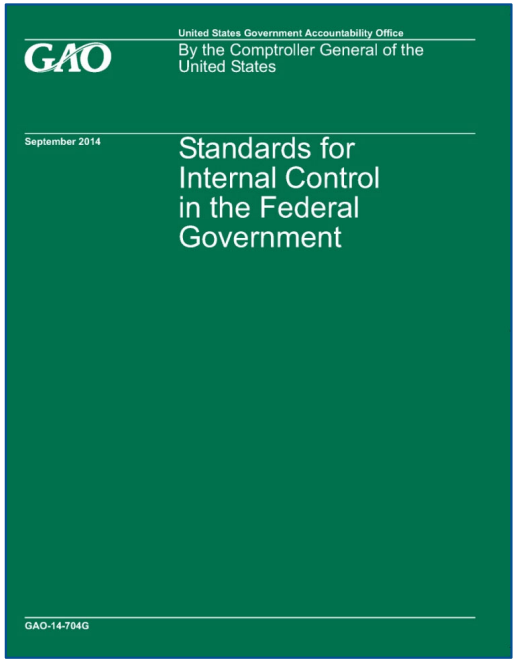
Standards for Internal Control in the Federal Government



July 30, 2024

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U.S. GOVERNMENT ACCOUNTABILITY OFFICE

GAO

Session Objectives

- Provide an overview of *Standards for Internal Control in the Federal Government* (know as the Green Book) issued by GAO.
- Discuss proposed revisions to these standards included in the 2024 Exposure Draft.

OVERVIEW OF *STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT*

SEPTEMBER 2014 REVISION

Standards for Internal Control in the Federal Government (Green Book)

- 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 guidance issued by COSO
  - Uses government terms

How is Green Book Revised?

Extensive deliberative process, including:

- public comments, and
- input from the Comptroller General's Advisory Council on Standards for Internal Control in the Federal Government

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

- Provides accepted standards for management
  - Includes standards for the design, operation, and protection of information and information technology used by the entity.
- Provides criteria for auditors
- Can be used in conjunction with other standards like the Yellow Book

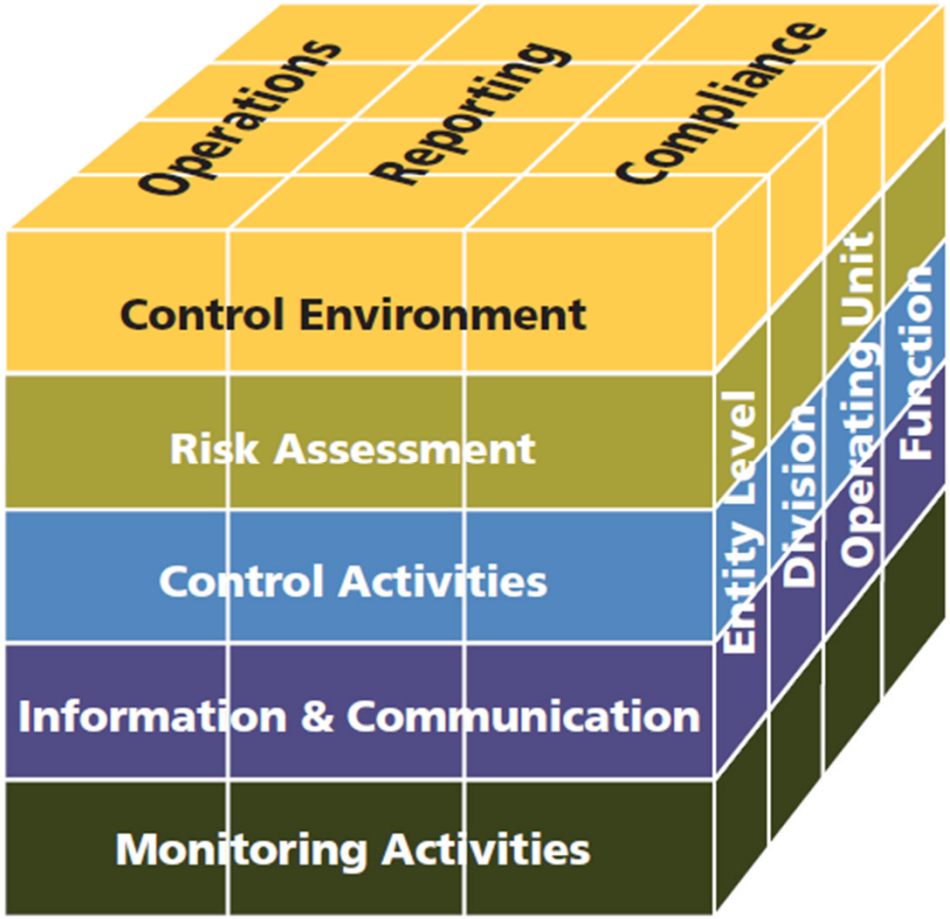
COSO Internal Control – Integrated Framework

