington- Bechtel Jacobs, Portsmouth Headquarters Programs: EM; NE; NNSA; SC; CF
STATEMENT OF NET COSTS	Nuclear Waste Program Costs	Sites: NNSA-AL Service Center; NNSA-Bechtel SAIC Co. LLC; EFASC Headquarters Programs: NNSA; CF
STATEMENT OF NET COSTS	Other Programs – Reimbursable Programs	Sites: CH-University of CH, Argonne; CH-Brookhaven; CH- Stanford University, SLAC; CH-UC,LBL; ID; ID-Bechtel B&W Idaho LLC; NNSA-UC,LANL; NNSA-UC,LLNL; NNSA Albuquerque Service Center; NNSA-Lockheed Martin Sandia Corp; NNSA Bechtel NV Corp; NNSA-Honeywell; OR Financial Service Center; OR-UT Battelle; OR-OR Associated Universities; PNR; SNR; SNR-KAPL; EFASC Headquarters Programs: EM; NNSA; NE; SC; CF
STATEMENT OF CHANGES IN NET POSITION	Appropriations Used	Sites: CH; CH-University of CH, Argonne; CH-Brookhaven; CH-Stanford University, SLAC; CH-UC,LBL; ID; ID-

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FIELD SITES AND INTEGRATED CONTRACTORS**

Attachment 1

FINANCIAL STATEMENT	MATERIAL ACCOUNT	KEY SITES AND HEADQUARTERS PROGRAMS
		Bechtel B&W Idaho LLC; NNSA-UC, LANL; NNSA-UC, LLNL; NNSA-AL Service Center; NNSA-Lockheed Martin Sandia Corp.; NNSA-Bechtel SAIC Co. LLC; NNSA-Bechtel NV Corp; NNSA-BWXT Pantex LLC; NNSA-BWXT Y-12 LLC; NNSA-Honeywell; NREL Midwest Research; EMCBC; OR Financial Service Center; OR-UT Battelle; OR-Bechtel Jacobs; PNR-Bechtel Bettis, Inc.; RF; RL: SR; SR-Westinghouse SR Co.; SNR-KAPL; EFASC Headquarters Programs: EE; EM; NNSA; NE; SC; CF
STATEMENT OF CHANGES IN NET POSITION	Transfers In/Out, Without Reimbursement, Nonbudgetary	Sites: CH; NNSA--AL Service Center; NNSA-BWXT Pantex LLC; NNSA-BWXT Y-12 LLC; EMCBC; OR Financial Service Center; PNR; RL; SPRO; SR; SNR; EFASC Headquarters Programs: EM; FE; NNSA; SC; CF
STATEMENT OF CHANGES IN NET POSITION	Imputed Financing Costs Absorbed by Others	Site: EFASC Headquarters Program: CF
STATEMENT OF CHANGES IN NET POSITION	Unexpended Appropriations – Beginning Balance	Sites: CH; National Energy Technology Laboratory; ID; NNSA—AL Service Center; EMCBC; OR Financial Service Center; PNR; RL; SPRO; SR; EFASC Headquarters Programs: EM; FE; NE; NNSA; SC; CF
STATEMENT OF CHANGES IN NET POSITION	Appropriations Received	Sites: CH; National Energy Technology Laboratory; ID; NNSA—AL Service Center; EMCBC; OR Financial Service Center; PNR; RL; SPRO; SR; SNR; EFASC Headquarters Programs: EM; FE; NE; NNSA; SC; CF
STATEMENT OF CHANGES IN NET POSITION	Ending Balance—Unexpended Appropriations	Sites: CH; National Energy Technology Laboratory; ID; NNSA – AL Service Center; OR Financial Service Center; PNR; RL; SPRO; SR; EFASC Headquarters Programs: EM; FE; NE; NNSA; SC; CF
STATEMENT OF FINANCING	Budgetary Resources, Obligated, Obligations Incurred	Sites: BPA; CH; National Energy Technology Laboratory; ID; NNSA-AL Service Center; EMCBC; OR Financial Service Center; PNR; RL; WAPA; SR; SNR; EFASC Headquarters Programs: EM; FE; NE; NNSA; SC; CF
STATEMENT OF FINANCING	Less: Spending Authority from Offsetting Collections and Recoveries	Sites: BPA; CH; FERC; National Energy Technology Laboratory; ID; NNSA-Albuquerque Service Center; OR Financial Service Center; PNR; WAPA; SNR; EFASC Headquarters Programs: EM; FE; NE; NNSA; CH; CF
STATEMENT OF FINANCING	Obligations Net of Offsetting Collections and Recoveries	Sites: BPA; CH; National Energy Technology Laboratory; ID; NNSA-Albuquerque Service Center; EMCBC; OR Financial Service Center; PNR; RL; WAPA; SR; EFASC Headquarters Programs: EM; FE; NE; NNSA; SC; CF
STATEMENT OF FINANCING	Other Resources, Imputed Financing from Costs Absorbed by Others	Site: EFASC Headquarters Program: CF

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FIELD SITES AND INTEGRATED CONTRACTORS**

Attachment 1

FINANCIAL STATEMENT	MATERIAL ACCOUNT	KEY SITES AND HEADQUARTERS PROGRAMS
STATEMENT OF FINANCING	Nuclear Waste Fund, Offsetting Receipts, deferred	Sites: NNSA-AL Service Center; NNSA-Bechtel SAIC Co., LLC; EFASC Headquarters Programs: NNSA; CF
STATEMENT OF FINANCING	Components Not Requiring or Generating Resources: Depreciation and Amortization	Sites: BPA; CH-University of CH, Argonne; CH-Brookhaven; CH-UC,LBL; CH-Fermi Lab; National Energy Technology Laboratory; NNSA-UC,LANL; NNSA-UC,LLNL; NNSA-AL Service Center; NNSA-Lockheed Martin Sandia Corp; NNSA-Bechtel NV Corp; NNSA-BWXT Pantex LLC; NNSA-Honeywell; NNSA-BWXT Y-12 LLC; OR Financial Service Center; OR-UT Battelle; PNR Bechtel Bettis, Inc.; RL; WAPA; SPRO-DynMcDermott; SR-Westinghouse SR Co.; SNR KAPL; EFASC Headquarters Programs: EM; FE; NNSA; SC
STATEMENT OF BUDGETARY RESOURCES	Line items contained in the Statement of Budgetary Resources are summarized within line items identified to be material to the statements listed above. As such, relevant processes will be assessed through the evaluation of the accounts identified above. To avoid duplication of effort, no separate material accounts have been identified for this statement.	
STATEMENT OF CUSTODIAL ACTIVITIES	No material accounts identified.	

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FAR-BASED NON-INTEGRATED CONTRACTORS**

Attachment 2

In order to identify material accounts for FAR-based non-integrated contractors, cognizant site assessment teams must: (1) identify the portion of their site's material account balances that relate to their FAR-based non-integrated contractors¹, and (2) compare the non-integrated contractor balance to the amount listed in Column C. If the balance attributed to the FAR-based non-integrated contractor is greater than or equal to the amount listed, then that account is considered material for the contractor and that contractor represents a key site. This process employs the same methodology used to identify the material accounts for key Field sites and integrated (non-FAR based) contractors.

A	B	C
FINANCIAL STATEMENT	MATERIAL ACCOUNT	.75% OF THE CONSOLIDATED MATERIAL ACCOUNT BALANCE (IN MILLIONS)
BALANCE SHEET	Intragovernmental Fund Balance with Treasury	117
BALANCE SHEET	Intragovernmental Investment	154
BALANCE SHEET	Intragovernmental Regulatory Assets	35
BALANCE SHEET	Accounts Receivable, Net	30
BALANCE SHEET	Nuclear Materials	163
BALANCE SHEET	Strategic Petroleum and Northeast Home Heating Oil Reserves	136
BALANCE SHEET	General Property, Plant and Equipment	167
BALANCE SHEET	Regulatory Assets	43
BALANCE SHEET	Other Non-Intragovernmental Assets	40
BALANCE SHEET	Intragovernmental Debt	55
BALANCE SHEET	Intragovernmental Appropriated Capital Owned	23
BALANCE SHEET	Accounts Payable	25
BALANCE SHEET	Debt	49
BALANCE SHEET	Deferred Revenue and Other Credits	152
BALANCE SHEET	Environmental Liabilities	1,363
BALANCE SHEET	Pension and Other Actuarial Liabilities	79
BALANCE SHEET	Other Liabilities	33
BALANCE SHEET	Contingencies and Commitments	15
BALANCE SHEET	Unexpended Appropriations	66
STATEMENT OF NET COSTS	Nuclear Weapon Stewardship Program Costs	47
STATEMENT OF NET COSTS	Nuclear Nonproliferation Program Costs	8
STATEMENT OF NET COSTS	Energy Security Program Costs	48

¹ Based on FY 2004 end of year data.

