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LEARNING SOLUTIONS

Best Practices in Control Self Assessment

June 9, 2025

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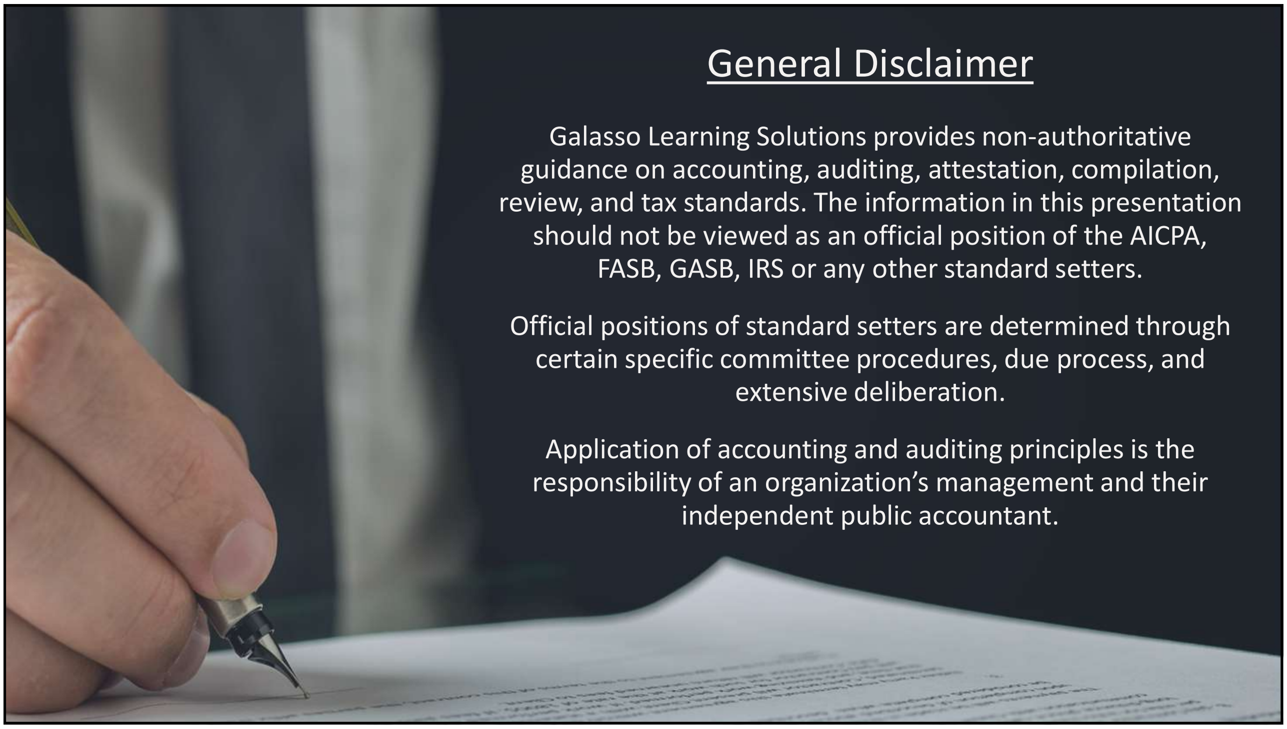

General Disclaimer

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Official positions of standard setters are determined through certain specific committee procedures, due process, and extensive deliberation.

Application of accounting and auditing principles is the responsibility of an organization’s management and their independent public accountant.

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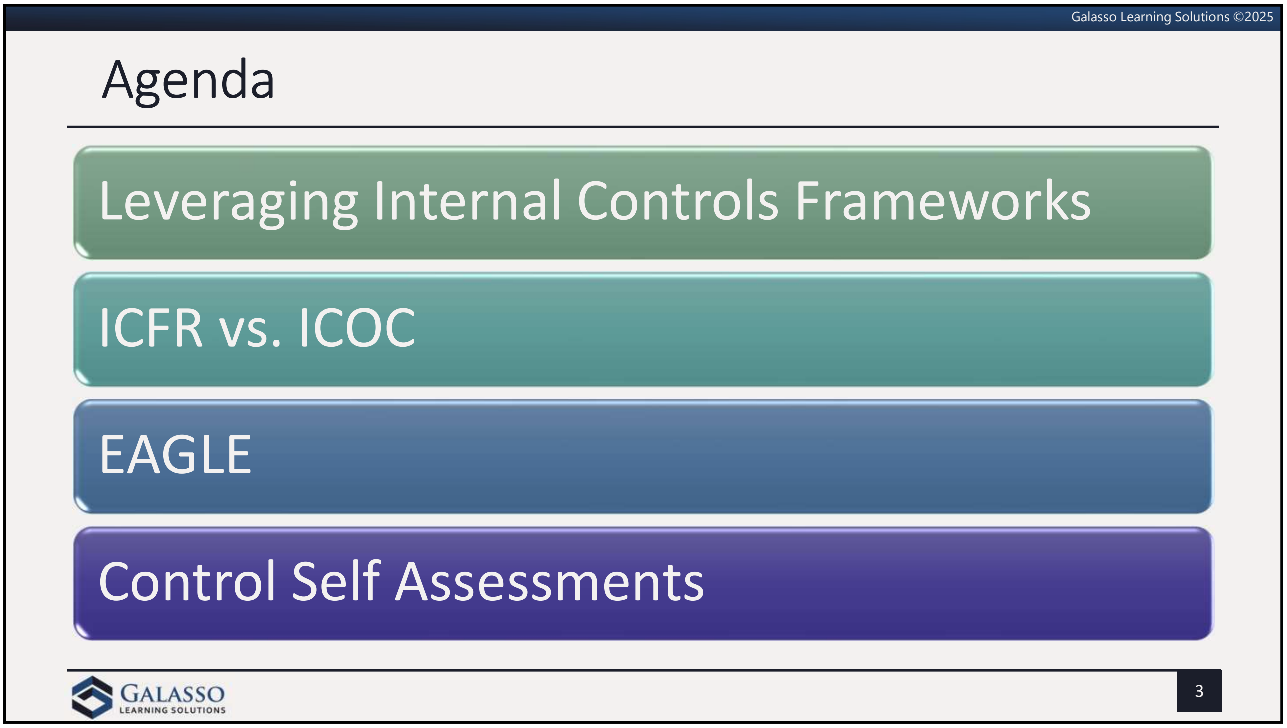

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Agenda

- Leveraging Internal Controls Frameworks
- ICFR vs. ICOC
- EAGLE
- Control Self Assessments

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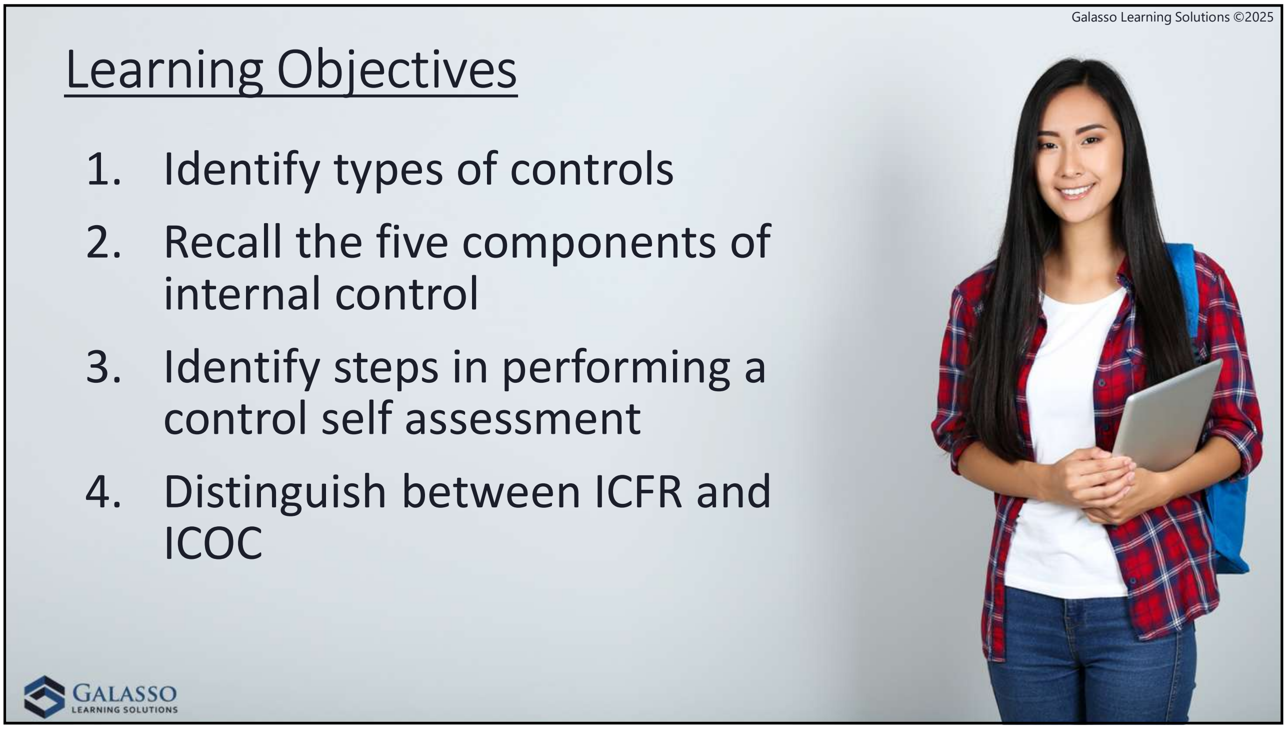

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Learning Objectives

1. Identify types of controls
2. Recall the five components of internal control
3. Identify steps in performing a control self assessment
4. Distinguish between ICFR and ICOC

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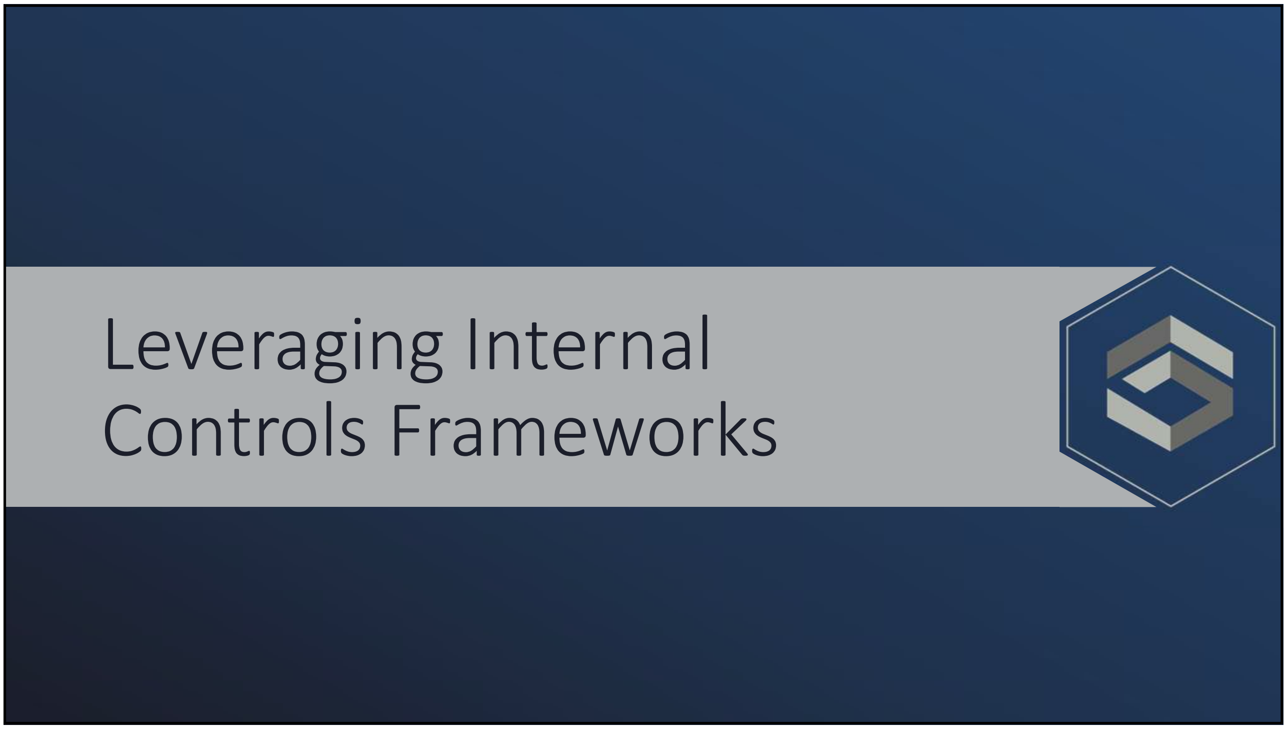

Leveraging Internal Controls Frameworks

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COSO

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About COSO

- Committee of Sponsoring Organizations
  - Formed in 1985 to sponsor the National Commission on Fraudulent Financial Reporting
    - AKA the Treadway Commission

Sponsoring Organizations

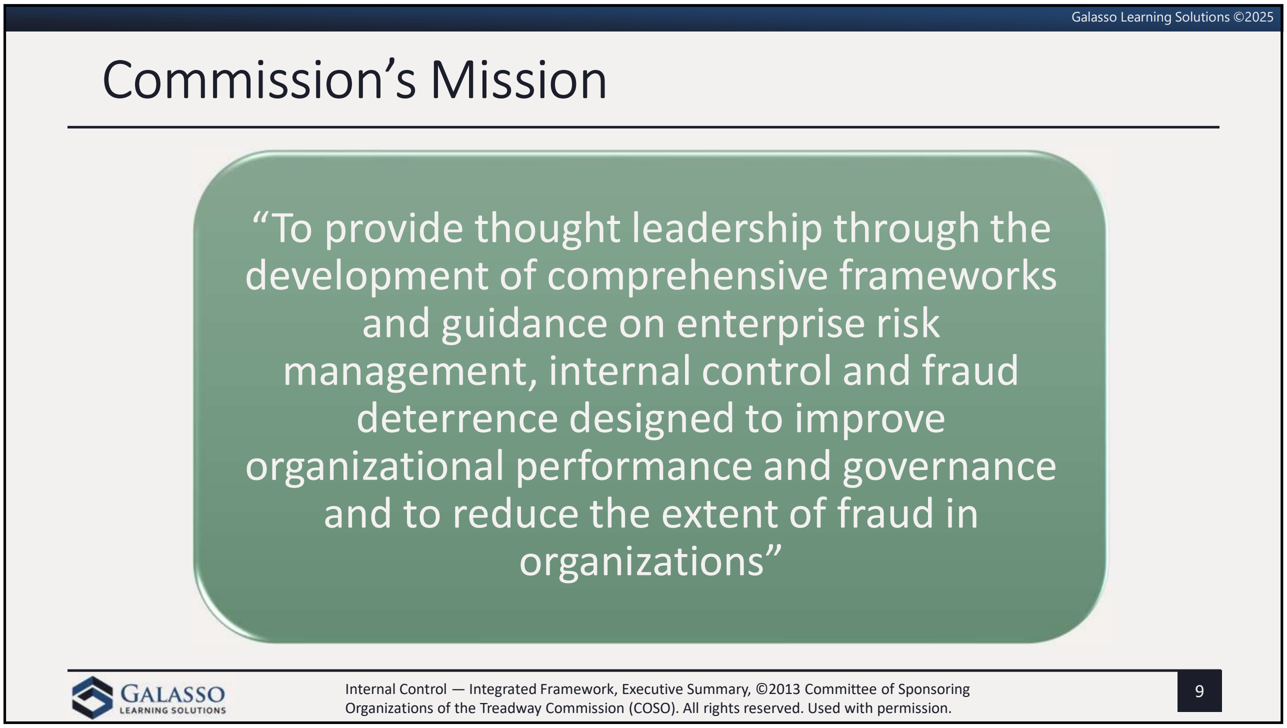
American Accounting Association

American Institute of CPAs

Financial Executives International

Institute of Internal Auditors

Institute of Management Accountants



Commission’s Mission

“To provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations”

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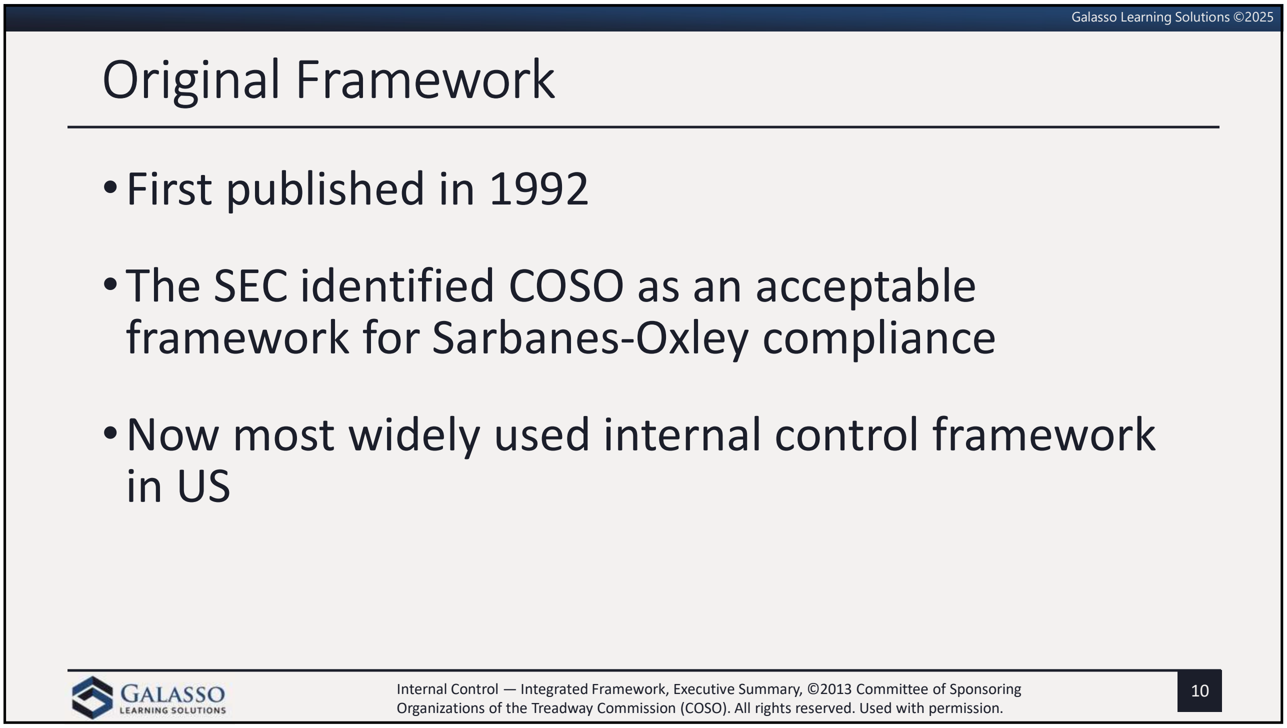

Original Framework

- First published in 1992
- The SEC identified COSO as an acceptable framework for Sarbanes-Oxley compliance
- Now most widely used internal control framework in US

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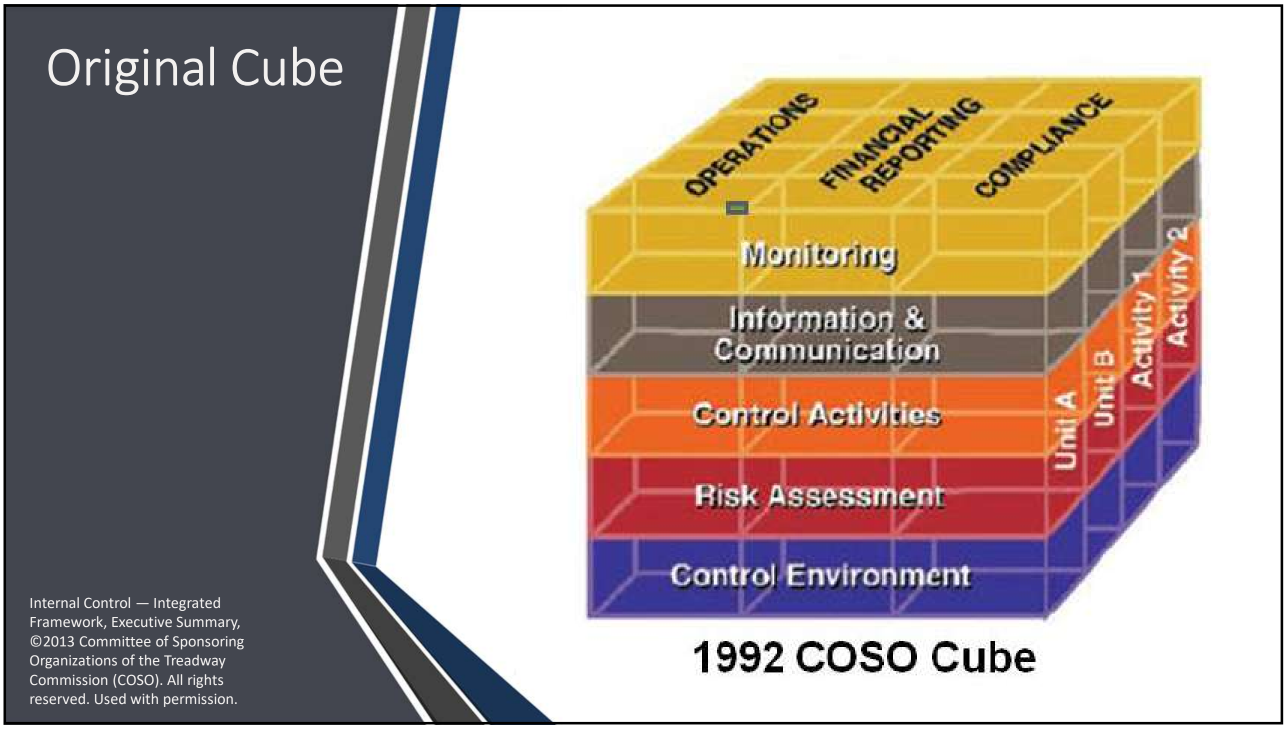

Original Cube

1992 COSO Cube

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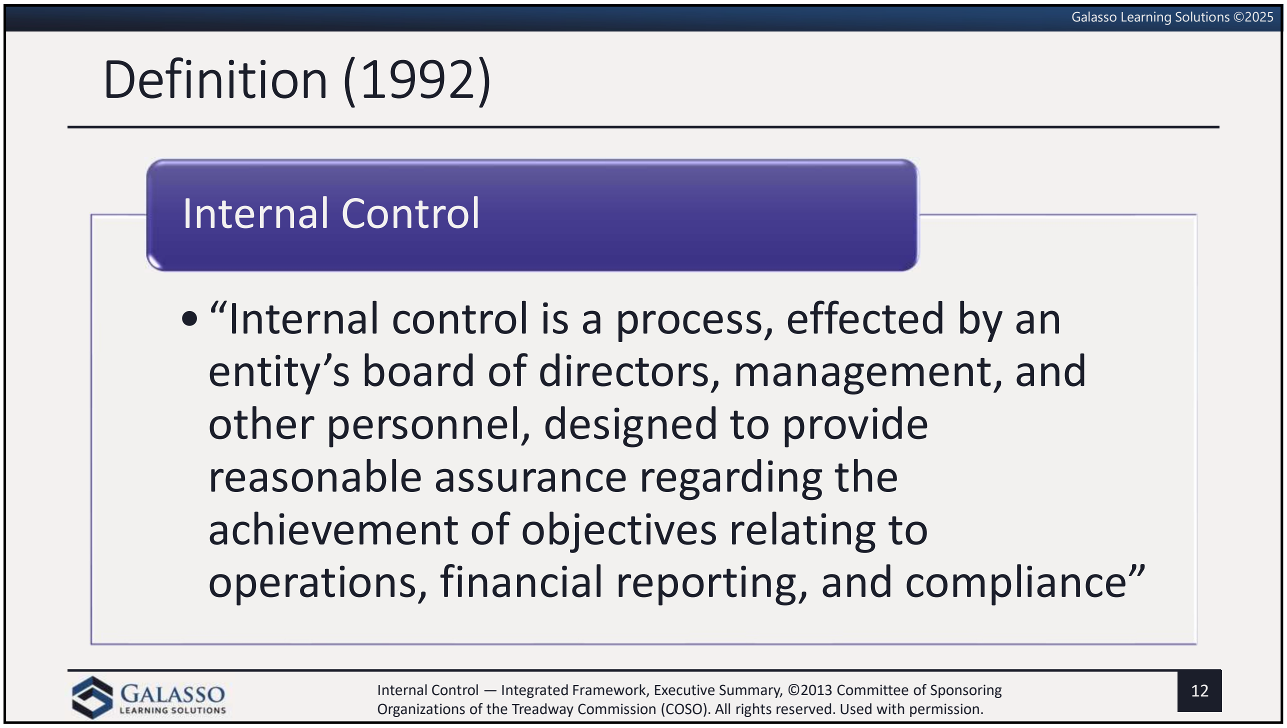

