



From: Tekleberhan, Karen - OCFO [Redacted]
Sent: Wednesday, February 12, 2014 4:09 PM
To: GreenBook
Cc: [Redacted]
Subject: OCFO
 DOL/OCFO DRAFT Comments on Exposure Draft of Green Book -- Comments are Due to GAO on Tuesday, February 18, 2014

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

Dear Mr. Dalkin:

Below please find comments from the U.S. Department of Labor (DOL), Office of the Chief Financial Officer (OCFO), on the U.S. Government Accountability Office’s (GAO) “Standards for Internal Control in the Federal Government (2013 Exposure Draft).” DOL/OCFO greatly appreciates the work of the Comptroller General’s Advisory Council on Standards for Internal Control in the Federal Government and GAO Project Team and thanks you for the opportunity to provide comments on the Green Book Exposure Draft. At your convenience, we would be pleased to discuss with GAO our comments or any other aspects of the Exposure Draft. The contact at DOL/OCFO is Mr. Gary Maupin, Associate Deputy Chief Financial Officer for Fiscal Integrity, at [Redacted].

Regards,

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

DOL/OCFO Response: DOL/OCFO believes that the five components and 17 principles provide adequate guidance and that the attributes and application material -- are not necessary to develop an internal control system, -- may increase implementation costs, and -- reduce flexibility. Implementation guidance may be a more appropriate document for the attributes and application material. The structure of the attributes and application material could be improved to more clearly distinguish between them. Consider using a text box or different font (e.g., italics) to distinguish between attributes and application material.

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

DOL/OCFO Response: 31 USC 3512 (b), (c), and (d) refer only to executive agencies. The second paragraph of the Forward section states, “Section 3512 (c) and (d) of Title 31 of the United States code (commonly known as the Federal Managers’ Financial Integrity Act (FMFIA)) requires the Comptroller General to issue standards for internal control in the government.” The legislation specifies executive agencies and not the government (i.e., the legislative and judicial branches). Because the legislation applies to the executive agencies, there should be guidance on how to adapt the concepts to a larger entity so that it may apply to the Financial Report of the U.S. Government as prepared by the U.S. Department of the Treasury.

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

DOL/OCFO Response: DOL/OCFO reviewed 31 USC 3512 (c) and (d) as referenced on page 1, second paragraph, of the exposure draft. The legislation makes reference to accounting, administrative, and financial controls, whereas the exposure draft seems to go beyond the internal controls over mission-support and infrastructure which enable the mission-related programs. DOL/OCFO believes that the Green Book should limit the internal controls to those that are related to accounting, administrative, and financial matters.

DOL/OCFO believes that standards on internal controls should be more limited in scope and should exclude governance and risk management. DOL/OCFO believes that governance and risk management in a Federal agency, although they may relate to and overlap with standards on internal controls, should be more clearly distinguished from standards on internal controls because governance and risk management may extend beyond the oversight of a Federal agency's management (e.g., the Congress).

DOL/OCFO believes that internal controls should be subject to cost-benefit considerations and materiality, which are the pervasive constraint and threshold for recognition, respectively, in the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Concepts (SFAC) No. 8, Chapter 3, Qualitative Characteristics of Useful Financial Information. The Federal Accounting Standards Advisory Board (FASAB) Statement of Federal Financial Concepts (SFFAC) No. 2, Objectives of Federal Financial Reporting, in paragraph 155 with regard to the balance between costs versus benefits and cost-effectiveness considerations, states that "This constraint pervades any discussion of the objectives of federal financial reporting." With regard to the following statement in paragraph O4.07:

"Management may decide how an entity evaluates the costs versus benefits of various approaches to implementing an effective internal control system. However, cost alone is not an acceptable reason to avoid implementing internal controls. **Management is responsible for meeting internal control objectives** [emphasis added]. The cost versus benefits considerations support management's ability to design, implement, and operate effectively an internal control system that balances the allocation of human resources in relation to the areas of greatest risk, complexity, or other factors relevant to achieving the entity's objectives."

