The revised Office of Management and Budget (OMB) Circular No. A-123, Management’s Responsibility for Enterprise Risk Management and Internal Control, M-16-17, released on July 15, 2016, defines management’s responsibility for risk management and internal control. OMB Circular No. A-123 and the statute it implements, the Federal Managers’ Financial Integrity Act (FMFIA) of 1982, are at the center of Federal requirements to improve accountability in Federal programs and operations. A re-examination of the existing internal control requirements, originally issued in December 2004, for Federal agencies was initiated in light of the new Standards for Internal Control in the Federal Government (better known as the Green Book) issued by the U.S. Government Accountability Office (GAO) on September 10, 2014. The revised OMB Circular No. A-123 enhances the existing internal control framework to provide for stronger risk management, an enhanced governance model and improve operational efficiency.

Changes to A-123
The first major change is the title of A-123, putting an emphasis on ERM by listing ERM before internal controls. The revised guidance retains the essential components of management’s responsibility for internal control: assessing, reporting on and correcting deficiencies of internal controls. The revision enhances the existing guidance by introducing a variety of new principles to assist management in achieving an effective internal control and risk management system.

The revised guidance includes the following:

- **Internal Control Requirements:** Agencies should follow a risk-based approach to integrate and coordinate internal controls across their organization. The internal control approach should include conducting risk assessments, assessing entity level and programmatic controls, addressing mission support concerns and managing the risk of fraud. Agencies must also determine whether each Green Book component is designed, implemented and operating effectively. All agencies should establish a Senior Management Council to help implement guidance for new requirements.

- **Enterprise Risk Management (ERM):** Per A-123, agencies should implement ERM, a strategic risk management process, to incorporate the internal control framework and evaluate risk at all levels on a day-to-day basis. For FY2016, agencies are encouraged to develop their ERM implementation approach. Starting in FY2017, on an annual basis, agencies must develop a Risk Profile which identifies risks arising from mission-support and other operations. Agencies could create a Risk Management Council (RMC) or include enterprise risk managers, such as the Chief Risk Officer, to promote ERM and related concepts across the agency. In addition, the updated 2015 OMB A-11 (Preparation, Submission, and Execution of the Budget) suggests that agencies should assess and manage risk as a part of strategic and data-driven reviews in support of the broader organizational risk management framework, as appropriate for their missions, and in accordance with agency-specific programs.

- **Integrated Internal Control Assessments:** Agencies should integrate and coordinate internal controls activities and risk assessments across the agency, including assessing entity level controls.

- **Reinforced Corrective Action Planning:** Agencies should maintain detailed corrective action plans that evaluate the risk associated with control deficiencies and identify the root-causes.

- **Cooperative Audit Resolution:** Agencies should work cooperatively with Offices of Inspectors General and GAO to resolve audit findings.

- **Agency Risk Profile:** Agencies should maintain an annual documented risk profile, a prioritized inventory of its most significant risks identified through the annual risk assessment process.

- **Streamlined Internal Control Reporting:** Reporting will be simplified to a single assurance statement.

- **Guidance on Additional Topics:** Includes topics such as managing privacy risk, acquisition assessment, risk management for grants, and compliance with the Anti-deficiency Act.

**What’s New**
- Updated title of the Circular
- Added emphasis on building an Enterprise Risk Management (ERM) framework
- Reinforced corrective action planning
- Cooperative audit resolution
- Streamlined internal control reporting
- Guidance for special topics

**ERM Implementation Approach (Optional)**
- As soon as practicable
  - Initial Risk Profile
  - June 2, 2017
- September 15, 2017
  - Updated Risk Profile
- Annually by September 30
  - Assurance Statement (Analysis of Entity’s Systems, Controls and Legal Compliance)

**Integration with Management Evaluation of Internal Control (Risk Assurance Statement)**
- June 2, 2017
  - Initial Risk Profile
- September 15, 2017
  - Updated Risk Profile
- Annually by June 3
How to respond?

Financial and program managers should take this opportunity to focus on the following:

- Employ an integrated, principles-based approach, as advocated by OMB, GAO and the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- Meet the crosscutting requirements of various operational, compliance and reporting initiatives.
- Develop and define roles, responsibilities, and ownership of ERM and internal controls and ensure they complement each other. The responsibilities of managing risk are shared throughout the organization from the senior levels of executive leadership to the service delivery staff executing programs.
- Map the agency’s current internal controls to the new guidance with focused attention on the required principles, and identify any gaps and determine how they should address them.

The responsibilities of managing risk are shared throughout the organization from the senior levels of executive leadership to the service delivery staff executing programs. The tasks of transitioning will be different for every agency.

The following bullet points outline general considerations to help comply with the updated OMB Circular A-123 guidance:

- Adopting the revised guidance will require greater coordination between management, operations staff, and internal and external oversight organizations to develop and implement a comprehensive ERM framework or strengthen an existing one.
- Agencies should focus additional attention on identifying root causes and implementing corrective action plans for material weaknesses and significant deficiencies identified during internal controls testing.
- The Senior Assessment Team (SAT) or agencies' management will also have an important role to play in helping their agencies integrate the new guidance into established internal control programs.
- Agencies should consider whether the same rigor and reporting requirements are applied to operational and programmatic controls as financial and compliance controls. OMB and GAO purposefully do not differentiate between these functions. This is an opportunity to coordinate with Performance Improvement Officers (PIOs), established by the Government Performance and Results Act Modernization Act (GPRAMA).
- Stewardship of tax dollars is integral to performing government’s mission. Agency management must show how the control environment ensures and enhances programmatic and strategic success, and incentivizes staff to relentlessly integrate stewardship principles into their daily work routines.

How we can help

If current staffing levels limit your ability to respond and apply these updates, Grant Thornton can provide the methodology and the resources you need to implement them quickly and efficiently. We can also apply a fresh lens to this area, identifying potential duplications of effort or inconsistency and help you to achieve increased efficiency and effectiveness in your current internal controls program.

Specifically we can:

- Conduct a diagnostic review of current internal control or risk management programs to identify needed improvements/enhancements based on the updated guidance
- Map current internal approach to the new guidance
- Assist in developing and documenting the agency’s risk profile
- Help define roles and responsibilities for ownership of an ERM program and internal controls
- Assist with fraud awareness and detection
- Provide best practices on coordinating management reviews with the OCFO
- Evaluate the use of controls over operational and programmatic functions
- Identify or establish automated controls
- Assist with change management and culture assessments
- Apply a “one to many” approach by integrating compliance efforts, such as A-123 and Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), to satisfy multiple compliance requests with one set of controls and evidence

Distinctive client service Grant Thornton is a frontrunner in internal controls, risk management, Federal audit, fraud assessment and the implementation of OMB A-123 appendices A-D. We provide thought leadership and trusted advisor support to some of largest internal controls and audit efforts in Government.

We currently support over 20 Agencies in related functions, including agencies within the Department of Health & Human Services (HHS), Department of Housing and Urban Development (HUD), Department of Homeland Security (DHS), Department of Veterans Affairs (VA), and the National Science Foundation (NSF). Our approach and methods are complimented by our national and international private sector practice, which has provided decades of leading-edge thinking on the topics of governance, risk and compliance, including partnering with COSO to author the current guidance on monitoring controls.