**IDENTIFICATION OF FY 2006 MATERIAL ACCOUNTS
FOR FAR-BASED NON-INTEGRATED CONTRACTORS**

Attachment 2

A	B	C
FINANCIAL STATEMENT	MATERIAL ACCOUNT	.75% OF THE CONSOLIDATED MATERIAL ACCOUNT BALANCE (IN MILLIONS)
STATEMENT OF NET COSTS	World-Class Scientific Research Capacity	24
STATEMENT OF NET COSTS	Environmental Management Program Costs	47
STATEMENT OF NET COSTS	Nuclear Waste Program Costs	4
STATEMENT OF NET COSTS	Other Programs – Reimbursable Programs	21
STATEMENT OF CHANGES IN NET POSITION	Appropriations Used	173
STATEMENT OF CHANGES IN NET POSITION	Transfers In/Out, Without Reimbursement, Nonbudgetary	8
STATEMENT OF CHANGES IN NET POSITION	Imputed Financing Costs Absorbed by Others	8
STATEMENT OF CHANGES IN NET POSITION	Unexpended Appropriations – Beginning Balance	67
STATEMENT OF CHANGES IN NET POSITION	Appropriations Received	174
STATEMENT OF CHANGES IN NET POSITION	Ending Balance—Unexpended Appropriations	66
STATEMENT OF FINANCING	Budgetary Resources, Obligated, Obligations Incurred	244
STATEMENT OF FINANCING	Less: Spending Authority from Offsetting Collections and Recoveries	60
STATEMENT OF FINANCING	Obligations Net of Offsetting Collections and Recoveries	184
STATEMENT OF FINANCING	Other Resources, Imputed Financing from Costs Absorbed by Others	8
STATEMENT OF FINANCING	Nuclear Waste Fund, Offsetting Receipts, deferred	16
STATEMENT OF FINANCING	Components Not Requiring or Generating Resources: Depreciation and Amortization	12
STATEMENT OF CUSTODIAL ACTIVITIES	No material accounts identified.	

**JFMIP Process Cycles to Process to SubProcess Mapping
(General Guidance)**

Attachment 3

Cycle	Process	Sub Processes	JFMIP FFMRS Processes
B2C	General Ledger Mgmt	Account Definition	General Ledger Mgmt
		Transaction Definition	General Ledger Mgmt
		Upward/Downward Spending Adjustments	General Ledger Mgmt
		Analysis & Reconciliation	General Ledger Mgmt
		Period Maintenance & Closing	General Ledger Mgmt
	Funds Mgmt	Budget Planning	Funds Mgmt
		Budget Preparation	Funds Mgmt
		Budget Authority (ex Funds Allocation)	Funds Mgmt
		Funds Distribution	Funds Mgmt
		Funds Control	Funds Mgmt
		Funds Status	Funds Mgmt
	FBWT	Treasury Information Maintenance	Funds Balance With Treasury Mgmt
		Payment Confirmation	Funds Balance With Treasury Mgmt
		Reconciliation & Reporting	Funds Balance With Treasury Mgmt
	Cost Management	Cost Setup & Accumulation	Cost Mgmt
		Cost Distribution	Cost Mgmt
	Insurance	Pre-Event	Insurance
		Post-Event	Insurance
		Operations	Insurance
	Grants	Commitments	Grant
		Decommittments	Grant
		Obligations	Grant
		Payments	Grant
		Cost Accruals	Grant
		Interest Collections	Grant
		Closeout	Grant
	Loans	Lender Management	Guaranteed Loan
		Portfolio Management	Guaranteed Loan
		Guarantee Extension & Maintenance	Guaranteed Loan
		Delinquent Debt Collection	Guaranteed Loan
		Treasury Cross Servicing	Guaranteed Loan
		Loan Extension	Direct Loan
		Account Servicing	Direct Loan
		Treasury Cross Servicing	Direct Loan
		Portfolio Management	Direct Loan
		Delinquent Debt Collection	Direct Loan

**JFMIP Process Cycles to Process to SubProcess Mapping
(General Guidance)**

Attachment 3

P2P	Acquisition	Funds certification	Acquisition / Financial
		Obligation	Acquisition / Financial
		De-Obligation	Acquisition / Financial
		Payment	Acquisition / Financial
		Closeout	Acquisition / Financial
		MicroPurchase with Purchase Card	Acquisition / Financial
	Inventory Management	Acquisition	Inventory, Supplies, Materials
		Control	Inventory, Supplies, Materials
		Disposition	Inventory, Supplies, Materials
	Payable Management	Payee Information Maintenance	Payment Mgmt
		Invoicing	Payment Mgmt
		Accounts Payable	Payment Mgmt
		Disbursing	Payment Mgmt
		Payment Follow up	Payment Mgmt
	Travel	Authorization	Travel
		Advances	Travel
		Vouchers	Travel
		Local Travel	Travel
		Non-Federal Sponsored Travel	Travel
		Temporary/ Permanent Change of Station	Travel
Q2C	Revenue	Bill Generation	Revenue
		Transaction Validation	Revenue
		Collection	Revenue
		Deposit Account	Revenue
		Revenue Recognition	Revenue
		Revenue Estimation	Revenue
	Receivable Management	Customer Information Maintenance	Receivable Mgmt
		Receivable Establishment	Receivable Mgmt
		Debt Management	Receivable Mgmt
		Collections & Offset	Receivable Mgmt

**JFMIP Process Cycles to Process to SubProcess Mapping
(General Guidance)**

Attachment 3

P2A	Project Cost Management	Cost Setup & Accumulation	Cost Mgmt
		Cost Distribution	Cost Mgmt
	Property Management	Acquiring & Receiving	Property Mgmt
		Managing & Accounting	Property Mgmt
	Seized Property Management	Seizure	Seized Property and Forfeited Assets
		Custody	Seized Property and Forfeited Assets
		Forfeiture	Seized Property and Forfeited Assets
		Disposition	Seized Property and Forfeited Assets
ERM	Human Resources	Position Management & Classification	Human Resources & Payroll
		Recruitment & Staffing	Human Resources & Payroll
		Personnel Action Administration	Human Resources & Payroll
		Labor Management & Employee Relations	Human Resources & Payroll
		Work Force Development	Human Resources & Payroll
	Payroll	Time & Attendance Processing	Human Resources & Payroll
		Leave Processing	Human Resources & Payroll
		Pay Processing	Human Resources & Payroll
		Labor Cost & Distribution	Human Resources & Payroll
	Benefits	Benefits Administration	Human Resources & Payroll
		Claims Acceptance & Tracking	Benefit
		Claims Processing	Benefit
		Benefit Payment Administration	Benefit
		Recovery Receivable Management	Benefit

