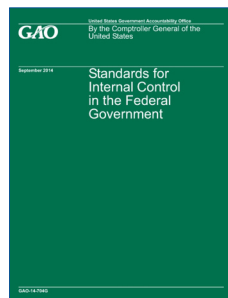




Update on *Standards for Internal Control in the Federal Government*

Mid-America/Southwest/Southeastern Intergovernmental Audit Forums

December 4, 2014
Eric Holbrook



Session Objective

To provide an update on the internal control standards promulgated by GAO.



Green Book Advisory Council

Representation from:

- Federal agency management (nominated by OMB)
- Inspectors General
- State and local government
- Academia
- COSO
- Independent public accounting firms
- At large

3



Standards for Internal Control in the Federal Government

- Reflects federal internal control standards required per Federal Managers' Financial Integrity Act (FMFIA)
- Serves as a base for OMB Circular A-123
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

4



What's in the Green Book for State and Local Governments?

- May be an acceptable framework for internal control on the state and local government level under proposed OMB Uniform Guidance for Federal Awards
- Written for government
 - Leverages the COSO Framework
 - Uses government terms

5



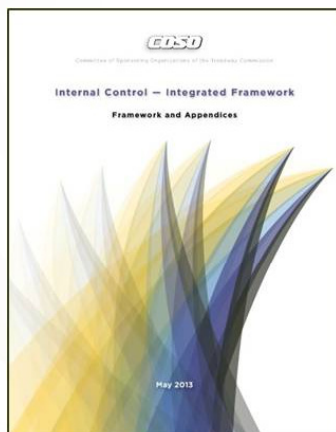
What's in the Green Book for Management and Auditors?

- Provides accepted standards for management
- Provides criteria for auditors
- Can be used in conjunction with other standards like the Yellow Book

6



Updated COSO Framework



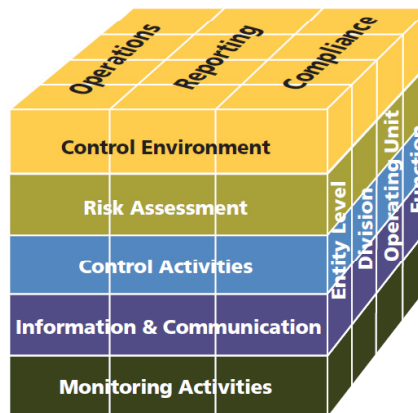
Released
May 14, 2013



The COSO Framework

COSO depicts the relationships as a cube.

- The three objectives are represented by the columns.
- The five components are represented by the rows.
- The entity's organization structure is represented by the third dimension.



Source: COSO



GAO

Revised Green Book: Standards for Internal Control in the Federal Government

GAO
United States Government Accountability Office
By the Comptroller General of the United States

September 2014

Standards for Internal Control in the Federal Government

GAO-14-704G

- Consists of two sections:
 - Overview
 - Standards
- Establishes:
 - Definition of internal control
 - Categories of objectives
 - Components and principles of internal control
 - Requirements for effectiveness

10



Definition of Internal Control

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. These objectives and related risks can be broadly classified into one or more of the following three categories:

- Operations - Effectiveness and efficiency of operations
- Reporting - Reliability of reporting for internal and external use
- Compliance - Compliance with applicable laws and regulations

11



From OMB's New Grants Guidance

§ 200.61 Internal controls.

Internal controls means a process, implemented by a non-Federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (a) Effectiveness and efficiency of operations;
- (b) Reliability of reporting for internal and external use; and
- (c) Compliance with applicable laws and regulations.

12



From OMB's New Grants Guidance

§ 200.303 Internal controls.

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States and the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

13



Components, Principles, and Attributes

Achieve Objectives



Components



Principles

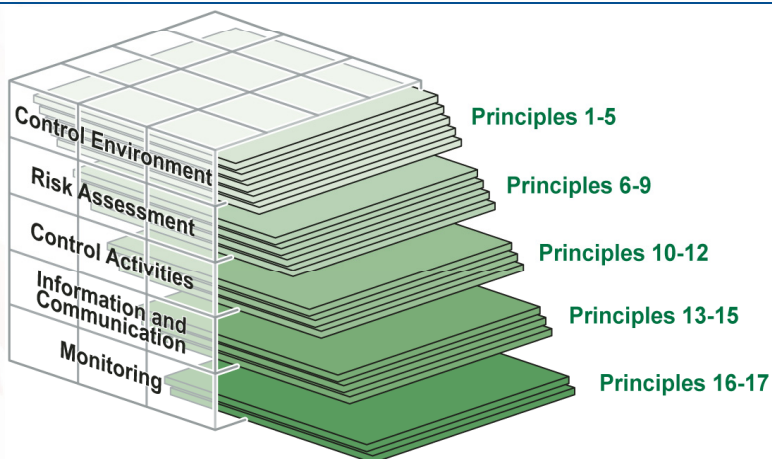


Attributes

14



Components and Principles



15

Components and Principles

Control Environment

1. Demonstrate Commitment to Integrity and Ethical Values
2. Exercise Oversight Responsibility
3. Establish Structure, Responsibility, and Authority
4. Demonstrate Commitment to Competence
5. Enforce Accountability