Definition (1992)

Internal Control

- "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, financial reporting, and compliance"

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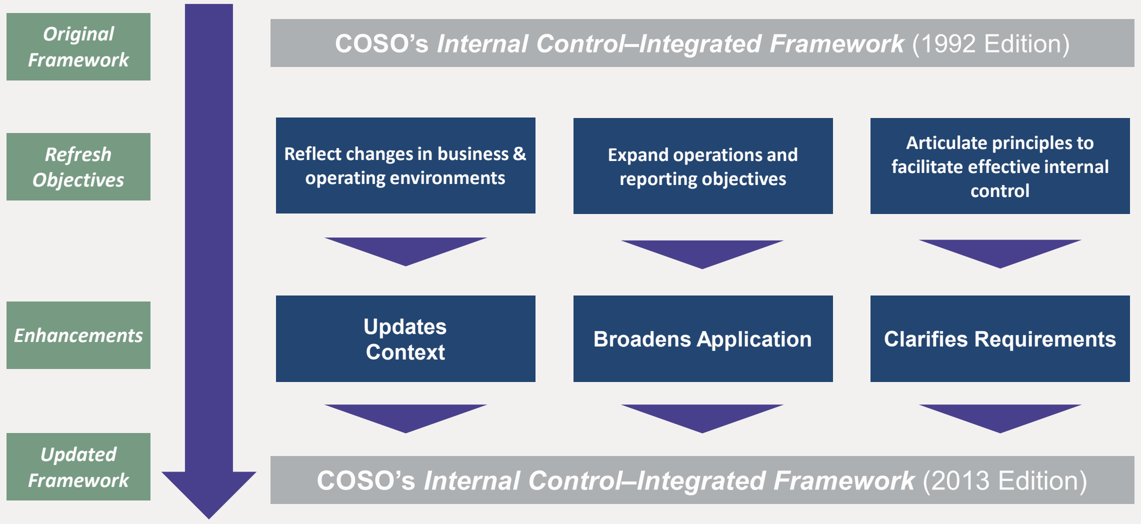
Reasons for Update

- Changes in technology and use of technology
- Globalization
- Complexity in laws and regulations
- Increase in outsourcing
- Focus on fraud

Objectives & Enhancements



Original Framework

COSO's *Internal Control–Integrated Framework* (1992 Edition)

Refresh Objectives

Reflect changes in business & operating environments

Expand operations and reporting objectives

Articulate principles to facilitate effective internal control

Enhancements

Updates Context

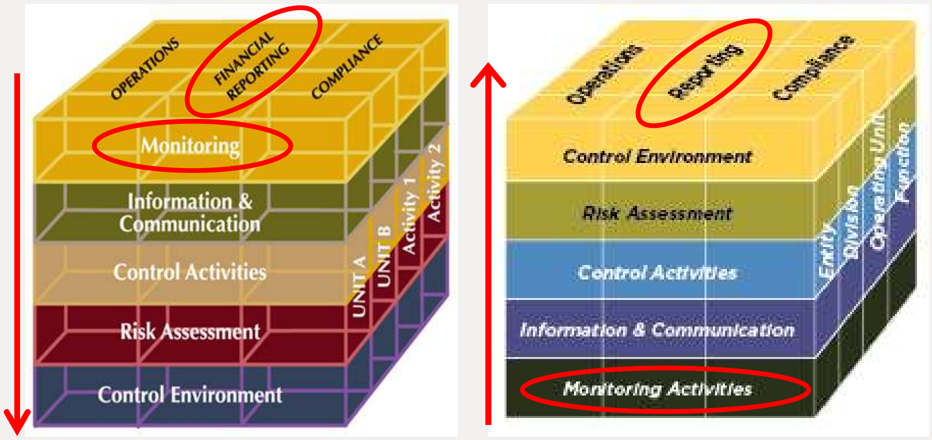
Broadens Application

Clarifies Requirements

Updated Framework

COSO's *Internal Control–Integrated Framework* (2013 Edition)

COSO Comparison (1992 - 2013)



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Internal Control Definition

“Internal control is a

- Process,
- Effected by an entity’s board of directors, management, and other personnel,
- Designed to provide reasonable assurance
- Regarding the achievement of objectives relating to operations, reporting, and compliance”

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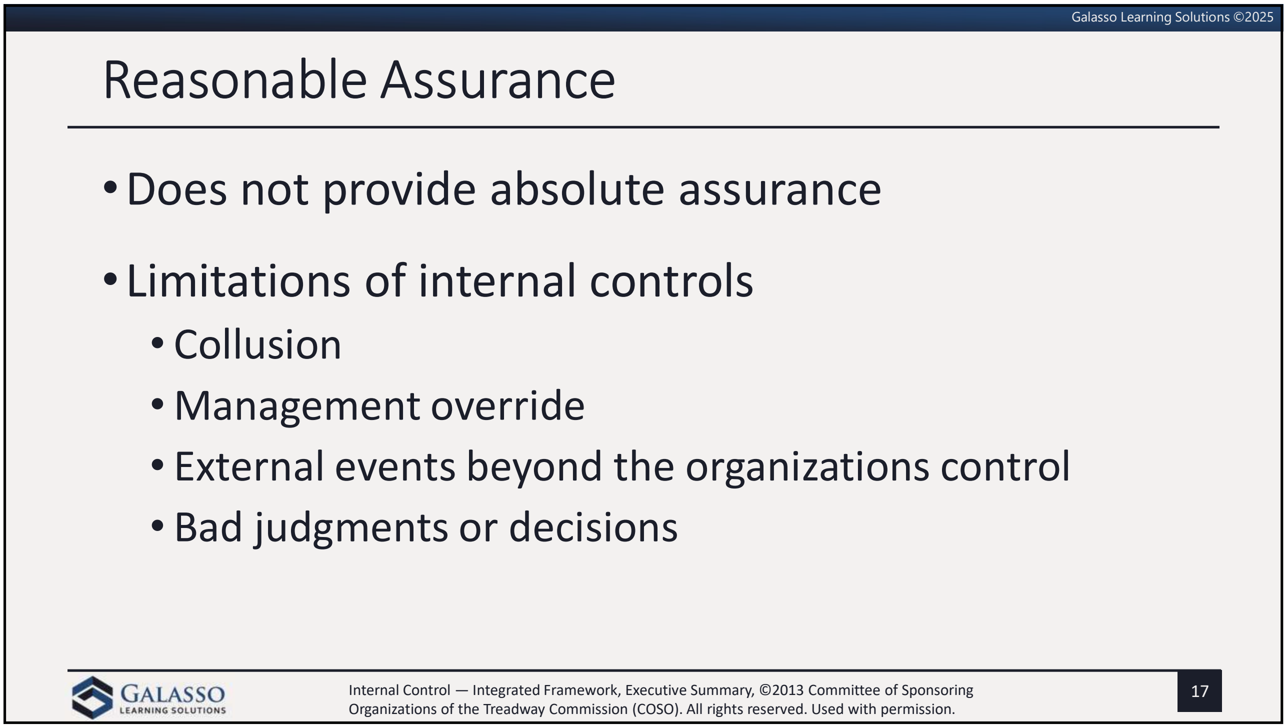
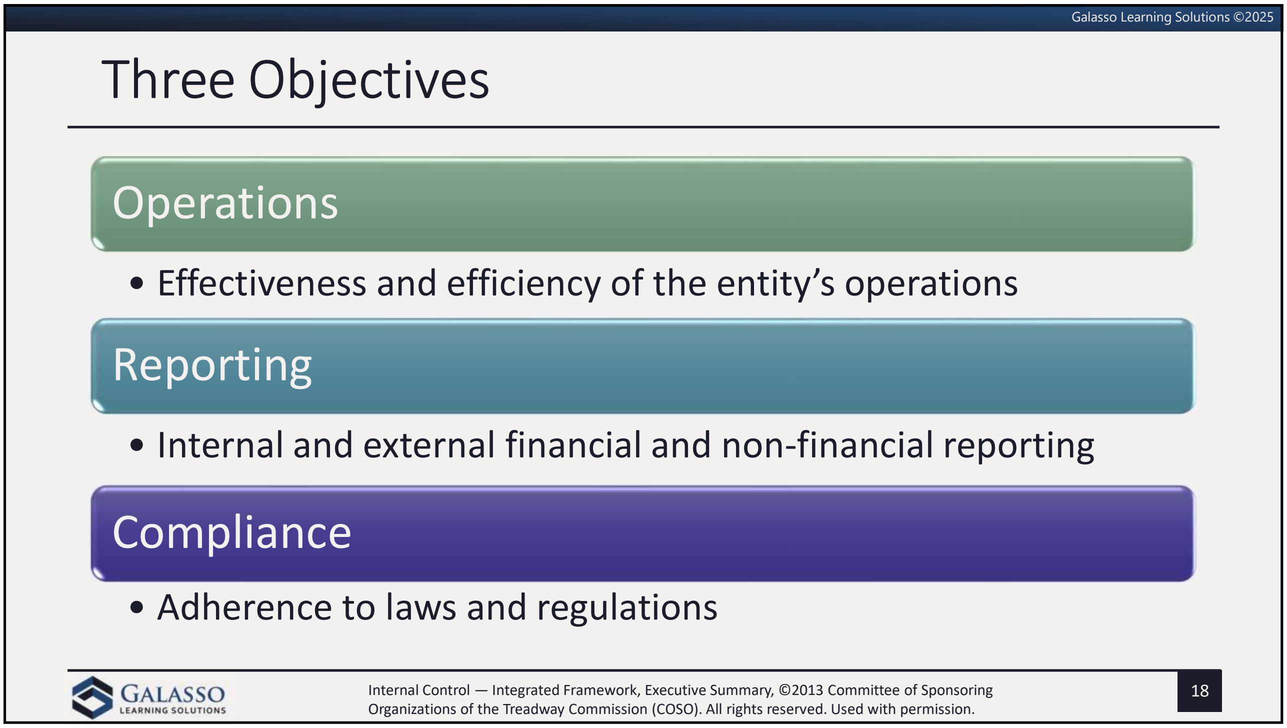


Reasonable Assurance

- Does not provide absolute assurance
- Limitations of internal controls
  - Collusion
  - Management override
  - External events beyond the organizations control
  - Bad judgments or decisions



Three Objectives

Operations

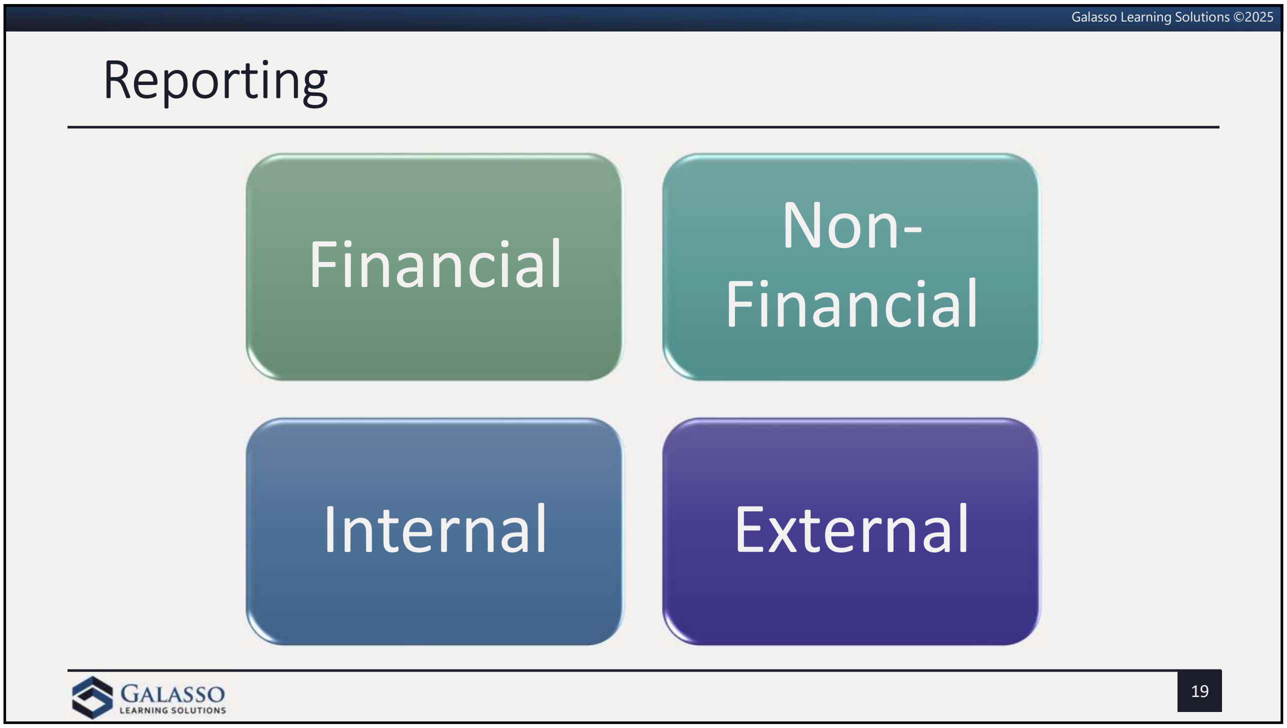
- Effectiveness and efficiency of the entity’s operations

Reporting

- Internal and external financial and non-financial reporting

Compliance

- Adherence to laws and regulations



Reporting

Financial

Non-Financial

Internal

External

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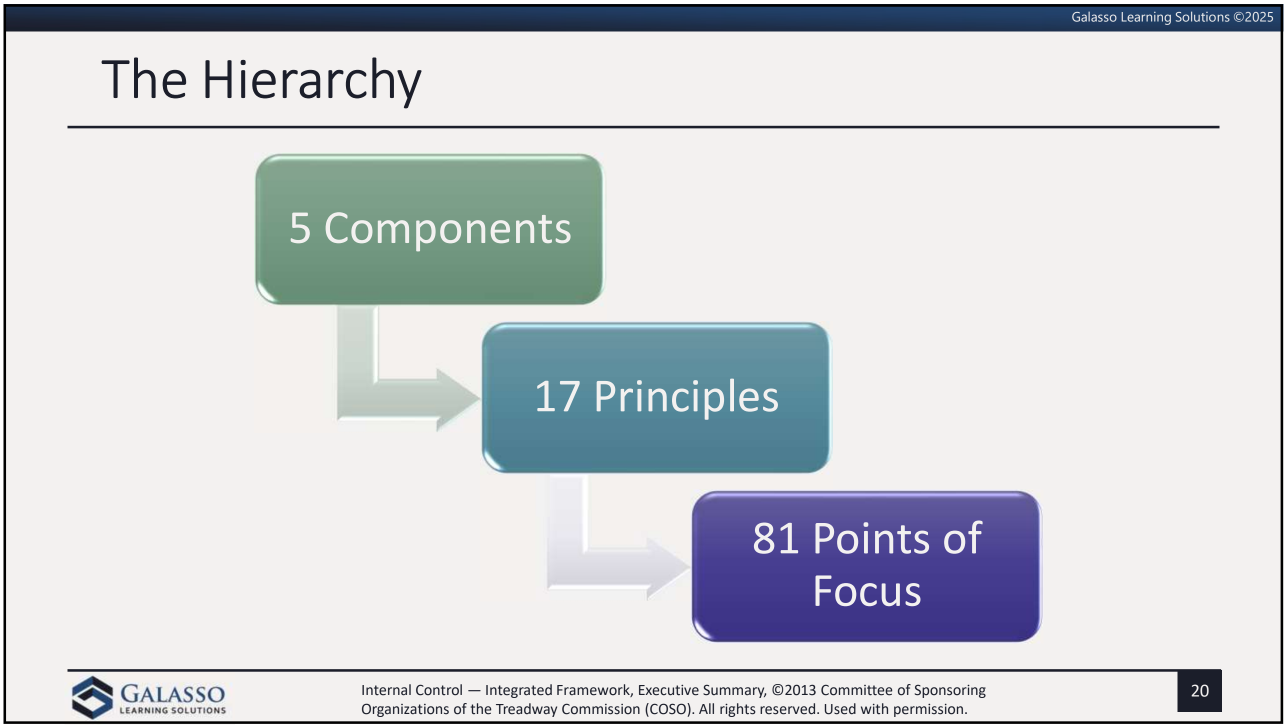

The Hierarchy

5 Components

17 Principles

81 Points of Focus

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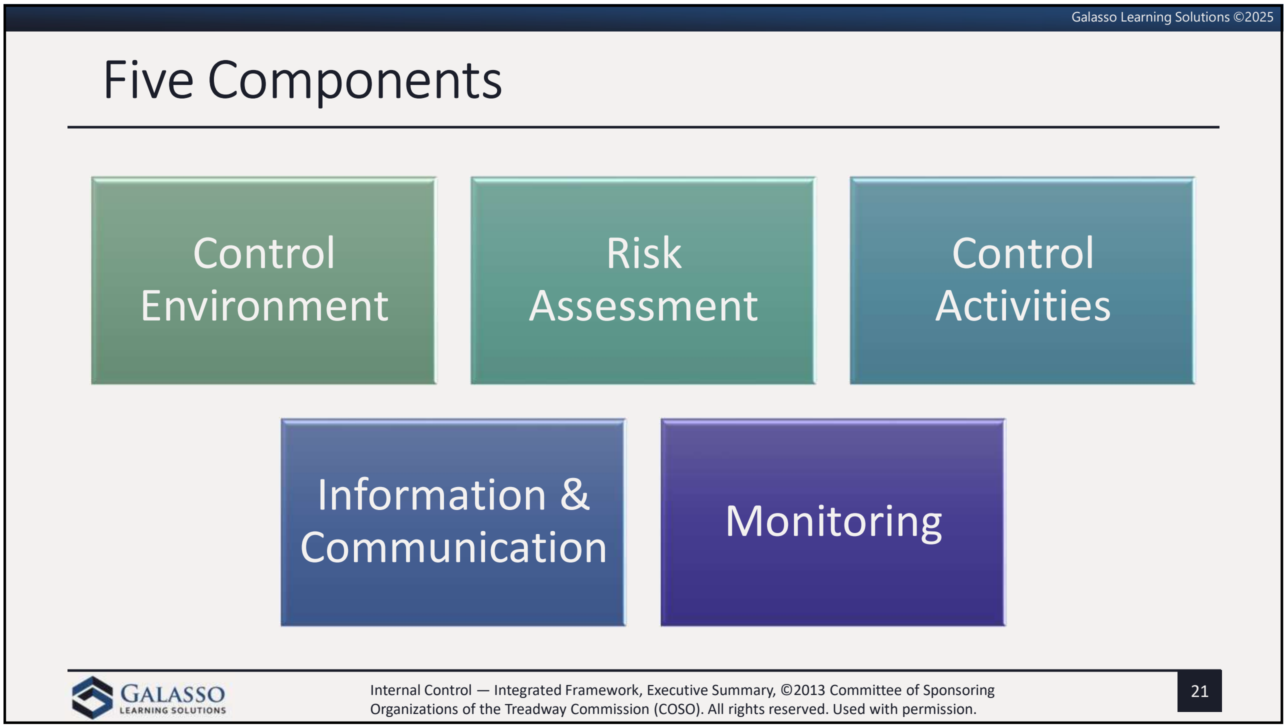


