GAO *Standards for Internal Control in the Federal Government: 2013 Exposure Draft*

NASACT - Summary of Comments
November 27, 2013

State – Office	Comments:
AZ – A	Our main concern would be relevant to question 10, which asked if the Green Book was written in such a way to allow state, local, and quasi-governmental entities, as well we not-for-profit organization, to adapt it for their own use. We believe that in general it would be a good resource for nonfederal governments. Our concern was with the criteria noted on Page 18, paragraph 04.10, regarding applicability to other entities, which states that 04.10 The Green Book may be applied as a framework for an internal control system for state, local, and quasi-governmental entities, as well as not-for-profit organizations. Management of these entities determines, based on applicable laws and regulations, the applicable requirements for their entities. If management elects to use the Green Book as criteria, management follows all applicable requirements presented in these standards. Also, on Page 18, paragraph 04.09, indicates that there is a minimum level of required documentation. As shown in the highlights above, we believe paragraph 04.10 contains contradictory information. Although it says that the Green Book may be applied and management can determine the applicable requirements for their entities, it then states that management follows all applicable requirements in these standards if they elect to use the Green Book. We believe the last sentence of paragraph 04.10 should be removed. If not, as auditors of state and local governments, we are wondering if we would be expected to ensure entities have complied with these Green Book requirements and whether they would be required in all situations. We believe that there will be circumstances in which governments may want to use the Green Book for guidance, but if there is an expectation that they would be required to comply with "all requirements" and have minimum documentation requirements, that could deter them from using it. If there is an expectation that there will be circumstances in which the Green Book's requirements would be subject to audit evaluation because a federal agency might require the Green Book's application for administering a federal grant program, this should be explained in paragraph 04.10.
MT - A	Members of our staff have read the proposed changes and have the following comments on the questions for commenters: 1. Is the hierarchy of components, principles, and attributes clearly explained? Yes, the hierarchy of components, principles, and attributes is clearly explained. 2. Are there any internal control concepts unique to the government environment that should be in the Green Book that are not currently included? Subrecipient monitoring is an internal control concept unique to the government environment. We do not believe subrecipient monitoring requirements are adequately addressed. Also, the Green Book's definition of "oversight entity" does not appear to include situations where government entities receiving funds for specific purposes are monitored by the grantor governmental agency. Consider clarification of this in the overview section of the Green Book. 3. Does the framework provide the necessary information to allow program managers to

	evaluate the internal controls for their programs? Yes, the framework provides for the necessary information to allow program managers to evaluate the internal controls for their programs. 4. Does the Green Book provide adequate criteria for auditors? We believe the Green Book should include some guidance related to placing internal control deficiencies in the various buckets of control deficiency, significant deficiency, or material weakness. 5. Are the requirements for management to design, implement, and operate an internal control system clear, understandable, and adequate? Yes, the requirements for management to design, implement, and operate an internal control system are clear, understandable, and adequate. 6. Is the evaluation of deficiencies discussion clear, understandable, and adequate? As stated in the reply to question 4, we believe there should be guidance included for auditors in determining whether internal control deficiencies are significant deficiencies or material weaknesses. Also, we believe additional guidance on the concept of timely identification of errors would be appropriate. 7. Are the roles, divisions, and overlaps of responsibility for the oversight body, management, and personnel clear, understandable, and adequate? As noted in question 2, we believe the definition of an “oversight entity” should include grantor agencies which pass through funds to other government entities. 8. Are the documentation requirements included in the Green Book clear, understandable, and adequate? There is a general discussion of the documentation requirements, but there are some sections which specifically indicate what documentation is required, while others do not. Consider adding additional documentation requirements throughout, i.e., analyzing risks, fraud risk, analyzing and responding to risk, baseline, etc. 9. Is there a need for additional internal control implementation guidance? If so, what form should it take? As discussed in questions 4 and 6, we believe additional guidance on determining whether internal control deficiencies are significant deficiencies or material weaknesses would be appropriate. 10. Is this Green Book written in such a way to allow state, local, and quasi-governmental entities, as well as not-for-profit organizations, to adapt it for their own use? Yes, the Green Book is written in such a way to allow state, local, and quasi-governmental entities, as well as not-for-profit organizations, to adapt it for their own use.
TN – C	It appears to follow the COSO Internal Control 2013 revisions pretty closely. However, I would recommend expanding the discussion on service organizations in Chapter 1, Section 4 on "Service Organizations." (p. 15 and following). As we know the federal government over the past decade has dramatically expanded its use of contractors in many areas. The Green Book language on service providers refers to service agencies as "payroll or healthcare claim" processing. It might be helpful to use the word "contractors." In fact as we know, contractors now do the core work of many federal agencies - and when there are mistakes there are sometimes big consequences. There is an inherent risk in the use of contractors - as the work is often physically outside the organization, with another management team in charge, and possibly less access to information. There may be additional monitoring requirements.