Risk Assessment

6. Define Objectives and Risk Tolerances
7. Identify, Analyze, and Respond to Risk
8. Assess Fraud Risk
9. Analyze and Respond to Change

Control Activities

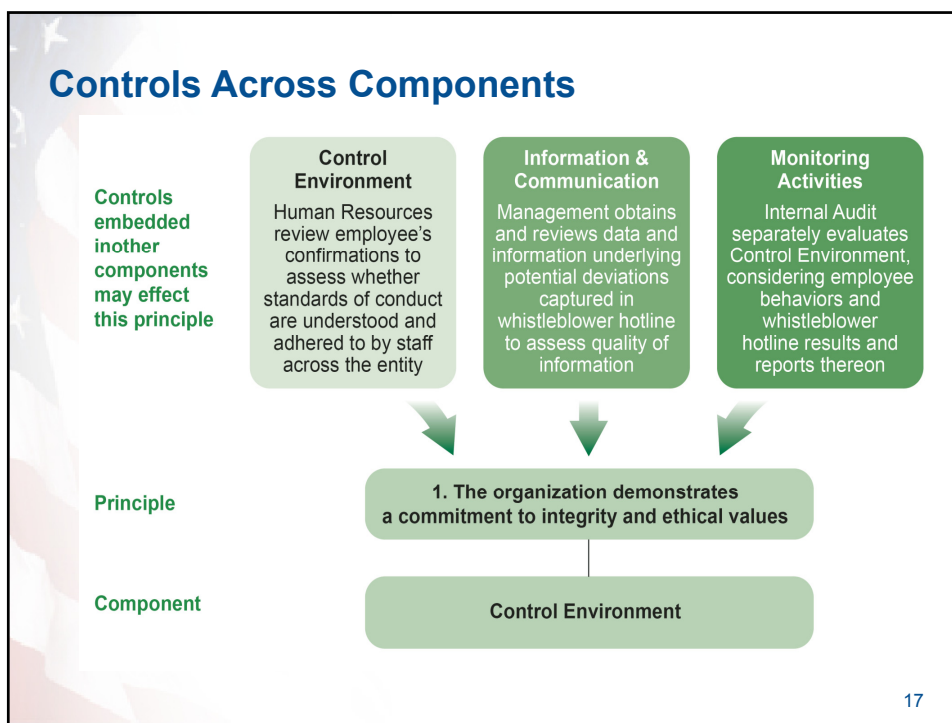
10. Design Control Activities
11. Design Activities for the Information System
12. Implement Control Activities

Information & Communication

13. Use Quality Information
14. Communicate Internally
15. Communicate Externally

Monitoring Activities

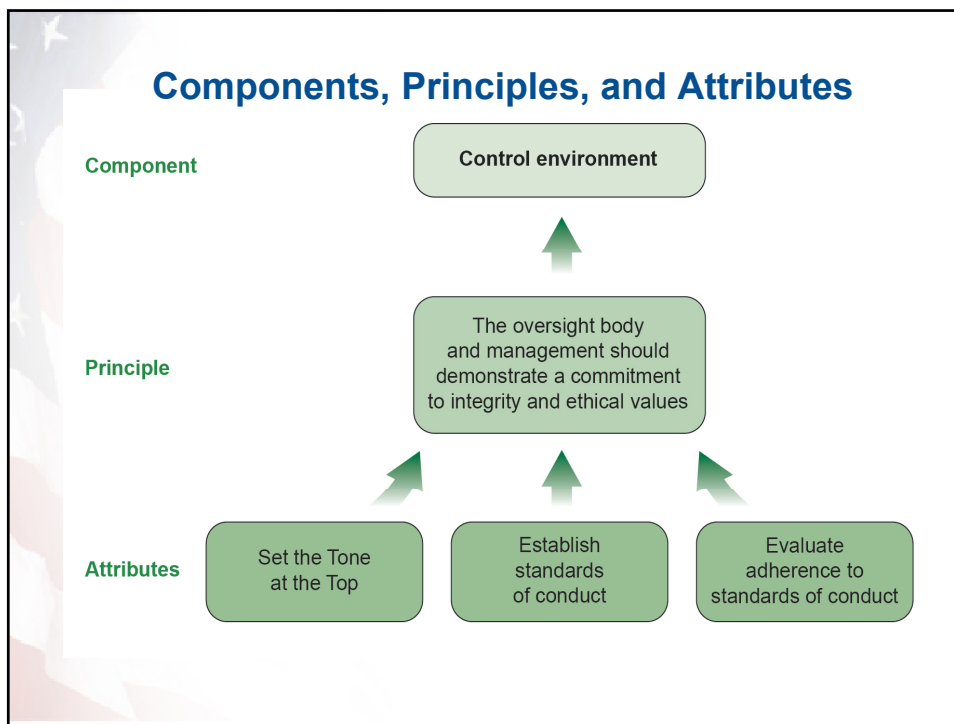
16. Perform Monitoring Activities
17. Remediate Deficiencies