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
B2C	General Ledger Mgmt	Finance	General Ledger Mgmt	Account Definition	OMB Circular A-127, Financial Management Systems, requires implementation of the U.S. SGL at the transaction level. The U.S. SGL is defined in the latest supplement to the U.S. Department of the Treasury's TFM, which includes the chart of accounts, account descriptions and postings, accounting transactions, U.S. SGL attributes, and crosswalks to standard external reports. Each agency must implement a chart of accounts that is consistent with the U.S. SGL and meets the agency's information needs.
B2C	General Ledger Mgmt	Finance	General Ledger Mgmt	Transaction Definition	In addition to implementing the U.S. SGL at the transaction level, OMB Circular A-127 requires common processes to be used for processing similar kinds of transactions throughout an integrated financial management system. This ensures that all transactions are handled consistently, regardless of their point of origin. Consistency in processing transactions is accomplished by defining standard transactions for use in recording accounting events. Standard transactions must comply with U.S. SGL posting rules and include budgetary, proprietary, and memorandum accounts, as applicable.
B2C	General Ledger Mgmt	Finance	General Ledger Mgmt	Upward/Downward Spending Adjustments	Accounting for upward and downward spending adjustments requires a complex analysis of the types of adjustments made to prior-year spending documents. This process requires the system to recognize when an adjustment occurs and to determine what type of adjustment occurred. Based upon this analysis, the system must automatically create the appropriate adjustment entry to record the financial event.
B2C	General Ledger Mgmt	Finance	General Ledger Mgmt	Analysis & Reconciliation	The Core financial system must provide information to use in analyzing account balances and in reconciling account balances to information contained in reports and in subsidiary ledgers. With system integration, the likelihood of out-of-balance conditions existing between financial reports, subsidiary ledgers, and account balances should be minimal, but the possibility of such conditions do exist as a result of system failures and incorrect transaction definitions.
B2C	General Ledger Mgmt	Finance	General Ledger Mgmt	Period Maintenance & Closing	This process segregates accounting transactions into accounting periods and creates closing entries needed at the end of a period (month or year) for reporting purposes. It also controls and executes period-end system processes needed by the system to open a new reporting period, such as rolling forward account balances or reversing certain year-end entries. This process supports the preparation of consolidated financial statements by identifying information needed in that process.
B2C	Funds Mgmt	Finance	Funds Mgmt	Budget Planning	Budget planning is the process of establishing the initial agency budget plan. The budget plan is a blueprint for using financial resources during any given fiscal period or series of periods. The Budget Planning process includes updating the budget plan as necessary and reporting on the use of resources against these plans throughout the year.
B2C	Funds Mgmt	Finance	Funds Mgmt	Budget Preparation	Budget preparation is the process of assembling estimates for the upcoming fiscal year for transmittal to OMB and the congressional appropriations committees, preparing justification materials to support those estimates, and defending those estimates formally (at OMB and congressional hearings) and informally (through staff contacts with these entities).
B2C	Funds Mgmt	Finance	Funds Mgmt	Budget Authority (ex Funds Allocation)	Establishing budget authority, formerly referred to as Funds Allocation, is the beginning of the budget execution process. This process records an agency's budgetary resources and supports the establishment of legal budgetary limitations within the agency, including appropriation warrants, apportionments, reappropriations, transfer allocations, and continuing resolutions. It also supports the establishment of funding to agencies that are not subject to apportionment.
B2C	Funds Mgmt	Finance	Funds Mgmt	Funds Distribution	Funds distribution is the part of budget execution cycle where legally apportioned resources are distributed within the agency to support missions, programs, and other objectives. The process establishes multiple levels of budgetary control by allotting and sub-allotting apportioned resources for agency management purposes.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
B2C	Funds Mgmt	Finance	Funds Mgmt	Funds Control	Funds control prevents the expenditure of funds in excess of established budgetary limitations as established through the Funds Distribution process. Core financial systems must be designed to apply effective funds control at the point spending documents are entered. The Funds Control process consists of the following document processing related activities: -Funds Availability -Commitments -Obligations -Advances
B2C	Funds Mgmt	Finance	Funds Mgmt	Funds Status	The Funds Status process fulfils A-11 requirements for reporting budget execution information, including the submission of SF 133, Report on Budget Execution and Budgetary Resources, as well as other special schedules on the status of funds, such as the MAX budget system used to collect, process, and analyze budget information. This process provides budgetary information to enable agency personnel to analyze, monitor, and adjust funding for programs throughout the fiscal year. It also supports the need to compare data between the Funds Management function and other functions to ensure consistency.
B2C	FBWT	Finance	Funds Balance With Treasury Mgmt	Treasury Information Maintenance	Most Federal agencies process large volumes of transactions that impact their FBWT. To facilitate automatic reconciliations with Treasury, an agency must classify cash transactions with Treasury defined codes. The Treasury Information Maintenance process ensures that the classification structures and valid data element relationships are in place for an agency's system to use to classify and identify transactions that impact the FBWT.
B2C	FBWT	Finance	Funds Balance With Treasury Mgmt	Payment Confirmation	Agencies that disburse payments through Treasury provide the details of requested payments (e.g., vendor name, amount of payment, payment date) on a payment schedule. The payment schedule may contain hundreds of individual payments that an agency is requesting be made. Upon accomplishing the payments, Treasury will notify the agency. The agency must update its general ledger with the proper accounting entry to record the disbursement of funds and to capture information about individual payments that may be critical in reconciling the FBWT or answering vendor's questions concerning payments made. Because of the high volume of payments that most Federal agencies make, the Payment Confirmation process must ensure that an automated process is in place to update confirmation information.
B2C	FBWT	Finance	Funds Balance With Treasury Mgmt	Reconciliation & Reporting	Reconciling the FBWT is a complex and multistep process that involves an exchange of information between an agency and the Treasury. Agencies provide Treasury with the proper classification (e.g., Treasury Account Symbol) information for its receipt and disbursement activity. Treasury provides agencies with detailed support listings of receipt and disbursement activity that agencies must compare to the detailed transactions posted in their general ledger. The Reconciliation and Reporting process facilitates the comparison of transactions at this detailed level.
Q2C	Receivable Management	Finance	Receivable Mgmt	Customer Information Maintenance	The word "customer" is used here to include any entity that owes a debt to the agency, including contractors, employees, grantees, loan recipients, and other government agencies. Agency payees or vendors may become customers of the agency, in the event that duplicate or overpayments occur. The Customer Information Maintenance process involves the maintenance of customer information (name, address, etc.), identification of the type of customer from which collection is due, and the recording of trading partner codes used in the elimination of intra-governmental activity from financial statements, as well as other critical information related to the customer that is needed for receivable processing, maintenance, and collection. The process ensures that customer TINs are captured in order to report overdue receivables for potential offset and to provide for IRS Form 1099 reporting of debts written off. The Customer Information Maintenance process supports billing, reporting, and research activities through the association of customer information with individual accounts receivable.
Q2C	Receivable Management	Finance	Receivable Mgmt	Receivable Establishment	The Receivable Establishment process supports activities to record receivables in the system as they are recognized and to produce bills for amounts due to the agency.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
Q2C	Receivable Management	Finance	Receivable Mgmt	Debt Management	The Debt Management process involves the maintenance of account information on individual accounts receivable. The process supports activities to age receivables, calculate interest and record penalties and administrative charges on overdue debt, pursue collection of amounts due, liquidate receivables, record adjustments to receivables, maintain a proper allowance for uncollectible amounts, and record write-offs.
Q2C	Receivable Management	Finance	Receivable Mgmt	Collections & Offset	The Collections and Offsets process supports activities to record the receipt of funds either by currency (e.g., cash, EFT) or check and the deposit of such funds in accordance with Treasury and agency regulations. The process also provides for the receipt of payment offset information from Treasury and its application to the appropriate accounts receivable.
P2P	Payable Management	Finance	Payment Mgmt	Payee Information Maintenance	The term "payee" is used here to include any entity to which disbursements may be made, for example, individuals and organizations providing goods and services, employees, grant recipients, loan recipients, and other government agencies. In an integrated system, payee information needed to make payments should be coordinated with information needed for other purposes and in other systems. For example, a company that provides goods and services to an agency should have a common identifier, such as a TIN, associated with it that is shared by the procurement and payment processes. With this common identifier, contract information and payment information can be linked, even if the addresses for ordering and paying are different. Furthermore, such information should also be available to the procurement and payment processes. Subpart 4.11 of the FAR prescribes policies and procedures for requiring contractor registration in the CCR database, the common source of vendor data for the Federal Government. Both current and potential government vendors are required to register in CCR in order to be awarded contracts by the government. The C
P2P	Payable Management	Finance	Payment Mgmt	Accounts Payable	This process recognizes and records accounts payable due to another entity in the near term. These payables may be due for any of several reasons, for example, as a result of receiving goods and services in accordance with contract terms, under a loan or grant agreement, as an advance payment for goods or services to be provided in the future, or as a progress payment under a construction contract.
P2P	Payable Management	Finance	Payment Mgmt	Invoicing	The Invoicing process supports the recording of invoices received from vendors and the matching of these documents to related obligation, receipt, and acceptance documents. The matching process ensures that payments are made in accordance with contract terms and applicable regulations, including 5 CFR 1315. Once matched and approved, invoices are warehoused in the Core financial system and await payment scheduling that occurs when their payment due dates are reached. Adequate internal controls must be in place to verify that goods and services paid for were actually ordered, received, and accepted; that proper due dates and payment amounts are computed; and that duplicate payments are prevented.
P2P	Payable Management	Finance	Payment Mgmt	Disbursing	This process supports activities required to make payments that were warehoused or to record payments made by other systems. The Core financial system must provide the capability to prepare requests for disbursement (payment schedules) and to create and transmit payment files in the formats required by Treasury for the initiation of EFTs and check payments for agencies for which Treasury does the actual disbursing. Some agencies have delegated disbursing authority and can print checks or initiate electronic transfers themselves. Agencies with delegated disbursing authority must comply with the requirements contained in I TFM Part 4 and all applicable requirements in this function.
P2P	Payable Management	Finance	Payment Mgmt	Payment Follow up	This process allows for agency follow-up on payments pending and accomplished. Core financial systems must capture the information needed to track invoices through various stages of processing, to respond to vendor inquiries, and to report payment activity to external entities such as the IRS.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