DOL/OCFO believes that the language in paragraph O4.07 and the general tone in the Exposure Draft do not emphasize the importance of cost-benefit and materiality considerations in internal control systems. The cost-benefit and materiality considerations should be emphasized in a similar manner as FASB SFAC No. 1, Chapter 3, and FASAB SFFAC No. 1.

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

DOL/OCFO Response: Auditors may cite the Green Book requirements in their Notice of Findings and Recommendations (NFR). As a result of the greater length and complexity in the Green Book, NFRs will likewise be longer and more complex and will require more resources for management's response.

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

DOL/OCFO Response: Refer to the responses to Questions 1, 2, and 3 above.

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

DOL/OCFO Response: The evaluation of deficiencies should be limited in scope to those deficiencies in internal controls over accounting, administrative, and financial activities in support of mission-related programs.

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

DOL/OCFO Response: The roles, divisions, and overlaps of responsibility for the oversight body, management, and personnel should primarily cover those internal controls over accounting, administrative, and financial activities in support of mission-related programs.

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

DOL/OCFO Response: Please refer to our response number 11.a below with regard to the documentation requirements.

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

DOL/OCFO Response: The current draft of the Green Book is too prescriptive because it provides guidance below the levels of component and principle. DOL/OCFO believes that implementation guidance should focus on the levels below component and principle. Please refer to DOL/OCFO's response to question 1 for additional DOL/OCFO comments on implementation 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?**

DOL/OCFO Response: DOL/OCFO believes that the comments provided apply to Federal agencies as well as state governments, local governments, quasi-governmental entities, and not-for-profit organizations. However, DOL/OCFO believes that the cost-benefit and materiality considerations may be more pronounced in entities smaller than a Federal agency.

**11. Additional issues noted.** DOL/OCFO's responses with regard to additional issues are provided below.

a. There is inconsistency between the following two paragraphs:

Paragraph O2.08 states, "The Green Book, however, does not prescribe the process for how management designs, implements, and operates its internal control system."

Paragraph O2.06 states, "If management decides a principle or attribute is not relevant, management supports that determination with documentation that includes the rationale of how, in the absence of that principle or attribute, the associated component could be designed, implemented, and operated effectively."

We believe that the language in paragraph O2.06 is prescriptive and describes a particular procedure in the design, implementation, and operation of the internal control system and therefore contradicts the statement in paragraph O2.08.

b. There is inconsistency between the reporting objective subcategory of External Nonfinancial Reporting Objective and the Federal Managers' Financial Integrity Act (FMFIA).

Paragraph O2.21 provides that a reporting objective category subcategory of "External Nonfinancial Reporting Objectives—Objectives related to the release of nonfinancial information in accordance with professional standards, applicable laws and regulations, as well as expectations of stakeholders."

This subcategory could be interpreted to include published economic releases and publications which are beyond the scope of this document, e.g., unemployment rate. We believe that the FMFIA statute requires GAO to prescribe the internal control standards that are primarily related to financial and nonfinancial matters needed to would help evaluate

the entity's performance. Therefore, we believe that this reporting objective subcategory should be **limited in scope to nonfinancial information related to evaluating the entity's performance.**

c. Paragraph O4.08 lists documentation requirements of five attributes. This list omits the documentation requirement in paragraph O2.06. Consistent with DOL/OCFO's comment for item 11.a, DOL/OCFO believes that the documentation requirements in paragraph O2.06 are too prescriptive and should be removed.

d. Paragraph 4.10 references the term "contingency," which has a specific definition in the accounting and auditing literature. Instead of using the term "contingency," consider using the term "succession" for replacing personnel regardless of the timing of the replacement. Furthermore, the term "contingency" in "contingency plans" in paragraph 4.10 is used differently than the term "contingency" in "contingency planning" in paragraph 11.09.

e. Paragraph 6.05 states, "Reporting objectives are further categorized as being either internal or external, and financial or nonfinancial." Language should be added to this sentence to clarify that the reporting objectives relate to the entity's performance.