Released
May 14, 2013

The COSO Framework

COSO depicts the following 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

Harmonization from COSO to Green Book

Commercial Concepts

- Board of Directors
- Investors

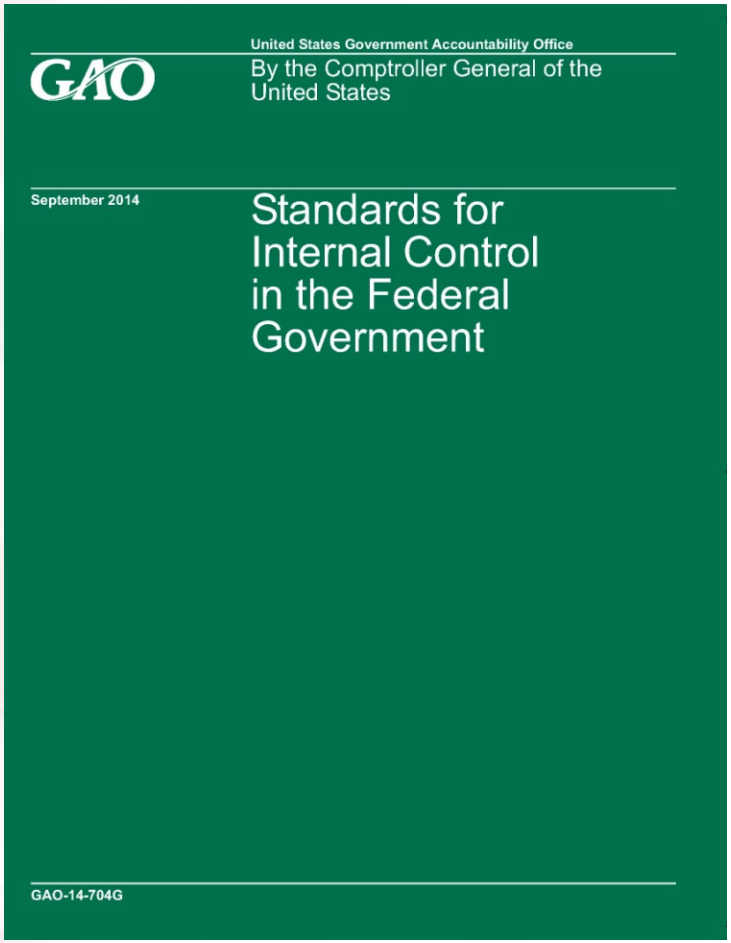
Government Concepts

- Oversight Body
- Stakeholders

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

Green Book: Standards for Internal Control in the Federal Government



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

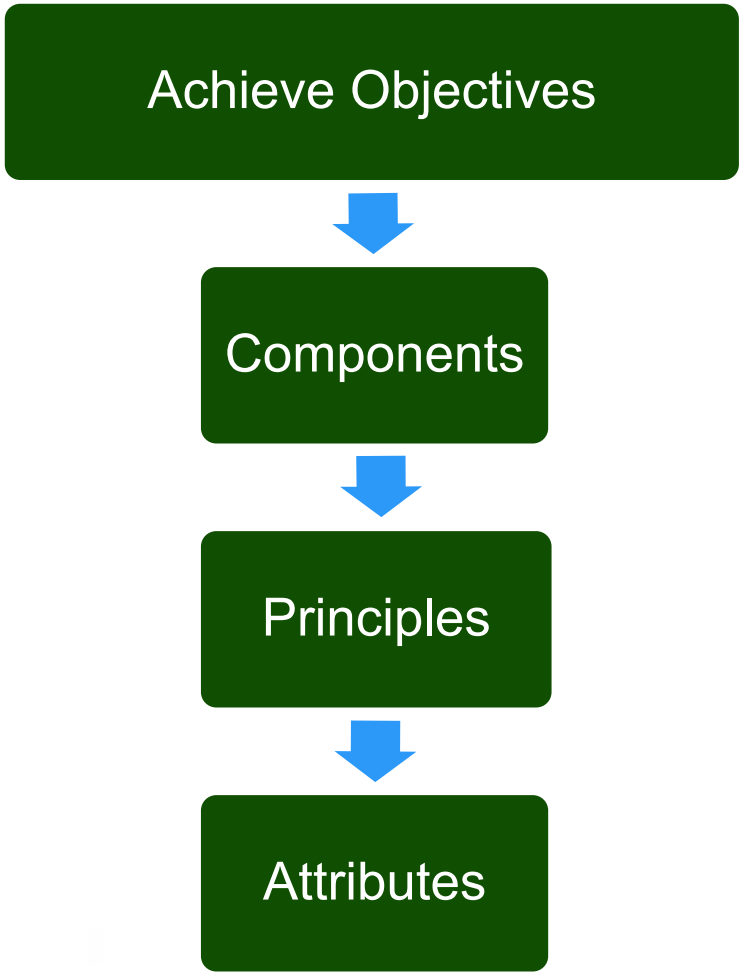
Definition of Internal Control

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.