B2C	Cost Management	Finance	Cost Mgmt	Cost Setup & Accumulation	The Cost Setup and Accumulation process identifies and tracks cost data associated with the specific cost objects required by management. This process provides for the establishment of identifiers for the desired cost objects in the processes, systems, and applications that make up the accounting system and for the subsequent collection of cost data. An agency's financial management system must allow the establishment of cost object identifiers consistent with the stated needs of its financial and operational managers. Ideally, the financial system will allow this to be done in a straightforward manner, without undue complexity. The Cost Setup and Accumulation process provides the data needed for accountability over the financial execution of public programs, meaningful comparisons to measure compliance with management policies, evaluation of the efficiency and economy of resources used in the various activities, and support for fees, services, or products. It also provides a basis for linking operational results to the budget and performance measures.
B2C	Cost Management	Finance	Cost Mgmt	Cost Distribution	The managerial cost accounting concepts and standards contained in SFFAS 4 are aimed at providing reliable and timely information on the full cost of programs, their activities, and outputs. The information is used by stakeholders, executives, and managers when making decisions about allocating resources, authorizing and modifying programs, and evaluating program performance. Program managers also use the cost information for making managerial decisions to improve operating efficiency. Ultimately, the effectiveness of a cost management program depends on the way managers use the cost information asked for and reported to them.
B2C	Cost Management	Finance	Cost Mgmt	Cost Reporting	Core financial systems must provide automated functionality to do the following: (1) Comparative Income Statement by Cost Objective - parameters include cost object and accounting periods (month and year). Result is a report that compares month and year-to-date activity to prior month and prior year-to-date activity, by cost object. The report must list the following data: Revenue, Direct Expenses, Indirect Expenses (overhead), Total Expenses, Net Revenue/Cost; (2) Cost Object Income Statement - parameters include any cost object and accounting period. Result is a report with revenue, direct cost, and indirect cost (overhead) by cost object; (3) Cost Objective Audit Trail - maintain an audit trail of transactions from their origin to the final cost objectives.
P2P	Travel	Travel	Travel	Authorization	All authorizations for merchants that are classified as travel subsistence types of businesses shall be denied will include airlines, restaurants, bars, hotels, travel agencies and car rental agencies. However, it may be used for travel purposes where the GSA travel card is not accepted or under an integrated solution card which includes the travel card program.
P2P	Travel	Travel	Travel	Advances	Advances of money by the government to a prime contractor before, in anticipation of, and for the purpose of complete performance under one or more contracts. They are expected to be liquidated from payments due to the contractor incident to performance of the contract. Since they are not measured by performance, they differ from partial, progress, or other payments based on the performance or partial performance of a contract. Advance payments may be made to prime contractors for the purpose of making advances to subcontractors.
P2P	Travel	Travel	Travel	Vouchers	The Standard Form 1034, Public Voucher for Purchases and Services Other Than Personal, or similar form; a type of request for payment.
P2P	Travel	Travel	Travel	Local Travel	Local travel expenses, including taxi and mass transit fares, are allowable expenses incurred while performing official business within the vicinity of an employee's designated post of duty.
P2P	Travel	Travel	Travel	Non-Federal Sponsored Travel	The travel system must track and report the travel process for the acceptance of payment in-cash or in-kind acceptance of services from non-federal sources to defray in whole or in part the travel or related expenses of Federal employees in accordance with FTR 304.
P2P	Travel	Travel	Travel	Temporary/Permanent Change of Station	A Temporary Change of Station (TCS) is the relocation of an employee on a temporary basis for a short period (not less than 6 months, nor more than 30 months) to a new official station while an employee is performing a long-term assignment. The employees who receive a TCS will subsequently return to the previous official station upon completion of that assignment. A Permanent Change of Station (PCS) is the relocation of an employee to a new official station or post of duty for permanent duty.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
P2P	Acquisition	Acquisition / Financial	Acquisition	Funds certification	Funds certification is part of the funds control process that verifies that funds or budget authority is available for the contemplated acquisition. This is the first point at which the acquisition process interfaces with the financial system. Funds are generally restricted by law or regulation, as to purpose, amount, and period of availability. Once the budgetary authority is received and recorded in the accounting system, purchases can be made within its limitations. Funds certification accounting records help ensure that subsequent entry of undelivered orders or accrued expenditures does not exceed the balance of funds available, i.e., the budgetary restrictions on amount and availability.
P2P	Acquisition	Acquisition / Financial	Acquisition	Obligation	A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions for bona fide needs existing during a given period that will require payments during the same or a future period and that comply with applicable laws and regulations. Such amounts will include outlays for which obligations had not been previously recorded and will reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.
P2P	Acquisition	Acquisition / Financial	Acquisition	De-Obligation	A de-obligation is an adjustment or modification downward to an existing obligation. It typically frees up funding which may then be applied to alternative activities. A de-obligation may be initiated in one of two ways: As part of the payment process, finance performs periodic or year-end reconciliations of actual expenditures to obligations.
P2P	Acquisition	Acquisition / Financial	Acquisition	Payment	A government disbursement of monies to a contractor in accordance with contract terms. The payment management function consists of the following processes: payee information maintenance, payment warehousing, payment execution, and payment confirmation and follow-up.
P2P	Acquisition	Acquisition / Financial	Acquisition	Closeout	The process by which a Federal agency determines that a contract has been physically completed and all applicable administrative actions, including final payment or recovery of overpayment, have been completed.
P2P	Acquisition	Acquisition / Financial	Acquisition	MicroPurchase with Purchase Card	An acquisition of supplies or services (except construction), the aggregate amount of which does not exceed \$2,500, except that in the case of construction, the limit is \$2,000.
P2P	Inventory Management	Inventory, Supplies, Materials	Acquisition	Acquisition	Needs determination, budget establishment, purchase planning, Acquiring
P2P	Inventory Management	Inventory, Supplies, Materials	Acquisition	Control	Receipt and Inspection, Storing, In Transit, Repair and WIP
P2P	Inventory Management	Inventory, Supplies, Materials	Acquisition	Disposition	Distribution, Disposal
B2C	Insurance	Insurance	Insurance	Pre-Event	The Barron's Dictionary defines underwriting as the "process of examining, accepting, or rejecting insurance risks, and classifying those selected, in order to charge the proper premium for each. The purpose of underwriting is to spread the risk among a pool of insureds in a manner that is equitable for the insureds and profitable for the insurer." The Examination Function includes three basic processes: (1) determining the viability and legality of insuring a specified risk; (2) gathering information about the risk from a variety of sources (e.g., application); and, (3) evaluating the information received. Some federal insurance agencies may rely on guidelines for reducing the risk that a contingent event will occur, i.e., mitigating loss through up-front prevention activities.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
B2C	Insurance	Insurance	Insurance	Post-Event	Post-Event Functions support activities that may occur after a contingent event has occurred, e.g., flood, drought, or financial institution failure. Post-Event Functions may include: Assets Management; supports processes associated with receiving the assets of a failed insured party, e.g., financial institution or defined benefit plan, along with fiduciary authorities and responsibilities, Claims Management; determining the validity of claims and verifying the actual amount of payment for which the federal agency or reinsured company, if applicable, is liable, and Payments Management; the payment to an insured claimant who has sustained a loss that the federal insurance agency or reinsured company, if applicable, has determined is appropriate under the enabling legislation and to the function of ensuring that a payment is proper.
B2C	Insurance	Insurance	Insurance	Operations	Federal insurance agencies require a variety of operational functions to support Pre-Event Functions and Post-Event Functions including; Core Financial System; Requirements for a core financial system to support the fundamental financial functions of a federal agency are identified in the Core Financial System Requirements document, Actuarial and Estimation Modeling Activities; The development of economic forecasts, financial models, risk models, premium tables and other activities which allow the agency to forecast expected benefits based on statistical or other analyses, and Trust Fund and Revolving Fund Activities; A wide variety of trust fund and revolving fund activities apply to most, but not all, fed-real agencies that provide insurance.
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	(General Description)	Human resources and payroll systems support programmatic objectives and interact with core financial systems to validate funds availability; update budget execution data; record human resources and payroll salaries and expenses; and record other personnel and payroll related transactions.
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	Position Management & Classification	THIS IS THE DEFINITION FROM THE FOLLOWING SITE http://www.per.hqusareur.army.mil/CPD/Classification/Default.aspx Classification is the process of determining the appropriate Pay Plan, Title, Series and Grade of a position consistent with prevailing laws, standards and guides. Position Management is the process of designing organizations and positions for maximum efficiency, effectiveness and economy within provided constraints to fulfill mission requirements.
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	Recruitment & Staffing	In conjunction with managers, process historical information to identify both short and long term staffing needs. Includes all activities involved in acquiring applicants and recording them in an automated system. Major tasks include job analysis, soliciting applications, evaluating candidates, and notifying applicants of status. Includes those actions necessary to process requests by management or the employee that affect employees during Federal employment. This involves actions that promote, reassign, detail, and voluntarily separate employees. This involves referring candidates to the selecting official, monitoring the status of the issued referrals, and documenting the entire process. Determine and apply the appropriate pay scale for the employee. Maintain historical files documenting the recruitment and staffing process, including delegated examining authority, in a manner that provides a complete audit trail of all actions. This is particularly important in responding to data calls associated with grievances, appeals, and equal employment opportunity
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	Personnel Action Administration	Processing, Tracking, and Official Personnel Folder conversion. • Processing, Tracking, and Official Personnel Folder conversion. • Incumbent-related information such as date of hire, service computation date, retirement service date, severance pay date, Civil Service Retirement System, Federal Employees Retirement System, Federal Employees Group Life Insurance and Thrift Savings Plan eligibility dates, Federal Employee Health Benefits enrollment date, step increase and prior military service information must also be recorded. There is also a need for the capability to correct or cancel these actions, and provide the necessary audit trail.
ERM	Benefits	Human Resources & Payroll	Human Resources & Payroll	Benefits Administration	Provide Basic Information. Explain requirements, benefits, and procedures related to employee benefits. Determine and Process Employee Entitlements. Determine employee eligibility for entitlements and process and document the action. Flow of Information. Any new information system should have the capability to allow for the paper less flow of information directly from the system to benefit providers (i.e., health care and insurance providers).

