LIFE BEGINS AT 40

It's Time to Fully Integrate the Green Book & OMB Circular A-123 Into Program Management Culture

By Andrew C. Lewis, Kayla M. Futch and Jeffrey C. Steinhoff

Last year marked the 40th anniversary of the Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (the Green Book)[1] and the 42nd anniversary of Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management* [ERM] *and Internal Control*.[2] Issued in response to the Federal Managers' Financial Integrity Act (FMFIA),[3] they apply to all aspects of program management and have helped practitioners better manage programs, identify and mitigate risks, safeguard assets, reduce costs, and improve the reliability of reporting. Some state and local governments, such as New York[4] and New York City,[5] have similar laws or directives.

The concepts in the Green Book and Circular A-123 are deeply ingrained in the cultures of the financial management and audit communities. Nevertheless, major internal control breakdowns continue, and high-risk program issues remain unresolved. Internal control systems can be outdated, overly cumbersome, and vulnerable to fraud, which was pervasive during COVID-19 and remains a serious problem today.[6] The overriding challenge is to fully integrate internal controls into the program management culture. Doing so provides opportunities to reduce fraud, waste and abuse and, perhaps more importantly, improve program outcomes, boost customer service, better manage and reduce costs, enhance accountability and transparency, and help regain public trust, now hovering at all-time lows.[7] Reflecting on "Life Begins at Forty" by Walter B. Pitkin,[8] the best is yet to come in unlocking the full potential of internal controls.

Internal Controls Strengthen Government Performance

FMFIA was enacted to address growing reports of fraud, waste, abuse, and program failures resulting from internal control breakdowns. Having the force of law through FMFIA, GAO's standards and OMB's implementation requirements guide an essential management responsibility to foster effective and efficient management systems and processes for all government programs.

The Green Book, containing extensive guidance, is organized around five components and includes 17 principles, listed in **Figure 1**. It defines internal control as "a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved." It further states, "Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity. Internal control serves as the first line of defense in safeguarding assets. In short, internal control helps managers achieve desired results through effective stewardship of public resources." The standards recognize: "In a mature and highly effective internal control system, internal control may be indistinguishable from day-to-day activities personnel perform."

Circular A-123 emphasizes "the need to integrate and coordinate risk management and internal control into existing business activities and as an integral part of managing an agency." It prioritizes ERM,[9] which is intertwined with the Green Book's focus on risk assessment, risk management, and cost/benefit considerations through risk appetites. It also incorporates GAO's "Fraud Risk Management (FRM) Framework,"[10] which must be implemented according to law.[11]

While FMFIA and the framework of Circular A-123 strengthened internal control systems, control breakdowns continue to adversely affect program performance and result in fraud, waste and abuse, which further diminish public trust. Program fraud is substantial. In April 2024, GAO estimated fraud loss for the first time, saying total direct annual financial losses to the government from fraud are between $233 billion and $521 billion, based on data from fiscal years 2018 through 2022.[12] The estimate represents "about 3% to 7% of average federal obligations."[13] Likewise, shortfalls in program performance are prevalent, as demonstrated in the federal government's industry ranking of last in customer service.[14] Highly visible performance shortfalls linger on GAO's High Risk List as well, where the average age of the 37 items on the list is 17 years. Six areas have been listed as high risk for over 30 years,

Figure 1. The 17 Principles of Internal Control in the Green Book

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.

2. The oversight body should oversee the entity's internal control system.

3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

4. Management should demonstrate a commitment to recruit, develop and retain competent individuals.

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.

7. Management should identify, analyze and respond to risks related to achieving the defined objectives.

8. Management should consider the potential for fraud when identifying, analyzing and responding to risks.

9. Management should identify, analyze and respond to significant changes that could impact the internal control system.
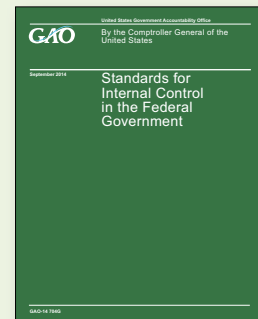
Control Activities

10. Management should design control activities to achieve objectives and respond to risks.

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

12. Management should implement control activities through policies.

Information and Communication

13. Management should use quality information to achieve the entity's objectives.

14. Management should internally communicate the necessary quality information to achieve the entity's objectives.

15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

Figure 2. Age of the 37 Areas on GAO's High-Risk List

Average of 17 Years

> 30 Years
High-Risk Areas: 6
Examples:
• Medicare Program Improper Payments
• DOD Contract Management