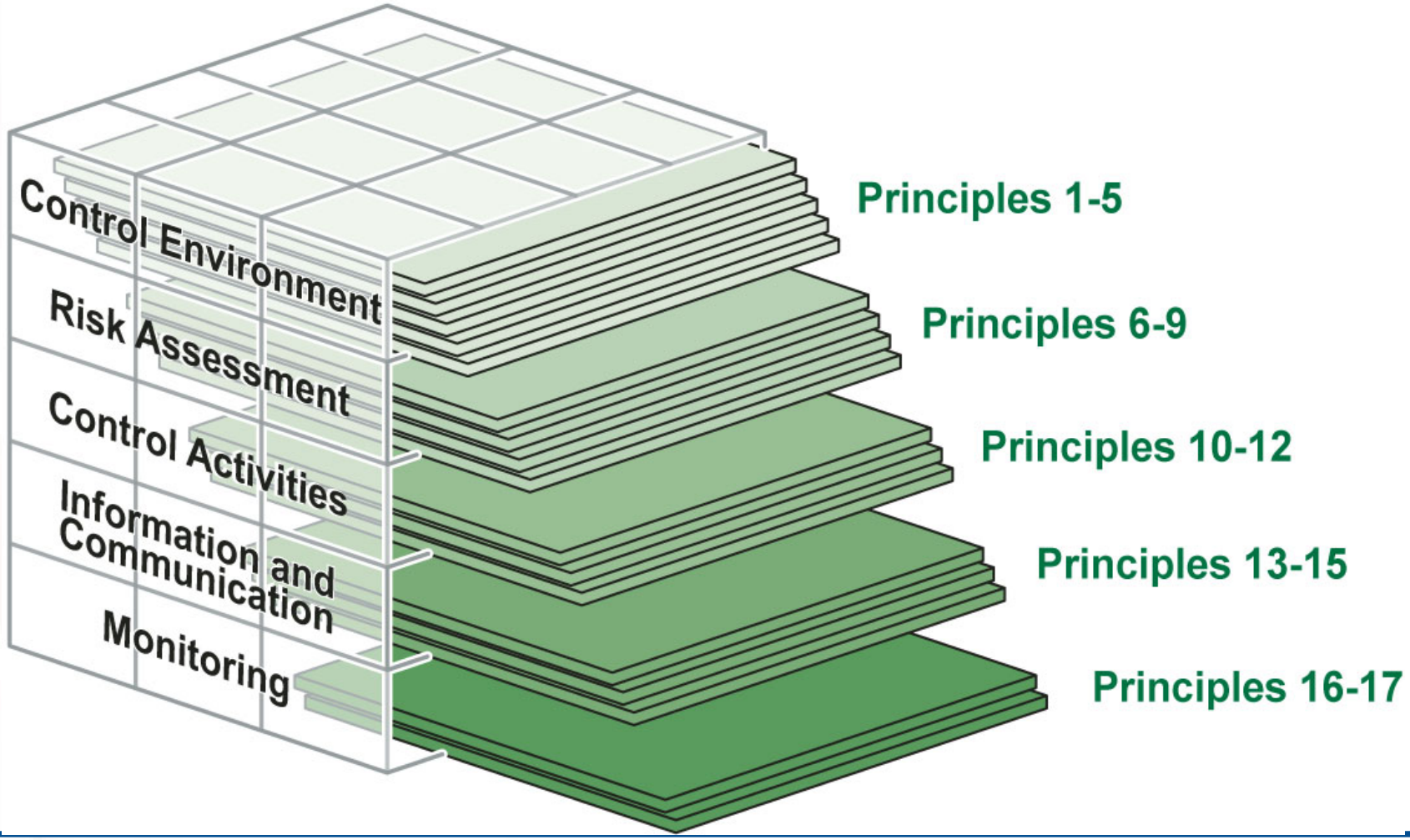
Objectives of Internal Control

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

Components, Principles, and Attributes



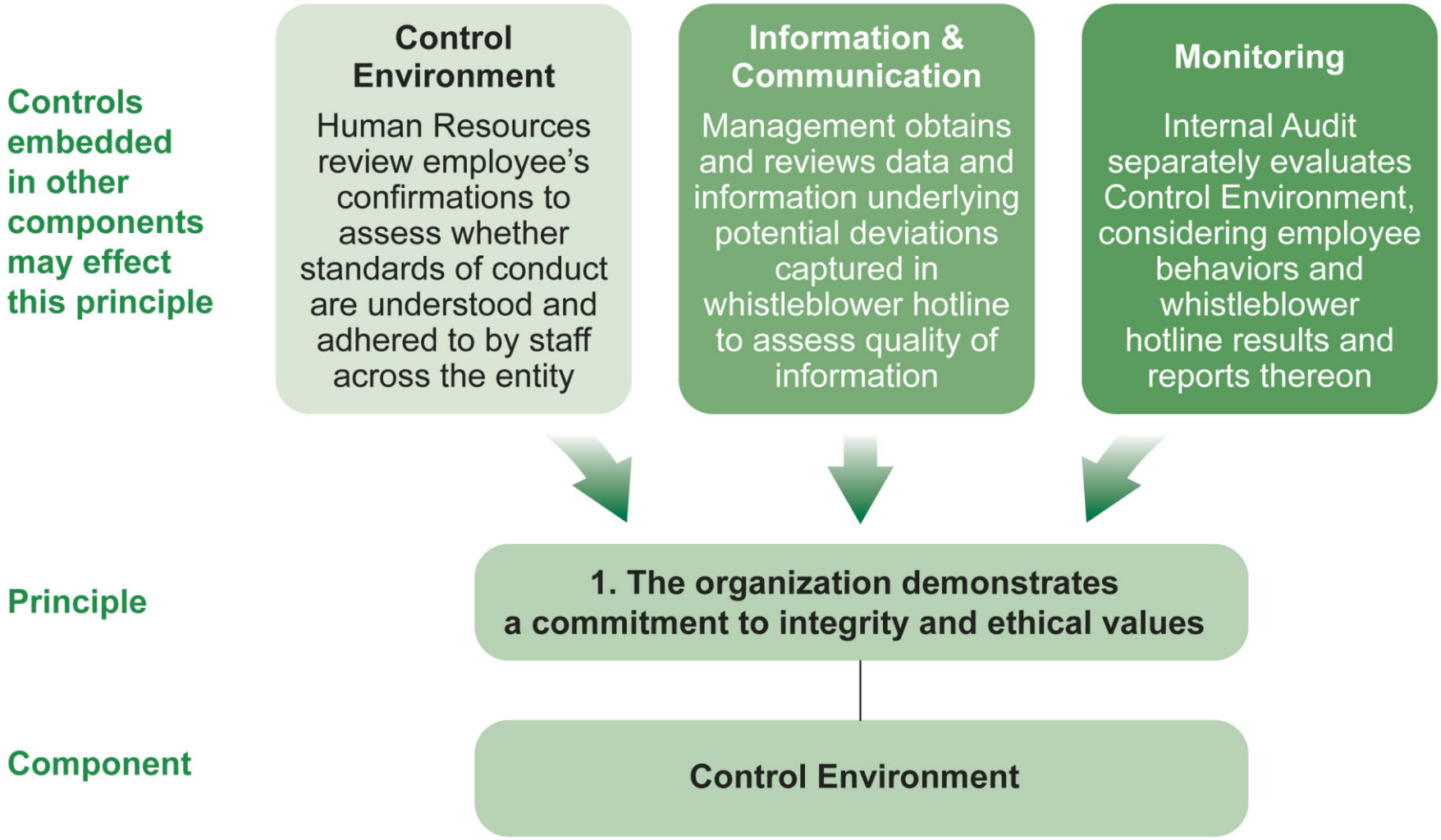
Components and Principles



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

