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Sent: Wednesday, January 29, 2014 7:25 PM
To: GreenBook
Cc: Jones, Christine (HHS/ASFR); Conley, Sheila (HHS/ASFR); Yanchuk, Margie (HHS/ASFR); Baker, David (OS/ASFR); Horn, David (OS/ASFR); Haseltine, Amy (HHS/ASFR)
Subject: Comments on 2013 Green Book Exposure Draft
Attachments: Green Book - 2013 Exposure Draft word 97-2003 monitoring (6).pdf

We appreciate the opportunity to comment on the Comptroller General Standards for Internal Control in the Federal Government (Green Book) 2013 Exposure Draft (ED).

The ED lacks a definition of resolution and only refers to it briefly. The last paragraph in the 1999 Green Book in effect provides a definition of resolution and additional guidance. The ED in paragraph O2.04 and in the Monitoring Overview on page 68 states that findings of audits and other reviews should be promptly resolved without defining or otherwise explaining the term.

1999 Green Book (Page 20, last paragraph)

Monitoring of internal control should include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved. Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that (1) corrects identified deficiencies, (2) produces improvements, or (3) demonstrates the findings and recommendations do not warrant management action.

ED - O2.04 The five components of internal control are: (page 6)

Monitoring - Assesses the quality of performance over time and ensures that the findings of audits and other reviews are promptly resolved.

ED - Monitoring Overview (page 68)

Finally, since internal control is a dynamic process that has to be adapted continuously to the risks and changes an organization faces, monitoring of the internal control system is essential to help ensure that internal control remains aligned with changing objectives, environment, laws, resources, and risks. Internal control monitoring assesses the quality of performance over time and ensures that the findings of audits and other reviews are promptly resolved. Corrective actions are a necessary complement to control activities in order to achieve objectives.

Also the OMB Circular A-50 definition of resolved stops with the agreement on corrective action and does not include completion of corrective action as the 1999 Green Book does. OMB revised guidance in Part 200—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards uses the terms audit resolution and audit follow-up, both of which have the same meaning as described in the 1999 Green Book and includes completion of corrective action. Part 200 supersedes those sections of A-50 related to audits performed under Subpart F—Audit Requirements but otherwise remains in effect. So without a definition of resolution in the Green Book, the default for other than Single Audit could be back to A-50 with the process stopping prior to completion of corrective action.

OMB A-50 definitions

6. b. Resolution.

(1) For most audits, the point at which the audit organization and agency management or contracting officials agree on action to be taken on reported findings and recommendations; or, in the event of disagreement, the point at which the audit followup official determines the matter to be resolved. A report may be considered resolved despite the right of persons outside the agency to negotiate, appeal, or litigate. Resolution of a report with respect to parties outside the Government does not preclude further consideration of issues in the report by agency management.

(2) For preaward contract audits, the point at which the agreement is reached, a contract price negotiated, or proposed award canceled, whichever occurs first.

(3) For GAO reports, the point at which the agency responds to the Congress, as required by the Legislative Reorganization Act of 1970.

The Single Audit Act at 31 USC 7502(i) includes a requirement that the corrective action plan for audits under the Single Audit Act be consistent with the audit resolution standard in the Green Book, however the ED lacks a definition of audit resolution to be consistent with:

“(i) If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including material noncompliance with individual compliance requirements for a major program by, or reportable conditions in the internal controls of, the non-Federal entity with respect to the matters described in subsection (e), the non-Federal entity shall submit to Federal officials designated by the Director, a plan for corrective action to eliminate such audit findings or reportable conditions or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512(c).

We believe that resolution of audit findings is essential to the effectiveness of internal controls and recommend the Green Book include a definition of resolution and make specific reference to it under Principal 17 – Remediating Deficiencies. See attached excerpt of ED with track changes showing recommended changes.

We thank you for the opportunity to comment.

terry.



16.11 Management retains responsibility for monitoring the effectiveness of internal control over the assigned processes performed by service organizations. Management uses ongoing monitoring, separate evaluations, or a combination of the two to obtain reasonable assurance over the operating effectiveness of the service organization's internal controls over the assigned process.³⁹ These monitoring activities related to service organizations may either be performed by management or performed by external parties and reviewed by management.

Evaluate Results

16.12 Management should evaluate and document the results of ongoing monitoring and separate evaluations to identify internal control issues.

