OMB A-123
2016 Update

Management’s Responsibility for Risk Management and Internal Controls
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Part One

Background
A-123 History


- 1982 – OMB Issued Internal Control Guidelines and the Federal Managers Financial Integrity Act was enacted


- 1986 – OMB Updated A-123 to Require Management Control Plans to guide efforts

- 1995 – OMB updated A-123, *Management Accountability and Control* to reflect GPRA, CFO Act, IG Act


- 2005 - CFO Council Issued A-123 Appendix A Implementation Guide and OMB Required Appendix A Implementation Plans

- 2006 - OMB First Issued A-123 Appendix B for Government Charge Cards and Appendix C for Improper payments (Appendix C updates 2006 to 2014)

- 2013 – OMB First Issued A-123 Appendix D for Compliance with the Federal Financial Management Improvement Act
Proposed A-123 Structure

A-123 Today

- OMB Circular A-123/Appendix A Financial Reporting
  - Appendix B, Charge Cards
  - Appendix C, Improper Payments
  - Appendix D, FFMIA Compliance

A-123 Tomorrow

- OMB Circular A-123/Risk Management and Internal Controls
  - Appendix A, Reporting
  - Appendix B, Charge Cards
  - Appendix C, Improper Payments
  - Appendix D, FFMIA Compliance
Agency and Industry Input

• GAO Green Book Advisory Council, included Agency Representation (7/2013 to 9/2014)
  • Lisa Casias, DOC
  • Carole Clay, State
  • Dr. Carol Eyermann, NSF
  • Neil Ryder, DOJ
  • Peggy Sherry, DHS/IRS
• Three Agency Workgroups (11/2013 to 3/2014)
  • Annie Walker-Bradley, USDA
  • Neil Ryder, DOJ
  • Philip Juengst, Ed
• CFO Council ERM Forum (April 2014)
• One ERM Thought Leader/OMB Detail (Summer 2014)
  • Karen Hardy, DOC
• CFO Council ERM Project (2/2014 to 2/2015)
  • Sheila Conley, HHS
  • Tim Soltis, Ed
• AGA Forum on Internal Control (9/2014)
Part Two

A-123 Update Content
A-123 FY 2016 Update

Recent experiences have highlighted the need to focus on risk management and reminded us of the original intent of the FMFIA, specifically internal control is broader than financial reporting. Furthermore, internal control is not a compliance or documentation exercise, simply put internal control is good management that supports improved mission results. This update to OMB A-123 provides no new requirements, other than internal control standard updates agreed upon between GAO, OMB, and CIGIE and Agency representatives. We are more interested in a thoughtful analysis of risks rather than a compliance process that only leads to outcomes that don’t make sense.

The goal of Circular A-123 is to modernize efforts to implement the FMFIA so that it will evolve our existing internal control framework to be more value-added and provide for stronger risk management for the purpose of improving mission delivery. The revised guidance:

- Establishes requirements to demonstrate that an agency has a system of internal control based on GAO’s Green Book; and adopts additional guidance based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- Introduces Enterprise Risk Management to provide for more effective risk management and internal control in the Federal Government;
- Emphasizes the need to integrate and coordinate internal control assessments in support of mission delivery (e.g., Administrative Services, Financial Management, Human Capital, Information Technology, Procurement, and Performance Management);
- Reinforces corrective action planning requirements to ensure they address the root causes of control deficiencies and encourages collaboration with Offices of Inspectors General in corrective control deficiencies;
- Streamlines internal control reporting by eliminating areas of overlap and duplication, while maintaining separate assurance on internal control over financial reporting; and
- Provides guidance for special topics including: service organizations, fraud risks, maintaining internal control in disaster situations, risk management for grants, and compliance with the Anti-deficiency Act.
I. Introduction

• The FMFIA requires the Government Accountability Office (GAO) to prescribe standards of internal control, more commonly known as the Green Book. These standards provide the internal control framework and criteria Federal managers should use in designing, implementing, and operating an effective system of internal control.

