



Deloitte & Touche LLP



February 14, 2014

U.S. Government Accountability Office
James Dalkin, Director Financial Management and Assurance

Delivered via e-mail

Re: *Standards for Internal Control in the Federal Government 2013 Exposure Draft*

Dear Mr. Dalkin:

Deloitte & Touche LLP (“D&T”) is pleased to respond to the request for comments from the U.S. Government Accountability Office (“GAO”) on its 2013 Exposure Draft *Standards for Internal Control in the Federal Government* (the “Green Book” or the “Exposure Draft”). We appreciate and commend the efforts of the GAO, the project team, and the members of the Advisory Council in developing the Exposure Draft.

We recognize that major developments have taken place in the accountability and financial management profession since the GAO last issued its Green Book in 1999. We also agree that updating the Green Book in light of the issuance by The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) of its updated *Internal Control–Integrated Framework* (the “2013 COSO Framework”) will be helpful to foster convergence among internal control frameworks.

In responding to the request for comments, we offer several observations below corresponding to particular questions in the Exposure Draft. As requested, we have highlighted relevant paragraphs in the Exposure Draft, provided our rationale, along with suggested revised language as appropriate.

REVISED GREEN BOOK

We support several of the enhancements included within the Exposure Draft, and we also believe some further modifications should be considered before the Green Book is finalized. These are further discussed below in relation to the following questions:

3. *Does the framework provide the necessary information to allow program managers to evaluate the internal controls for their programs?*
4. *Does the Green Book provide adequate criteria for auditors?*
5. *Are the requirements for management to design, implement, and operate an internal control system clear, understandable, and adequate?*

With respect to the above questions we observe the following:

- The definition of internal control in paragraph O1.01 is different than those in the 2013 COSO Framework as well as AICPA and PCAOB standards, and also appears differentiated from “an internal control system” which is described in paragraph O1.03 of the Exposure Draft. Indeed, the description of “internal control system” in paragraph O1.03 appears to be more similar to the definitions of internal control in the 2013 COSO Framework and AICPA and PCAOB standards. Similarly, we note the wording used in the Green Book to describe the principles within each component of internal control differs from that used in the 2013 COSO Framework, and it was not clear to us why there were such differences. We believe this will be confusing and accordingly, we recommend that the updated Green Book (i) not differentiate between internal control and an internal control system, (ii) define internal control consistently with the 2013 COSO Framework and AICPA standards (i.e., include a reference to “a process effected by people”), and (iii) use consistent wording to describe the principles (or alternatively, if different wording is used to take account considerations in the government environment, that the reason for the differences be clearly set forth).
- The Exposure Draft does not define “material weakness” or “major deficiency.” Paragraph O3.04 states “In the federal government FMFIA mandates that the head of each executive agency annually prepare a statement as to whether the agency’s systems of internal accounting and administrative controls comply with the requirements of the act. If the systems do not comply, the head of the agency will include a report in which any material weaknesses are identified and the plans and schedule for correcting any such weaknesses are described.” In order to foster consistency in the evaluation of deficiencies, we believe a definition or description of material weakness and/or major deficiency should be included in the Green Book or a reference to where such descriptions and related guidance can be found should be added.
- The Exposure Draft appears to create more stringent requirements for achieving effective internal control than what would be required when applying the 2013 COSO Framework, including through the following:
 - Requiring that not only the principles be effectively designed, implemented, and operating effectively, but also requiring that the relevant attributes of internal control are effectively designed, implemented, and operating. (See paragraphs O3.01 and O3.09) The 2013 COSO Framework requires that only the principles be present and functioning (i.e., designed, implemented and operating effectively) in order for internal control to be considered effective.
 - Adding the word “should” to the principles and attributes, which appears to associate a presumptively mandatory requirement to such principles and attributes that is not mirrored in the 2013 COSO Framework.

We recommend that the more stringent aspects of the Green Book relative to the 2013 COSO Framework be acknowledged and explained within the foreword to the document in order that users of the Green Book can understand the differences between the Green Book and the 2013 COSO Framework.

- We also note that the Office of Management and Budget’s recently issued *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* contains the requirement for non-federal entities to:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States **and** the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) [emphasis added].

In order to address potential confusion about how to comply with this requirement, we recommend that the Green Book include a specific statement that if a non-federal entity complies with the Green Book, that the GAO believes the entity would have also met the requirements of the 2013 COSO Framework (i.e., allowing such entities to also be in compliance with the above-quoted OMB requirement). Alternatively, the Green Book should specifically identify the incremental requirements (if any) that an entity would need to address to also comply with the 2013 COSO Framework, and meet the above-quoted OMB requirement.

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D&T appreciates this opportunity to provide our perspectives on this important project. All of our comments are intended to assist the GAO in analyzing the relevant issues and potential impacts. If you have any questions or would like to discuss these issues further, please contact Megan Zietsman at [REDACTED] or Jennifer Burns at [REDACTED]

Very truly yours,

/s/ Deloitte & Touche