



December 2, 2013

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

Reference: Standards for Internal Control in the Federal Government – 2013 Exposure Draft

Dear Mr. Dalkin:

Thank you for the opportunity to comment on the recent Exposure Draft of GAO's 2013 Green Book. PwC appreciates the amount of time and effort which has been put forth to update this guidance for Internal Control within the Federal Government. We believe that the changes proposed within the Exposure Draft will help to improve the internal control of Federal entities and other entities which may choose to adopt the Green Book framework.

Our response is comprised of two sections: 1) answers to the *Questions for Commenters*; and, 2) additional comments and questions regarding specific paragraphs within the Exposure Draft.

Thank you again for the hard work put forward by your Committee. Please feel free to contact me should you have any questions regarding this response.

Sincerely,

A handwritten signature in black ink that reads "Walt Fennell".

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# *Answers to the Questions for Commenters*

## *Questions and Answers*

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

We believe that additional explanations and examples should be provided to help ensure the consistent adoption of this framework. Please consider the inclusion of an appendix to provide additional insights to components, principles, and attributes.

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

Although there are operational, reporting, and compliance issues which are unique to the government environment, we do not believe that there are any internal control *concepts* unique to the government environment. Having noted this, we believe that the oversight body concept needs to be revisited and clarified as it may be difficult for Federal entities to implement the oversight body concept on a consistent basis.

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

Recognizing the trade-off between a principles based document versus a document replete with examples, program managers may need additional examples to appropriately and consistently complete an evaluation of the internal controls of specific programs. Please consider the addition of an appendix with examples to support the component, principle, and attribute concepts discussed in the Exposure Draft.

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

The Exposure Draft provides adequate criteria for auditors to use. Although a clear articulation of the requirement for government entities to follow the Green Book would be beneficial. Having this framework is a real step forward, but if the requirement to comply with the framework is not clearly stated, organizations may not adopt it.

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

We believe that managers understand their responsibility to design and operate internal controls, but the requirement to complete these responsibilities using a comprehensive framework like the Green Book is

not universally understood. The requirement to comply with the Yellow Book is clearly stated within that document. Likewise, we believe that the Green Book should contain a clearly stated requirement for government managers to follow the Green Book guidance while designing, implementing and operating a system of internal control.

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

No. The assessment of risk and the identification of design and operating deficiencies do not appear to follow the same guidelines outlined in the Yellow Book. This should be revisited to ensure that management completes the risk assessment and the identification of deficiencies at a level which is, at a minimum, equal to the Yellow Book standard followed by auditors.

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

No. As discussed in the Exposure Draft, the oversight body model does not work consistently within the confines of a Federal agency. The senior management of an organization is ultimately responsible for the design and implementation of internal controls. The senior management of an organization is responsible for the FMFIA Assurance Statement, assertions related to the financial statements, and any other key reports issued by the Federal agency. As such senior management is by default management. Therefore, senior management cannot serve as the oversight body and management. While the concept of oversight bodies and management teams discussed in the Exposure Draft are valid, this model cannot be effectively and consistently implemented within the current structure of a Federal agency which will limit the effective adoption of the Green Book by Federal agencies.

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

No. We believe that the language needs to be clarified and strengthened regarding the completeness and adequacy of the documentation and requirements to complete specific types of documentation (i.e., risk assessments, process maps, flowcharts, narratives, testing matrices, results documentation, etc.).

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

As noted above, we believe that an appendix to the Green Book would be appropriate to ensure that sufficient guidance is provided for the consistent adoption by the users of the Green Book. This appendix could include examples, case studies and example documentation.

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10. Is the Green Book written in such a way to allow state, local and quasi-governmental entities, as well as not-for-profit organization, to adapt it for their own use?

Is there an expectation that not-for-profit organizations should adopt this framework? While we support the need for all organizations to design, implement and operate a comprehensive internal control framework; we recognize that not-for-profit organizations may struggle to fully adopt the concepts included within the Exposure Draft. Furthermore, state, local, quasi-governmental and not-for-profit entities may be unaware of the fact that they are expected to fully adopt the Green Book.