Controls Across Components



Components and Principles

- In general, all components and principles are required for an effective internal control system
- 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

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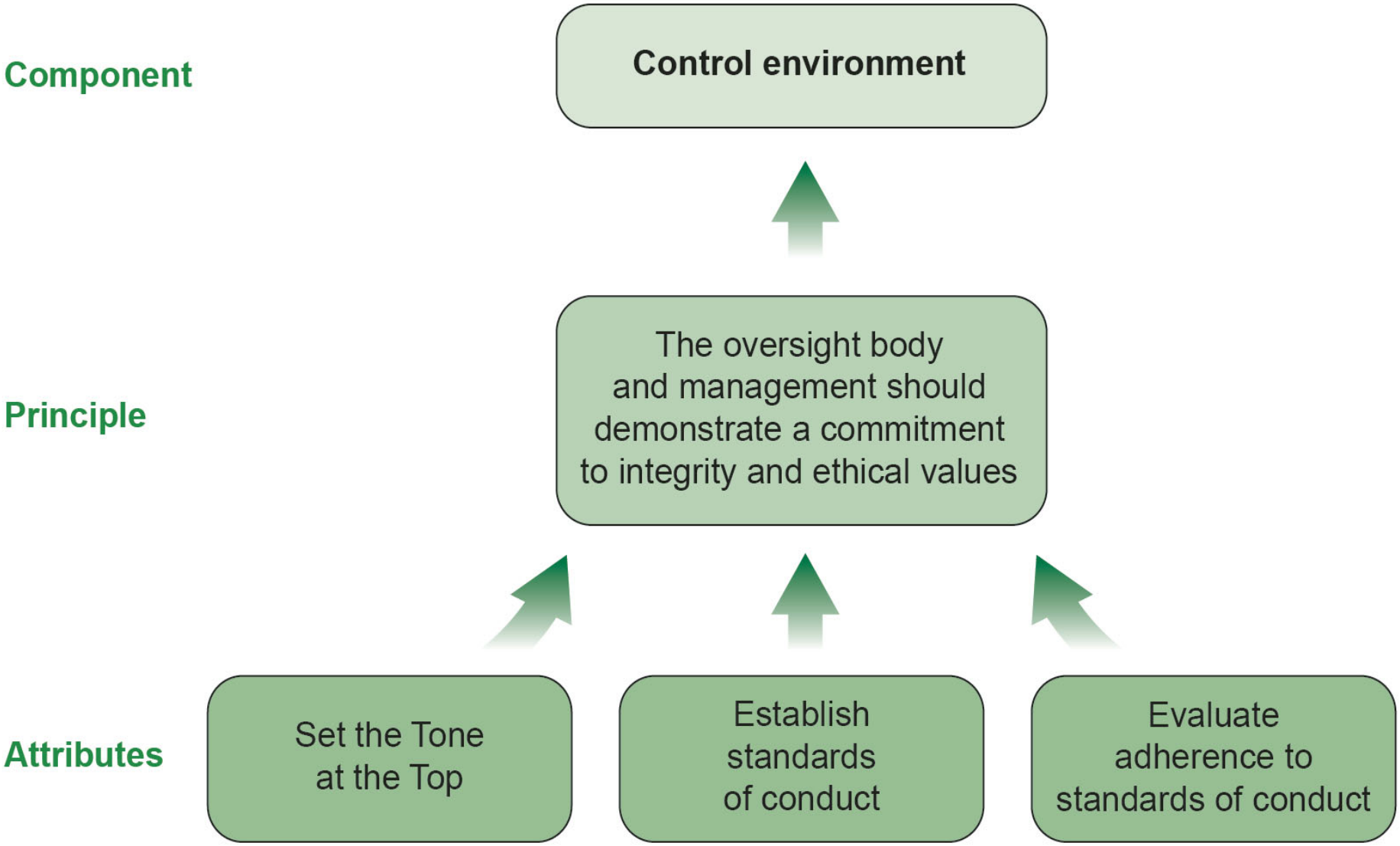
Attributes