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	Labor Management & Employee Relations	Administer Incentive Programs. Assure eligibility edits, obtain necessary approvals, and process necessary documentation for incentive awards. Conduct Employee Relations. Includes the ability to track employee relations actions from initiation through completion. Administer Performance Management. Includes all tasks involved in administering a system for evaluating employee performance and probationary periods. Administer Labor Relations. Gather and store data in support of negotiations or other labor-management discussions, contract administration and to resolve disputes. Data on the dollar value of time spent by union employees on representational activities including travel and per diem and the dollar value of services provided to unions (telephones, office space, computers, etc.) should also be tracked and reported by human resources or financial management systems.
ERM	Human Resources	Human Resources & Payroll	Human Resources & Payroll	Work Force Development	Administer Employee Development Program. Support the planning, development and delivery of training and career development programs to meet agency and employee needs. Track completion of training by employees. Develop Training Budget. Support the preparation of financial projections and implementation of controls which maximize the utilization of training funds. Evaluate Development and Training Activities. Support the evaluation of the effectiveness and quality of course design, program content, delivery methodology and instructional value.
ERM	Payroll	Human Resources & Payroll	Human Resources & Payroll	Time & Attendance Processing	Report and Release T&A Data. Accept electronic, or other appropriately documented, approvals from authorized approving officials. Release T&A data for further system processing. Generate reports to monitor T&A data. Edit and Correct T&A Data and Support the correction of current-pay period and prior-pay period T&A records.
ERM	Payroll	Human Resources & Payroll	Human Resources & Payroll	Leave Processing	Provides for the performance of all activities associated with determination of proper leave balances for all types of leave, leave advances, accruals, usages, forfeitures, limitations, and transfers. Applies current period leave accruals and leave charges to each employee's available leave balances, leave transfers, donations to leave banks or individuals, and adjustments to leave balances for restored leave, EEO settlements, and similar after-the-fact situations.
ERM	Payroll	Human Resources & Payroll	Human Resources & Payroll	Pay Processing	Calculates gross pay, deductions, net pay, employee, and employer contributions for each employee on an effective pay period basis. Computes gross pay as the sum of each rate of pay times the number of units related to it, minus retirement annuity offsets, if applicable, plus all appropriate allowances and/or other gross pay components, classify and total deductions, subtract total deductions from gross pay, and apply formulas or utilize tables to determine employer contributions required for certain payroll taxes and benefits.
ERM	Payroll	Human Resources & Payroll	Human Resources & Payroll	Labor Cost & Distribution	Accumulates cost information for use in budgeting and controlling costs; performance measurement; determining fees and prices for services; assessing programs; and management decision making. Labor costs are an integral part of determining the cost of doing business.
ERM	Reporting	Human Resources & Payroll	Human Resources & Payroll	Reporting	This includes the generation of reports at specific time intervals or upon request, including reports that span fiscal years, calendar years, or other time periods. User outputs produced include all vouchers and reports necessary to recognize payroll expenses and authorize related disbursements. External reports include those required by Treasury, OPM, the Department of Labor, the Federal Retirement Thrift Investment Board, and others. Managerial reports include control reports used by human resources/payroll office staff members, as well as reports used by others such as supervisors.
ERM	Benefits	Benefit	Benefit	Benefits Administration	Provide Basic Information. Explain requirements, benefits, and procedures related to employee benefits. Determine and Process Employee Entitlements. Determine employee eligibility for entitlements and process and document the action. Flow of Information. Any new information system should have the capability to allow for the paper less flow of information directly from the system to benefit providers (i.e., health care and insurance providers).
ERM	Benefits	Benefit	Benefit	Claims Acceptance & Tracking	This function includes activities associated with providing potential claimants mechanisms for submitting claims, and for receiving, recording and tracking both properly completed and incomplete applications (claims) for benefit payments.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
ERM	Benefits	Benefit	Benefit	Claims Processing	This function includes activities associated with the input and processing of the data provided by claimants on applications. There are three types of processes that a unified benefit system must be able to perform as part of the claims processing function. They are administrative, eligibility determination and computational processes.
ERM	Benefits	Benefit	Benefit	Benefit Payment Administration	The Benefit Payment Administration function should provide appropriate control over all benefit payments made by or on behalf of an agency. Agencies that administer benefit programs make payments to individual citizens or a designated payee.
ERM	Benefits	Benefit	Benefit	Recovery Receivable Management	The Recovery Receivable Management function supports activities associated with establishing receivables; recording collections, offsetting payments, waivers and servicing receivables. This function includes recording, billing, monitoring, and collecting amounts due the Government. Recovery receivables are established resulting from erroneous payments or over payments to benefit claimants. In some instances, it is necessary to compute interest, penalty, and administrative charges that are added to the principal balance.
ERM	Benefits	Benefit	Benefit	Reporting	The benefits financial system must be able to provide financial information in a timely and useful fashion to: (1) support management's fiduciary role; (2) support budget formulation and execution functions; (3) support fiscal management of program delivery and program decision-making; (4) support internal and external reporting requirements, including, as necessary, the requirements for financial statements prepared in accordance with Federal generally accepted accounting principles and the form and content prescribed by OMB, reporting requirements prescribed by Treasury, and legal, regulatory and other special management requirements of the agency; and (5) support the compulsory notification function.
Q2C	Revenue	Revenue	Revenue	Revenue Estimation	Increase in the assets of an organization or the decrease in liabilities during an accounting period, primarily from the organization's operating activities. This may include sales of products (sales), rendering of services (revenues), and earnings from interest, dividends, lease income, and royalties. The Reporting function consists of the following processes: External Reporting, Internal Reporting, Performance Reporting, Compulsory Notifications
Q2C	Revenue	Revenue	Revenue	Deposit Account	An account where funds are deposited. Deposit accounts can also be funds deposited outside of Treasury. All deposit funds are deposit accounts, but not all deposit accounts are deposit funds.
Q2C	Revenue	Revenue	Revenue	Transaction Validation	OMB Circular No. A-127 requires common processes to be used for processing similar kinds of transactions throughout an integrated financial management system to enable transactions to be reported in a consistent manner. The Revenue System must ensure that all transactions are handled consistently, regardless of their point of origin. It also must ensure that all transactions are controlled properly to provide reasonable assurance that the recording, processing, and reporting of financial data are properly performed and that the completeness and accuracy of authorized transactions are ensured.
Q2C	Revenue	Revenue	Revenue	Collection	Amounts received by the Federal Government during the fiscal year. Collections are classified as follows: 1. Budget receipts or off-budget receipts are collections from the public based on the government's exercise of its sovereign powers, including collections from participants in compulsory social insurance programs. 2. Offsetting collections are collections from government accounts (intragovernmental transactions) or from the public that are offset against budget authority and outlays rather than reflected as receipts in computing the budget and off-budget totals. They are classified as (a) offsetting receipts (i.e., amounts deposited to receipt accounts), and (b) collections credited to appropriation or fund accounts. The distinction between these two major categories is that collections credited to appropriation or fund accounts are offset within the account that contains the associated disbursements (outlays), whereas offsetting receipts are in accounts separate from the associated disbursements. Offsetting collections are
Q2C	Revenue	Revenue	Revenue	Revenue Recognition	The Revenue Recognition function provides for the reclassification of revenue transactions into earned and unearned receipts.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
Q2C	Revenue	Revenue	Revenue	Receivable Management	The Receivable Management Process supports activities to record receivables in the system as they are recognized and to produce bills for amounts due to the agency. A receivable is recognized when an agency establishes a claim to cash or other assets against other entities.
Q2C	Revenue	Revenue	Revenue	Bill Generation	The Bill Generation process supports activities to produce bills for amounts due to the agency. A bill is notification of an amount due to a federal agency for a service or product.
Q2C	Revenue	Revenue	Revenue	Debt Management	The Debt Management process involves the maintenance of account information on individual accounts receivable. The process supports activities to: age receivables; calculate interest and record penalties and administrative charges on overdue debt; pursue collection of amounts due; liquidate receivables; record adjustments to receivables; maintain a proper allowance for uncollectible amounts; and record write-offs.
Q2C	Revenue	Revenue	Revenue	Revenue Estimation	Revenue estimation provides agencies with a prediction of how revenue will change from the current baseline. Typically, estimates are approximations taken from existing data on revenue, supplemented with additional data sources as necessary.
P2A	Property Management	Property Mgmt	Property Mgmt	(General Description)	All functions necessary for the proper determination of need, source, acquisition, receipt, accountability, utilization, maintenance, rehabilitation, storage, distribution, and disposal of property.
P2A	Property Management	Property Mgmt	Property Mgmt	Acquiring & Receiving	This function addresses initial physical control when property is delivered or real property is placed in service. Property is recognized as accountable when title passes to the entity obtaining the property or when goods are delivered. Property may be purchased, leased, loaned, granted, transferred, constructed, or donated. The property management system may obtain information from the acquisition system when property is ordered. The property management system records receipt of property and the results of an initial physical inspection regarding the condition of property, whether from vendor, donated, transferred, or gained through discovery.
P2A	Property Management	Property Mgmt	Property Mgmt	Managing & Accounting	The Managing Property function captures and provides data to assist property managers and officials in managing property. Examples of property management responsibilities and activities supported by property management systems include recording the results of inventories, and monitoring maintenance requirements, utilization, overhaul, retirement, transfer, or disposal of property. The Accounting for Property function pertains to recording the acquisition cost of the property, or net book value/fair market value for donated or transferred items. For capitalized property, the function records the acquisition cost, net book value or fair market value of donated or transferred assets, the property's useful life, salvage value, and depreciation/amortization method. In addition to the initial value, it also records all capitalizable improvements. Upon disposal, or when identified for disposal and no longer in use, the function identifies the property record as a disposal and no longer includes the value of the asset and its associated accumulated depreciation/amortization in calculating the gross and net
P2A	Property Management	Seized Property and Forfeited Assets	Seized Property and Forfeited Assets	Seizure	Seizure is the act performed by an officer of the law, acting under authority, in taking into the custody of the law the property, real or personal, of a person against whom the judgment of a competent court has passed or the act of taking possession of property as a consequence of a violation of public law. The seized property and forfeited assets systems support programmatic objectives and interact with the agency's core financial system to validate funds availability; update budget execution data; record the custody of seized property and forfeited assets and the associated expenses and revenues. Considering the sensitive nature of governmental programs that authorize the seizure of property, financial management systems are a key program component which must provide the information and controls necessary to help guard against mistakes.
P2A	Property Management	Seized Property and Forfeited Assets	Seized Property and Forfeited Assets	Custody	Organizations that have custody of seized property and forfeited assets must have adequate policies and procedures to ensure that all property and assets are properly received, recorded, valued, maintained, and controlled throughout the legal process underlying the seizure. Property subject to seizure is defined in the enabling statutes and regulations; however, for reporting purposes financial systems generally defined property as cash (including monetary instruments), real property, and tangible personal property as categories.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
P2A	Property Management	Seized Property and Forfeited Assets	Seized Property and Forfeited Assets	Forfeiture	Forfeiture is to lose title to, or lose the right to, property by some error, fault, offense, or crime. As a consequence of certain legal proceedings, title to property, real or personal is transferred to the United States.
P2A	Property Management	Seized Property and Forfeited Assets	Seized Property and Forfeited Assets	Disposition	A key component of effective property seizure and asset forfeiture processes is disposing of the property in an orderly fashion after determining that disposition is appropriate. If asset disposition is perceived to be unfair or inefficient, the effectiveness of the entire process could be called into question. In some cases, the property may be returned to an entity outside of the Federal government as a result of the law enforcement action. It is particularly important to account for all costs, revenues, and proceeds from disposition.
P2A	Property Management	Seized Property and Forfeited Assets	Seized Property and Forfeited Assets	Reporting	All seized property and asset forfeiture systems must be able to support management's objectives for efficiency and quality in order to ensure compliance with GPRA requirements. They must fully disclose the financial results of the program. In addition, they must support performance measures that management can use to assess the efficiency and quality of the financial management process. Performance measurement for specific program components, such as property disposal, must also be supported. Management should be able to assess performance from a variety of perspectives, including program-wide or agency-wide levels. Reports for accounting and payment history purposes must also be provided and adapted to meet agency needs.
B2C	Grants	Grant Financial	Grant	Commitments	An administrative reservation of funds (including increases to existing commitments) in anticipation of obligation(s).
B2C	Grants	Grant Financial	Grant	Decommitments	An administrative de-reservation of funds.
B2C	Grants	Grant Financial	Grant	Obligations	A binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions for bona fide needs existing during a given period that will require payments during the same or a future period and that comply with applicable laws and regulations. Such amounts will include outlays for which obligations had not been previously recorded and will reflect adjustments for differences between obligations previously recorded and actual outlays to liquidate those obligations.
B2C	Grants	Grant Financial	Grant	Payments	A government disbursement of monies to a contractor in accordance with contract terms. The payment management function consists of the following processes: payee information maintenance, payment warehousing, payment execution, and payment confirmation and follow-up
B2C	Grants	Grant Financial	Grant	Cost Accruals	This basis of accounting records expenses when incurred, whether or not they have been paid in cash; and records revenues as earned, whether or not cash has been received. In general, under the accrual basis of accounting, expenses and revenues may give rise to payable/liability or receivable/asset accounts when the timing of the recognition of revenues or expenses differs from the transfer of cash.
B2C	Grants	Grant Financial	Grant	Interest Collections	Interest earned on advances of Federal funds must be handled in prescribed manners in accordance with administrative requirements based on the cost principles established for the grantee organization involved.
B2C	Grants	Grant Financial	Grant	Closeout	An event that occurs concurrently with, or subsequent to, an agency decision to write off a debt for which the agency has determined that future additional collection attempts would be futile. At closeout, an agency reports to the IRS the amount of the closed out debt as income to the debtor on IRS Form 1099-C, in accordance with Treasury requirements. No additional collection action may be taken by the agency after issuing the IRS Form 1099-C.
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Lender Management	The Lender Management function supports analysis of lenders' program eligibility and monitors lender performance to ensure that only qualified and financially sound lenders participate in Federal guaranteed loan programs. The processes within the Lender Management function include the Lender Eligibility process and the Lender/Service Monitoring process.