Five Components

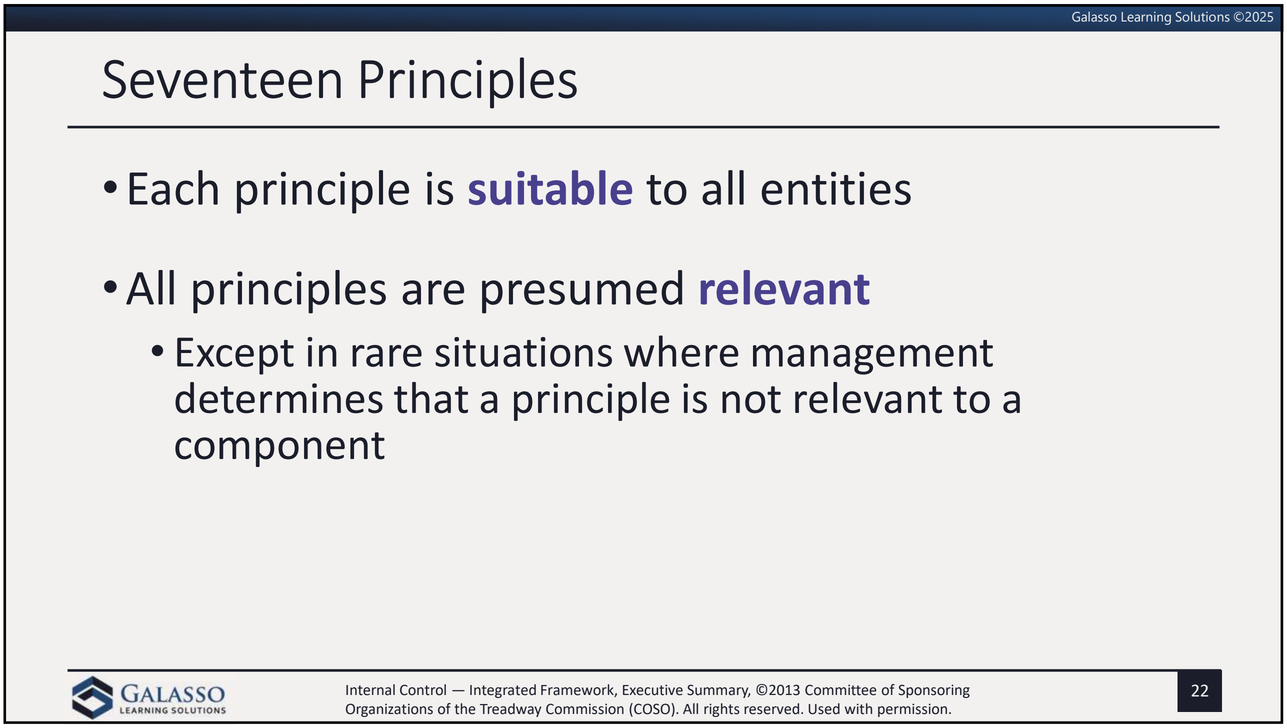
Control Environment

Risk Assessment

Control Activities

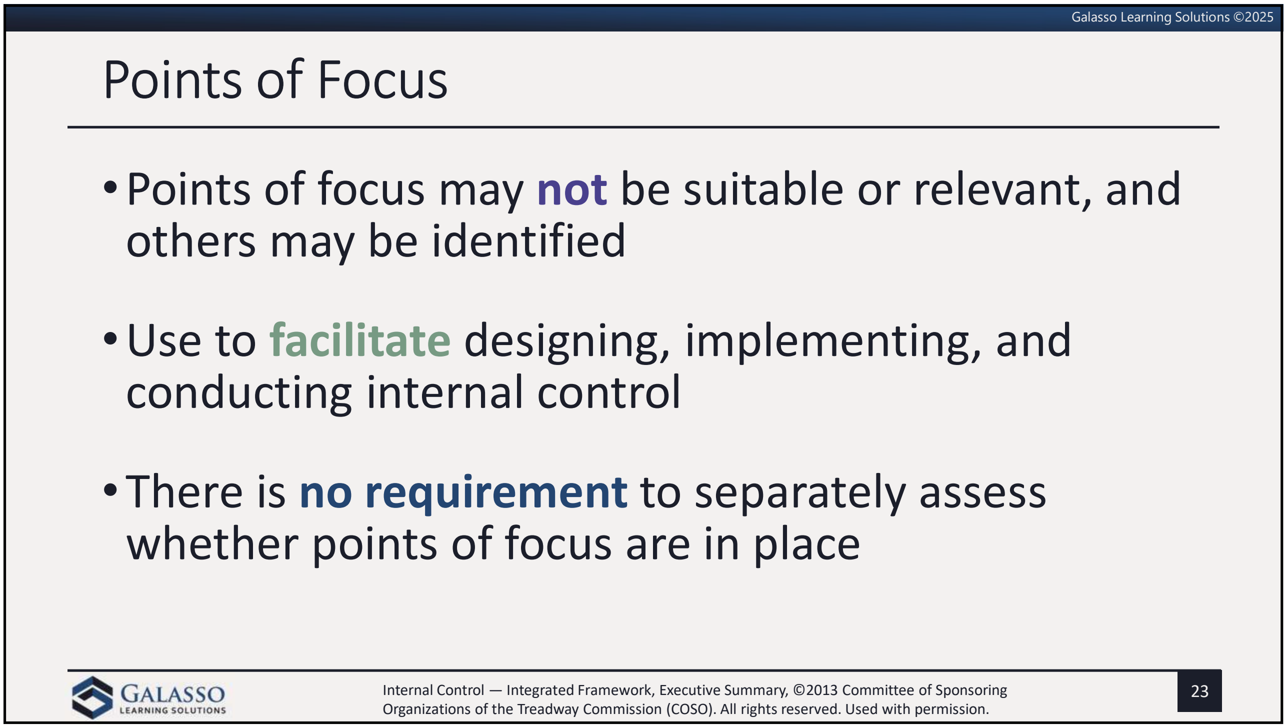
Information & Communication

Monitoring



Seventeen Principles

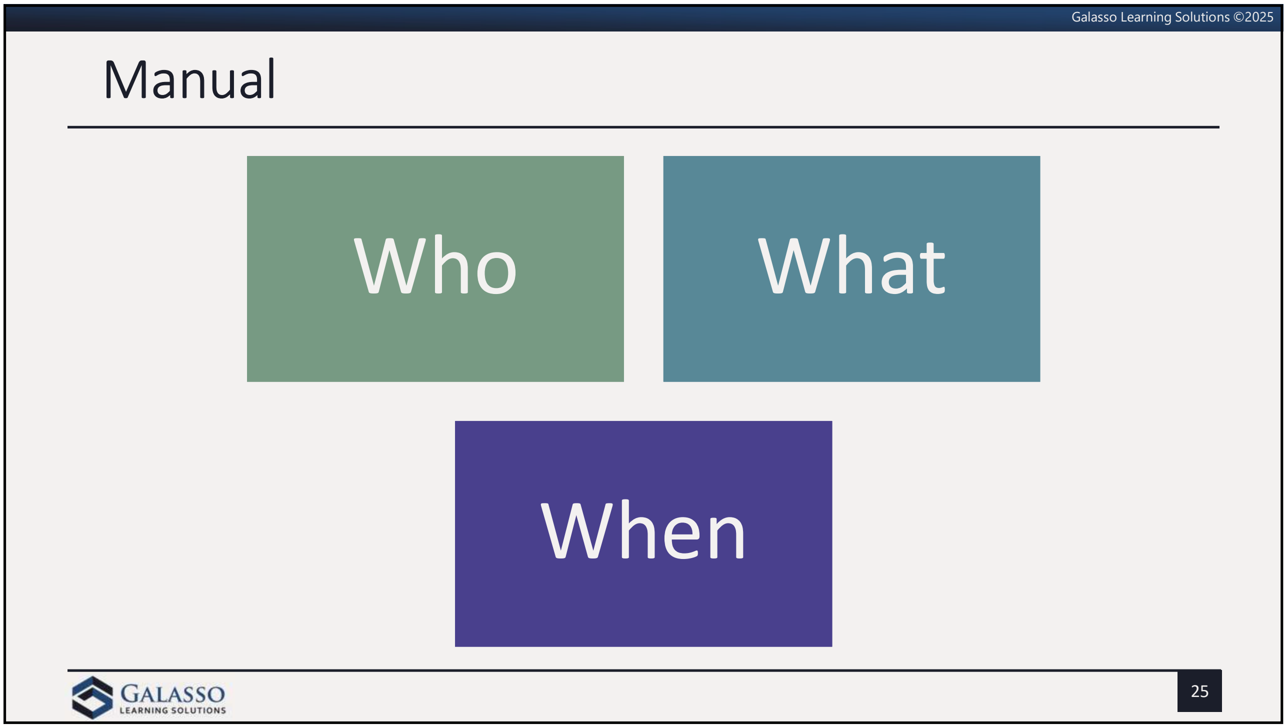
- Each principle is **suitable** to all entities
- All principles are presumed **relevant**
  - Except in rare situations where management determines that a principle is not relevant to a component



Points of Focus

- Points of focus may **not** be suitable or relevant, and others may be identified
- Use to **facilitate** designing, implementing, and conducting internal control
- There is **no requirement** to separately assess whether points of focus are in place

Control Activities



Manual

Who

What

When

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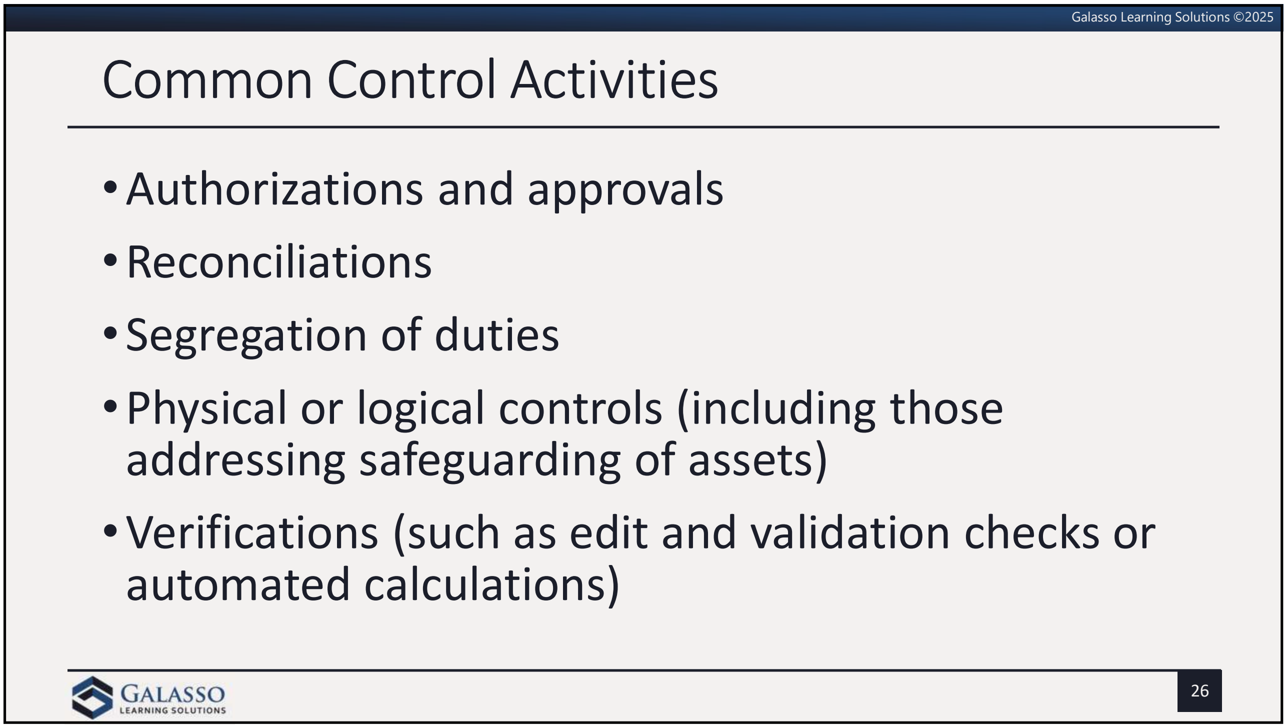

Common Control Activities

- Authorizations and approvals
- Reconciliations
- Segregation of duties
- Physical or logical controls (including those addressing safeguarding of assets)
- Verifications (such as edit and validation checks or automated calculations)

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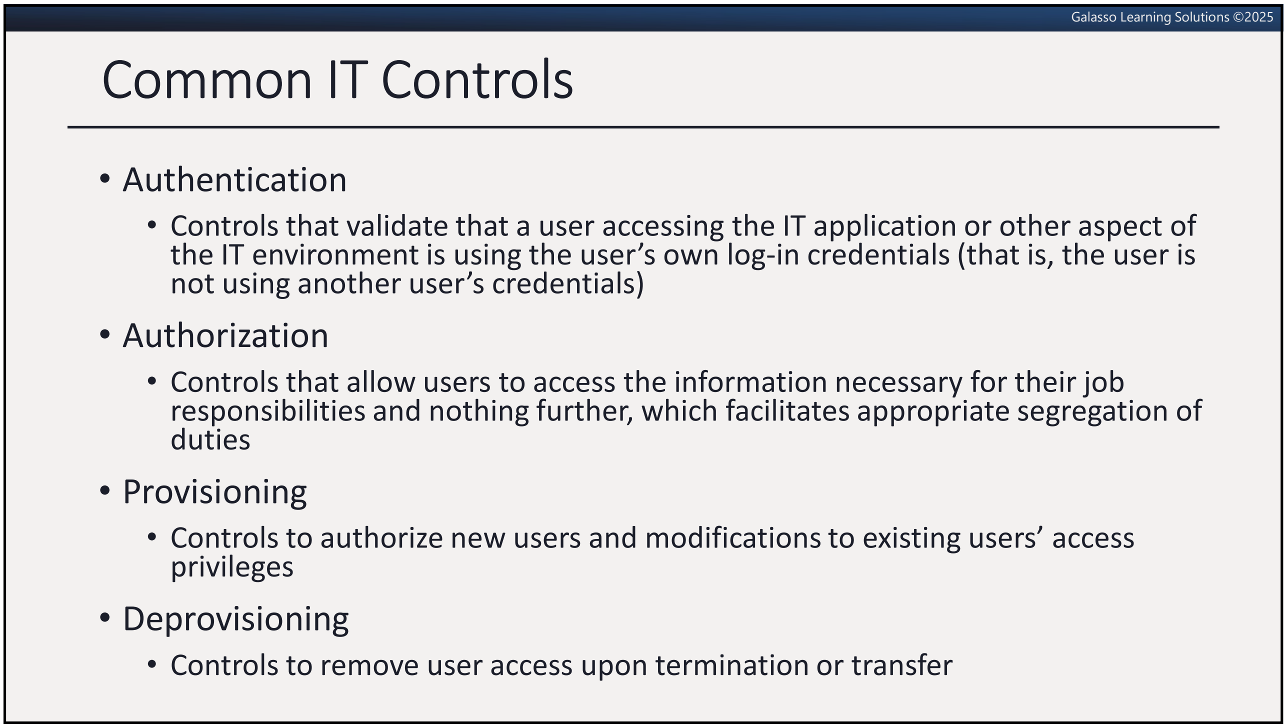

Common IT Controls

- Authentication
  - Controls that validate that a user accessing the IT application or other aspect of the IT environment is using the user's own log-in credentials (that is, the user is not using another user's credentials)
- Authorization
  - Controls that allow users to access the information necessary for their job responsibilities and nothing further, which facilitates appropriate segregation of duties
- Provisioning
  - Controls to authorize new users and modifications to existing users' access privileges
- Deprovisioning
  - Controls to remove user access upon termination or transfer

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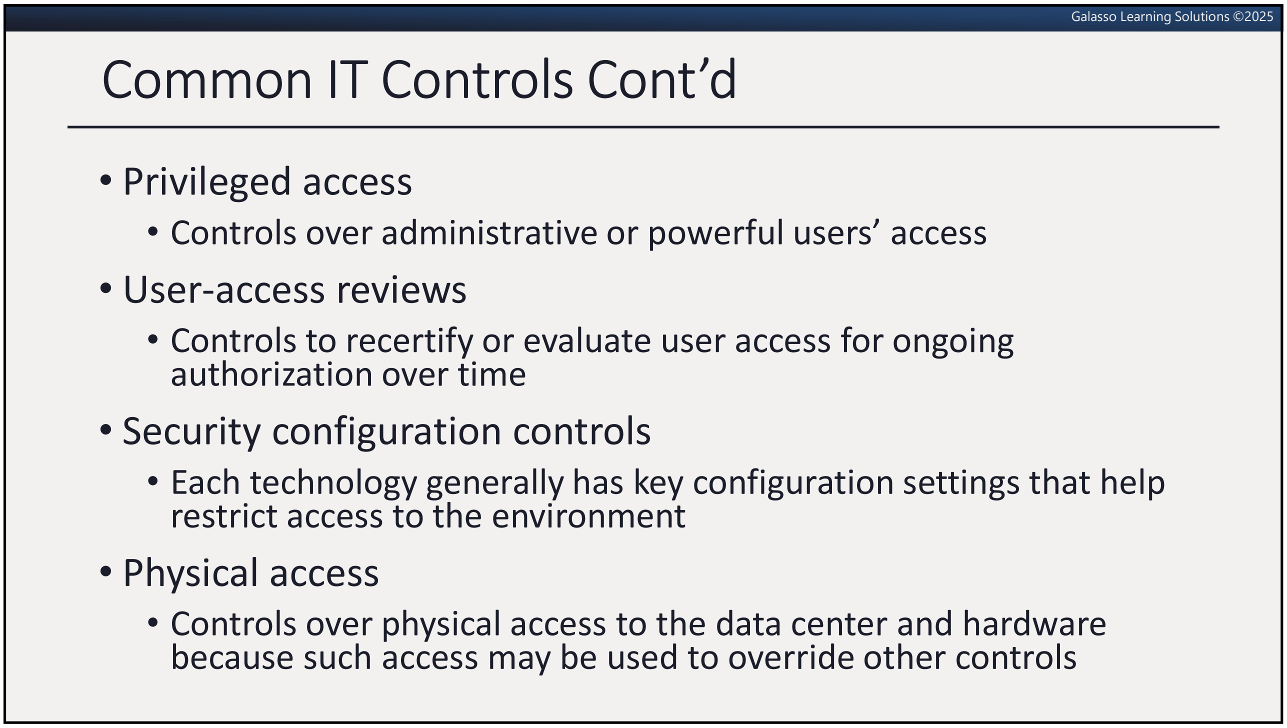

Common IT Controls Cont'd

- Privileged access
  - Controls over administrative or powerful users' access
- User-access reviews
  - Controls to recertify or evaluate user access for ongoing authorization over time
- Security configuration controls
  - Each technology generally has key configuration settings that help restrict access to the environment
- Physical access
  - Controls over physical access to the data center and hardware because such access may be used to override other controls

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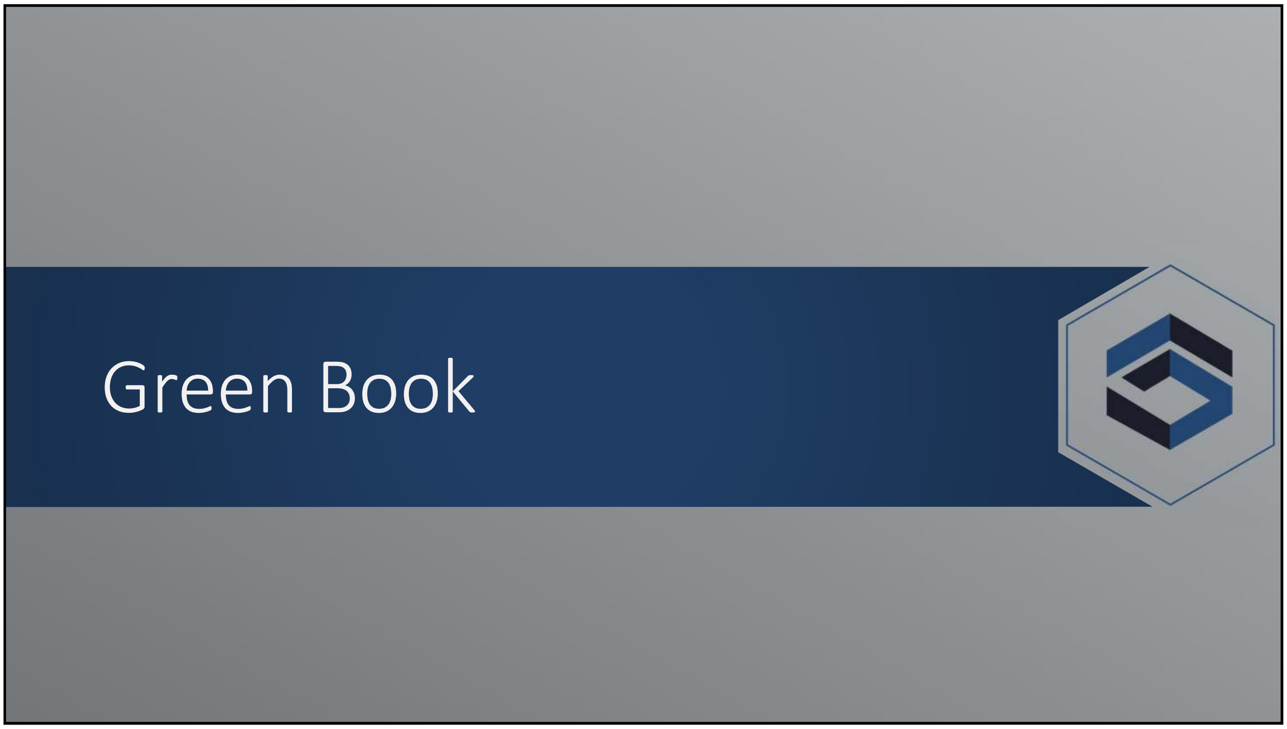

Green Book

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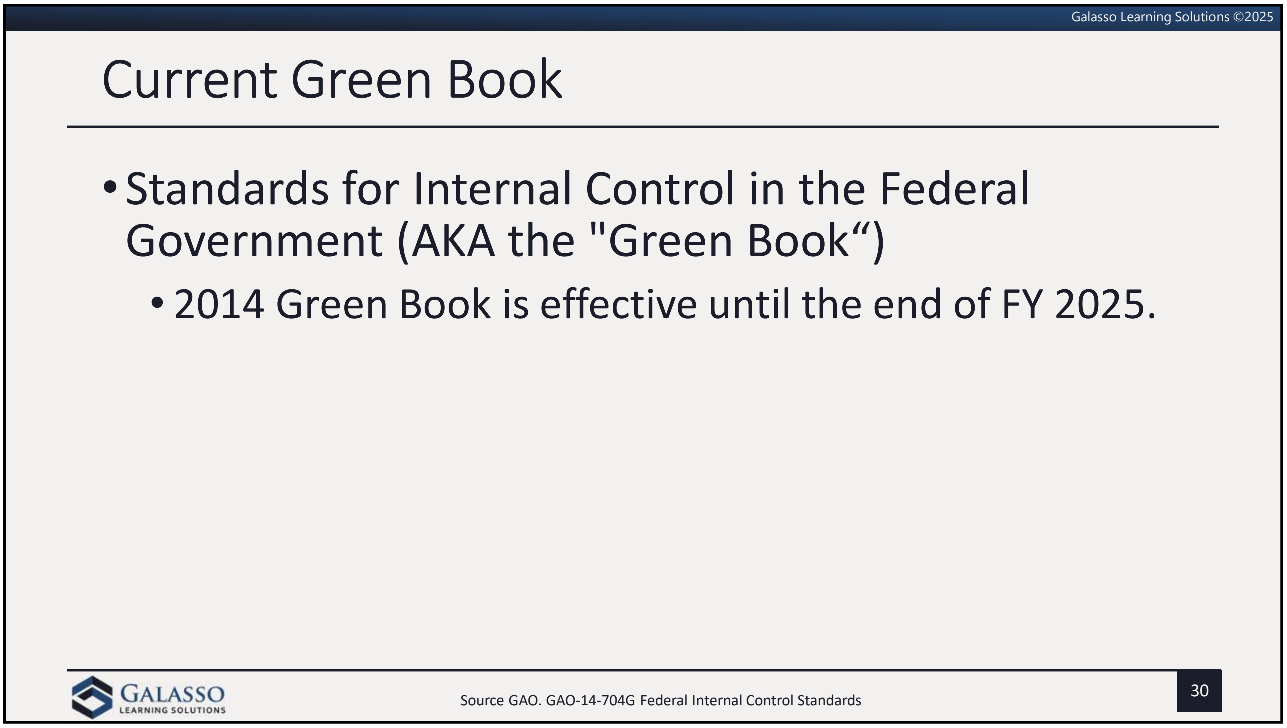

Current Green Book

- Standards for Internal Control in the Federal Government (AKA the "Green Book“)
  - 2014 Green Book is effective until the end of FY 2025.