Principles and Attributes

- In general, all components and principles are required for an effective internal control system
- Principles and Attributes
 - Entity should implement relevant principles
 - If a principle is not relevant, document the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively
 - Attributes are considerations that can contribute to the design, implementation, and operating effectiveness of principles

18

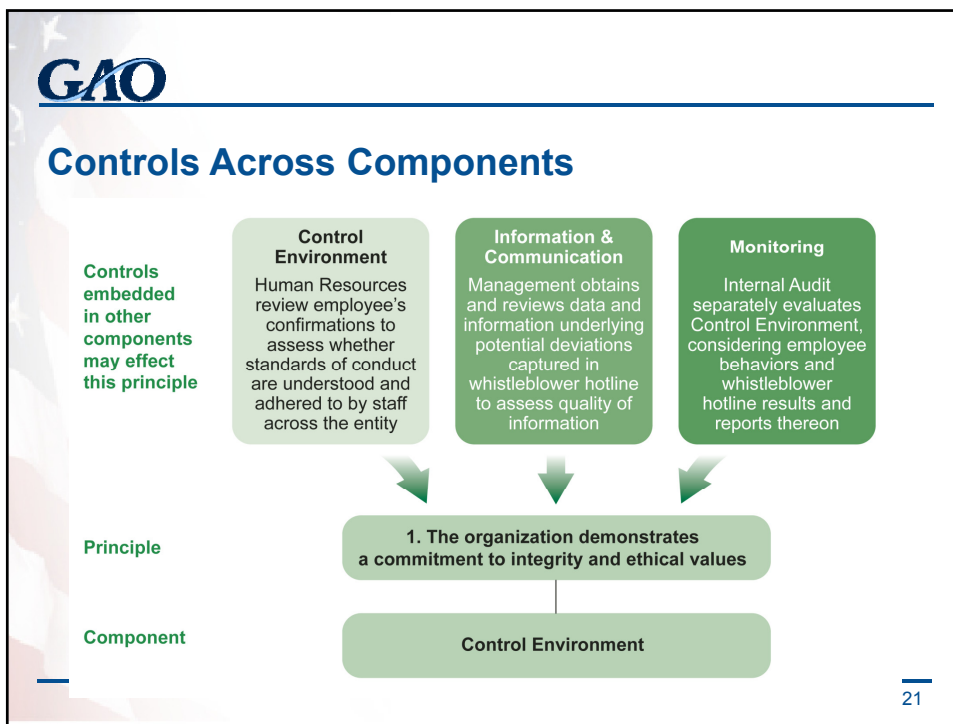


GAO

COSO vs. Green Book

Component	COSO	Green Book
Control Environment	5 Principles 20 Points of Focus	5 Principles 13 Attributes
Risk Assessment	4 Principles 27 Points of Focus	4 Principles 10 Attributes
Control Activities	3 Principles 16 Points of Focus	3 Principles 11 Attributes
Information & Communication	3 Principles 14 Points of Focus	3 Principles 7 Attributes
Monitoring	2 Principles 10 Points of Focus	2 Principles 6 Attributes

20



GAO

Documentation Requirements

If management determines a principle is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle, the associated component could be designed, implemented, and operated effectively.

22



Documentation Requirements (cont.)

- Control Environment
 - Management develops and maintains documentation of its internal control system.
- Control Activities
 - Management documents in policies the internal control responsibilities of the organization.

23



Documentation Requirements (cont.)

- Monitoring
 - Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify internal control issues.
 - Management evaluates and documents internal control issues and determines appropriate corrective actions for internal control deficiencies on a timely basis.
 - Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.

24



Where to Find the Green Book

- The Green Book will be on GAO's website at:
www.gao.gov
- For technical assistance, contact us at:
greenbook@gao.gov