JFMIP Process - Subprocess Mapping

Cycle	Process	JFMIP Book	JFMIP FFMRS Processes	JFMIP FFMRS Sub Processes	Definitions
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Portfolio Management	The Portfolio Management function supports the management and evaluation of the guaranteed loan program and its portfolios of outstanding guaranteed loans and acquired loans. The processes within the Portfolio Management function are the Portfolio Management process and the Program Financing process.
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Guarantee Extension & Maintenance	The Guarantee Extension and Maintenance function supports the accounting and documentation requirements for the evaluation of the guarantee request, the extension of the guarantee by the Federal agency, and the monitoring of the guarantee. The processes within the Guarantee Extension and Maintenance function are the Guarantee Request Evaluation process, the Guarantee Origination process, and the Guaranteed Loan Maintenance process.
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Delinquent Debt Collection	The Delinquent Debt Collection function includes the recovery of delinquent debt through the use of dunning letters, offset programs, collection agencies, garnishment of non Federal wages, litigation, and the termination of collection action on uncollectible debt. It also includes the foreclosure and liquidation of property for collateralized loans acquired by the government. The processes within the Delinquent Debt Collection function are: Collection Actions and Write-offs and Close-outs.
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Treasury Cross Servicing	Cross-servicing occurs when Treasury's Financial Management Service (FMS) or a Treasury-designated debt collection center provides debt collection services for other Federal agencies. The processes within cross-servicing are: Identify Accounts Selected, Monitor Accounts Referred to the Debt Collection Center, and Support an Agency's Request to Cross-Service.
B2C	Loans	Guaranteed Loan	Guaranteed Loan	Reporting	The Guarantee Extension and Maintenance function supports the Maintenance function supports the requirements for the evaluation of the guarantee request, the extension of the guarantee by the Federal agency, and the monitoring of the guarantee.
B2C	Loans	Direct Loan	Direct Loan	Loan Extension	The Loan Extension function supports analysis of the applicant's eligibility in accordance with statutory and regulatory requirements. The Loan Extension function also supports the development of information to satisfy credit reform accounting and budgeting requirements. The processes within the Loan Extension function are: Application Screening and Loan Origination.
B2C	Loans	Direct Loan	Direct Loan	Account Servicing	The Account Servicing function supports routine invoicing and collection of debts. The processes within the Account Servicing function are: Billing and Collection and Account Status Maintenance.
B2C	Loans	Direct Loan	Direct Loan	Treasury Cross Servicing	Cross-servicing occurs when Treasury's FMS or a Treasury-designated debt collection center provides debt collection services for other Federal agencies. The processes within cross-servicing are: Identify Accounts Selected, Monitor Accounts Referred to the Debt Collection Center, and Support an Agency's Request to Cross-Service.
B2C	Loans	Direct Loan	Direct Loan	Portfolio Management	The Portfolio Management function supports the management and performance evaluation of the direct loan program and its portfolio. It also supports program financing and management of portfolio sales. The processes within the Portfolio Management function are: Portfolio Performance, Program Financing, and Portfolio Sales.
B2C	Loans	Direct Loan	Direct Loan	Delinquent Debt Collection	The Delinquent Debt Collection function includes the recovery of delinquent debt through the use of dunning letters, offset programs, collection agencies, garnishment of non-Federal wages, litigation, and the termination of collection action on uncollectible debt. The processes within the Delinquent Debt Collection function are: Collection Actions, Write-offs and Close-outs, and Troubled Debt Servicing Under Agency Program Requirements.
B2C	Loans	Direct Loan	Direct Loan	Reporting	Agencies' direct loan systems must be capable of supporting the external reporting requirements of OMB and Treasury, including those associated with the FCRA of 1990 and the CFO Act of 1990. These external reports rely on supplemental financial data resident in the direct loan system, although they are generated from the general ledger.



Department of Energy
Washington, DC 20585

October 24, 2005

MEMORANDUM FOR DISTRIBUTION

FROM:

SUSAN J. GRANT
CHIEF FINANCIAL OFFICER

SUBJECT:

**Interim Guidance for Office of Management and Budget Circular
A-123, *Management's Responsibility for Internal Control***

The purpose of this memorandum is to transmit interim guidance which implements the requirements of Appendix A of the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, dated December 21, 2004. OMB revisited existing internal control requirements for Federal agencies in light of the internal control requirements for publicly traded companies in the Sarbanes-Oxley Act of 2002.

Among the changes to A-123 are requirements for (1) agencies to develop a methodology for management to assess, document, and report on internal controls over financial reporting and (2) an annual assertion by the Secretary on the effectiveness of internal controls over financial reporting to be included in the Performance and Accountability Report. The attached interim guidance describes the methodology Heads of Departmental Elements should use to assess, document, and report on internal controls over financial reporting. Requirements contained in the interim guidance reflect comments received on previous drafts and will ultimately be included in the revised DOE O 413.1A, *Management Control Program*, which is scheduled to be released later in fiscal year (FY) 2006.

The revised Circular became effective in FY 2006 with the annual assurance statement due as of June 30, 2006. Detailed annual guidance will be issued in early FY 2006 and will address the approach for financial statements coverage, types of accounts, and key processes and sites to be reviewed. The annual guidance will provide more prescriptive instructions for accomplishing the assessment and preparing required quarterly and annual reports.

If you have any questions, please feel free to contact me at (202) 586-4171 or have your staff contact John Newell, Director, Office of Internal Review, at (202) 586-9672.