Source GAO. GAO-14-704G Federal Internal Control Standards

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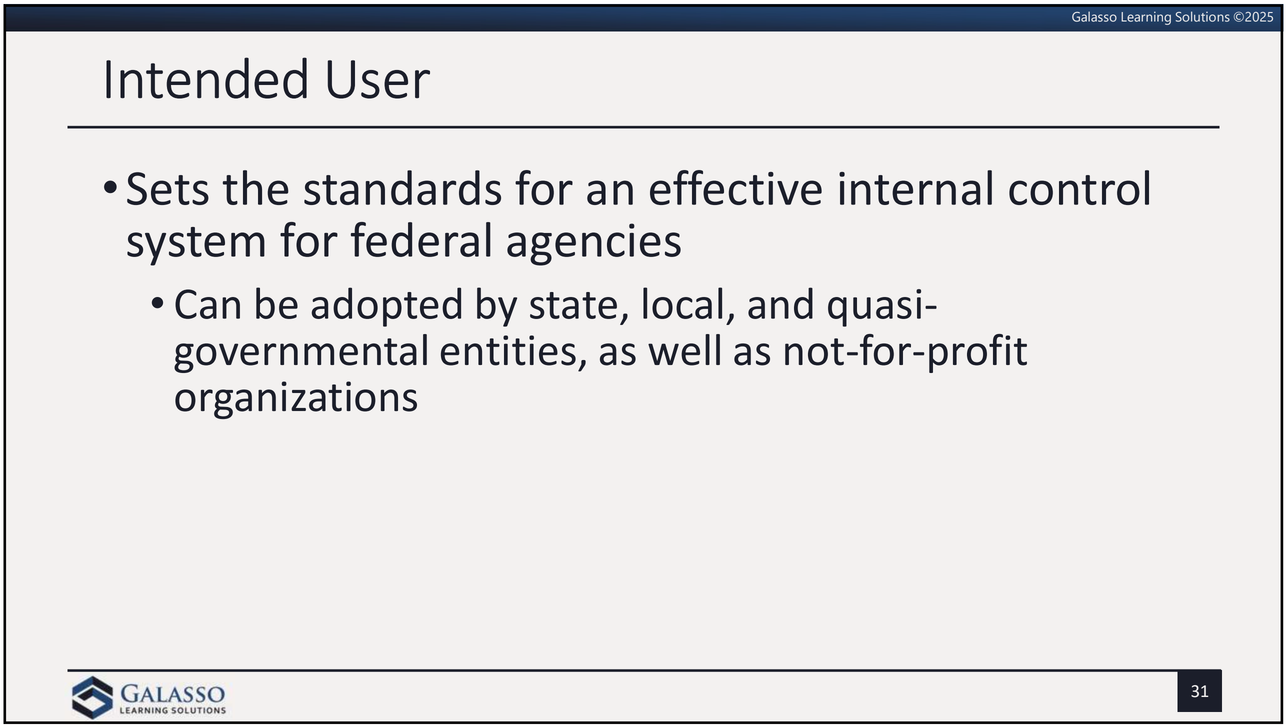
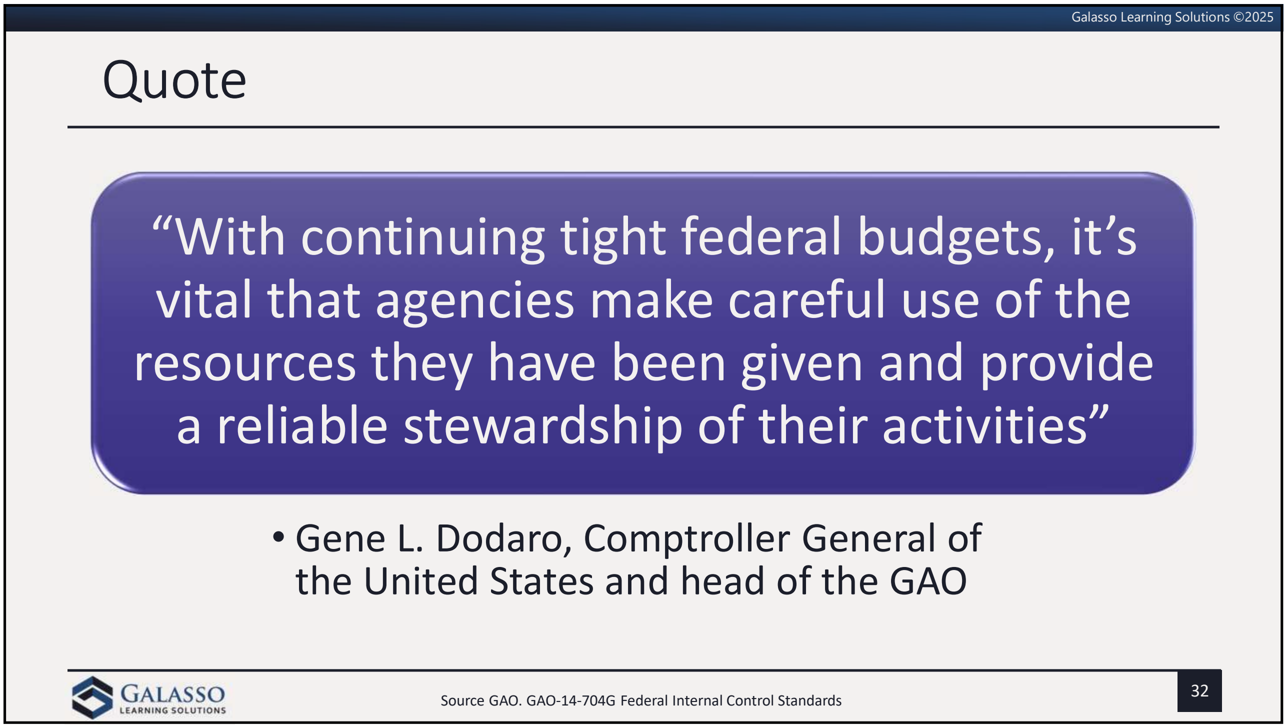


Intended User

- Sets the standards for an effective internal control system for federal agencies
  - Can be adopted by state, local, and quasi-governmental entities, as well as not-for-profit organizations



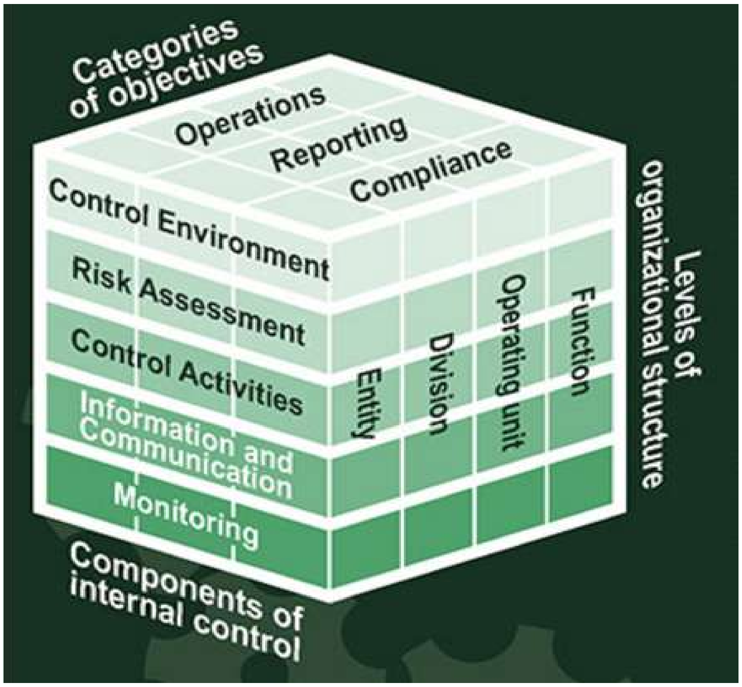
Quote

"With continuing tight federal budgets, it's vital that agencies make careful use of the resources they have been given and provide a reliable stewardship of their activities"

- Gene L. Dodaro, Comptroller General of the United States and head of the GAO

Source GAO. GAO-14-704G Federal Internal Control Standards

The Cube



Source GAO. GAO-14-704G Federal Internal Control Standards

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Internal Control

“Internal control is 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”

Source GAO. GAO-14-704G Federal Internal Control Standards

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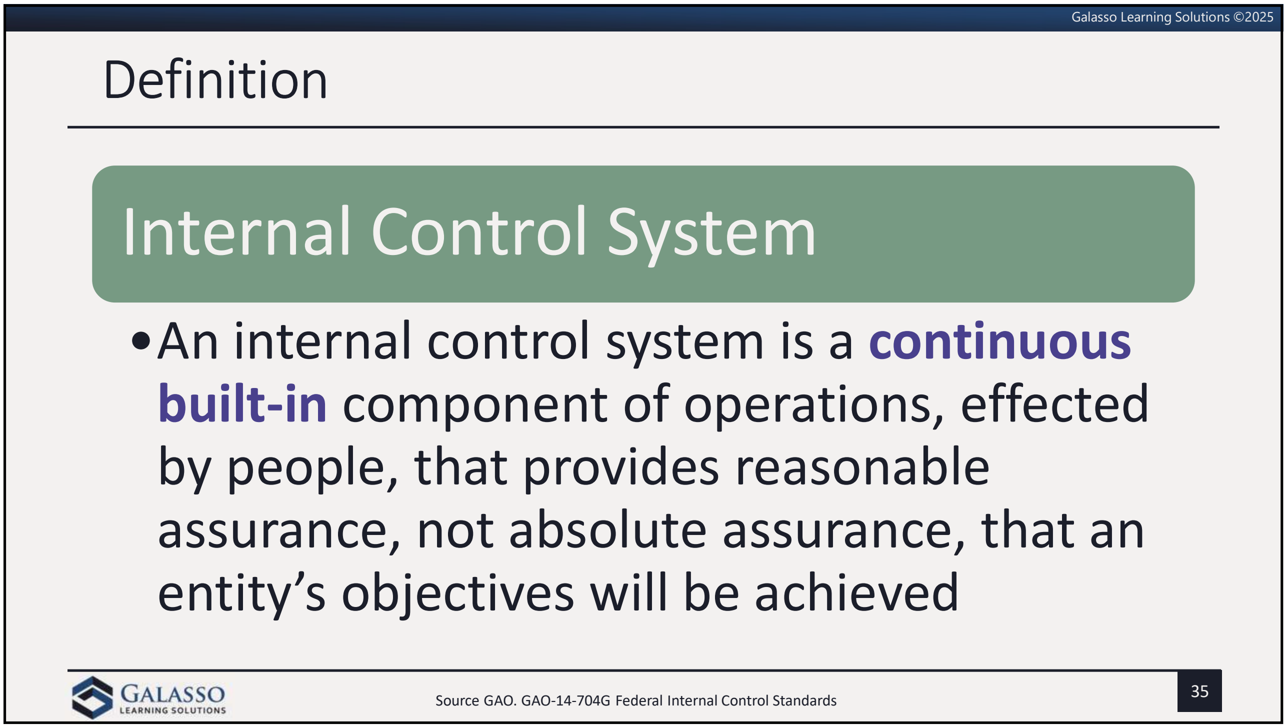
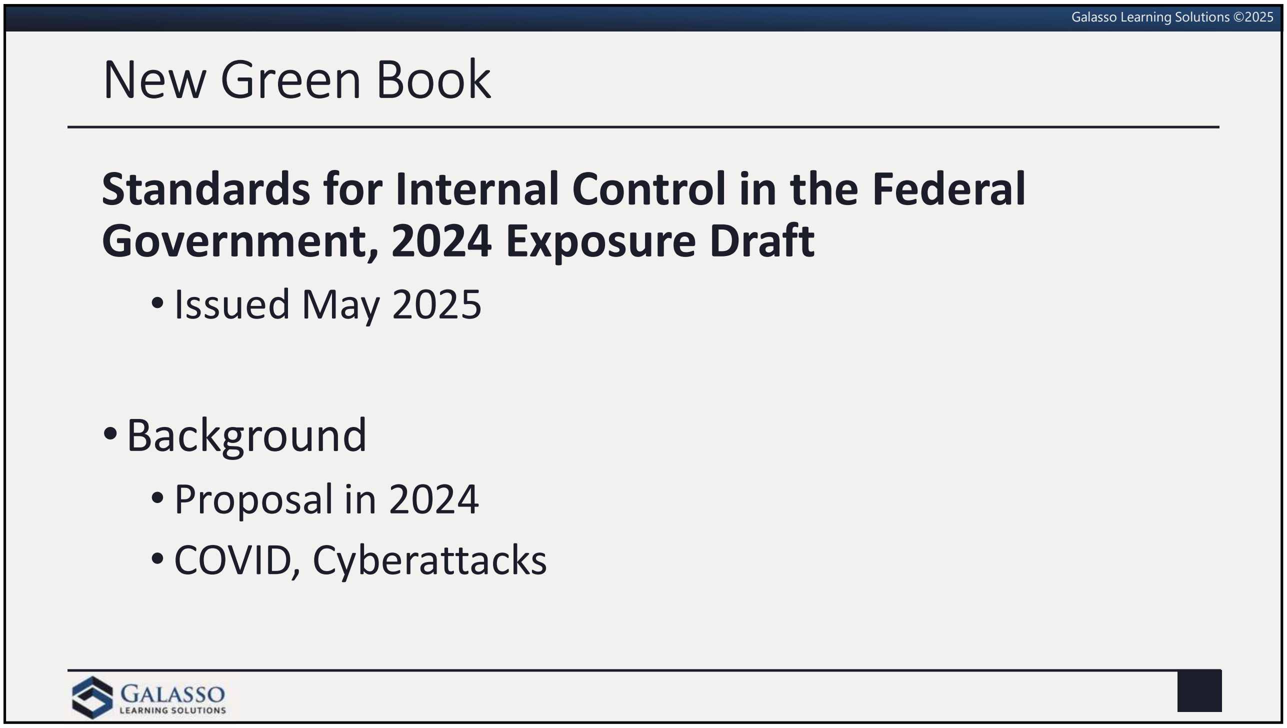


Definition

Internal Control System

- An internal control system is a **continuous built-in** component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved

Source GAO. GAO-14-704G Federal Internal Control Standards

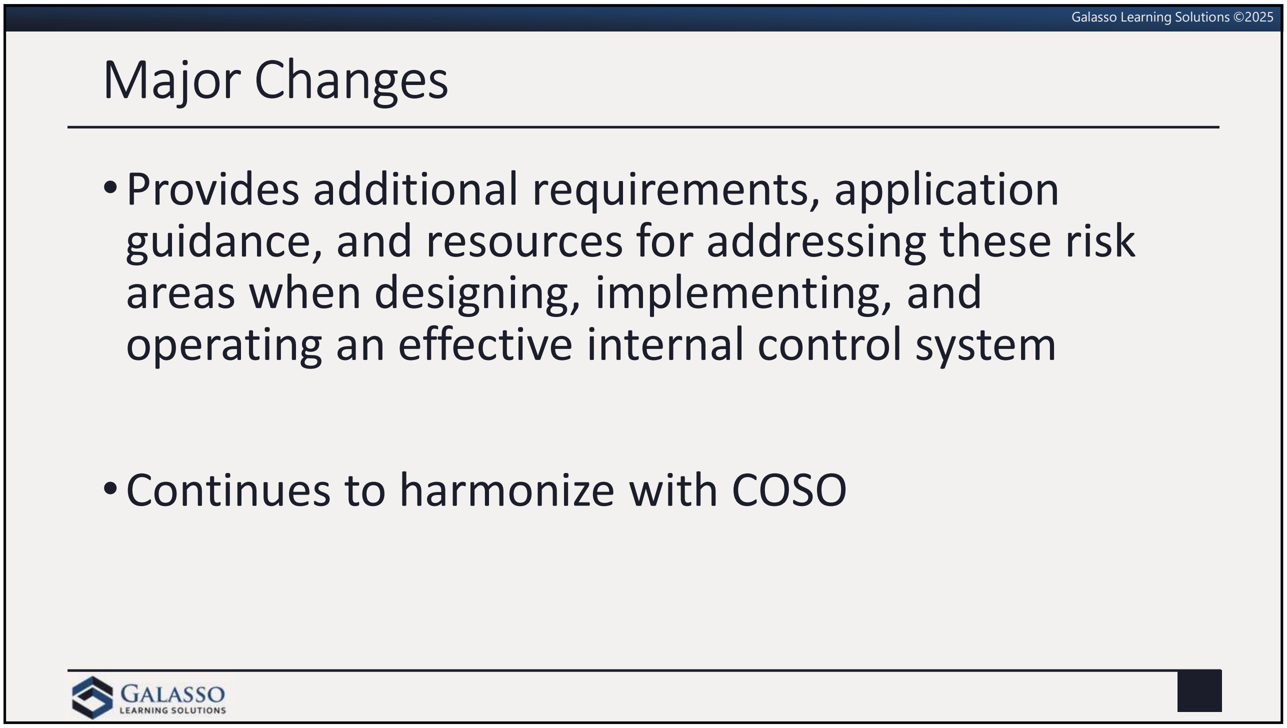


New Green Book

Standards for Internal Control in the Federal Government, 2024 Exposure Draft

  - Issued May 2025

- Background
  - Proposal in 2024
  - COVID, Cyberattacks



Major Changes

- Provides additional requirements, application guidance, and resources for addressing these risk areas when designing, implementing, and operating an effective internal control system

- Continues to harmonize with COSO

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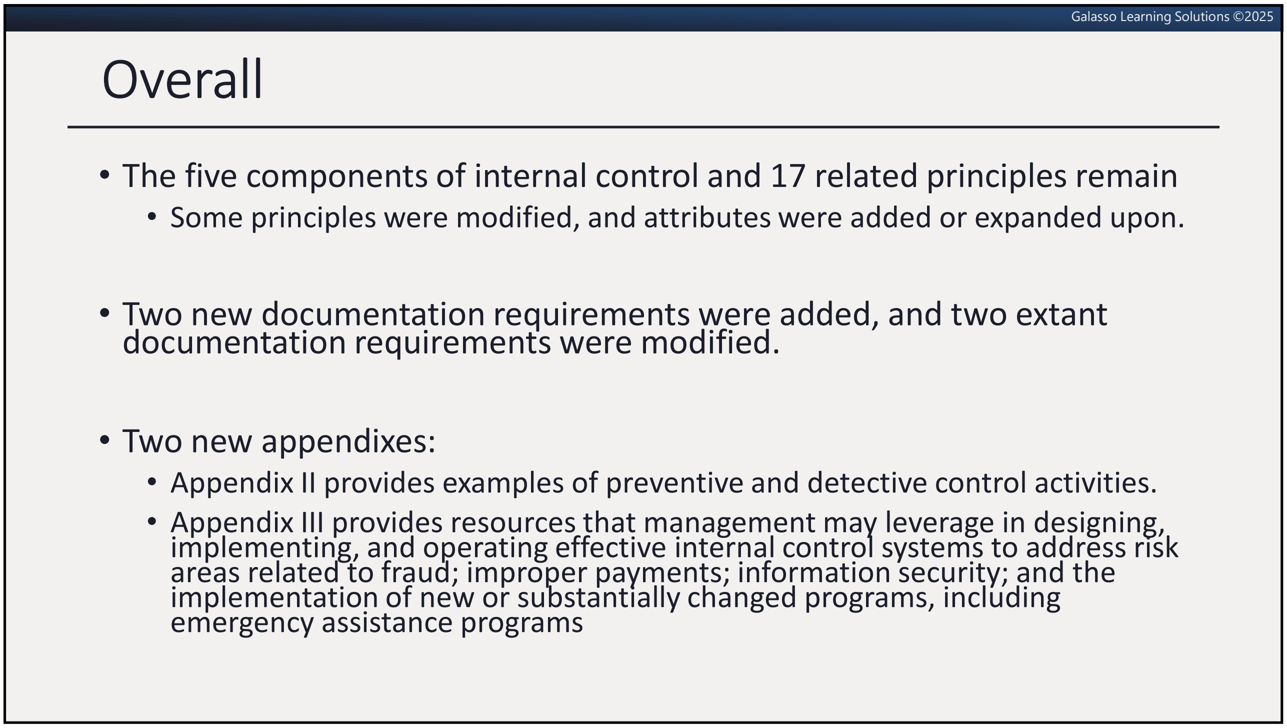

Overall

- The five components of internal control and 17 related principles remain
  - Some principles were modified, and attributes were added or expanded upon.

- Two new documentation requirements were added, and two extant documentation requirements were modified.

- Two new appendixes:
  - Appendix II provides examples of preventive and detective control activities.
  - Appendix III provides resources that management may leverage in designing, implementing, and operating effective internal control systems to address risk areas related to fraud; improper payments; information security; and the implementation of new or substantially changed programs, including emergency assistance programs

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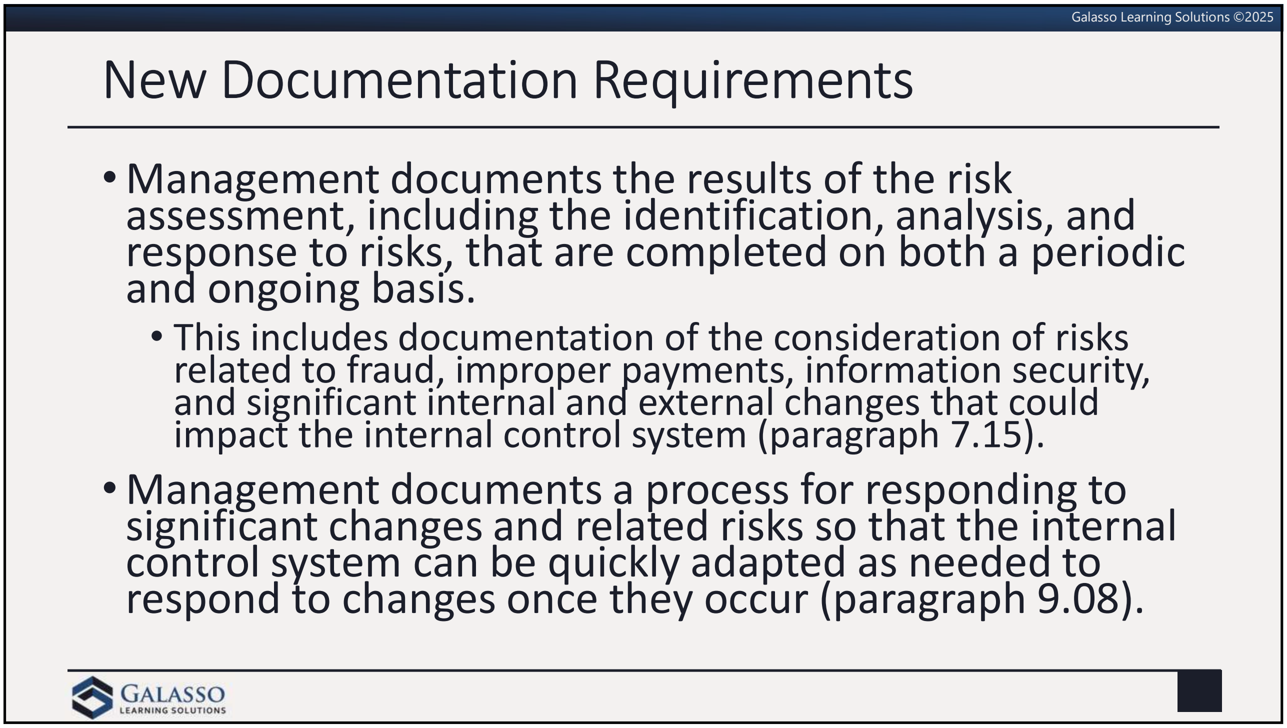

New Documentation Requirements

- Management documents the results of the risk assessment, including the identification, analysis, and response to risks, that are completed on both a periodic and ongoing basis.
  - This includes documentation of the consideration of risks related to fraud, improper payments, information security, and significant internal and external changes that could impact the internal control system (paragraph 7.15).
- Management documents a process for responding to significant changes and related risks so that the internal control system can be quickly adapted as needed to respond to changes once they occur (paragraph 9.08).