16.13 Management evaluates and documents the results of ongoing monitoring and separate evaluations to identify issues in the internal control system. Management utilizes this evaluation to determine the effectiveness of the internal control system. Differences between the results of monitoring activities and the previously established baseline may indicate internal control issues, including undocumented changes in the internal control system or potential internal control deficiencies.

16.14 Management may identify changes in the internal control system that either have occurred or are needed due to changes in the entity and its environment. External parties can also help management identify issues in the internal control system. For example, complaints from the general public and regulator comments may indicate areas in the internal control system that need improvement. Management considers whether current controls address the identified issues and modifies controls if necessary.

Principle 17 – Remediate Deficiencies

17.01 Management should ensure identified internal control deficiencies and findings from audits and other reviews are remediated on a timely basis.

³⁹ See the Overview: Service Organizations for further discussion of service organizations.

Attributes

17.02 The following attributes contribute to the design, implementation, and operating effectiveness of this principle:

- a.** Report Issues - Personnel should report internal control issues to appropriate internal and external parties on a timely basis.
- b.** Evaluate Issues - Management should evaluate and document internal control issues and determine appropriate corrective actions for internal control deficiencies on a timely basis.
- c.** Complete Corrective Actions - Management should complete and document corrective actions to remediate internal control deficiencies on a timely basis.

d. Resolve findings – Management should take prompt action to resolve findings from audits and other reviews.

Report Issues

17.03 Personnel should report internal control issues to appropriate internal and external parties on a timely basis.

17.04 Personnel report internal control issues through established reporting lines to the appropriate internal and external parties on a timely basis to enable the entity to timely evaluate those issues.⁴⁰

17.05 Personnel may identify internal control issues while performing their assigned internal control responsibilities. Personnel communicate these issues internally to the person in the key role responsible for the internal control or associated process and to at least one level of management above that individual. Depending on the nature of the issues, personnel may consider reporting certain issues to the oversight body. Such issues may include:

- Issues that cut across the organizational structure or extend outside the organization to service organizations, contractors, or suppliers.
- Issues that may not be remediated due to the interests of management, such as sensitive information regarding fraud or other illegal acts.⁴¹

⁴⁰ See paras. 14.03 through 14.08 for further discussion of internal reporting lines and

paras. 15.03 through 15.08 for further discussion of external reporting lines.

⁴¹ See paras. 8.03 through 8.05 for further discussion of fraud.

17.06 Depending on the entity's regulatory or compliance requirements, the entity may also be required to report issues externally to appropriate external parties, such as the legislators, regulators and standard-setting bodies that establish laws, rules, regulations, and standards to which the entity is subject.

Evaluate Issues

17.07 Management should evaluate and document internal control issues and findings from audits and other reviews and determine appropriate corrective actions ~~for internal control deficiencies~~ on a timely basis.

17.08 Management evaluates and documents internal control issues and findings from audits and other reviews and determines appropriate corrective actions for internal control deficiencies on a timely basis to ensure an effective internal control system. Management evaluates issues identified through monitoring activities or reported by personnel to determine whether any of the issues rise to the level of an internal control deficiency. Internal control deficiencies require further evaluation and remediation by management. An internal control deficiency can be in the design, implementation, or operating effectiveness of the internal control and its related process.⁴² Management determines from the type of internal control deficiency the appropriate corrective actions to remediate the internal control deficiency on a timely basis. Management assigns responsibility and delegates authority to remediate the internal control deficiency.

Complete Corrective Actions

17.09 Management should complete and document corrective actions to remediate internal control deficiencies and findings from audits and other reviews on a timely basis.

17.10 Management completes and documents corrective actions to remediate internal control deficiencies and findings from audits and other reviews on a timely basis. Depending on the nature of the deficiency, either the oversight body or management oversees the prompt remediation of deficiencies by communicating the corrective actions to the appropriate level of the organizational structure and delegating authority for completing ~~corrective actions to appropriate~~

⁴² See the Overview: Evaluation of an Internal Control System for further discussion of evaluation of internal control deficiency.

personnel. Management, with oversight from the oversight body, tracks the status of remediation efforts to ensure that they are completed on a timely basis.

Terms

Resolution – Management actions to promptly: (1) evaluate findings from audits and other reviews; (2) develop a corrective action plan which appropriately addresses identified deficiencies or demonstrates the findings do not warrant management actions; (3) take appropriate corrective action; and (4) follow-up to ensure action taken appropriately corrects the identified deficiencies and mitigates risk (Overview: Monitoring)