# Additional Comments and Questions

## Paragraph specific questions

Exposure Draft Reference	Comment
Overall – Sample documentation	Consider appending or referring to sample tools or documents that can be used to document, monitor/assess, and report on various elements of the internal control framework.
O1.07 – Limitations of Internal Control	Consider providing additional examples of events that can be “red flags” affecting the organization’s ability to accomplish its objectives and that can affect its Internal Control, such as budget issues, staffing challenges.
O2.03 – Components, Principles and Attributes	Provide more discussion and examples of what can constitute an oversight body for a Federal entity. As currently framed, Federal entities may not be able to achieve the concept of an oversight body.
O2.08 – Use of judgment	The document is silent on management’s use of judgment when dealing with the design, implementation, operation and assessment of internal controls. Please consider a discussion regarding the importance of management judgment when designing, implementing and operating a system of internal control. This discussion should also include a strong requirement for management to document the reasoning and rationale used when making key internal control decisions.
O2.14/O3.07 – References to Oversight Body	Achieving a separation between the oversight body and management may be very difficult at most Federal agencies. Recommend that GAO provide more explicit examples of how to achieve this separation given the working constraints of most Federal

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	entities. Also, would the failure of an entity to clearly establish an oversight body, preclude the entity from complying with the Green Book?
O3.09 – References to Attributes, Elements, Principles, and Components.	The differences between the levels of severity of each of these terms should be clarified and more explicit examples of each should be provided. Also, since the Green Book is clearly modeled after the COSO concepts, we recommend that definitions and requirements be closely aligned with the COSO model to reduce the risk of confusion between the COSO model and the Green Book.
O4.01 – Service Organizations	Please provide more specificity about the expected level of understanding by management, i.e. is an SSAE 16 review sufficient? Does management need to perform a direct review and testing of internal controls managed by a Service Organization? Are SSAE 16 Type I or Type II reports required to assess Service Organization controls?
O4.03 – Oversight controls	The concept of oversight control appears to be a concept not included within the COSO Framework. As such, additional information and clarification guidance should be provided to ensure that government managers are able to consistently implement this aspect of the Green Book.
O4.08/O4.09 – The Exposure Draft has specified documentation requirements in five attributes in the framework. These [five] attributes represent the minimum level of documentation in an entity’s internal control system.	Why only five? Why not all seventeen attributes? Most organizations may automatically default to this minimum level of documentation. Will organizations satisfy the documentation requirements if they only address the five which are listed? If documentation will only be required for five attributes, why should organizations even consider the remaining twelve attributes?
1.03, 1.09, 1.11 – Additional references to the oversight body.	How will a Federal agency demonstrate that it has an independent oversight body that oversees the work completed by management? If there is an assumption that Congress serves as the

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	oversight body, how will a Federal agency demonstrate that the oversight body is in fact effectively overseeing the work of management? How will the Federal agency also demonstrate that the oversight body is evaluating the work of management?
2.05 – Oversight body comprised of Senior Management.	As discussed in the Exposure Draft, the oversight body model does not work consistently within the confines of a Federal agency. The senior management of an organization is ultimately responsible for the design and implementation of internal controls. The senior management of an organization is responsible for the FMFIA Assurance Statement, assertions related to the financial statements, and any other key reports issued by the Federal agency. As such senior management is by default management. Therefore, senior management cannot serve as the oversight body and management. While the concept of oversight bodies and management teams discussed in the Exposure Draft are valid, this model cannot be effectively and consistently implemented within the current structure of a Federal agency which will limit the effective adoption of the Green Book by Federal agencies.
3.14 – Cost-benefit assessment of internal controls and the requirement to prepare “some level” of documentation to demonstrate that the components of internal control are designed, implemented, and operating effectively.	This paragraph is too open-ended and the use of the word “some” will allow agencies to prepare “minimal” documentation. Recommend a word which implies more as opposed to less, such as “robust” or “comprehensive”.
6.03 – Define Objectives	Consider providing more specific guidance – perhaps in an appendix - on objectives to help management in designing internal controls for related risks.
6.12 – The references regarding financial reporting risk tolerances.	The references to financial reporting risk tolerances – being material misstatements appears to be analogous to a material weakness. Since the Yellow Book requires the auditor to report on significant

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	deficiencies – the Green Book should require financial reporting risk tolerances to be no greater than a significant deficiency. Otherwise, management may use a risk tolerance which is higher than that used by the auditor. This is an untenable position.
9.05 – Conditions affecting the entity.	Consider adding a reference to “funding levels” (i.e., continuing resolutions, sequester, etc.)
10.6 – Appropriate documentation of transactions and internal control	Adequacy of documentation continues to be a challenge to agencies and their auditors. They can both benefit from additional guidance on the acceptable level of documentation and evidence.
11.06 – Information processing objectives.	Should restricted access be included within the list of objectives?
12.02 - Attributes	Should there be an attribute which address the need to operationalize internal controls between the design/implementation and the periodic assessment of the internal controls?