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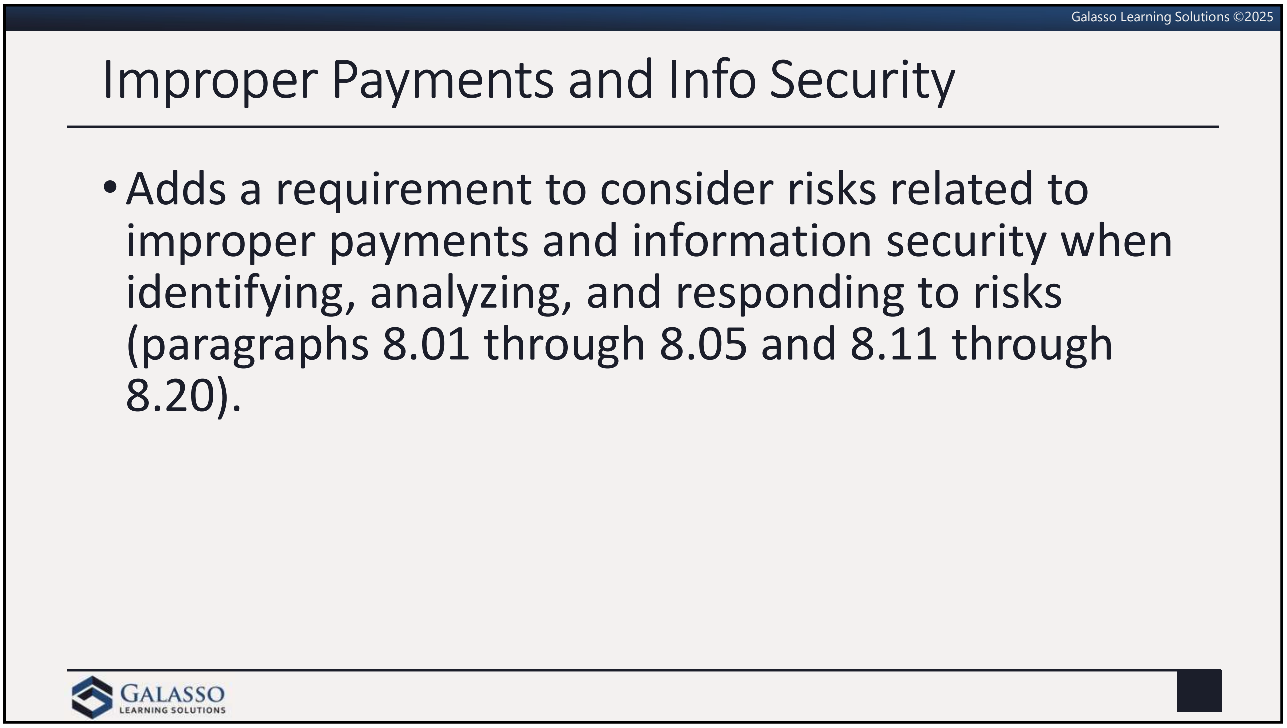

Improper Payments and Info Security

- Adds a requirement to consider risks related to improper payments and information security when identifying, analyzing, and responding to risks (paragraphs 8.01 through 8.05 and 8.11 through 8.20).

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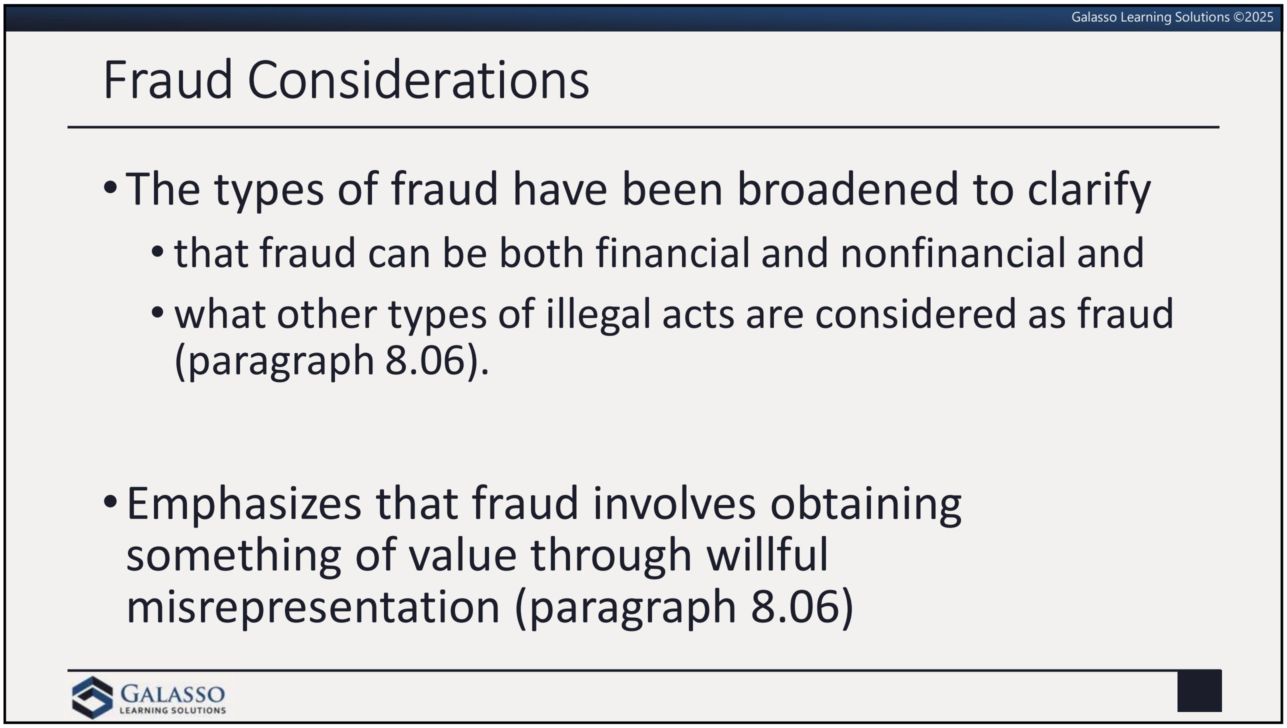

Fraud Considerations

- The types of fraud have been broadened to clarify
  - that fraud can be both financial and nonfinancial and
  - what other types of illegal acts are considered as fraud (paragraph 8.06).
- Emphasizes that fraud involves obtaining something of value through willful misrepresentation (paragraph 8.06)

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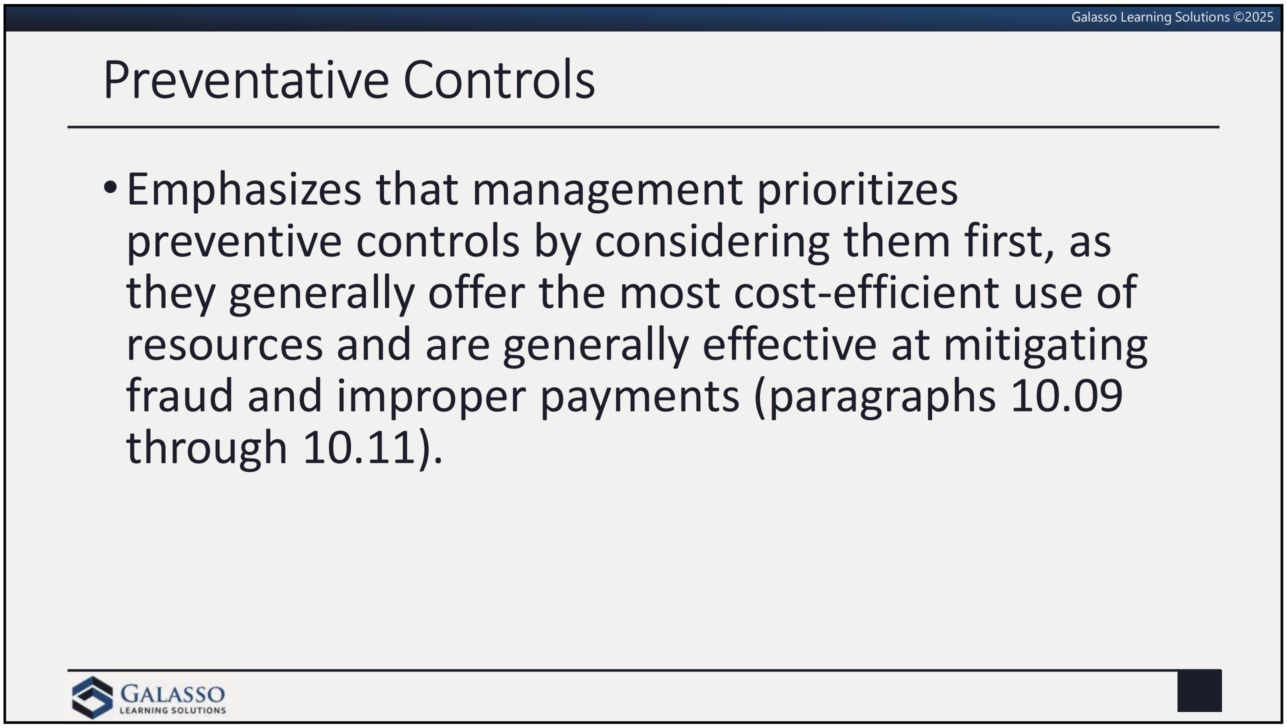

Preventative Controls

- Emphasizes that management prioritizes preventive controls by considering them first, as they generally offer the most cost-efficient use of resources and are generally effective at mitigating fraud and improper payments (paragraphs 10.09 through 10.11).

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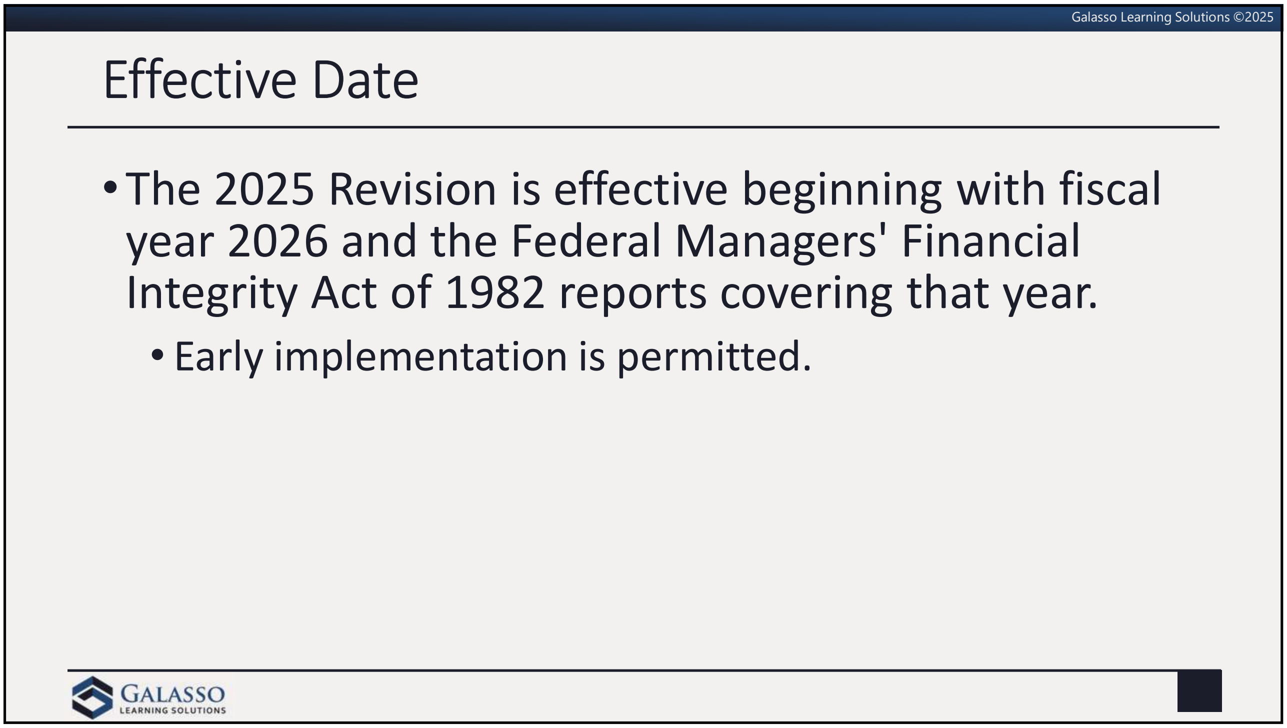


Effective Date

- The 2025 Revision is effective beginning with fiscal year 2026 and the Federal Managers' Financial Integrity Act of 1982 reports covering that year.
  - Early implementation is permitted.

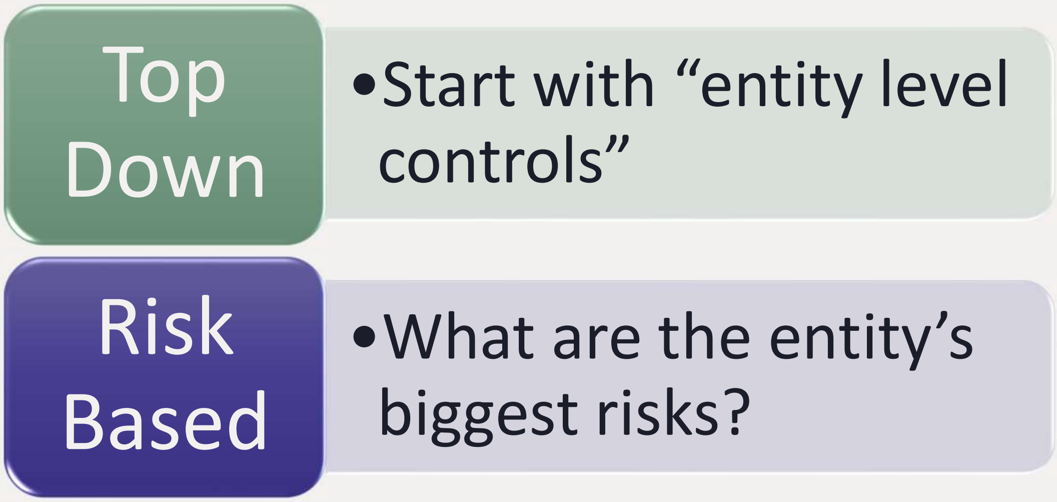
ICFR vs. ICOC

Acronyms

- ICFR = Internal Controls over Financial Reporting

- ICOC = Internal Controls over Compliance

Top Down and Risk Based

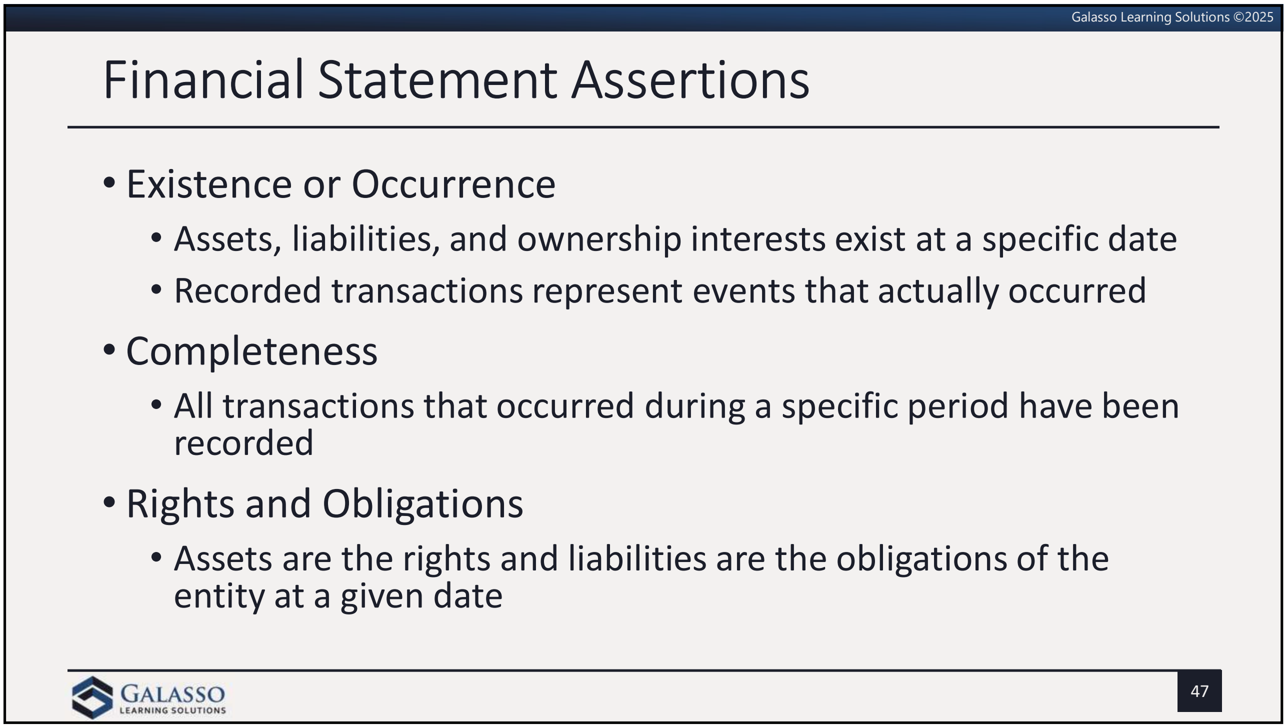


Top Down

- Start with "entity level controls"

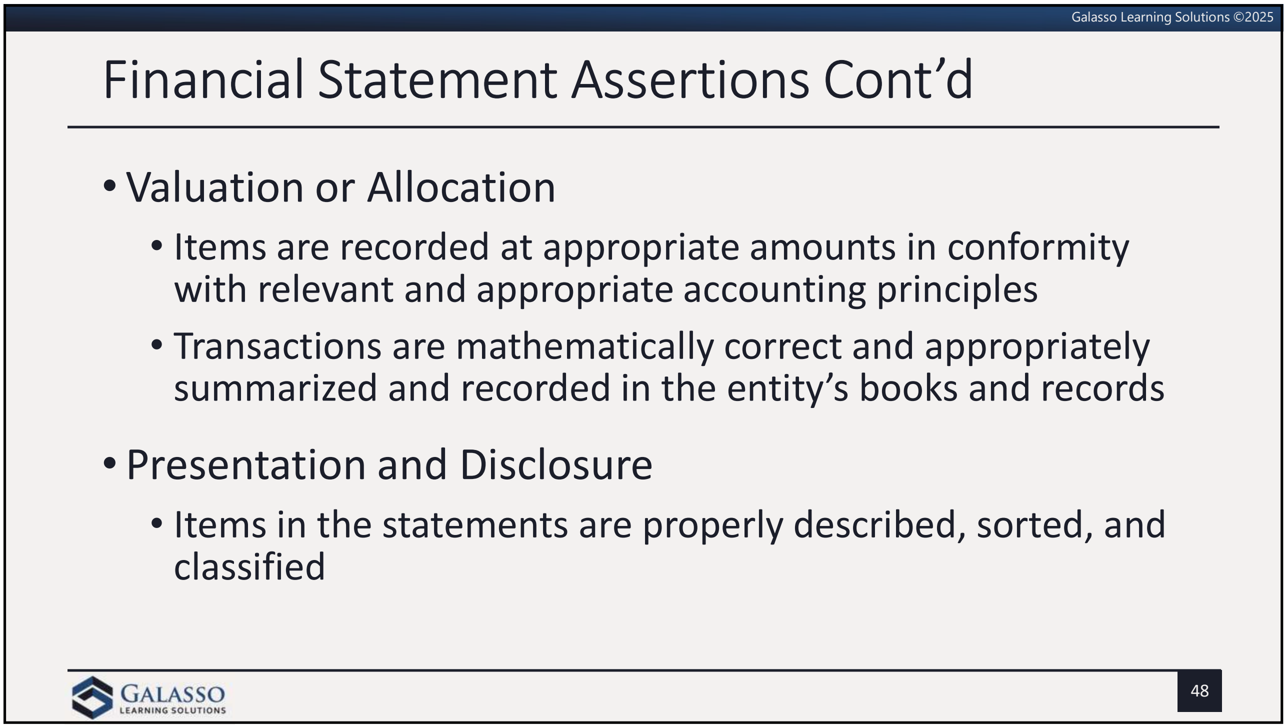
Risk Based

- What are the entity's biggest risks?



Financial Statement Assertions

- Existence or Occurrence
  - Assets, liabilities, and ownership interests exist at a specific date
  - Recorded transactions represent events that actually occurred
- Completeness
  - All transactions that occurred during a specific period have been recorded
- Rights and Obligations
  - Assets are the rights and liabilities are the obligations of the entity at a given date



Financial Statement Assertions Cont’d

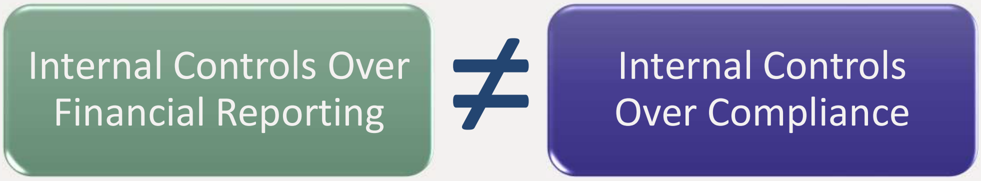
- Valuation or Allocation
  - Items are recorded at appropriate amounts in conformity with relevant and appropriate accounting principles
  - Transactions are mathematically correct and appropriately summarized and recorded in the entity’s books and records
- Presentation and Disclosure
  - Items in the statements are properly described, sorted, and classified

Single Audit Impact

- The Uniform Guidance requires that recipients and subrecipients **must** establish, **document**, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award

Internal Controls Over COMPLIANCE

- We use the compliance requirements to determine what controls are required
- Auditors use the compliance supplement as a guide


Internal Controls Over Financial Reporting
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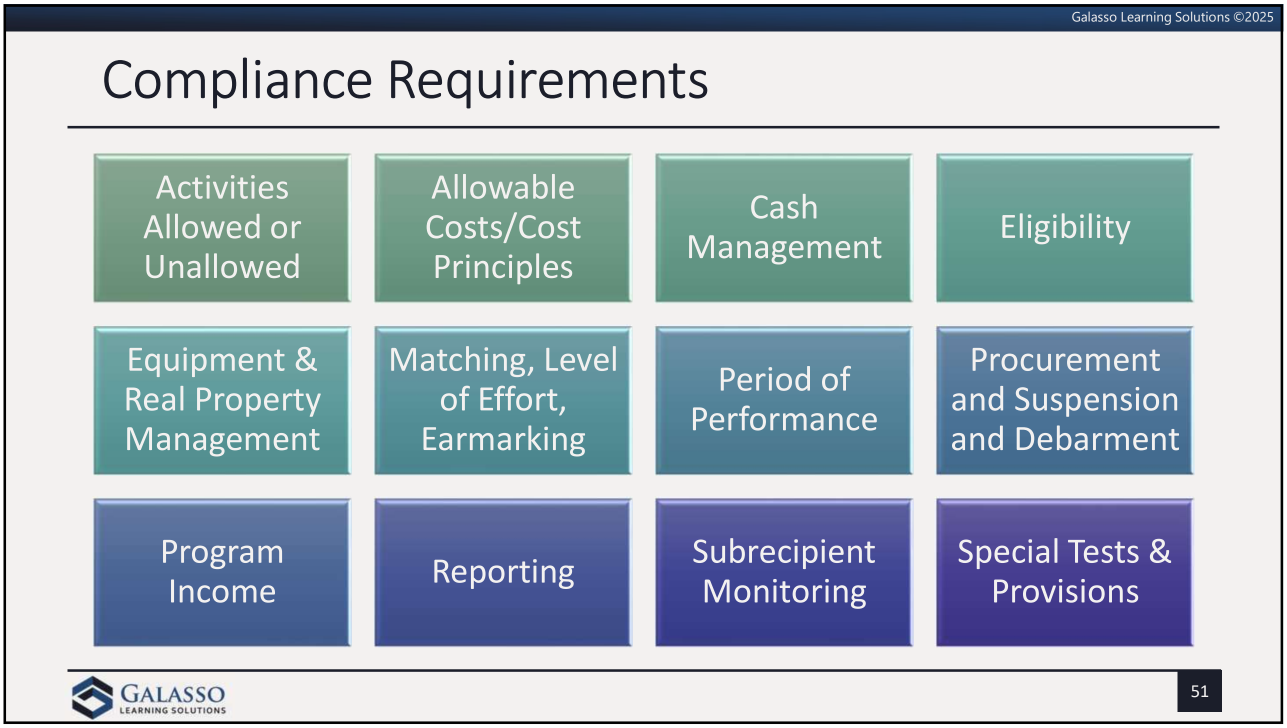
Internal Controls Over Compliance



Compliance Requirements

Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility
Equipment & Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement and Suspension and Debarment
Program Income	Reporting	Subrecipient Monitoring	Special Tests & Provisions

