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December 2, 2013

Mr. James Dalkin  
Director -Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Dalkin:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments to the U.S. Government Accountability Office (GAO) on the proposed changes to the *Standards for Internal Control in the Federal Government*, commonly known as the "Green Book". The FMSB is comprised of 25 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB supports the revisions proposed by GAO to the Green Book. We agree that the 2013 revision provides a much needed update to the *Standards for Internal Control in the Federal Government* to reflect the major developments that have occurred in the accountability and financial management community since the prior version was published. In particular, we wish to commend GAO and its committee on the excellent job it has done, incorporating into the Green Book, the changes that have been made to the Internal Control Framework published by the Committee of Sponsoring Organizations (COSO). These changes are necessary to insure continuity in the application of appropriate standards in the work of the accountability and financial management community regarding internal controls.

We have several comments regarding the Green Book draft which we would like GAO to consider when preparing the final version. These comments as well as our answers to the questions posed by GAO follow.

Overview-Foreword

In the subsection titled How to Use the Green Book, GAO provides a short discussion of the purpose and structure of the Green Book. As the target audience for the Green Book is managers as well as auditors, we believe that GAO should consider adding additional explanatory material in this subsection regarding what is meant by the use of the words "must" and "should" in the Green Book. These terms are familiar to auditors who utilize the Yellow Book but may not be familiar to managers who have had limited or no contact with the



Yellow Book and therefore will not be familiar with the concept of unconditional requirements and presumptively mandatory requirements. GAO may also wish to consider highlighting for such users, when the term “must” is used relative to an unconditional requirement and note that a Glossary is provided for the reader.

## Overview-Section 2

Section 2 of the overview introduces terminology that is fundamental to the user of the Green Book and key to applying the guidance. In particular, GAO introduces the terms “components”, “principles” and “underlying attributes”. Paragraph O2.05 states that the components are the highest level in the hierarchy of standards and the principles and underlying attributes represent requirements necessary to achieve the standards of internal control. We suggest that GAO develop a paragraph or perhaps a graphic to better explain what the relationship is between a component, principle and underlying assumption in the Green Book. We also recommend that GAO consider describing a principle as the essential characteristics necessary for each component to be effective. Attributes could then be described as the properties or indicators that a control component is achieving the desired principles. We recommend GAO insert a word other than “requirements” to describe the terms principles and underlying attributes in paragraph O2.05. As written, this would appear to suggest that principles and underlying attributes must be adhered to in all circumstances. However paragraph O2.06 provides that management may determine that a principle or underlying attributes may not be relevant to achieve objectives and address related risks. Removing the term “requirement” would help to eliminate confusion.

We are pleased that in paragraph O2.06, the draft states that although all components, principles and attributes are generally relevant for an effective internal control system, there may be situations where management has determined that a principle or attribute is not relevant for the entity to achieve its objective and address a related risk. We think this qualification is well stated. However we also believe the third sentence in this paragraph should be modified to indicate that “relevance” is a variable concept rather than an absolute concept in this regard. We suggest that the third sentence should read, “Relevance refers to management’s determination of the degree to which each principle and attribute has a ~~significant~~ bearing on the design, implementation and operation of its associated component.”

We agree with the overall content of paragraph O2.13 which states that no two entities will have an identical internal control system due to differences in various factors. The last sentence in the paragraph provides a number of factors that may be a cause of any difference. We recommend modifying the sentence to more clearly indicate that the factors listed in the sentence are only examples and not all inclusive. We also suggest including some additional external factors, such as economic environment and expectations of stakeholders.

The matter of what constitutes an “oversight body” for a particular entity presents a problem for federal entities. It is evident from the diversity in the organization and operation of federal agencies and departments that there is no clear cut, readily definable organization or group that could be classified as an oversight body across the federal spectrum. Therefore, we support the need for flexibility in defining the role. Paragraph O2.14 and the Glossary provide guidance as to what is an oversight body in an internal control system. In the glossary, an oversight body is defined as, “Those responsible for overseeing management’s design, implementation, and operation of an internal control system.” Paragraph O2.14 states that an oversight body might include one or a few members of senior management or multiple parties, in other circumstances. To strengthen the guidance, we suggest GAO include the concept of “those charged with governance” in the discussion of oversight body. This concept would elevate the expectations of the role and help to separate the role of the oversight body from day to day management.