- Considerations that can contribute to the design, implementation, and operating effectiveness of principles.
- Provide further explanation of the principle and documentation requirements and:
  - may explain more precisely what a requirement means and what it is intended to cover, or
  - include examples of procedures that may be appropriate for an entity

Components, Principles, and Attributes



Documentation Requirements

- Documentation is a necessary part of an effective internal control system.
- Documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system.
- The level and nature of documentation vary based on the size of the entity and the complexity of the operational processes the entity performs.

Minimum 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.

Minimum 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.

Minimum 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 on a timely basis.

STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT

2024 EXPOSURE DRAFT

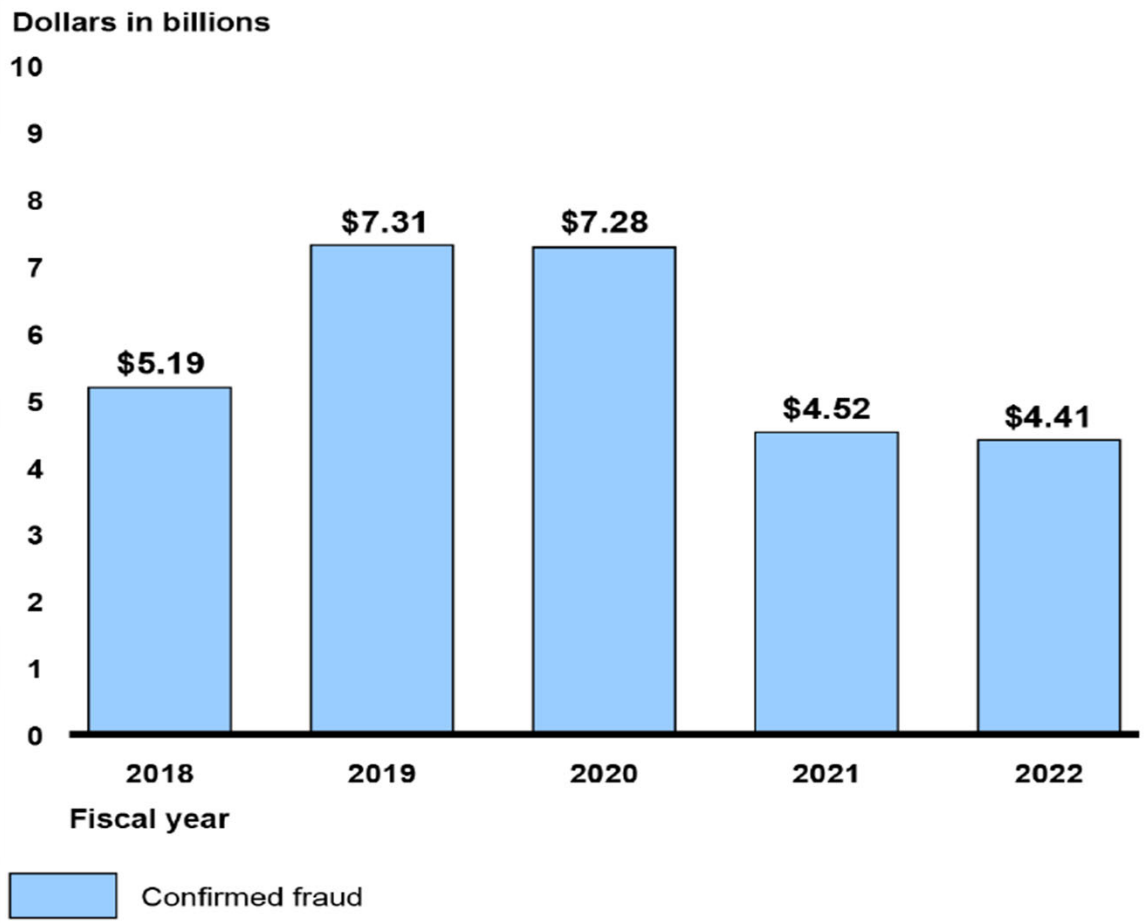
Why is the Green Book Being Updated?