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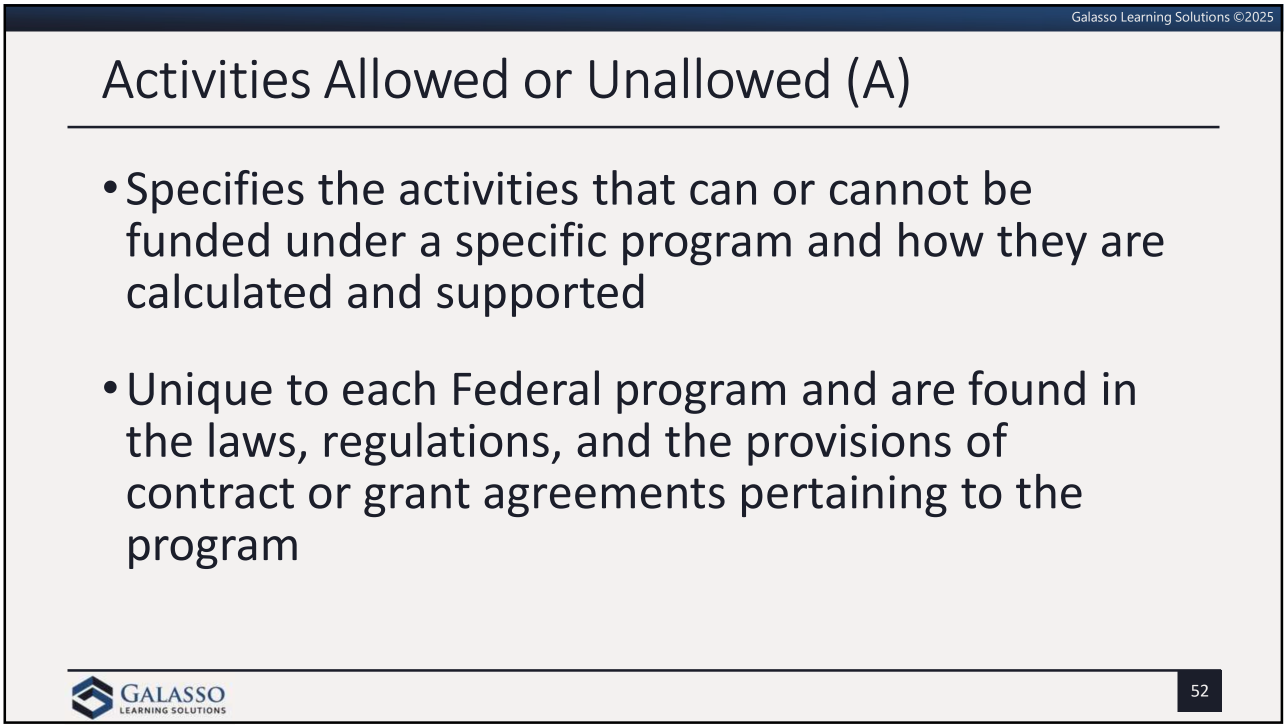

Activities Allowed or Unallowed (A)

- Specifies the activities that can or cannot be funded under a specific program and how they are calculated and supported
- Unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program

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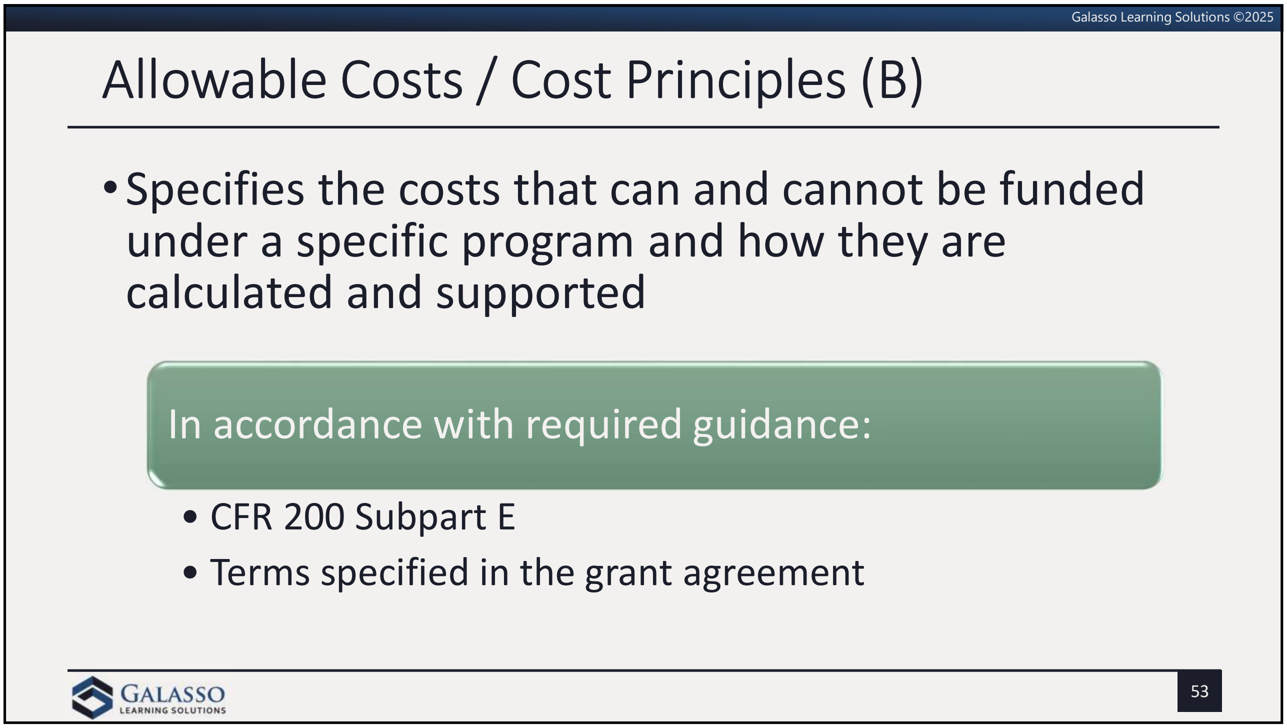
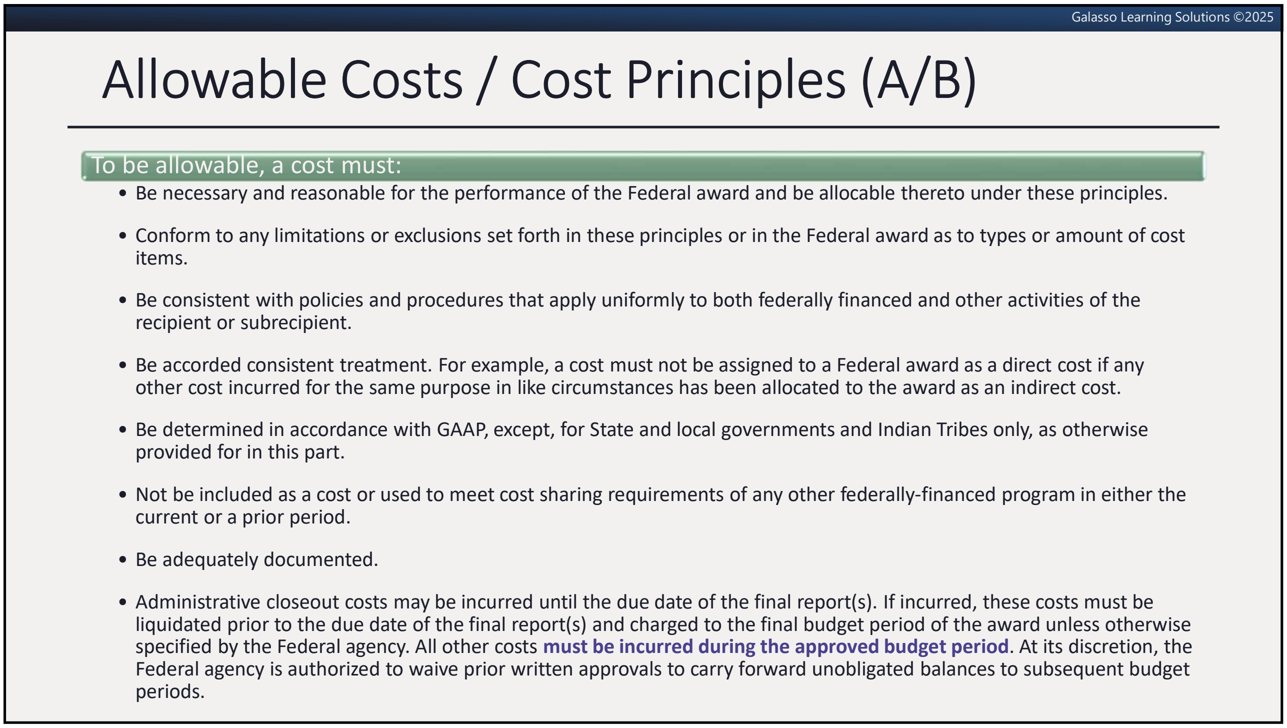


Allowable Costs / Cost Principles (B)

- Specifies the costs that can and cannot be funded under a specific program and how they are calculated and supported

In accordance with required guidance:

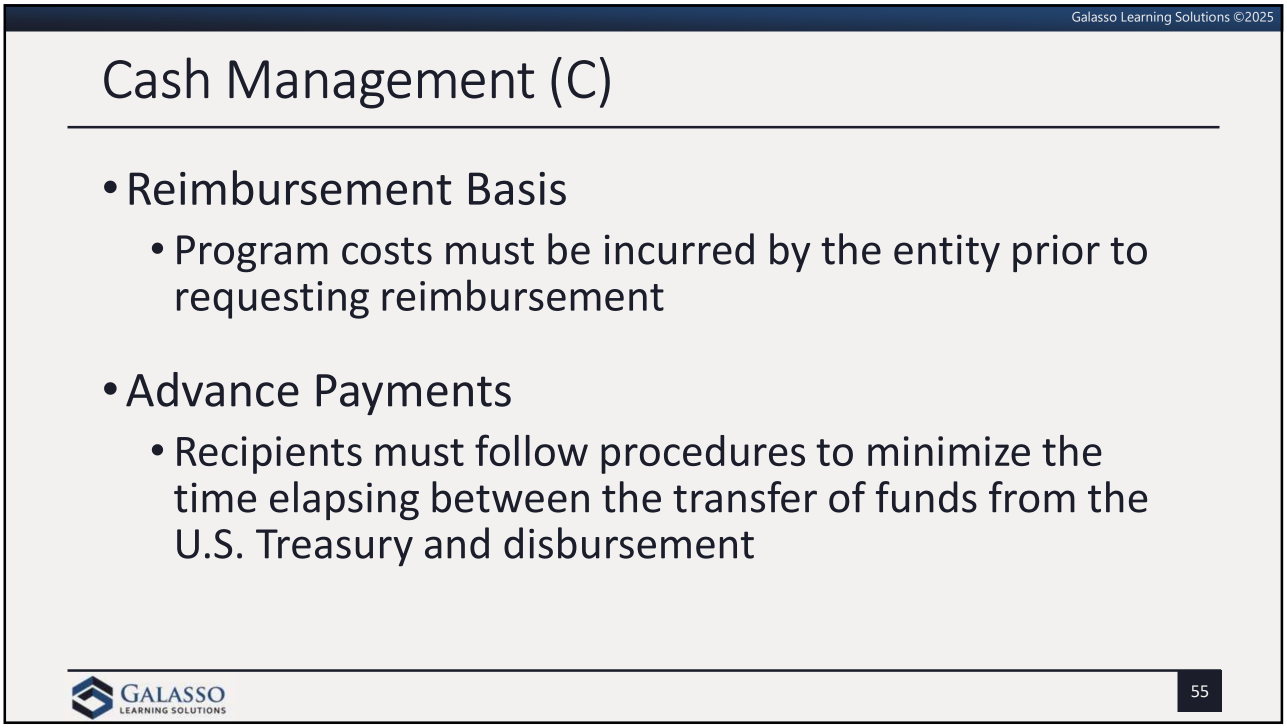
- CFR 200 Subpart E
- Terms specified in the grant agreement



Allowable Costs / Cost Principles (A/B)

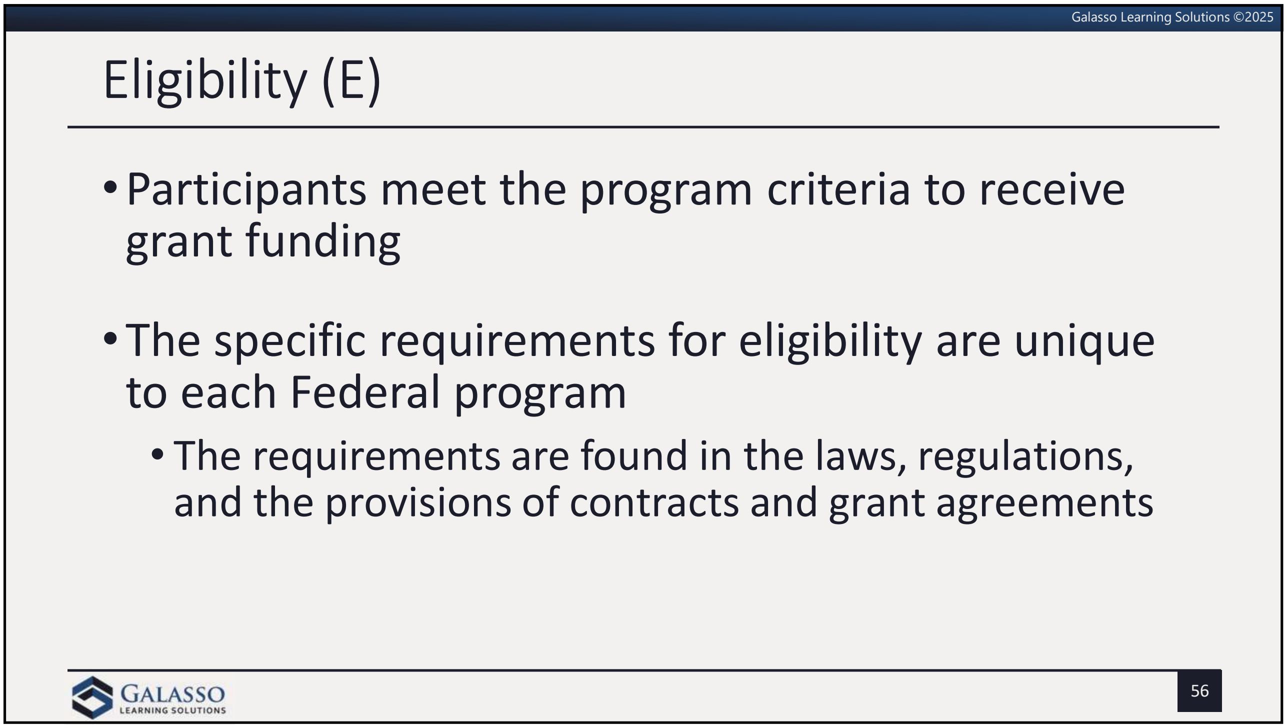
To be allowable, a cost must:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the recipient or subrecipient.
- Be accorded consistent treatment. For example, a cost must not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the award as an indirect cost.
- Be determined in accordance with GAAP, except, for State and local governments and Indian Tribes only, as otherwise provided for in this part.
- Not be included as a cost or used to meet cost sharing requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.
- Administrative closeout costs may be incurred until the due date of the final report(s). If incurred, these costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the Federal agency. All other costs **must be incurred during the approved budget period**. At its discretion, the Federal agency is authorized to waive prior written approvals to carry forward unobligated balances to subsequent budget periods.



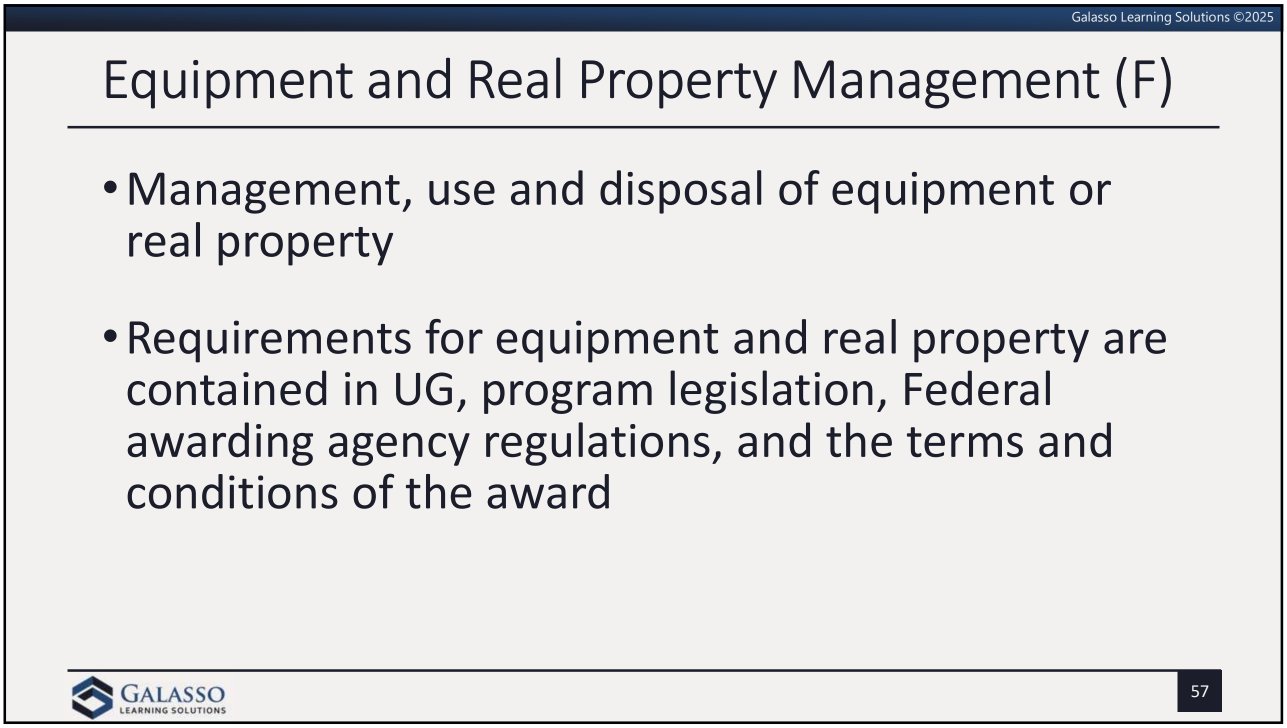
Cash Management (C)

- Reimbursement Basis
  - Program costs must be incurred by the entity prior to requesting reimbursement
- Advance Payments
  - Recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement



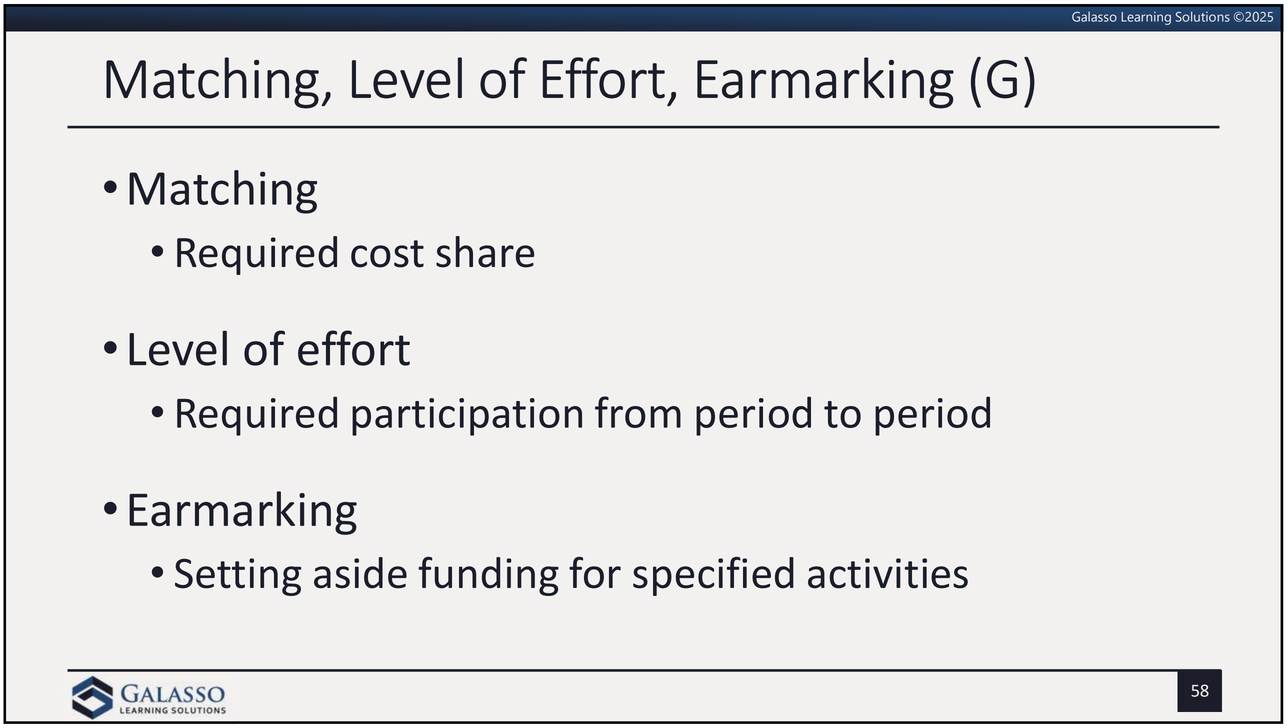
Eligibility (E)

- Participants meet the program criteria to receive grant funding
- The specific requirements for eligibility are unique to each Federal program
  - The requirements are found in the laws, regulations, and the provisions of contracts and grant agreements



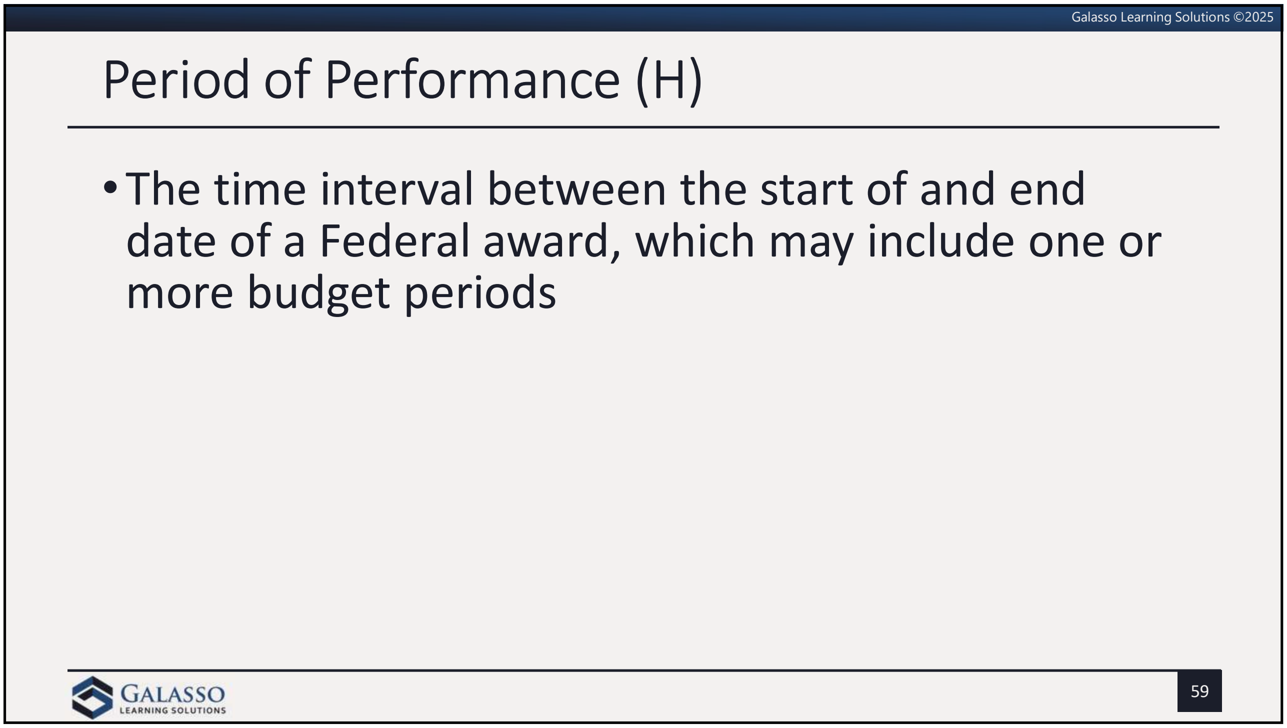
Equipment and Real Property Management (F)

