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Subject: Comments on the Government Accountability Office's (GAO) *Internal Control in the Federal Government* Exposure Draft

To Whom It May Concern:

Grant Thornton is pleased to submit our comments in response to GAO's *Internal Control in the Federal Government* Exposure draft. We commend GAO's efforts to update the *Internal Control in the Federal Government* document and offer the following responses to the questions in the Exposure Draft.

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

YES, it is clearly explained. However, since the updated Green Book states that GAO adopted the COSO principles (including the components), we believe it would be beneficial to clearly distinguish what was not adapted from COSO that makes the Green Book unique to government entities. Perhaps the Foreword could include a brief description regarding what aspects of the Green Book are different from the COSO Framework. GAO's Yellow Book has moved in this direction in recent updates and we believe this was very helpful.

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

We do not have any specific recommendations of internal control concepts that are unique to the government environment that should be included in the Green Book. However, we would like to point out that, in our view, the updated Green Book does not clearly delineate those internal control concepts that are genuinely unique to the government environment. As such, it is difficult to determine what may be inadvertently excluded. The Green Book, as currently drafted, is very similar to the new COSO framework. If the government has unique requirements, then it would seem that the five components should contain different concepts. In the exposure draft, both the Green Book and the new COSO have the same number of principles in each component, giving the impression that there are no unique, additional or non-applicable requirements for government entities. The Green Book reads in a way that most of the content would be just as applicable to the new COSO framework and



environment. If government entities have distinct and unique concepts, the Green Book should clearly present them. This could potentially be accomplished by means of a table in the Foreword Section. This would help the reader to immediately and easily focus on the aspects of internal control that are unique to government entities.

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

The framework does provide the necessary information to allow program managers to evaluate the internal controls for their programs. Program managers can utilize the Green Book to decipher which internal controls would be useful to incorporate into the program operations. The Green Book provides the program manager with a wealth of sound internal control guidance to enhance their operations' effectiveness.

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

Auditors can obtain sound criteria to use in developing audit programs, assessing operations, and drawing conclusions and recommendations that will help develop a stronger internal control system. However, auditors should still seek additional guidance from other sources (e.g., OMB, Treasury, NIST, etc.) that would provide a more comprehensive set of criteria to use for different types of audit engagements.

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

The requirements are generally clear, easily understood, and sufficient to assist management with its internal control processes and procedures. In addition, we would recommend that the Green Book point out that there are other criteria available as a supplement to the Green Book requirements that can help management. For example, with the increased use of shared service centers by government entities (such as accounting support provided by the Bureau of the Public Debt's Administrative Resource Center), it would be helpful for the Green Book to reference other material which can be used as internal control criteria (e.g., SSAE 16, "Reporting on Controls at a Service Organization"; NIST's Preliminary Cybersecurity Framework, etc.).

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

Section 3 presents a clear and understandable discussion of the process for evaluating deficiencies. However, we believe it would be more helpful to limit Section 3 to a brief summary of the evaluation process and then direct the reader to Principle 16 which would contain additional details. Currently, Section 3 contains several pages of details for evaluation while Principle 16 is much sparser.



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

While in the Overview, Section 2, paragraph O2.14, there is a high level and generalized description of the three separate parties' responsibilities, more clarity around the three roles would be helpful in applying the Green Book's standards. Paragraphs 16.01 through 17.10

under Monitoring in the footnote reference the focus on management and personnel's roles and responsibilities. The Oversight Body's role is described under the Control Environment Section, particularly Principles 1 and 2. We suggest that a reference be made back to this section on roles and responsibilities (e.g., Paragraph 2.12). There are a few references to Personnel (e.g., paragraphs 17.02a, 17.03-17.05), but it would appear that some of the detailed requirements for Management are, in fact, carried out by other Personnel under the direction of Management. We believe it would be helpful to include more information on how Personnel are used by Management to fulfill its overall responsibilities. In Paragraph 17.05, a reference is made to Personnel's "assigned internal control responsibilities." These responsibilities should be made more clear and include how Management uses the Personnel to meet its overall responsibilities.

Furthermore, it would be preferable, given the significance of the reference, to lift the reference to Paragraphs 16.01 through 17.10 from a footnote to the body of the document.

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

Yes, but we believe the Green Book should present a summary of the key documentation requirements in the Foreword, rather than refer the reader to five different paragraphs (four principles) to decipher those requirements. As currently drafted, there are a few short paragraphs at the conclusion of the Foreword, which leaves the reader to search for the specific applicable paragraphs.

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

Yes, there is a need for additional internal control implementation guidance. For example, since there are greater expectations to use service organizations as a more efficient and cost effective approach, the control environment for an entity becomes a little more complex. In addition, we recommend that there be references made to other appropriate reference documents, such as Statements of Federal Financial Accounting Standards. Furthermore, guidance from the Office of Management and Budget (e.g., OMB Circular A-123, OMB Bulletin 07-04, etc.) and the Department of the Treasury (e.g., Treasury Financial Manual) may amplify the current Green Book principles and attributes could assist governmental entities in establishing a sound internal control system and program.



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, but the Green Book should be written in a manner that would make entities, like state, local and quasi-governmental units, want to adapt the attributes as clearly being more appropriate for governmental bodies. The Green Book does not adequately describe the uniqueness of its content, vis-à-vis the new COSO Framework, to make it more desirable and beneficial to use as a starting point versus the COSO Framework, which can easily be adapted as well. Since there is so much parallel information in both standards documents, even structurally, the reader of the Green Book will likely have difficulty identifying content that is uniquely relevant to governmental entities.

ADDITIONAL COMMENTS AND SUGGESTIONS

- *Title: Standards for Internal Control in the Federal Government*

We might suggest the title be expanded to “Standards for Internal Control and Risk Management in the Federal Government”. Truly, COSO and the new Green Book are more than just about internal control, and the title should reflect the full extent of the guide.

- *Enclosure I: Summary of Major Changes*

We believe it would be helpful if the first paragraph succinctly described the recent developments in “the accountability and financial management profession” which are alluded to in the current version. Else, the user is left to wonder what, aside from the new COSO Framework, are other relevant developments that have arisen? For example, is GAO referring the Clarification of the Auditing Standards by the American Institute of Certified Public Accountants, or the issuance of SSAE 16?

- *Overview/Foreword*

Enclosure I language, along with the suggestions herein, should be woven into the Overview/Foreword. This will allow for recent developments in the area of internal control to be briefly described for the user of the new Evaluation Tool. We recommend revising the Foreword to add more clarity and details on what led to the need to update the evaluation tool.

- *Control Environment/Overview*

Although it is clear that the internal control environment is the “foundation” for an internal control system, the word is usually associated with a depiction that reflects it being at the



base of any depiction, as in the 1992 version of the COSO cube. However, with the increased emphasis being placed on the importance of the control environment, the new COSO Framework places this key component at the apex of the depiction. Thus, perhaps a different phraseology should be substituted in order to convey the perspective of the overarching nature and importance of the internal control environment. In this way, the description would better conform to the new COSO.

- *Control Activities*

In addition, at page 46, paragraph 10.02a, we recommend changing this to, "...Management should design control activities to achieve the entity's objectives and respond to their risks."

Should you have any questions regarding this input, please don't hesitate to contact me directly. My contact information is [REDACTED] or email [REDACTED]

Thank you for the opportunity to respond.

Sincerely,

Greg Wallig
Managing Director
Grant Thornton LLP

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