- Green Book was last revised in 2014
- Recent events such as pandemics and cyber-attacks highlighted the challenges management faces when addressing risks related to
  - fraud, improper payments, information security, and
  - the implementation of new or substantially changed programs, including emergency assistance programs

Green Book Revision - Objective

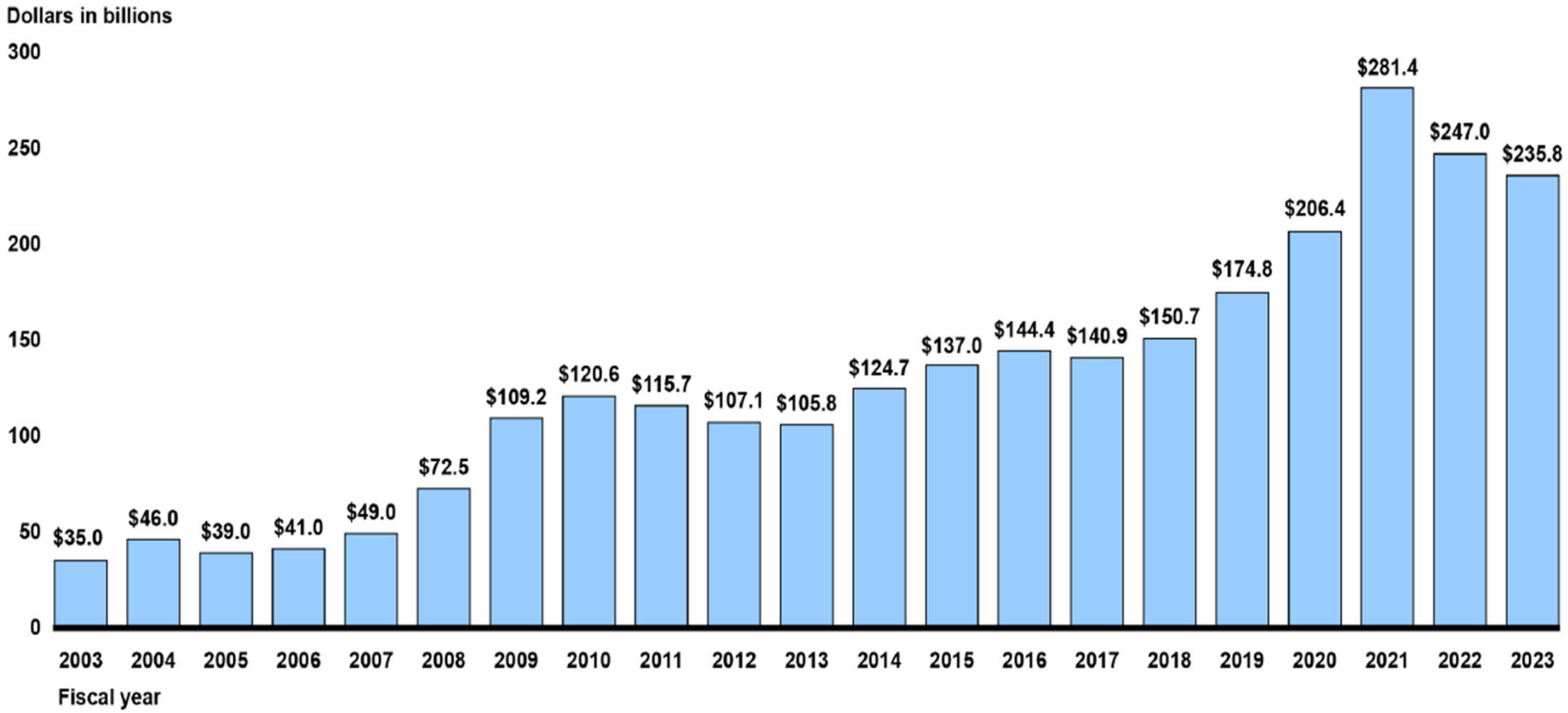
- Provide additional requirements, guidance, and resources for addressing risks related to fraud, improper payments, information security, and the implementation of new or substantially changed programs, including emergency assistance programs.
- Continue harmonizing with COSO Framework.
- Make other modifications to clarify the intent of requirements.

Why Fraud?