- Management, use and disposal of equipment or real property
- Requirements for equipment and real property are contained in UG, program legislation, Federal awarding agency regulations, and the terms and conditions of the award



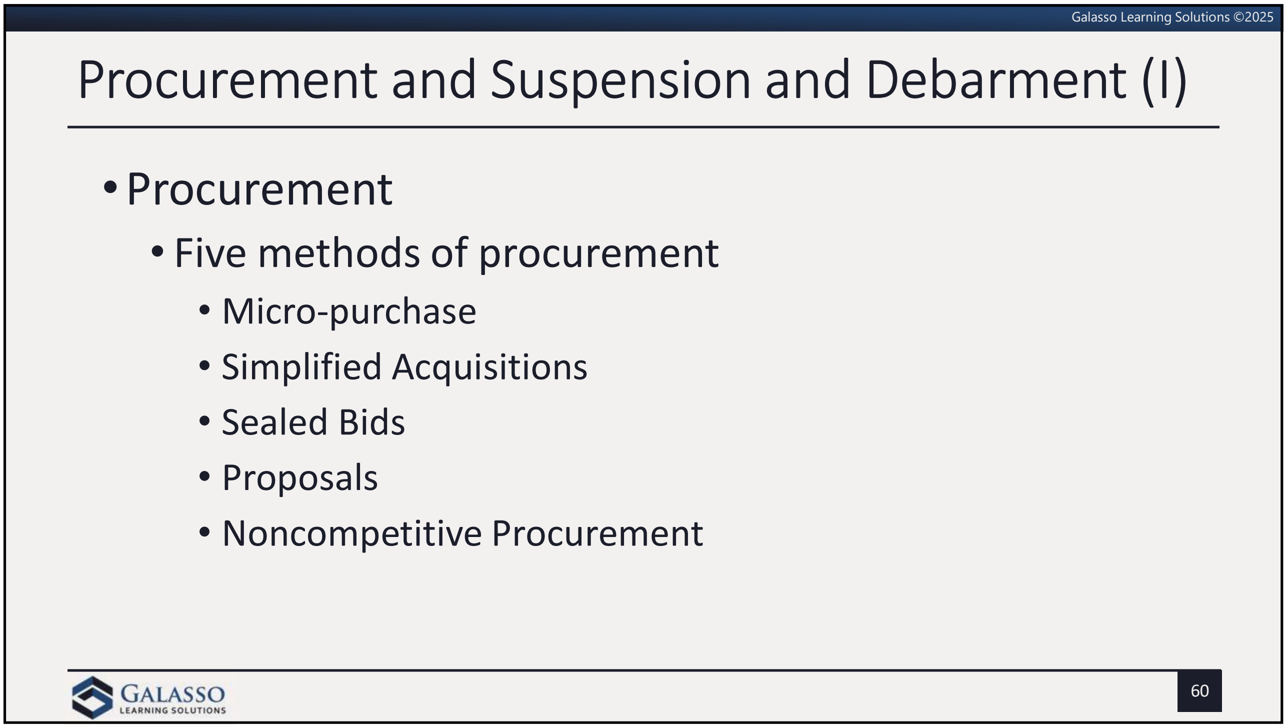
Matching, Level of Effort, Earmarking (G)

- Matching
  - Required cost share
- Level of effort
  - Required participation from period to period
- Earmarking
  - Setting aside funding for specified activities



Period of Performance (H)

- The time interval between the start of and end date of a Federal award, which may include one or more budget periods



Procurement and Suspension and Debarment (I)

- Procurement
  - Five methods of procurement
    - Micro-purchase
    - Simplified Acquisitions
    - Sealed Bids
    - Proposals
    - Noncompetitive Procurement

Procurement and Suspension and Debarment (I) Cont’d

- Suspension and Debarment
  - Prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred

Program Income (J)

- Income generated by Federal funds are used for program expenditures
- May be used in 3 ways:

Deduction

Addition

Cost Sharing

Reporting (L)

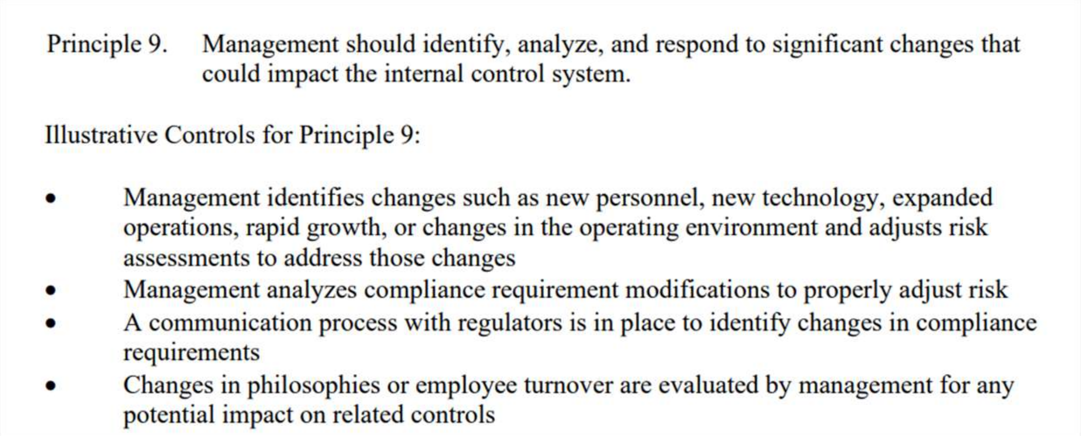
- Reporting Requirements
  - Financial
  - Performance
  - Special
  - FFATA

Sub-recipient Monitoring (M)

- Verify the subrecipient is not excluded or disqualified
- Identification of the award as a subaward
- Evaluate fraud risk and risk of noncompliance
- Monitoring pass-through funding
- Ensure accountability
- Verify that the subrecipient is audited (as necessary)

Application

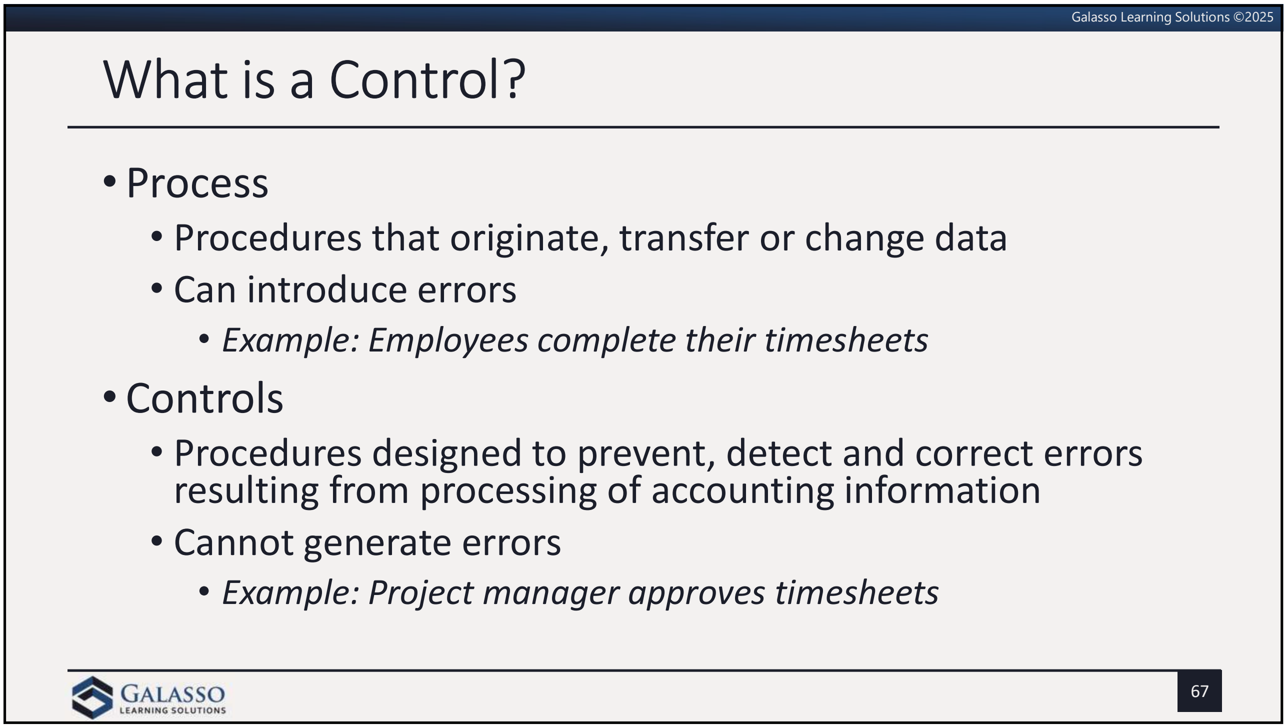
Compliance Supplement – Part 6



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

Illustrative Controls for Principle 9:

- Management identifies changes such as new personnel, new technology, expanded operations, rapid growth, or changes in the operating environment and adjusts risk assessments to address those changes
- Management analyzes compliance requirement modifications to properly adjust risk
- A communication process with regulators is in place to identify changes in compliance requirements
- Changes in philosophies or employee turnover are evaluated by management for any potential impact on related controls



What is a Control?

- Process
  - Procedures that originate, transfer or change data
  - Can introduce errors
    - *Example: Employees complete their timesheets*
- Controls
  - Procedures designed to prevent, detect and correct errors resulting from processing of accounting information
  - Cannot generate errors
    - *Example: Project manager approves timesheets*

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EAGLE

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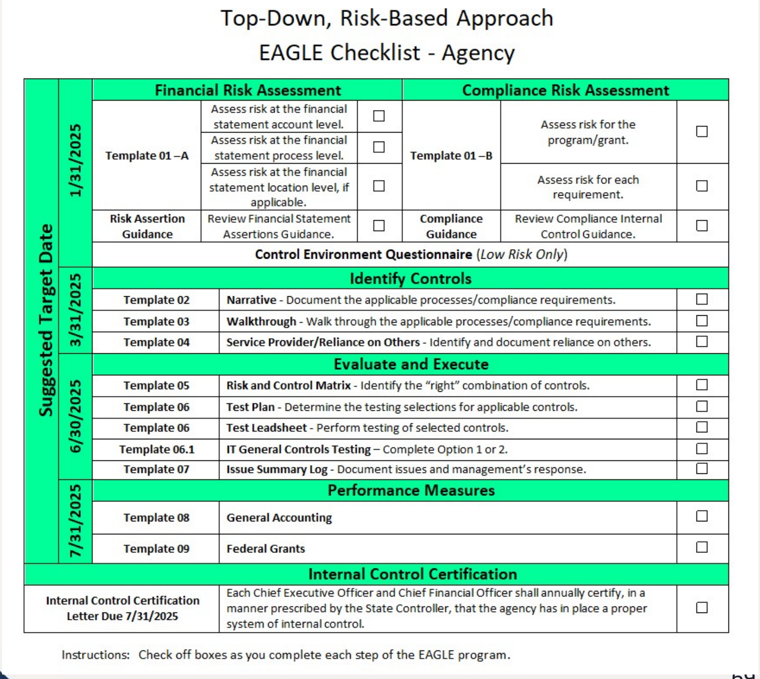
EAGLE



Top-Down, Risk-Based Approach

EAGLE Checklist - Agency

Suggested Target Date		Financial Risk Assessment			Compliance Risk Assessment		
	1/31/2025	**Template 01 –A**	Assess risk at the financial statement account level.	☐	**Template 01 –B**	Assess risk for the program/grant.	☐
			Assess risk at the financial statement process level.	☐			
			Assess risk at the financial statement location level, if applicable.	☐		Assess risk for each requirement.	☐
		Risk Assertion Guidance	Review Financial Statement Assertions Guidance.	☐	**Compliance Guidance**	Review Compliance Internal Control Guidance.	☐
		Control Environment Questionnaire (*Low Risk Only*)					
	3/31/2025	**Identify Controls**					
		Template 02	**Narrative** - Document the applicable processes/compliance requirements.	☐			
		Template 03	**Walkthrough** - Walk through the applicable processes/compliance requirements.	☐			
		Template 04	**Service Provider/Reliance on Others** - Identify and document reliance on others.	☐			
	6/30/2025	**Evaluate and Execute**					
		Template 05	**Risk and Control Matrix** - Identify the “right” combination of controls.	☐			
		Template 06	**Test Plan** - Determine the testing selections for applicable controls.	☐			
		Template 06	**Test Leadsheet** - Perform testing of selected controls.	☐			
		Template 06.1	**IT General Controls Testing** – Complete Option 1 or 2.	☐			
		Template 07	**Issue Summary Log** - Document issues and management’s response.	☐			
	7/31/2025	**Performance Measures**					
		Template 08	**General Accounting**	☐			
		Template 09	**Federal Grants**	☐			
Internal Control Certification							
Internal Control Certification Letter Due 7/31/2025			Each Chief Executive Officer and Chief Financial Officer shall annually certify, in a manner prescribed by the State Controller, that the agency has in place a proper system of internal control.	☐			

Instructions: Check off boxes as you complete each step of the EAGLE program.

https://www.ncosc.gov/state-agency-resources/eagle

EAGLE

- Enhancing Accountability in Government through Leadership and Education
  - to establish adequate internal control but also to increase fiscal accountability within state government.

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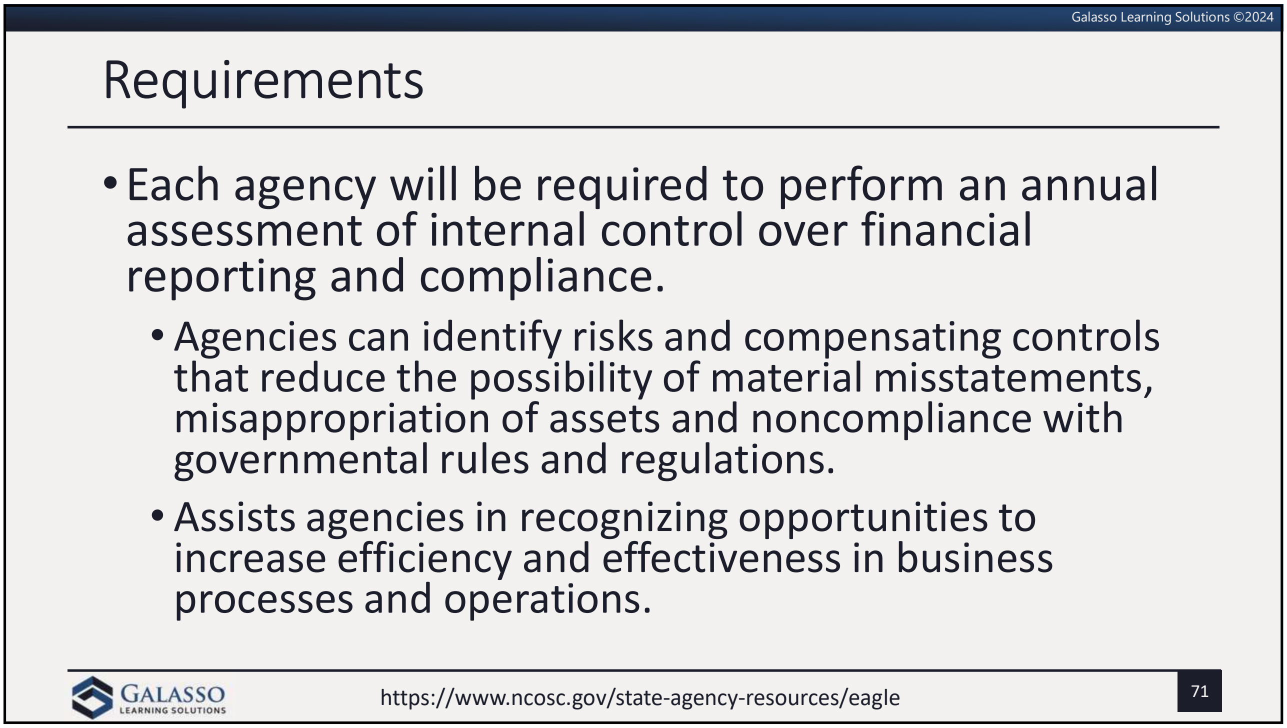
https://www.ncosc.gov/state-agency-resources/eagle



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Requirements

- Each agency will be required to perform an annual assessment of internal control over financial reporting and compliance.
  - Agencies can identify risks and compensating controls that reduce the possibility of material misstatements, misappropriation of assets and noncompliance with governmental rules and regulations.
  - Assists agencies in recognizing opportunities to increase efficiency and effectiveness in business processes and operations.

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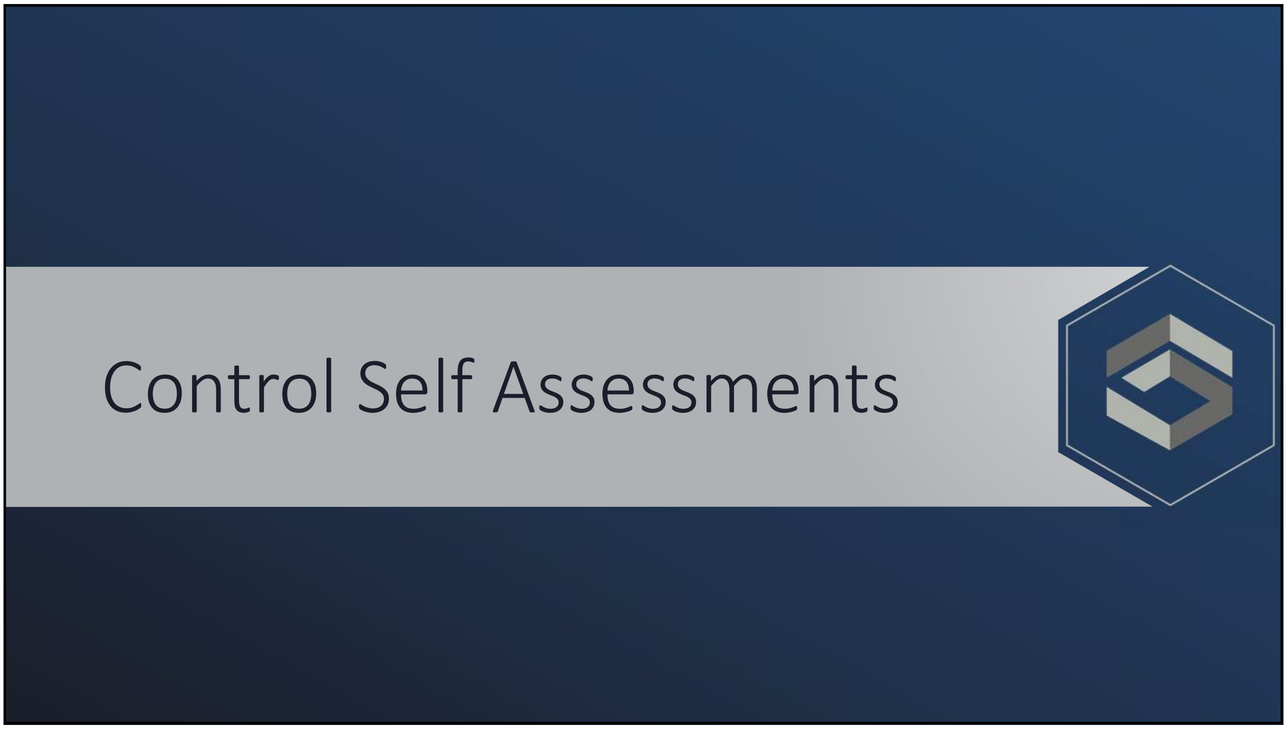

Control Self Assessments

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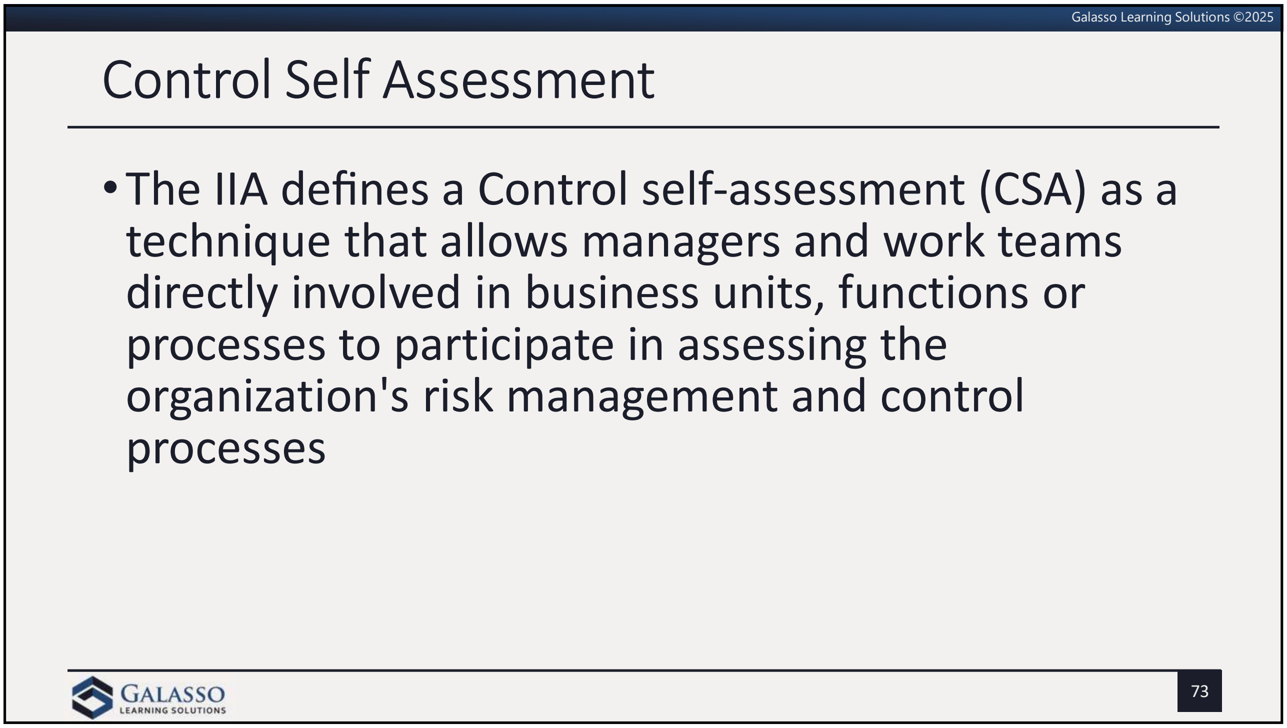
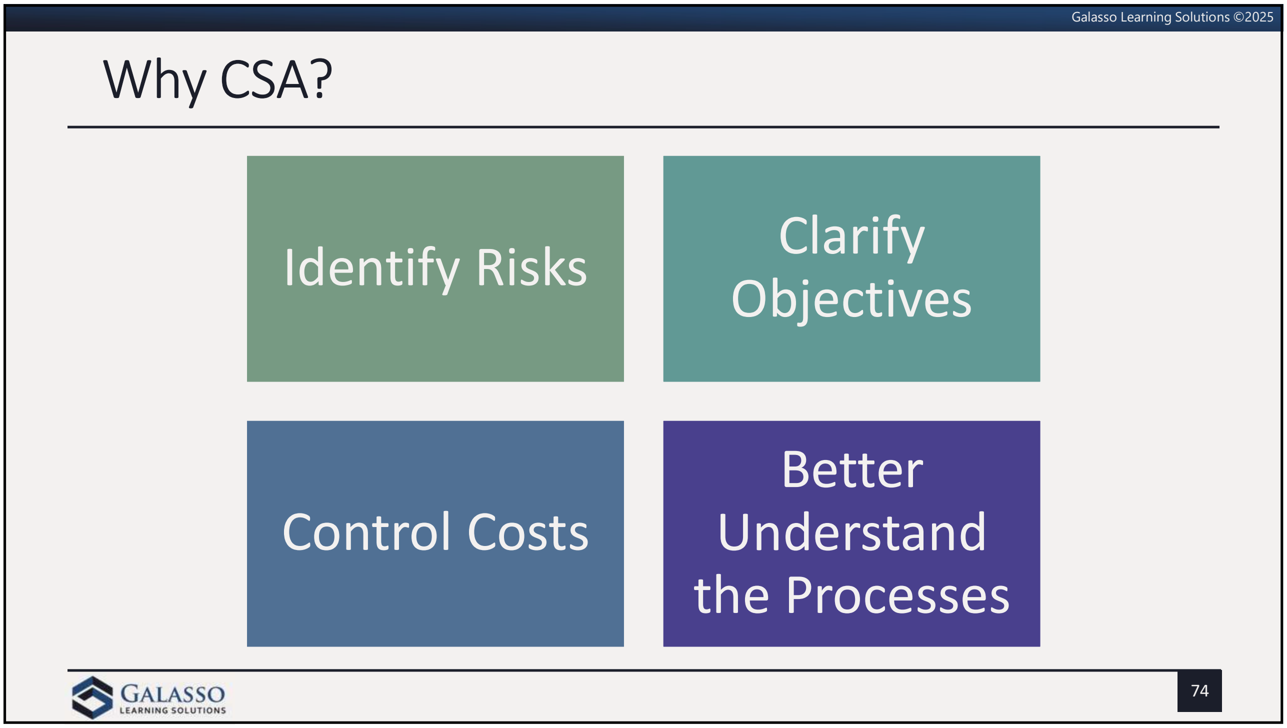