• The FMFIA also requires the Office of Management and Budget (OMB), in consultation with GAO, to establish guidelines for the evaluation by agencies of their systems of internal control to determine FMFIA compliance.

Sources: COSO and GAO. GAO-14-704G
II. Enterprise Risk Management and Internal Control

- First Introduced in OMB Circular A-11, FY 2014
- A-123 and A-11 introducing an ERM Framework to support performance management and better guide internal controls

Source: COSO
What is Enterprise Risk Management (ERM)?

What are the key roles of risk managers at an agency?

What is the difference between OMB Circular A-123 and Enterprise Risk Management?

Why is ERM a best practice and how is it relevant to strategic reviews?

What other guidance does OMB provide agencies regarding risk management concepts discussed in this Circular?

What is the difference between internal control and risk?
Best Practices

1. ERM and A-123 should co-exist but not as stand-alone activities
2. Senior management buy-in of ERM value is essential
3. Implement a Risk Management Framework and phased ERM Implementation approach
4. Establish an objective organizational accountability structure for ERM
5. Establish/leverage formal governing bodies where they exist
6. Establish a culture of risk reward
7. Make better use of data analytics
8. Quantify the impact of past risk events
9. Engage performance, strategic, risk management, budget activities simultaneously
10. Document risk decisions and the rationale for managing risk
III. Assessing Internal Control

- **Updated Integrated Internal Control Framework.** Agencies need to integrate and coordinate risk management and internal control efforts across the enterprise and between management silos.

- **Assessment of Entity Level Controls.** Internal control at the entity level refers to the Green Book’s five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective. The Green Book’s 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.

- **Updated Sources of Documentation.** The agency head's assessment of internal control can be documented using a variety of information sources.

### Green Book Components of Internal Control 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 &      | 13. Use Quality Information  
| Communication      | 14. Communicate Internally  
| Monitoring         | 15. Communicate Externally  
|                     | 16. Perform Monitoring Activities  
|                     | 17. Remediate Deficiencies  |
IV. Correcting Internal Control Deficiencies

• **Corrective Action Options.** All control deficiencies pose some level of risk to an organization. The risk level could be minimal or material, and is determined by management’s risk tolerance. There are a number of possible corrective action options which could include:
  – Acceptance
  – Avoidance
  – Risk mitigation
  – Transfer/sharing

• **Corrective Action Requirements.**

• **Cooperative Audit Resolution and the Role of an Audit Committee.**
V. Reporting on Internal Control

Assurance Statement Reporting Today

- FMFIA Section 2, Internal Control Over Operations
  - FMFIA Section 2, Internal Control Over Financial Reporting
- FMFIA Section 4, Financial System Conformance
- FFMIA, Section 803 (a) Requirements
  - Federal Financial Management System Requirements;
  - Applicable accounting standards; and
  - The USSGL at the transaction level.

Assurance Statement Reporting Tomorrow

- Internal Control Over Operations (FMFIA Section 2)
- Internal Control Over Financial Reporting and Compliance with the FFMIA (FMFIA Section 2 and 4)
VI. Special Topics

• Service organizations

• Fraud risks

• Managing Grant Risks

• Maintaining internal control in disaster situations

• Compliance with the Anti-deficiency Act
Part Three

What’s Next
OMB A-123, Appendix A, Internal Control Over Reporting
Coming Soon Summer 2015

- Internal Control Over Reporting Objectives
- Entity Level Controls
- Reports to be included in the assessment (e.g., USA Spending)
- Service Organizations
- Fraud
- Evaluating Control Deficiencies

Source: COSO
Developing an ERM Framework

- HM Treasury is United Kingdom’s version of OMB
- The Orange Book provides a complete framework that links ERM and Internal Control Concepts
- Provides a guide on where to get started with ERM
- Could be used to develop tools, templates, and promote best practices
- Similar to OMB’s 1982 Internal Control Guidelines or CFOC’s A-123 Implementation Guide Products
The Orange Book Risk Management Model
Thank You!

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• Questions?