25–29 Years
High-Risk Areas: 3
Examples:
• DOD Financial Management
• Ensuring Cybersecurity of the Nation

20–24 Years
High-Risk Areas: 5
Examples:
• Improving and Modernizing Federal Disability Programs
• Strengthening Medicaid Program Integrity

10–19 Years
High-Risk Areas: 12
Examples:
• DOD Approach to Business Transformation
• Protection of Technologies Critical to National Security

< 10 Years
High-Risk Areas: 11
Examples:
• Unemployment Insurance System
• Emergency Loans for Small Businesses

and another eight for over 20 years, as shown in **Figure 2**.[15]

Now that we have reached the 40-year mark for the GAO and OMB directives, it is time to consider two questions.

1. Are internal controls and the concepts in the Green Book and Circular A-123, including ERM and FRM, among the top priorities of program managers?

2. Or do program managers view compliance as largely the responsibility of accountants and auditors, given their historical focus on internal controls?

It is concerning if the answer to the latter is yes, and it may well be the case in many organizations. In 2021, the late Hal Steinberg wrote: "… it appears little has changed in agencies' identification and mitigation of enterprise risks."[16] More so, we must also ask whether internal control systems have kept pace with changes in public expectations and technological advances. Have they become unwieldy and inundated with so many requirements that they hinder mission delivery?

The accounting and audit communities are skilled in risk assessment and internal control design, which are deeply embedded into their cultures. CFOs, with their fiduciary and financial reporting duty, are subject to independent audit under the CFO Act,[17] which drives questions and feedback on their internal control structure and implementation. They can provide valuable insights on internal controls and expertise to program managers, while auditors, in their oversight role, bring vast knowledge and abilities to internal control design, operation and assessment. But neither is responsible, nor should they be, for program management. Program managers must drive mission delivery and program integrity supported by internal controls.

Why the Focus on Culture?

It's tempting to think culture is the soft stuff on the management continuum, but it's really the hard stuff, the intangible missing link.

Culture drives how people think and what they do, resulting in what actually happens. It is the true North Star and default setting for norms, attitudes and behaviors.[18] As management guru Peter Drucker said, "Culture eats strategy for breakfast."

Far below the surface, culture represents beliefs, values, perceptions, and assumptions. An organization's culture exists whether leadership intentionally seeks to cultivate it or not. It operates in the absence of formal direction and influences what actually happens even with formal direction. Changing or reshaping the culture takes time and considerable effort since it involves changing deeply rooted behavior and biases concerning how things should be done.[19] Circular A-123 recognizes that culture "… determines what actually happens, and what rules are obeyed, bent, or ignored."[20] Without strong support for internal control and risk management within the program management culture, the likelihood of veering off course from desired goals and objectives increases.

Seven Steps to Integrate Strong Risk Culture in Program Management

The way agencies establish and maintain internal controls to drive program integrity is under constant scrutiny, especially when breakdowns and performance shortfalls occur.[21] The following seven factors form a framework for risk culture rooted in the Green Book and Circular A-123.

1. **Establish a strong tone at the top.** Leadership vision and commitment are essential. It is never enough to say "do this," even if GAO and OMB require it under legislative mandate. Agency leadership must regularly communicate a clear vision for agency achievement and reasons for the workforce to focus on a strong risk culture. While the accountability community understands, not everyone will immediately buy in. Top management must be purposeful and inspirational in conveying the value of internal control to boost mission results, as well as the role

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of internal control in avoiding negative impacts, such as fraud, waste and abuse.

Former Deputy Secretary of Defense Gordon England (2005–2009) introduced a campaign to increase awareness of the importance of internal controls: "Check it. What gets checked, gets done."[22] It was simple and consistent with the way the Department of Defense (DoD) operates. Constantly assessing the nation's warfighting readiness, DoD trains, performs simulated and operational exercises, and maintains its equipment. England compared the method to his preparations for fishing trips and what can happen when he fails to check his gear. Synonymous with internal control, the campaign connected day-to-day actions on the job to support DoD's mission: they must know their equipment, its condition and location, and how to use it to defend against adversaries. To "check it" means to continually assess vulnerabilities and emerging risks, like ERM.