In paragraph O2.15, the Green Book states that the external auditor and the IG are not considered a part of the entity's internal control system. We think that this paragraph should either be expanded or that a footnote should be added to state that an external auditor also includes those auditors who are employees of the entity but report to the entity's governing body or independent audit committee. This arrangement is common in state and local government entities.

The guidance in paragraph O2.21 states that reporting objectives relate to the preparation of reports for use by the entity, its stakeholders, or other external parties and provides further guidance by subdividing this into additional categories. Under the subcategory External Financial Reporting Objectives, we believe the phrase "financial performance" suggests that only historical information objectives need be addressed. External Financial Reporting may include both historical and forward looking information and therefore we suggest the phrase be replaced by "financial condition, performance and expectations". Additionally, under the subcategory Internal Financial Reporting Objectives and Nonfinancial Reporting Objectives, we suggest the description be revised to state, "Objectives related to gathering and communicating information needed by management to support decision making and evaluation of agency performance." This will more clearly relate the guidance to the reporting objective.

The Green Book also uses the term "program" throughout and we believe that the term should be defined to in a manner similar to the Yellow Book. The Yellow Book, in paragraph 2.01, provides a broad definition of program that we feel should be incorporated into the Green Book. For example, one would expect that managers would establish internal controls over cash handling in a fee supported program, but cash handling is not a program but an activity that supports a program.

### Overview-Section 3

Paragraph O3.07 provides guidance on the factors management must consider when evaluating the significance of an identified internal control deficiency. To assess the effect, management must consider the magnitude of impact, likelihood of occurrence and the nature of the deficiency. We also believe management must consider the relevance of the identified deficiency to the objective. Although this may be considered inherent in the evaluation process, it should be stated as a factor to consider.

Paragraph 3.09 states that generally management will first consider the whether the relevant controls are designed, implemented and operating effectively to achieve each relevant attribute. It further states that management considers the "elements" underlying the attribute in this process. Although not part of the framework, GAO should consider defining the term "elements" in this paragraph or in the Glossary.

### Overview-Section 4

Paragraph O4.03 introduces the term "oversight controls" when discussing controls over service organizations. While the term oversight controls is descriptive, it is unclear how it fits into the internal control framework. Therefore we suggest that alternative wording be used in the opening sentence in this paragraph. We suggest the opening sentence be reworded to state, "Management may consider the following when determining the nature and extent of internal controls necessary to be implemented by the entity in relation to the service organization:"

### Control Environment

Paragraphs 2.03 and 2.04 of the Green Book provide guidance on the establishment of an oversight body. As stated in our prior comments, we suggest GAO introduce the concept that an oversight body should include "those charged with governance" to make it clear that an oversight body serves a higher purpose in the internal control system. We also suggest GAO reword paragraph 2.05. The title for this paragraph

is Responsibilities of an Oversight Body, yet the paragraph begins with the statement, “When the oversight structure of an entity is led by senior management, senior management may distinguish itself from divisional or functional management through the establishment of an oversight body.” While this sentence is necessary, it belongs in paragraph 2.07 rather than paragraph 2.05.

Paragraphs 4.01 through 4.12 discuss the matter of demonstrating a commitment to competence. We support this section and believe it provides sound guidance on this matter. However, we believe the concluding sentence in paragraph 4.04 should be reworded to state, “It is supported ~~expressed in the attitude and~~ by the behavior of individuals as they carry out their responsibilities.” This places the emphasis upon the actions of individuals.

### Risk Assessment

We have several comments regarding this section that we would like GAO to consider. In paragraph 6.11, the Green Book states that: “Management defines risk tolerances for the defined objectives. Risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives. Risk tolerances are initially set as part of the objective-setting process. Management defines the risk tolerances for defined objectives by ensuring that the set levels of variation for performance measures are appropriate for the design of an internal control system.” We recommend the last sentence in this paragraph be reworded to emphasize that management should design the internal control system to ensure that the variations of performance are appropriate for the objectives.