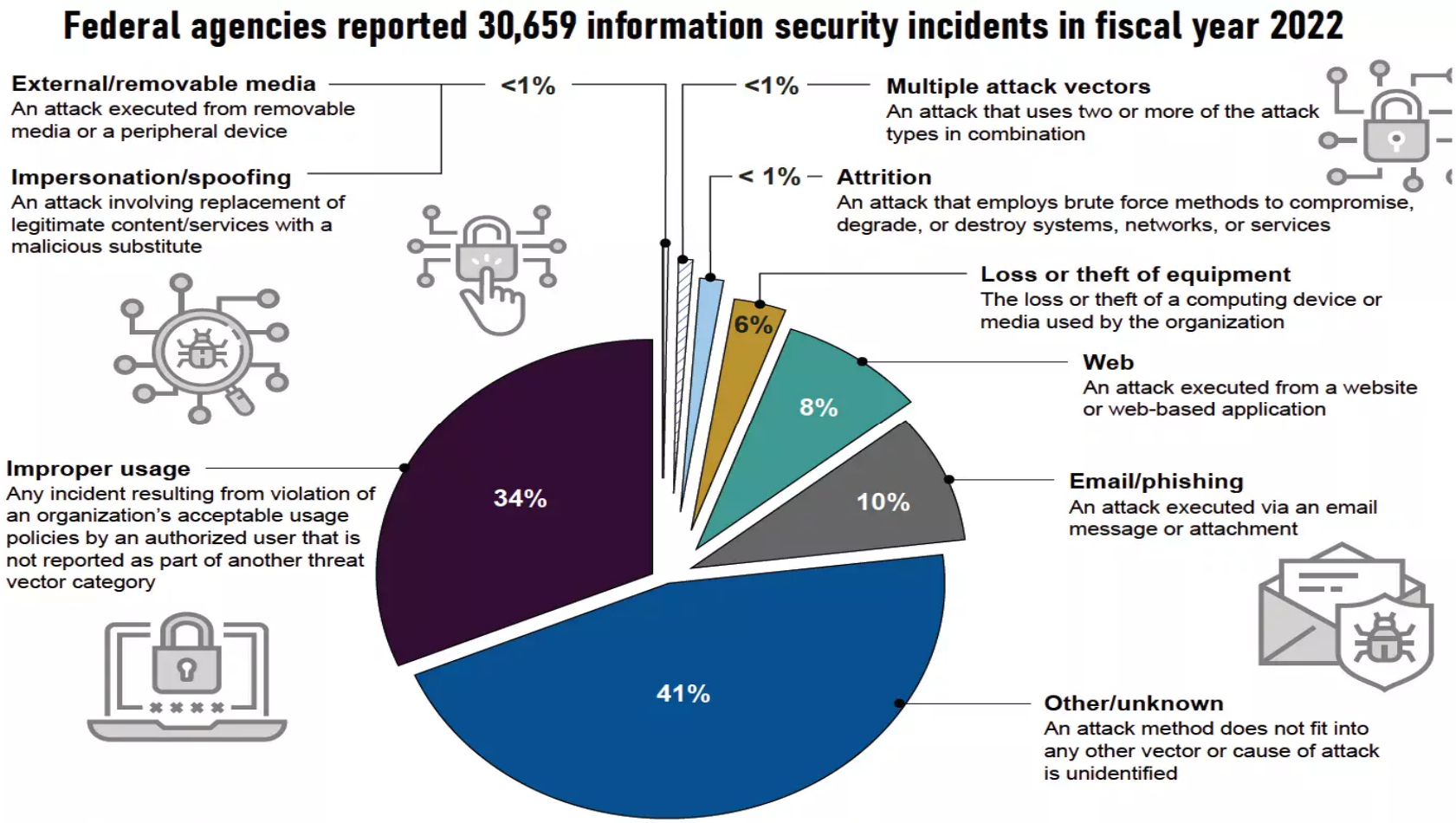
Source: GAO analysis of Office of Management and Budget data from Paymentaccuracy.gov. | GAO-24-105833

Why Improper Payments?



Source: GAO. | GAO-24-106927

Why Information Security?



Sources: United States Computer Emergency Readiness Team (data); lovemask/stock.adobe.com (icons). | GAO-24-106291

Why Emergency Assistance Programs?

- Present significant challenges to entities that must distribute emergency relief funds
- Increased risk for fraud and improper payments
- Many agencies did not develop effective internal controls to manage and oversee the distribution of emergency funds

Green Book Revision – Key Changes

Key changes proposed are primarily related to:

1. Fraud, Improper Payments, and Information Security Risks
2. Responding to Significant Changes
3. Responsibility for Internal Control
4. Prioritizing Preventive Control Activities
5. Information Technology Control Activities
6. Collaboration with External Parties

Fraud, Improper Payments, and Information Security Risks

Proposed update to address fraud, improper payments, and information security risks:

- Requirement to consider improper payment and information security risks
- New documentation requirement
- Resources in new Appendix III

Responding to Significant Changes

Proposed update to address risks related to significant changes:

- Clarified guidance on identifying and responding to significant changes.
- Added application guidance and a documentation requirement related to establishing a process for responding to significant change and related risks, so the internal control system can be quickly respond to changes once they occur