2. **Continually assess the control environment.** From the Green Book: "The control environment is the foundation for an internal control system. It provides discipline and structure, which affects the overall quality of internal control. It influences the ways objectives are defined and control activities are structured. The oversight

body and management establish and maintain an environment throughout the entity that sets a positive attitude toward internal control." By reviewing documentation, such as annual internal control assessments required by Circular A-123, and surveying staff across the organization, managers can evaluate the current internal control environment. To facilitate this process, which requires honest, constructive feedback, develop program control champions who are respected by peers to gain insights into how staff view internal controls. Then, benchmark with leading organizations the practices and technology needed to establish modern internal control systems. Countless rules, regulations and controls do not necessarily equate to strong internal control systems. Organizations can become awash in policies and procedures that jeopardize mission accomplishment and waste resources.[23]

3. **Prepare to address natural resistance to change.** The Green Book recognizes "people are what make internal control work." Change is personal. It energizes some, while others are skeptical but open. Still others remain unsupportive from the start, preferring the familiar status quo. However, everyone has a natural need to know what and why, and to be convinced that change will benefit them and the organization.[24] Leaders must help employees understand how change will affect them personally, what implementation entails, and why change is necessary and occurring.

To help gain staff support, take a page from Deputy Secretary England's playbook and correlate concepts in the Green Book and Circular A-123 with mission achievement. Since the goal is to fully integrate internal controls into the program management culture, seek all perspectives through purposeful, continual staff engagement to identify vulnerabilities and develop fact-based solutions. Program management staff are more likely to be receptive to change when they are involved. Recognize individuals for their
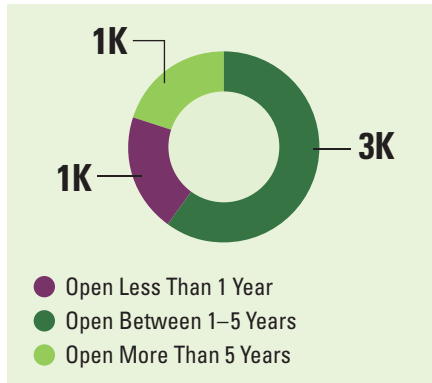
contributions to strengthening internal controls and celebrate organizational successes. These actions will motivate people, reinforce management's commitment, and fortify the internal control culture.

4. **Avoid a compliance mindset.** Leading organizations do not look through the lens of compliance. They find value in reviewing actions to strengthen program execution and risk management. The downside to over-structured operating practices that require strict adherence to dotting every *i* and crossing every *t* is losing focus on the big picture of mission goals and objectives, public expectations, and risk management. Circular A-123 states: "Federal managers must carefully consider the appropriate balance between risk, controls, costs and benefits … Too many controls can result in inefficiencies, while too few controls can increase risk to an unacceptable level." Cost-benefit determinations required by the Green Book and Circular A-123 provide an objective tool for identifying the right solutions and gaining consensus.

5. **Place internal controls under the umbrella of program integrity.** Green Book and Circular A-123 concepts may be more broadly accepted using this tagline: "Strengthened program integrity = Enhanced mission performance." The program integrity aperture opens far wider than fraud, waste, and abuse.[25] As the Green Book states, "A direct relationship exists among an entity's objectives, the five components of internal control, and the organizational structure of an entity. Objectives are what an entity wants to achieve. The five components of internal control are what are required of the entity to achieve the objectives."
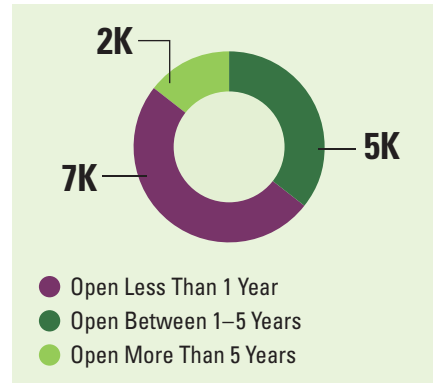
Circular A-123 notes risk management is "a series of coordinated activities to direct and control challenges or threats to achieving an organizations goals and objectives." For example, when the Affordable Care Act became law,[26] program leadership at the Centers

