



The Science of Compliance

**American Society of Military Comptrollers
Professional Development Institute 2016**

June 2, 2016

Agenda

Introduction

General Overview

OMB Circular A-123 Update

Best Practices

Q & A

Objectives

At the end of this session you should be able to:

- Discuss the current OMB Circular A-123 requirements as well as other relevant guidance.
- Describe the key changes to OMB Circular A-123 and critical elements for effective implementation of the new requirements.
- Recognize best practices related to OMB Circular A-123 compliance.

Introduction

General Overview

James Gould

Understanding OMB Circular A-123

- Federal Managers' Financial Integrity Act (FMFIA)
- OMB Circular A-123
- DoD Instruction 5010.40

Federal Managers' Financial Integrity Act of 1982 (FMFIA)

- Public Law 97-255, September 8, 1982
- Broad application across the enterprise – far beyond traditional accounting and financial reporting controls
 - Plan of organization, methods, and procedures adopted by management to meet its mission goals and strategic objectives
 - Processes for planning, organizing, directing, controlling, executing, and reporting on agency operations
- Mandates that agencies follow internal control standards established by GAO, which are the *Standards for Internal Control in the Federal Government*, commonly called the Green Book
- Requires that agency follow assessment and reporting requirements established by OMB, which are included in OMB Circular A-123 and use the Green Book as a foundation

OMB Circular A-123 – Management’s Responsibility for Internal Control

- Agencies required to take measures to:
 1. Develop and implement appropriate internal controls
 2. Assess the adequacy of internal control in Federal programs and operations
 3. Assess and document internal control over financial reporting
 4. Identify needed improvements
 5. Take corresponding corrective actions
 6. Report annually on internal control
- Appendix A provides a methodology to assess, document and report on internal controls over financial reporting
- Appendix D added in September 2013 to provide guidance related to the Federal Financial Management Improvement Act (FFMIA) – this replaced OMB Circular A-127.

DoD Instruction 5010.40

- Managers' Internal Control Program (MICP) Procedures issued May 30, 2013
- DoD policy that a Managers' Internal Control Program be established to review, assess and report on the effectiveness of internal control
- Aligns with OMB Circular A-123 and FMFIA
- Includes 6 Enclosures and a Glossary:
 1. References
 2. Responsibilities
 3. Procedures
 - i. Operation Assessment
 - ii. Financial Reporting Assessment
 - iii. Financial Reporting Assessment
 4. Information Requirements
 5. IC Reporting Categories
 6. Classification of Control Deficiencies

OMB Circular A-123 Update

James Gould

Understanding changes to OMB Circular A-123*

- Snapshot of changes to OMB Circular A-123
- OMB Circular A-123 implementation deadlines
- Specific A-123 highlights
- KPMG's 10 critical implementation elements
- Government Institute thought leadership

**The following slides are based on the draft of OMB Circular A-123 sent to agencies for final clearance and presentations by OMB officials at the April 25, 2016, AGA ERM and Internal Controls Forum. Details are subject to change when OMB publishes Circular A-123.*

Snapshot of changes to OMB Circular A-123

- Game changer: First update since 2004 / most significant in over 30 years
- Purpose: “... modernize efforts to implement FMFIA by integrating risk management and internal controls activities into an Enterprise Risk Management (ERM) framework to improve mission delivery.”
- Retitled: *Management’s Responsibility for Internal Control and Enterprise Risk Management*
- Wide application. “ERM, as a discipline, deals with identifying, assessing, and controlling risks to minimize or avoid negative impacts or seize opportunities”... Integrating performance, internal control, and risk management practices, along with robust data analytic capability provides greater visibility into uncertainties, enabling better decision-making and improved results.”
- The integrated management of risk at strategic, program, and operational levels

Snapshot of changes to OMB Circular A-123 (continued)

- Adopts concepts and guidelines of COSO's *Internal Control – Integrated Framework (2013)*
- Provides implementation guidance for GAO's 2014 update to the Green Book (<http://www.gao.gov/greenbook/overview>)
 - 17 new principles related to the existing five internal control components
 - Attributes explaining each principle
 - More detailed: 20 to 80 pages
- Establishes minimum requirements for corrective action plans: Root cause analysis, accountability, IG collaboration
- Requires a risk-based approach to assessment and reporting

* Committee of Sponsoring Organization's of the Treadway Commission (COSO) is a joint initiative of five organizations (American Accounting Association, American Institute of Certified Public Accountants, Federal Executives International, Association of Accountants and Financial Professionals in Business, and Institute of Internal Auditors) dedicated to providing thought leadership through the development of frameworks and guidance on ERM, internal control and fraud deterrence (<http://www.coso.org/>).

