
MEMORANDUM

TO: LINDA COMBS, OFFICE OF MANAGEMENT AND BUDGET
FROM: JAMES TAYLOR, U.S. DEPARTMENT OF COMMERCE
SUBJECT: CIRCULAR A-123 IMPLEMENTATION PLAN
DATE: SEPTEMBER 1, 2005
CC: DOC SENIOR MANAGEMENT COUNCIL, MICHELE KAPLAN, LISA CASIAS

I am writing in response to your request of August 1, 2005 for CFO Act agency implementation plans pursuant to the requirements of Appendix A of OMB revised Circular A-123, Management's Responsibility for Internal Control. In your memorandum, you request that the each agency address, at a minimum, significant milestones and major decisions pertaining to:

- Organizational Structure;
- Scope of Financial Reports;
- Materiality;
- Identification of Key Processes;
- Integration of Internal Control-related Baseline Activities;
- Testing Plan;
- Resources to be Utilized; and
- Documentation Methods.

The following paragraphs outline steps that the U.S. Department of Commerce (DOC or Department) has taken or proposes to take with respect to implementation of the requirements of Appendix A.

Organizational Structure

Otto J. Wolff, the Chief Financial Officer and Assistant Secretary for Administration of DOC, established a Senior Management Council (Council or SMC) in June, 2005 to provide oversight for the A-123 implementation process. The Council is composed of the Chief Financial Officers of each DOC bureau, as well as senior managers from the Chief Information Officer, Budget, Acquisition Management and Administrative Services offices. A list of members of the SMC is attached as Attachment 1 to this memorandum. The Council is co-chaired by James Taylor, Director of the Office of Financial Management and Deputy Chief Financial Officer, and John Phelan, Director of the Office of Management and Organization. The Council met the week of August 15th and will

meet at least monthly over the next nine months to address issues arising in connection with the process and to coordinate compliance.

Scope of Financial Reports

The Department will include basic quarterly and year end consolidated financial statements in their assessment of internal control over financial reporting. The basic financial statements will include the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, Statement of Financing, and the accompanying notes to the financial statements. In addition, the Department will review budgetary execution reports, including the SF-132, *Apportionment and Reapportionment Schedule* and SF-133, *Report on Budget Execution and Budgetary Resources*.

In addition, the Department administers programs which significantly impact its budget, although not on a constant basis. The Department will review its major programs and include those which may have significant appropriations, a high degree of visibility (such as the Decennial Census) and other areas of particular interest to management or which may have been identified through the Department's audit process. The Department anticipates that this review will be completed by the fourth quarter of 2005.

Materiality

The materiality analysis for planning, design and assessment has been completed using the GAO/PCIE Financial Audit Manual as a guide. This analysis is based upon the FY 2004 Consolidated Financial Statements for the Department and is primarily a quantitative analysis. The materiality base was determined by taking the greater of total assets and total expenses, with total assets being greater. Design materiality is 1% of the materiality base and assessment materiality will be 75% of design materiality.

Identification of Key Processes

The Department is currently examining its key business processes. The Department will review the following:

- Cash receipts and disbursements;
- Collection of accounts receivable;
- Purchase and sale of inventory;
- Award of grants;
- Payroll; and
- Other business processes determined to be key to DOC's financial reporting.

The Department anticipates that this process will be completed in the second quarter of FY 2006.

Integration of Internal Control-related Baseline Activities

The Department will conduct an assessment of other reviews of internal control related matters, to be completed in the third quarter of 2006. The assessment will involve the following: (1) determine ongoing DOC evaluations and other activities which impact control objectives; (2) identify the departmental offices and officials responsible for these activities; (3) meet with these officials to coordinate the assessment goals and to identify areas of duplication; (4) meet with auditors regarding the financial audit; (5) exchange information and coordinate assessment with auditors; and (6) review and discussion of outcome with Council.

Testing Plan

The Department has determined those bureaus and line items which have a material impact upon financial reporting. The Council will develop a testing plan upon completion of the following tasks: (1) the analysis and documentation of the key businesses processes which significantly impact financial reporting; (2) the determination of the risk associated with these processes; and (3) and the evaluation of existing controls that mitigate these risks. The Department anticipates that the testing plan will be developed in the second quarter of FY 2006 and that testing will take place in the third quarter of FY 2006.

Resources to be Utilized.

The Department currently anticipates that all work will be completed by Department of Commerce staff, but may consider using outside contractors to assist in the later phases. The Department intends to use DOC staff in the planning phase. However, once key processes and existing controls have been determined, the Senior Management Council will assess the need for outside contractors in the testing and documentation phases.

Documentation

Once the Department has identified key processes and the internal controls over these processes, it will review existing documentation of these processes and controls. The Department will create a Senior Assessment Team, composed of representatives of those bureaus which have a material impact on DOC's financial reporting. Team members will identify existing documentation, review for sufficiency, identify any gaps and outline requirements. The results of this assessment will be presented to the Senior Management Council; this process will be completed by the end of the first quarter of FY 2006.

The Department also will develop documentation of its assessment and implementation plan and methodology on an ongoing basis. The documentation will be developed beginning in the fourth quarter of FY 2005.

Concluding, Reporting and Correcting Deficiencies and Weaknesses

The final reporting and identification of deficiencies and weaknesses will be completed during the fourth quarter of FY 2006 as part of the Performance and Accountability Report. This will involve a review of the test results by the Senior Management Council; a determination of the deficiencies and weaknesses of DOC's internal controls; and the development of corrective active action plans.

Attachment 1: DOC Senior Management Council