by David Keith, CITAM

Keeping Up

How New Standards for Federal Agencies Will Affect the Private Sector

October 1 marks the new fiscal year for the federal government, and with the new year comes new regulations for the 24 federal agencies subject to the Chief Financial Officers Act of 1990. The changes keep the language and the business practices of the Federal Managers' Financial Integrity Act of 1982 in sync with the accountability standards outlined in Section 404 of the 2002 Sarbanes-Oxley (SOX) Act.

Known as Office of Management and Budget (OMB) Circular A-123, the latest revision requires the agencies to move internal controls out of the realm of the CFO and to put them instead in the business operational world. The emphasis is on making sure internal controls are not seen only from a financial perspective but are treated instead as the driving force for making business decisions. Financial decisions are created from these business ones, and the controls on the business decisions must be separated from financial aspects. The revised circular states, "The new internal controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing. They should not be an isolated management tool."

The changes are intended to strengthen the credibility of the annual agency management assessments of financial status in accordance with the Federal Managers' Financial Integrity Act. The assessments are due 45 days after the fiscal year ends.

IT asset managers within a federal agency who need all of the details to confirm compliance can read the entire circular at www.whitehouse.gov/omb/circulars/a123/a123_rev.pdf

For those of us not working in the federal sector, I believe a brief discussion of the circular is valuable because we can relate to the issues arising in the public sector with SOX compliance programs. For those in the private sector, the revisions in terminology and business practices coming from these changes will become the common lexicon. You will be left behind if you do not keep current with these updates. For instance, this circular replaces the term "management control" with "internal control," which is in keeping with the language of the SOX act.

INTERNAL CONTROL

What is the purpose of creating and using internal controls? The GAO Green Book "Standards for Internal Control in the Federal Government" states: "Internal control is an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations."

With this purpose, internal controls obviously have broad applicability to anyone in IT asset management. Perhaps we should have that phrase tattooed in a prominent place!

In A-123, agency management is responsible for developing and maintaining internal controls based on the standards of control environment, risk assessment, control activities, information and communication, and monitoring.

From our asset perspective, internal controls are designed to provide reasonable assurance that unauthorized acquisition, use and disposal are prevented. The changes in the circular ensure internal controls include an assessment of the financial reporting.

What do internal controls consist of? Internal controls are the processes for planning, organizing, directing, controlling and of utmost importance, reporting on the operations of an organization. These activities are the responsibility of business operations and serve as a primary defense against improper financial practices. The act and this circular clarify the issue for federal agencies in particular, but the point carries across to virtually any business environment even those not subject to Sarbanes-Oxley.

CLARIFYING ACCOUNTABILITY

As this circular carefully separates the responsibility for financial reporting assurance from the internal control development and enforcement, it also strongly advises the creation of two assessment groups, with assurance reporting as their function. The first is a senior management council consisting of the CFO, CIO, senior procurement executive and the agency department managers who are responsible for identifying and correcting systemic weaknesses. This group and the agency head (CEO) must provide to the President and Congress with a statement of assurance on the adequacy and effectiveness of the agency's internal controls. Obviously we're not going to report to the President and Congress, but a high profile annual statement is appropriate regardless of business type.

The second Statement of Assurance is developed by the CFO and confirms the accuracy and completeness of the financial report. Those in publicly held companies have an identical requirement for the financial reporting aspect of SOX to the SEC.

COMMON SENSE

The federal government refreshingly holds its agencies to the same standards for managing agency finance and assets as Congress has deemed necessary for our publicly held corporations. If our ultimate goal is to make our organizations as effective and cost-efficient as possible while increasing profitability, then living up to the internal controls outlined in A-123 or Sarbanes-Oxley shouldn't be looked upon as a burden but as a common sense component of business practice improvement.

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