Figure 3. Open GAO Recommendations by Age (as of March 1, 2024) *(Rounded)*

- Open Less Than 1 Year
- Open Between 1–5 Years
- Open More Than 5 Years

Figure 4. Open OIG Recommendations by Age (as of March 1, 2024) *(Rounded)*

- Open Less Than 1 Year
- Open Between 1–5 Years
- Open More Than 5 Years

for Medicare & Medicaid Services led the charge to establish robust program integrity for a highly complex statute with many moving parts and stakeholders. They knew any internal control shortfalls that resulted in improper payments to providers would be detrimental to the program's future. Program integrity revolved around governance, eligibility and enrollment, operations, oversight and monitoring, continuous improvement, and data quality.[27]

6. **Make timely corrective actions.** The Green Book states, "Management should remediate identified internal control deficiencies on a timely basis." When correction of known weaknesses identified by management or auditors languishes, bad things can happen. For example, antiquated state unemployment insurance (UI) systems (some dating to the 1970s and long known to be problematic) imploded under the strain of COVID-19-related claims. GAO estimated 11–15% of UI benefits paid during the pandemic, between $100 billion and $135 billion, were fraudulent,[28] while some eligible recipients waited months for their first UI payment.[29] Corrective actions can be delayed for years as causes and internal control weaknesses are identified, breakdowns occur, and recommendations are made. For example, as depicted in **Figures 3 and 4**, at any time, thousands of open GAO[30] and Inspector General[31] recommendations are unresolved. As of March 1, 2024, over 19,000 remained open; 3,000 of them were more than five years old.

7. Establish clear accountability for internal controls. According to Green Book Principle 5, "Management should evaluate performance and hold individuals accountable for their internal control responsibilities." Accountability becomes difficult when responsibility and authority are not clearly defined or are shared by several individuals or organizations; when accountable individuals are not empowered to make decisions affecting their internal control responsibilities; or when resources are not available to adequately staff internal control operations or make needed changes, such as replacing antiquated systems or procuring enabling technology. Most government organizations have these problems, so it is understandable that few, if any, individuals are held accountable for major internal control failures. Agencies must clearly define the parameters of accountability to align internal control responsibilities with Principle 5.

Final Thoughts

As we mark over 40 years of the Green Book and Circular A-123, let's applaud their impact and recommit to their principles. It is crucial to recognize these legislatively mandated frameworks as catalysts for positive change and integrate them into program management culture. With the planned release of a revised Green Book this year,[32] unleash the full potential of the Green Book and Circular A-123 to drive improved mission outcomes to benefit all Americans and restore their trust. **J**

Endnotes

1. GAO. First issued in 1983, the current Green Book is dated Sep. 10, 2014. An update now under development will expand discussion of Fraud Risk Management.

2. OMB. First issued in 1981 in anticipation of FMFIA enactment, the current Circular A-123 is dated July 15, 2016.

3. Public Law (P.L.) 97-255, Sep. 8, 1982.

4. New York State Governmental Accountability, Audit and Internal Control Act of 1987 was made permanent in 1999, when the State Finance Law was amended to require the State Comptroller to issue internal control standards for state agencies, public authorities and other organizations.

5. The City of New York Office of the Comptroller Internal Control and Accountability Directive #1: Principles of Internal Control.

6. Lewis, Andrew C., Lisa Buhler, Marcus Melton and Jeffrey C. Steinhoff. "Mitigating Breakdowns that Impact Performance Need Not Be A Bridge Too Far," *Journal of Government Financial Management* (*Journal*), Fall 2021; and Lewis, Andrew C., Wendy J. Allen and Jeffrey C. Steinhoff. "Expect the Unexpected," *Journal*, Winter 2024.

7. Pew Research Center, *U.S. Politics & Policy.* "Public Trust in Government: 1958 to 2023," Sep. 19, 2023.

8. Pitkin, Walter B. "Life Begins at Forty," 1932.

9. In addition, the "2016 Playbook: Enterprise Risk Management for the U.S. Federal Government," developed by the CFO Council and the Performance Improvement Council to bolster OMB Circular A-123, provides leading ERM implementation practices.

10. "A Framework for Managing Fraud Risks in Federal Programs," GAO-15-593SP, July 28, 2015, helps managers combat fraud and preserve integrity in government agencies and programs.

11. P.L. 116-117, Payment Integrity Information Act, March 2, 2020.

12. GAO. "Fraud Risk Management: 2018–2022 Data Show Federal Government Loses an Estimated $233 Billion to $521 Billion Annually to Fraud, Based on Various Risk Environments," GAO-24-105833, April 16, 2024.