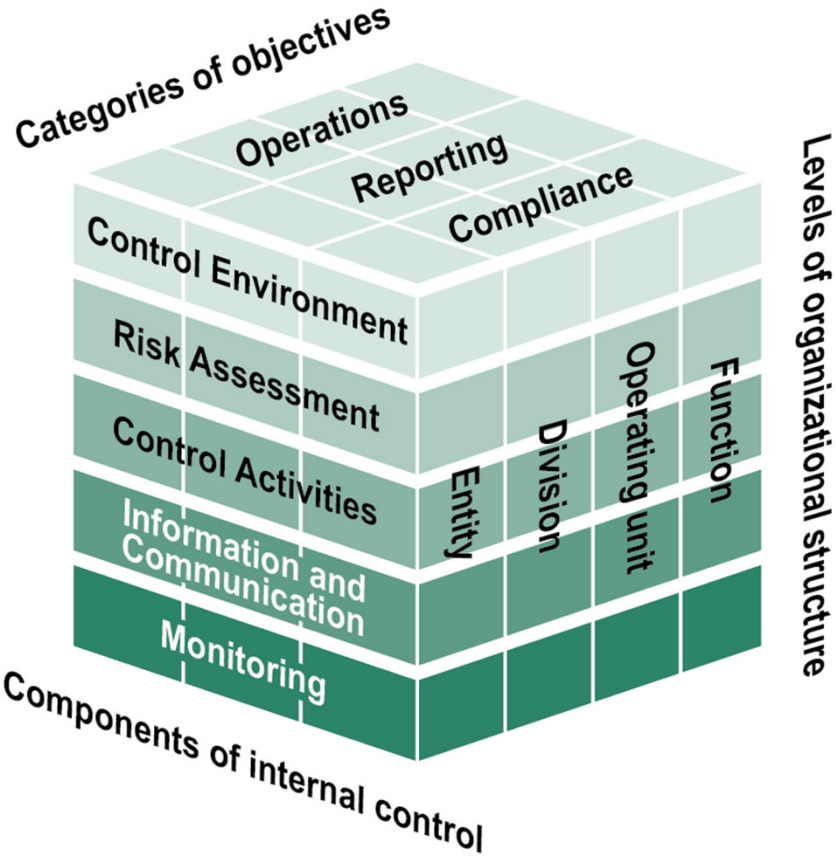
Responding to Significant Changes

The proposed process for responding to significant change may outline considerations for management when responding to change, such as:

- how to modify the organizational structure,
- whether to create a separate process, for mitigating risks related to the change;
- identifying preventive control activities that could be implemented prior to response to change;
- identifying and establishing data-sharing, data-matching, and data-analytics opportunities

Who's Responsible for Internal Control?

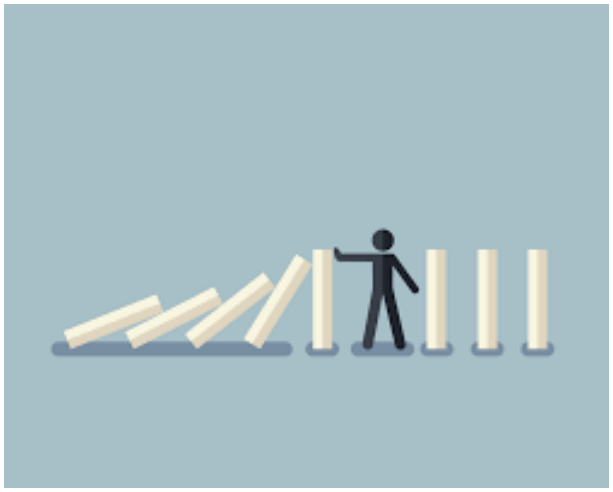
Proposed update emphasizes that management at all levels and within all functions in the entity's organizational structure, including **program and financial managers**, are responsible for internal control.



Preventive Control Activities

Proposed update:

- Clarifies that management designs **an appropriate mix** of preventive and detective control activities to mitigate risk to an acceptable level
- Emphasizes prioritizing preventive control activities
- Provides examples in new Appendix II



Information Technology Control Activities

Proposed update:

- Provides guidance to management on adapting the internal control system to respond to evolving technologies
- Adds a section in the overview to introduce IT and discuss its pervasive nature in entities' internal control processes
- Modified and reorganized the discussion of automated control activities and general controls over IT in the control activities component

Collaboration with External Parties

Proposed update:

- Expands the discussion of external parties, which includes service organizations and other external parties that interact with the entity (including those that receive federal awards, such as grants)
- Adds examples of control activities that management establishes to fulfill its oversight respo
- Expands discussion on processes to communicate necessary information with appropriate external parties

Green Book Revision – Next Steps

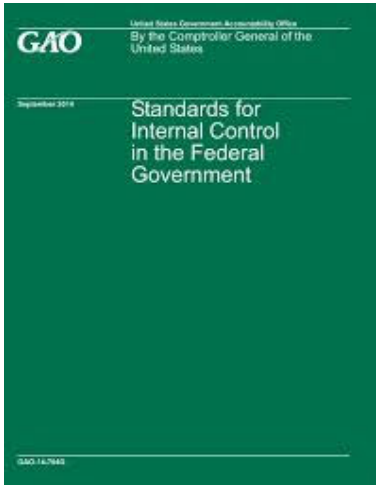
- Exposure Draft issued and open for public comment until August 26th
- Plan to issue final Green Book revision in late 2024
- Planned effective date October 1, 2025

Where to Find the Green Book

- The Green Book (and 2024 Exposure Draft) can be found at: www.gao.gov/greenbook

- To subscribe to GAO Standards News, send an email with the subject “Subscribe” to TheStandardsTeam@gao.gov

- For technical assistance, contact us at: greenbook@gao.gov or call (202) 512-9535



Questions?

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