Attachment



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**Department of Energy
Internal Control over Financial Reporting
Interim Guidance**

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Internal Control over Financial Reporting Interim Guidance

1. INTRODUCTION

The private sector has experienced high-profile examples of major companies having weak internal control over financial reporting, which failed to identify financial misstatements. In response to these failures, Congress passed the Sarbanes-Oxley Act of 2002 which required that management of publicly-traded companies strengthen their process for assessing and reporting on internal control over financial reporting. These events have served as an impetus for the Federal government to reevaluate its current policies relating to internal control over financial reporting and management's related responsibilities.

This interim guidance implements the requirements of Appendix A of the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, (A-123) by formalizing, within the Department of Energy, an approach for assessing, documenting, and reporting on internal control over financial reporting. The approach is to be utilized by Heads of Departmental Headquarters and Field Elements and the Department's major site and facilities management contractors in implementing Appendix A. The reporting by Heads of Departmental Headquarters and Field Elements will be limited in scope to include only internal controls over financial reporting related to programs and operations under their direct control.

DOE O 413.1A, *Management Control Program*, establishes requirements for Heads of Departmental Elements to take systematic and proactive measures to establish cost-effective and appropriate management controls. Inherent in these requirements is the responsibility for Department management to establish strong systems of internal controls over their operations. While the internal control requirements of DOE O 413.1A cover a broad spectrum of processes and activities, this interim guidance focuses specifically on assessing, documenting, and reporting on internal control over financial reporting.

2. SCOPE

Internal control over financial reporting is required for the Department's consolidated financial statements and other significant internal or external financial reports identified by management that could have a material effect on a significant spending, budgetary or other financial decision of the Department or that are used to determine compliance with laws and regulations.

The Department's assessment of internal control over financial reporting will be accomplished in three distinct phases.

- a. Assessing internal control at the entity level. Heads of Departmental Headquarters and Field Elements shall establish site assessment teams with Department and contractor involvement, as appropriate, to perform evaluations of the following five components of internal controls at the entity level: control environment; risk assessment; control activities; information and communications; and monitoring. Detailed information of each component is included under section 4 of this guidance.
- b. Assessing internal control at the process, transaction, or application level. The site assessment teams, established by the Heads of Departmental Headquarters and Field Elements shall perform the following as part of their individual assessments at the process, transaction, or application level: evaluate, based on annual guidance, the major classes of transactions; understand the financial reporting process; gain an understanding of control design; gain an understanding of control design and adequacy; and test controls and assess compliance. Detailed information is included under section 5 of this guidance.
- c. Overall evaluation of the design and operation of internal control over financial reporting. The overall evaluation should conclude whether the Department's internal control over financial reporting is operating effectively or whether material weaknesses exist in the design or operation of those controls. Detailed information is included under section 9 of this guidance.

3. RESPONSIBILITIES

- a. The Secretary of Energy shall develop an assurance statement on the effectiveness of internal control over financial reporting as of June 30th for the fiscal year being reported.
- b. Heads of Departmental Headquarters Elements as determined in the annual identification of material accounts, processes and sites are responsible for:
 - (1) Developing and maintaining effective systems of internal control.
 - (2) Complying with the methodology contained in this guidance for :
 - a. establishing site assessment teams;
 - b. conducting assessments of internal control over financial reporting at their respective sites;
 - c. documenting such assessments;

- d. reporting the results of the assessments, including quarterly status reports and an annual assertion on the financial reporting internal controls under their cognizance; and
- e. implementing and monitoring timely corrective actions.

Material accounts, processes and sites determinations will be included in the annual guidance issued at the start the fiscal year.

- c. Heads of Departmental Field Elements are responsible for:
 - (1) Developing and maintaining effective systems of internal control.
 - (2) Complying with the methodology contained in this guidance for:
 - a. establishing site assessment teams;
 - b. conducting assessments of internal control over financial reporting at their respective sites;
 - c. documenting such assessments;
 - d. reporting the results of the assessments, including quarterly status reports and an annual assertion on the financial reporting internal controls under their cognizance; and
 - e. implementing and monitoring timely corrective actions.
- d. Major Site and Facilities Management Contractors are responsible for developing and maintaining effective systems of internal control. The requirements of OMB Circular A-123 are directed to the Department and not its contractors. However, the Department must institute and maintain effective internal control systems to properly oversee its contractors; and, in light of our special relationship with our major site and facilities management contractors, that oversight must be more intense and focused than that for other contracts. As such, the Department has designed the methodology contained above in 3.b. and 3.c. for assuring it satisfies the internal control obligations in OMB Circular A-123, Appendix A.
- e. The Chief Financial Officer (CFO) has established a Senior Assessment Team with Department and Field CFO participation to oversee efforts to implement the requirements of A-123, Appendix A and recommend to the Departmental Internal Control and Audit Review Council the level of Secretarial assurance the Department should provide on its internal control over financial reporting.
- f. The Senior Assessment Team's responsibilities include the following:
 - (1) Fostering an operational environment to support an on-going awareness of internal controls;
 - (2) Determining those financial reports and major accounts covered by the Department's assessment;

- (3) Ensuring assessment objectives are clearly communicated throughout the Department;
 - (4) Monitoring progress of all assessments being performed;
 - (5) Assessing the adequacy of assertions/reports provided by Heads of Departmental Elements;
 - (6) Recommending to the CFO the Secretarial assertion on the adequacy of internal control over financial reporting; and,
 - (7) Monitoring the progress of implementing corrective actions.
- g. Site Assessment Teams will be established by Heads of Departmental Headquarters and Field Elements with major site and facilities management operating contractor involvement, as appropriate, to perform evaluations of the effectiveness of internal control over financial reporting.
- h. Departmental Internal Control and Audit Review Council (DICARC) shall provide senior management oversight of the Department's internal control program. DICARC reviews and approves findings of the existence of material weaknesses of internal control over financial reporting and determines the Department's material weaknesses and the level of Secretarial assurance the Department should provide on its internal control over financial reporting. Membership includes the CFO (Chairperson); the Inspector General; the Principal Deputy Administrator for NNSA; Assistant Secretary for Environmental Management; a Headquarters Secretarial Officer, appointed on a rotating basis; and a Special Assistant to the Secretary.

4. **ASSESSING INTERNAL CONTROLS AT THE ENTITY LEVEL (Headquarters and Field)**

Assessments of internal controls must 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. Heads of Departmental Headquarters and Field Elements shall establish site assessment teams with Department and Contractor involvement, as appropriate, to perform evaluations of the five elements of internal controls at the entity level as follows:

- 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. The assessment should consider the collective effect on the control environment, since management's strengths and weaknesses can have a pervasive effect on internal controls. Specific elements of the control environment that should be considered include: integrity and ethical standards; commitment to competence; management philosophy

and operating style; organizational structure; assignment of authority and responsibility; and, human resource policies and practices.

- 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. The assessment should determine how management identifies risks, estimates the significance of risks, assesses the existence of risks in the current environment, and relates them to financial reporting. The results of this assessment at the entity level will drive the extent of testing and review performed at the process, transaction, or application level.

Some significant circumstances or events that can affect risk include: complexity or magnitude of programs, operations, transactions, etc; accounting estimates; related party transactions; extent of manual processes or applications; decentralized versus centralized accounting and reporting functions; changes in operating environment; new personnel or significant personnel changes; new or revamped information systems; significant new or changed programs or operations; new technology; and, new or amended laws, regulations, or accounting standards.

- 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, such as: policies and procedures; management objectives (clearly written and communicated throughout the agency); planning and reporting systems; analytical review and analysis; segregation of duties; safeguarding of records; and physical, and access controls.
- d. **Information and Communications.** The assessment should include obtaining an understanding of the information system(s) relevant to financial reporting. Such an understanding should include: the type and sufficiency of reports produced; the manner in which information systems development is managed; disaster recovery; communication of employees' control related duties and responsibilities; and, how incoming external communication is handled.
- 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. Several examples include: self assessments by management; evaluations by the Office of Inspector General; and, direct testing.

Assessments of internal controls at the entity level may include: mapping internal control assertions to financial statements; mapping key business processes (i.e. determining methods and records used to establish, identify, assemble, analyze, classify and record a payroll transaction); and documenting key processes and related internal controls.

**5. ASSESSING INTERNAL CONTROLS AT THE PROCESS, TRANSACTION, OR APPLICATION LEVEL
(Headquarters and Field)**

The Senior Assessment Team shall 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 site assessment teams, established by the Heads of Departmental Headquarters and Field Elements shall 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 should include obtaining an understanding of the specific processes and document flow involved in each class of transactions. Thoroughly understanding the processes and document flow will help in understanding where errors could occur and what control objectives and techniques may prevent or detect those errors.

- b. Understand the Financial Reporting Process. Obtain 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. This represents another point where errors can be introduced into the financial report, and it is important to understand where such errors could occur and what control objectives and control techniques can prevent or detect the errors.

As information technology evolves, it plays an increasingly important role in the development of internal control over financial reporting. It is critical that technology-based controls are also assessed. Although assessing computer-related controls generally requires specific expertise and procedures not employed in the evaluation of manual controls, the evaluation of computer-related controls should be planned in conjunction with the evaluation of manual internal control over financial reporting.

- c. Gain an Understanding of Control Design. Prepare a 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 controls for each account or group of accounts should be made considering the risk of error and the controls that are designed and in place to prevent or detect such errors. Assessing the effectiveness of the control design determines whether the control is suitably designed to prevent or detect a material error related to an account or group of accounts.