13. Ibid. GAO reported the range, in which 90% of estimated fraud losses fell, reflects the different risk environments during this period. Of its approach to estimating the range of fraud losses, GAO said estimates were "sensitive to the assumptions made about fraud and accounts for data uncertainty and limitations" and used "a well-established probabilistic method for estimating a range of outcomes under different assumptions and scenarios where there is uncertainty. The estimate does not include fraud loss associated with federal revenue or fraud against federal programs that occurs at the state, local, or tribal level unless federal authorities investigated and reported it."

14. https://assets.performance.gov/PMA/Biden-Harris_Management_Agenda_Vision_11-18

15. GAO. "High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas," GAO-23-106203, April 20, 2023.

16. Steinberg, Hal. "Achieving Governmentwide Enterprise Risk Management," *Journal*, Winter 2021.

17. P.L. 101-576, Nov. 15,1990.

18. Steinhoff, Jeffrey C., Laura A. Price and Edmund L. Green. "Your risk culture: An ERM enabler or barrier," KPMG in collaboration with the Association for Enterprise Risk Management, October 2018; and "It's All About the Culture," *Journal*, Summer 2019.

19. Ibid.

20. Circular A-123 (see Endnote 2) attributed this quotation to COSO's (Committee of Sponsoring Organizations of the Treadway Commission) "Enterprise Risk Management – Integrating with Strategy and Performance," June 2017.

21. KPMG. "Switching Gears – Expanding program integrity beyond fraud, waste, and abuse to enhance mission performance," KPMG Government Institute, June 2018.

22. https://comptroller.defense.gov/Portals/45/Documents/afr/fy2007/Detailed_Federal_Managers_Financial_Integrity_Act_Information_for_Section_3.pdf

23. See Endnote 21.

24. See Endnote 18.

25. See Endnote 21.

26. P.L. 111-148, Patient Protection and Affordable Care Act, March 23, 2010.

27. See Endnote 21.

28. GAO. "Unemployment Insurance: Estimated Amount of Fraud During Pandemic Likely Between $100 Billion and $135 Billion," GAO-23-106696, Sep. 12, 2023.

29. Stein, Jeff and Heather Long. "Understaffed and Under Siege: Unemployment Offices Nationwide are Struggling to do their Jobs," *Washington Post*, April 6, 2020; and Lewis, Andrew C., Nikki B. Reid, Allen B. Devine and Jeffrey C. Steinhoff. "Applying Lessons Learned in COVID-19 to Support the President's Management Agenda," *Journal*, Spring 2022.

30. https://www.gao.gov/reports-testimonies/recommendations-database

31. https://www.oversight.gov/recommendations

32. AGA National Leadership Training, *How to Combat Fraud Schemes and Manage Fraud Risks*, Feb. 28, 2024.

Andrew C. Lewis, CGFM, CPA, PMP, CIPP/G, is AGA's Past National Treasurer, past co-chair of AGA's Leadership Development Committee, and a member of AGA's Montgomery/Prince George's County Chapter. He is the partner-in-charge of KPMG LLP's federal audit practice, and an executive fellow of the KPMG Government Institute.

Kayla M. Futch, CGFM, CPA, is a managing director in the federal audit practice. With over 16 years of federal accounting and audit experience, she leads KPMG's federal audit quality support initiatives. She serves on the GAO's Green Book Advisory Council and is a member of AGA's Washington D.C. Chapter.

Jeffrey C. Steinhoff, CGFM, CPA, CFE, CGMA, is a senior advisor to KPMG and retired managing director of its Government Institute. He enjoyed a 40-year federal career in which he served as Assistant Comptroller General of the U.S. for Accounting and Information Management, led GAO's largest audit unit, had responsibility for developing government auditing and internal control standards, and was a principal architect of the CFO Act. Jeff is an AGA Past National President, founded the CGFM program, and received the organization's highest honor, the Robert W. King Memorial Award; the Hal Steinberg Award from AGA's CEAR Board; the Comptroller General's Award, GAO's highest honor; and AICPA's Outstanding CPA in the Federal Government. Jeff is a member of AGA's Northern Virginia and Washington D.C. chapters and an elected Fellow of the National Academy of Public Administration.