We also have a concern regarding paragraph 7.05. The concluding sentence states that, “Both risks could cause deficiencies in the internal control system.” We suggest it be reworded to state, “Both risks must be considered when establishing and assessing internal controls.”

### Control Activities

Paragraph 11.06 begins by stating that, “Management also evaluates information processing objectives to meet the defined information requirements.” We believe that this could be stated in an improved manner by stating, “Management should evaluate the information requirements to determine what information will be needed to meet the information processing objectives.”

### Monitoring

Paragraphs 17.03 through 17.06 provide necessary guidance regarding personnel reporting internal control issues to management as well as to appropriate external bodies. We agree with this guidance and suggest that GAO consider adding specific guidance in the Green Book that these expectations be placed into a formal entity policy and widely published and communicated throughout the entity.

### Questions Posed by Green Book

1. Is the hierarchy of components, principles, and attributes clearly explained?

As noted in our earlier comments, we believe GAO needs to provide additional information as to the relationship between a concept, principle and attribute. We provided some suggested wording on this matter.

2. Are there any internal control concepts unique to the government environment that should be in the Green Book that are not currently included?

As noted in our general comments regarding the Overview Section of the Green Book, we believe that the Green Book should incorporate the concept that the oversight body should include those charged with governance. There is no one identifiable body or unit across the federal entity that meets the definition of an oversight body and we believe this phrasing will help to distinguish the oversight body from management.

3. Does the framework provide the necessary information to allow program managers to evaluate the internal controls for their programs?

Yes, we believe that the Green Book provides the necessary information to program managers.

4. Does the Green Book provide adequate criteria for auditors?

Yes, the Green Book provides adequate criteria for auditors.

5. Are the requirements for management to design, implement, and operate an internal control system clear, understandable, and adequate?

Yes, the requirements for management are clear, understandable and adequate.

6. Is the evaluation of deficiencies discussion clear, understandable, and adequate?

Yes, the evaluation of deficiencies discussion is clear, understandable and adequate.

7. Are the roles, divisions, and overlaps of responsibility for the oversight body, management, and personnel clear, understandable, and adequate?

As stated in our general comments regarding the Overview Section, we believe that the discussion and explanation as to the formation and role of the oversight body should be enhanced to incorporate the concept that the oversight body should include those charged with governance.

8. Are the documentation requirements included in the Green Book clear, understandable, and adequate?

Yes, the documentation requirements are adequate.

9. Is there a need for additional internal control implementation guidance? If so, what form should it take?

No, there is not a need for additional guidance.

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?

The Green Book is written in such a way as to allow other governmental, quasi-governmental and not for profits to adapt it to its own use; however there are changes that GAO can make to the Green Book to make the adaptation more clear. In the overview section, GAO uses federal requirements in certain

paragraphs as statements. For example, in paragraph O3.04, the Green Book discusses a specific federal requirement. If GAO intends that the Green Book should be used by others, it should either preface these statements as examples or there should be an additional sentence at the end of the paragraph to announce that state or local governments may have a corresponding task or report to prepare. In paragraph O2.01, GAO should add a sentence that the Green Book standards may be used by these suggested organizations. Other changes GAO should make would include changes to paragraph 2.07. As written, the Green Book has no examples of key stakeholders at the state or local level such as local legislative bodies and state legislatures. If GAO wishes to cultivate a wider audience, we recommend that GAO make such changes throughout the Green Book.

We appreciate the opportunity to comment on this document and would be pleased to discuss this letter with you at your convenience. A majority of the FMSB members approved of the issuance of this letter of comments. If there are any questions regarding the comments in this letter, please contact Steven E. Sossei, CPA, and AGA's staff liaison for the FMSB, at [ssossei@agacgfm.org](mailto:ssossei@agacgfm.org) or at 518-522-9968.

Sincerely,

A handwritten signature in black ink, appearing to read 'Eric S. Berman', with a long horizontal flourish extending to the right.

Eric S. Berman, CPA,  
Chair- AGA Financial Management Standards Board

cc: Mary Peterman, CGFM, CPA  
AGA National President

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