Snapshot of changes to OMB Circular A-123 (continued)

- Increases focus on fraud risk management, making it a component of ERM
 - Cites Green Book principle 8: “Management should consider the potential for fraud when identifying, analyzing, and responding to risks.”
 - Requires “adherence” with the leading practices in GAO’s “A Framework for Managing Fraud Risks in Federal Programs” (<http://www.gao.gov/products/GAO-15-593SP>, July 28, 2015)

OMB Circular A-123 implementation deadlines

Unless otherwise approved by OMB, agencies should meet the following deadlines:

ERM Implementation Plans	September 15, 2016
The plan for implementing Enterprise Risk Management (ERM) should cover at a minimum: <ul style="list-style-type: none">• Planned risk management governance structure• Methodology for developing Risk Profile• Expected process for developing Risk Appetite• Implementation plan for completing Risk Profile	
Initial Risk Profile	January 20, 2017
To the extent feasible, agencies are encouraged to develop initial Risk Profiles over the course of FY 2016, for presentation to the incoming Administration on January 20, 2017.	
Complete Risk Profile	May 15, 2017
A full risk profile should be developed by May 15, 2017, for discussion with OMB as part of the Agency Strategic Review for FY 2017, and to inform the development of the new Agency strategic plans and the FY 2019 Budget.	
Evaluation of Internal Control	September 15, 2017
For objectives with internal controls identified as part of the Risk Profile in FY 2017, present assurances on internal control in the AFR/APR. Until full implementation of an ERM approach, continue to provide the existing risk assurance statements	
<ul style="list-style-type: none">• Effective Date: Effective upon publication.• Applicability: Applicable to each executive agency. Independent agencies are encouraged to adopt.	

Specific A-123 highlights

Section II: Establishing Enterprise Risk Management (ERM)

OMB Circular A-123 requirement	To Do
<ul style="list-style-type: none">➤ Establish Governance➤ Establish Risk Appetite➤ Establish Risk Profiles➤ Communicate Risks➤ Review / Revise Regularly	<ul style="list-style-type: none">➤ Review current org structure➤ Assess entity responsibilities, policies, processes➤ Develop Risk Profiles➤ Conduct risk assessment➤ Conduct stakeholder management & strategic communication

Section III: Establishing and Operating an Effective System of Internal Control

OMB Circular A-123 requirement	To Do
<ul style="list-style-type: none">➤ Establish Governance (subset to RMC)➤ Establish Entity Level Control<ul style="list-style-type: none">• Service Organizations• Manage Fraud Risks	<ul style="list-style-type: none">➤ Review current risk mgmt. org structure➤ Assess stakeholder responsibilities, policies, processes➤ SSAE 16 review➤ Identify/manage fraud risks and controls➤ Assess control design

Specific A-123 highlights (continued)

Section IV: Assessing Internal Control

OMB Circular A-123 requirement	To Do
<ul style="list-style-type: none">➤ Establish documentation reqs. (Green Book)➤ Identify sources of information➤ Establish evaluation approach<ul style="list-style-type: none">• Conduct assessment in accordance w/GB• Conclude on GB Principles (17)• Conclude on GB Components (5)• Conclude on overall internal control system	<ul style="list-style-type: none">➤ Conduct gap analysis of Green Book Principles➤ Assess control design & operating effectiveness➤ Report results on assessments of operations, reporting, and/or compliance objectives

Section V: Correcting Internal Control Deficiencies

OMB Circular A-123 requirement	To Do
<ul style="list-style-type: none">➤ Establishes Corrective Action Plan requirements➤ Provides guidance on audit follow up responsibilities	<ul style="list-style-type: none">➤ Establish Corrective Action Plans➤ Follow up and resolution of CAPs

Specific A-123 highlights (continued)

Section VI: Reporting on Internal Control

OMB Circular A-123 requirement	To Do
<ul style="list-style-type: none">➤ Provide annual assurance statement<ul style="list-style-type: none">• Cover FMFIA Section 2 - Control effectiveness• Cover FMFIA Section 4 – System compliance	<ul style="list-style-type: none">➤ Report results

Knowledge Check

Q. Under the revised OMB Circular A-123, risk management and internal controls are being integrated into:

- a. The GAO Green Book
- b. The GAO Fraud Risk Framework
- c. An ERM framework
- d. The FMFIA user guide

Knowledge Check

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10 critical implementation elements

- 1 Establish clear “ownership” by your agency’s top leadership
- 2 Appoint an agency chief risk officer
- 3 Establish the risk appetite
- 4 Incorporate ERM in strategic planning
- 5 Include ERM in your agency’s formal governance process
- 6 Embed fraud risk management in ERM
- 7 Identify risks then look for management controls that adequately mitigate the risks
- 8 Understand the nature and potential impact of long-tail and emerging risks
- 9 Make risk remediation a critical component of management expectations
- 10 View this as a never-ending marathon and not a sprint, and get started!

Government Institute thought leadership

- White paper: “Navigating uncertainty through ERM – A practical approach to implementing OMB Circular A-123”
- Issue brief: “Navigating uncertainty through ERM”
- Article in the *AGA Journal of Government Financial Management*, summer issue (around June 1): “Ten Steps to Sustainable Enterprise Risk Management”

Best Practices

William Holtzman

Q & A

Thank you



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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