Procedures to obtain such evidential matter ordinarily include inquiries of appropriate agency personnel; inspection of documents, reports, or electronic files; and, observation of the application of specific controls. This is sometimes referred to as a “walk through” and helps the site assessment team ensure its understanding of the controls. An assessment of the control design should identify controls as effective, moderately effective, or not effective.

- d. Identify Controls Not Adequately Designed. The site assessment teams should test the effectiveness of controls designed by management. If a control over a significant account or group of accounts is missing or its design is determined to be not effective considering the associated risk of error, the site assessment team does not need to test this control for the purpose of concluding on control effectiveness. This instance should be noted in the report of deficiencies and suggestions for improvement. However, management may nevertheless seek to further test affected transactions to determine if there was any actual loss, fraud, error, improper payment, or noncompliance resulting from those ineffective controls.
- e. Test Controls and Assess Compliance. For those controls whose design is deemed effective or moderately effective, the site assessment team should test those controls to determine the extent to which the controls were applied, the consistency of their application, and who applied them. Tests of controls ordinarily include procedures such as inquiries of appropriate agency personnel; inspection of documents, reports, or electronic files, indicating performance of the control; observation of the application of specific control; and re-performance of the application of the control by the site assessment team. If testing indicates that a significant control is not operating as designed, it should be reported as a deficiency.

Assessments of internal controls at the process, transaction or application may include: testing the design of internal controls and key business processes; testing the operating effectiveness of controls and processes; identifying control gaps and internal control deficiencies, reportable conditions or material weaknesses.

6. RELIANCE ON OTHER WORK TO ACCOMPLISH ASSESSMENT

The assessment of internal control over financial reporting should be coordinated with other activities to avoid duplication of efforts with similar activities. For example, Heads of Departmental Headquarters and Field Elements are required to perform reviews of financial systems under Federal Financial Management Improvement Act (FFMIA) of 1996 or information security under Federal Information Security Management Act of 2002 (FISMA). Other reviews performed by management throughout the year that assess the internal control framework should be used to the maximum extent to meet the assessment requirements of Appendix A. Similarly, reviews performed by major site facility management contractors internal audit staffs related to assessment of internal controls conducted in the normal course of their annual risk based audit plan should be used to fulfill Appendix A requirements. Management may consult with the Office of Inspector General (OIG) and the independent auditor when planning and coordinating related work.

The OIG and the independent auditor may be involved in a consulting capacity but shall not conduct management's assessment of internal control over financial reporting. In addition, control weaknesses at servicing organizations, e.g., Defense Finance and Accounting Service, could have a material impact on the controls of the entity being reviewed and, as such, annual assurance statements of servicing organizations should be obtained to allow reliance upon that assertion statement. The Chief Financial Officer will coordinate with all external servicing organizations to obtain the required assurances required for the Department's overall assessment.

7. DOCUMENTATION

- a. Documenting Internal Control over Financial Reporting. The site assessment teams with support from the Senior Assessment Team should 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. Documentation may be electronic, hard-copy format, or both and be readily available for examination. Documentation could include organizational charts, flow charts, questionnaires, decision tables, or memoranda. Documentation may already exist as part of normal policy or procedure; however, the site assessment team should separately identify, verify, and maintain the documentation it uses in making its assessment.

Existing documentation prepared by internal or external auditors may also be used, but again, the Senior Assessment Team with support from the site assessment teams must take responsibility and verify and maintain the

documentation. Documentation should also include appropriate representations from officials and personnel responsible for monitoring, improving, and assessing internal controls. After the initial assessment, subsequent assessments may focus on updating existing documentation. All documentation and records shall be properly managed and maintained; therefore, sites will need to establish, or review existing retention policies for documentation (paper and electronic media).

- b. Documenting the Assessment of the Effectiveness of Internal Control over Financial Reporting: The Senior/Site Assessment Teams must 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.

8. REPORTING

A-123, Appendix A requires the Secretary of Energy to include an annual assurance statement on internal control over financial reporting in the PAR. In support of this requirement and to ensure there is a sound basis for the assurance statement, the following reports are required:

- a. Quarterly Reports. Heads of Departmental Field Elements are required to submit quarterly status reports on their progress in assessing the systems of internal controls in accordance with sections 4 and 5, above. The quarterly reports must identify any deficiencies (either previously reported or newly identified) and corrective actions planned including milestone dates, and actions taken to address the deficiencies. Reportable conditions must clearly be identified in the reports. The Senior Assessment Team will review and evaluate the quarterly reports: (i) to determine whether corrective actions are adequate to address deficiencies; and, (ii) to assess the cumulative impact on the Department's consolidated financial statements. Quarterly reports are essential to ensure that the correct assertion statement is made on the effectiveness of internal control over

financial reporting and to keep management apprised of the current condition of the Department's internal control over financial reporting.

- b. Annual Assertions. Annual assertions on internal control over financial reporting shall be submitted by Heads of Departmental Headquarters and Field Elements. Field or Site Managers at locations where the assessment is performed shall submit documented support for these assertions to their cognizant Headquarters Element with a copy to the CFO. Heads of Departmental Headquarters Elements will consider all supporting information and provide an overall assessment for operations under their cognizance to the CFO. Upon completion of its review of all the Heads of Departmental Headquarters and Field Elements' assertions and related support documentation, the Senior Assessment Team shall provide a recommendation to the CFO on the type of assertion statement that should be included in the PAR.
- c. Identification of Deficiencies. Deficiencies identified in the assessment of the internal controls must be reported in the Heads of Departmental Headquarters and Field Elements Quarterly Reports and their Annual Assertion, as applicable. The Senior Assessment Team shall evaluate these deficiencies to assess the cumulative impact on the Department's consolidated financial statements. In this regard, site assessment teams should report those control deficiencies in the team's assessment that represent significant deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet its internal control objectives. For purposes of A-123, Appendix A reporting, these types of deficiencies are called reportable conditions. A reportable condition that the Senior Assessment Team determines to be significant enough to be reported outside of the Department shall be considered a material weakness and should be included in the PAR.

9. OVERALL EVALUATION OF THE DESIGN AND OPERATION OF INTERNAL CONTROL OVER FINANCIAL REPORTING

The Senior Assessment Team shall make an overall evaluation of the design and operation of the internal control over financial reporting based in large part on the quarterly and annual assessments from Heads of Departmental Headquarters and Field Elements. This overall evaluation should conclude whether the Department's internal control over financial reporting is operating effectively or whether material weaknesses exist in the design or operation of those controls.

The Senior Assessment Team will, based on their analysis, recommend to the CFO which reportable conditions, when aggregated, may be deemed material weaknesses to the Department as a whole. The Team 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 Department's PAR, the Senior Assessment Team will develop a process to identify changes in the internal control environment from June 30th to fiscal year-end, that could potentially impact the effectiveness of internal control over financial reporting.

The Senior Assessment Team 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 Senior Assessment Team may, at its discretion, track findings considered to be less than a reportable condition.

10. REFERENCES

- a. Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, *Internal Control Over Financial Reporting*, dated December, 2004.
- b. Implementation Guide for OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix A, *Internal Control Over Financial Reporting*, dated August, 2005.
- c. General Accounting Office (GAO) *Standards for Internal Control in the Federal Government*, dated November, 1999.
- d. GAO *Internal Control Management and Evaluation Tool*, dated August, 2001.
- e. The Federal Manager's Financial Integrity Act of 1982 (FMFIA) (Pub. L. No. 97-255).
- f. The Chief Financial Officers Act of 1990 (CFO Act) (Pub. L. No. 101-576).
- g. The Federal Financial Management Improvement Act of 1996 (FFMIA) (Pub. L. No. 104-208).
- h. The Federal Information Security Management Act of 2002 (FISMA) (Pub. L. No. 107-347).

Definitions

Control deficiency -- the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

- A ***design deficiency*** exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed the control objective is not always met.
- An ***operation deficiency*** exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.

Financial reporting -- includes annual financial statements of an agency as well as other significant internal or external financial reports. Other significant financial reports are defined as any financial reports that could have a material effect on a significant spending, budgetary or other financial decision of the agency or that is used to determine compliance with laws and regulations on the part of the agency. In addition to the annual financial statements, significant reports might include: quarterly financial statements; financial statements at the operating division or program level; budget execution reports; reports used to monitor specific activities such as specific revenues, receivables, or liabilities; and, reports used to monitor compliance with laws and regulations such as the Anti-Deficiency Act.

Internal control over financial reporting -- a process designed to provide reasonable assurance regarding the reliability of financial reporting.

Material weakness (financial reporting)-- a reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

Materiality for financial reporting -- the risk of error of misstatement that could occur in a financial report that would impact management's or users' decisions or conclusions based on such report.

Reliability of financial reporting -- management can reasonably make the following assurances: all reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence); all assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness); all assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations); all assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation); the financial report is presented in the proper form and any required disclosures are present (presentation and disclosure); the

transactions are in compliance with applicable laws and regulations (compliance); all assets have been safeguarded against fraud and abuse; and, documentation for internal control, all transactions, and other significant events is readily available for examination.

Reportable condition (financial reporting) -- a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, that is more than inconsequential will not be prevented or detected.