Control Self Assessment

- The IIA defines a Control self-assessment (CSA) as a technique that allows managers and work teams directly involved in business units, functions or processes to participate in assessing the organization's risk management and control processes



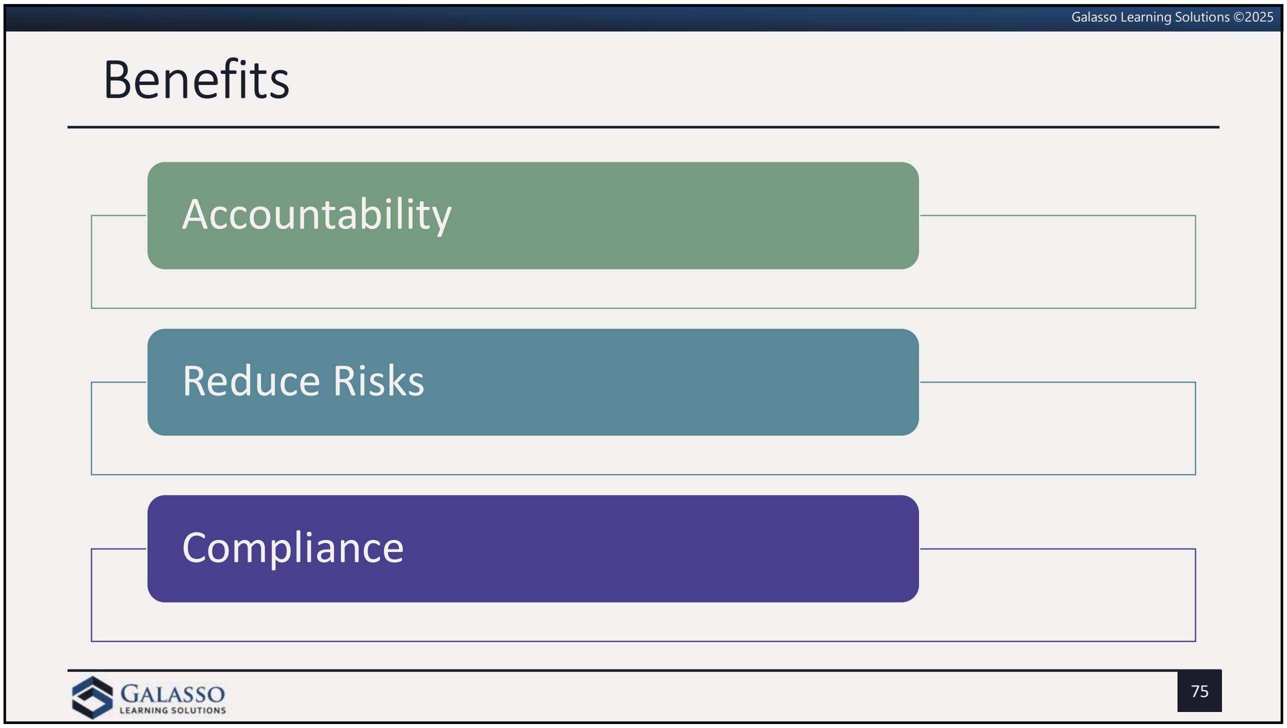
Why CSA?

Identify Risks

Clarify Objectives

Control Costs

Better Understand the Processes



Benefits

- Accountability
- Reduce Risks
- Compliance

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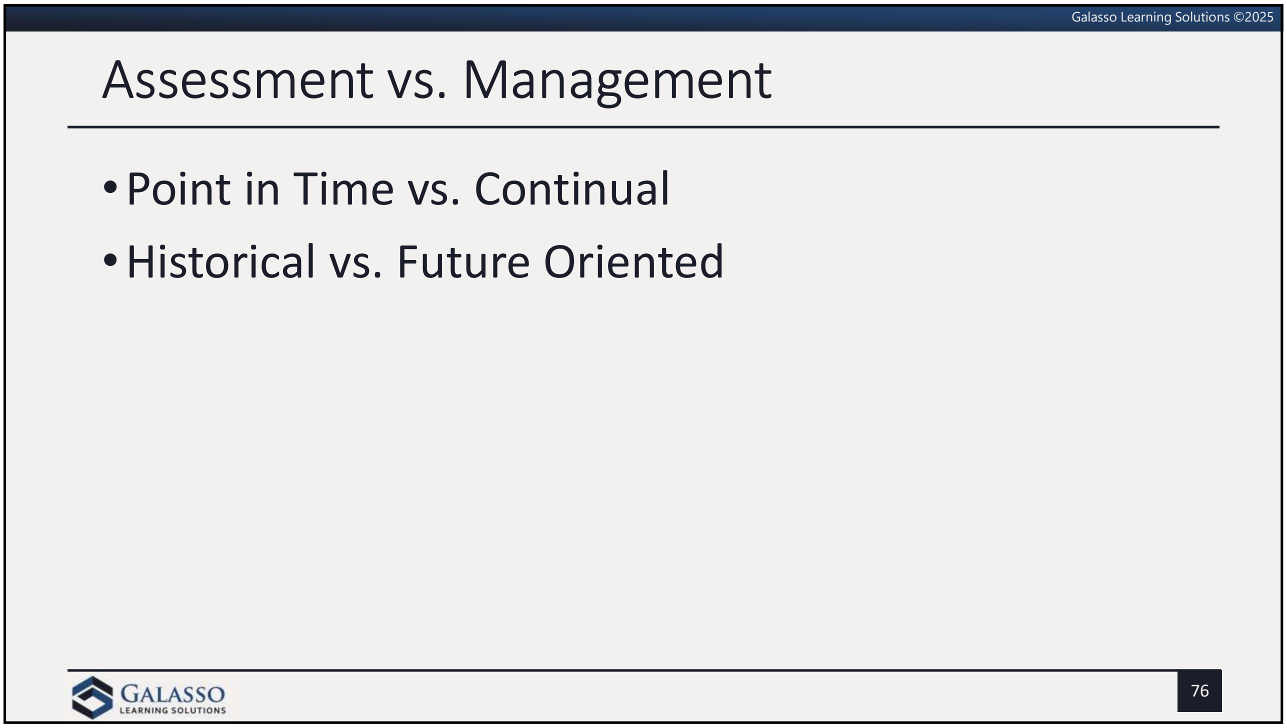

Assessment vs. Management

- Point in Time vs. Continual
- Historical vs. Future Oriented

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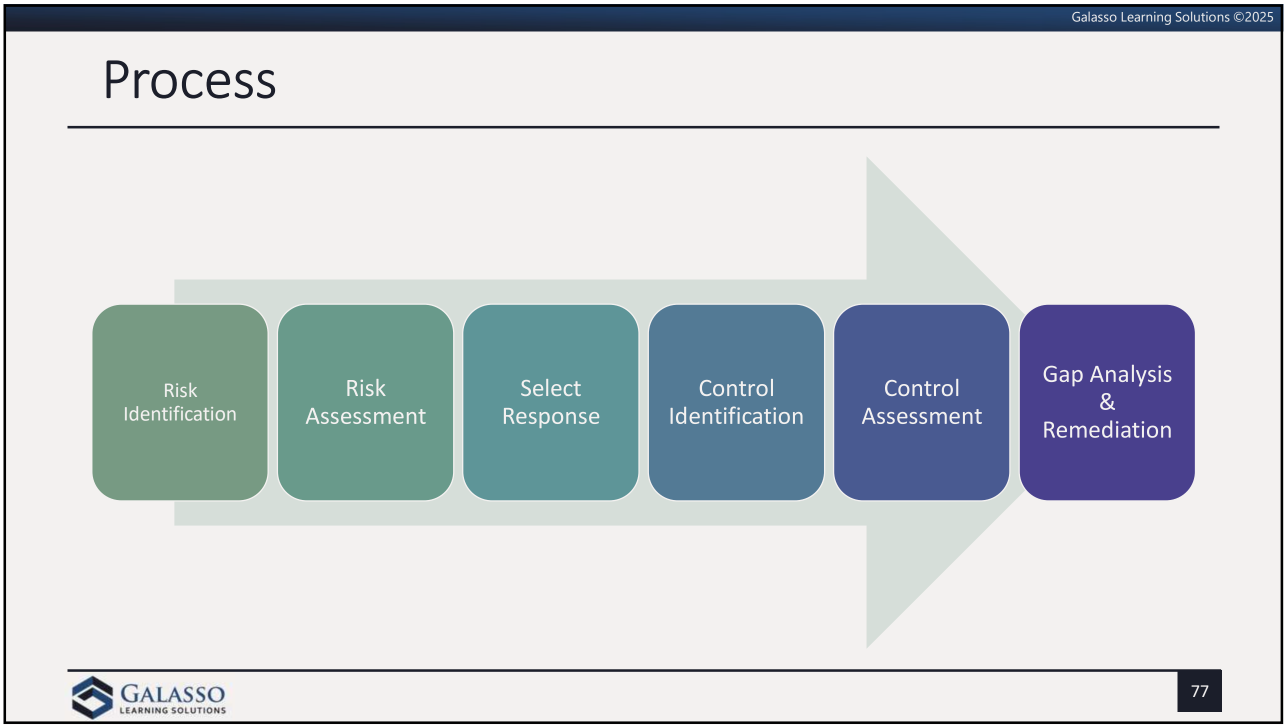
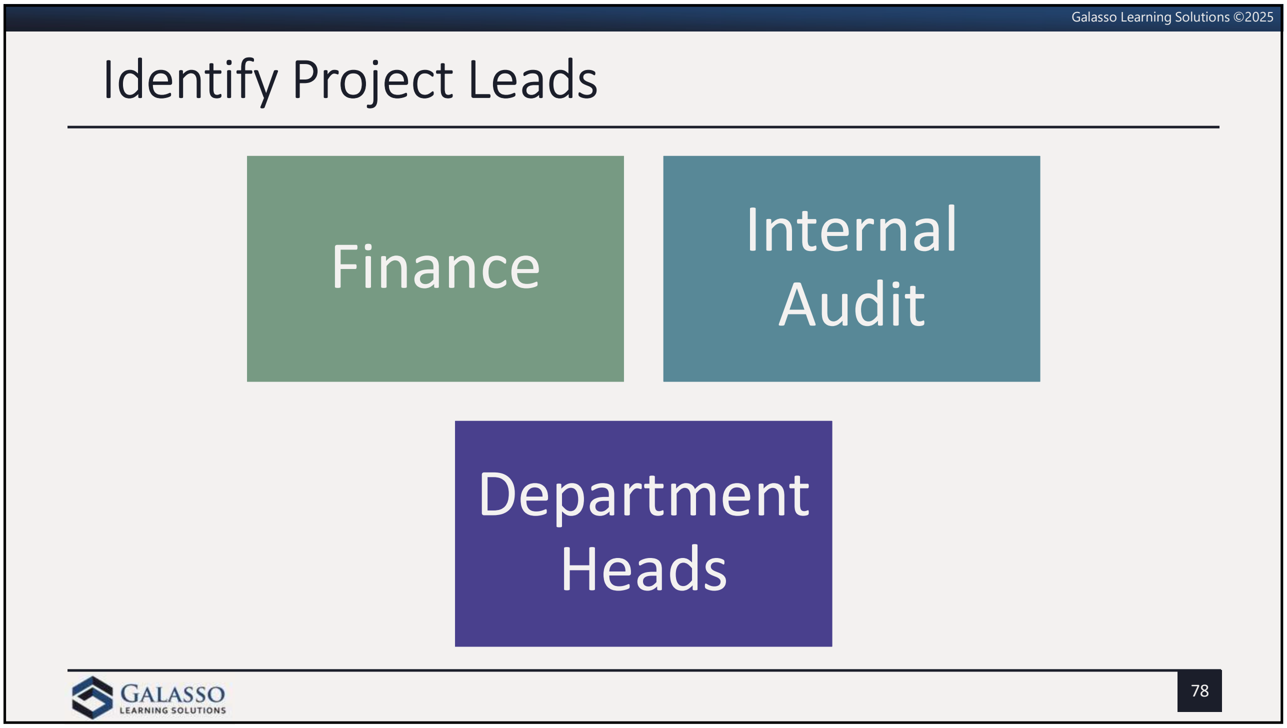
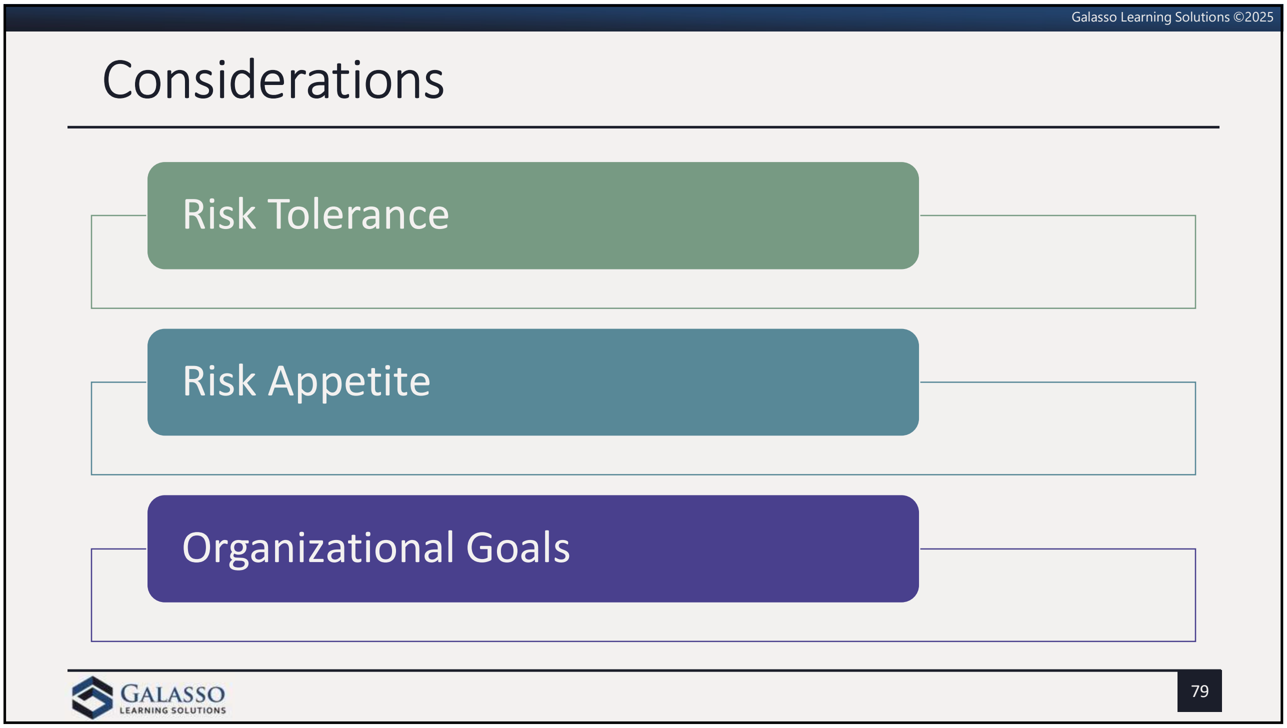


Process



Identify Project Leads

- Finance
- Internal Audit
- Department Heads



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Considerations

- Risk Tolerance
- Risk Appetite
- Organizational Goals

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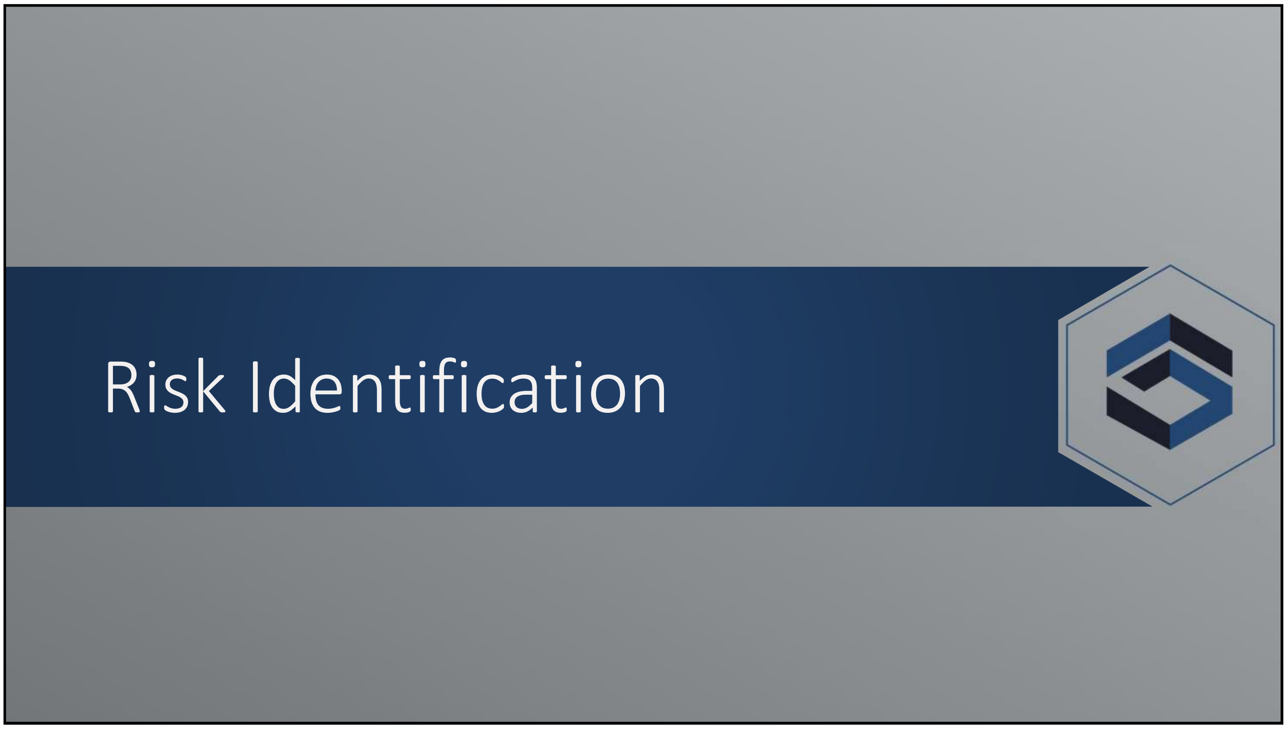

Risk Identification

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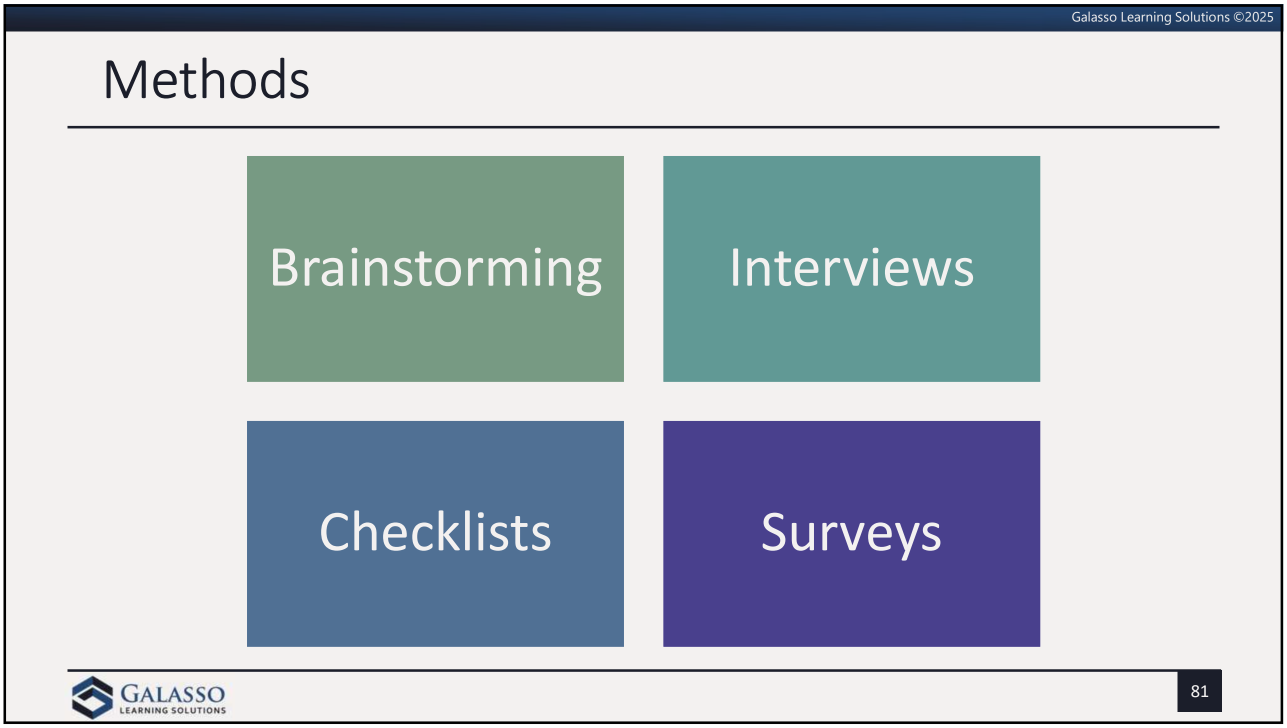


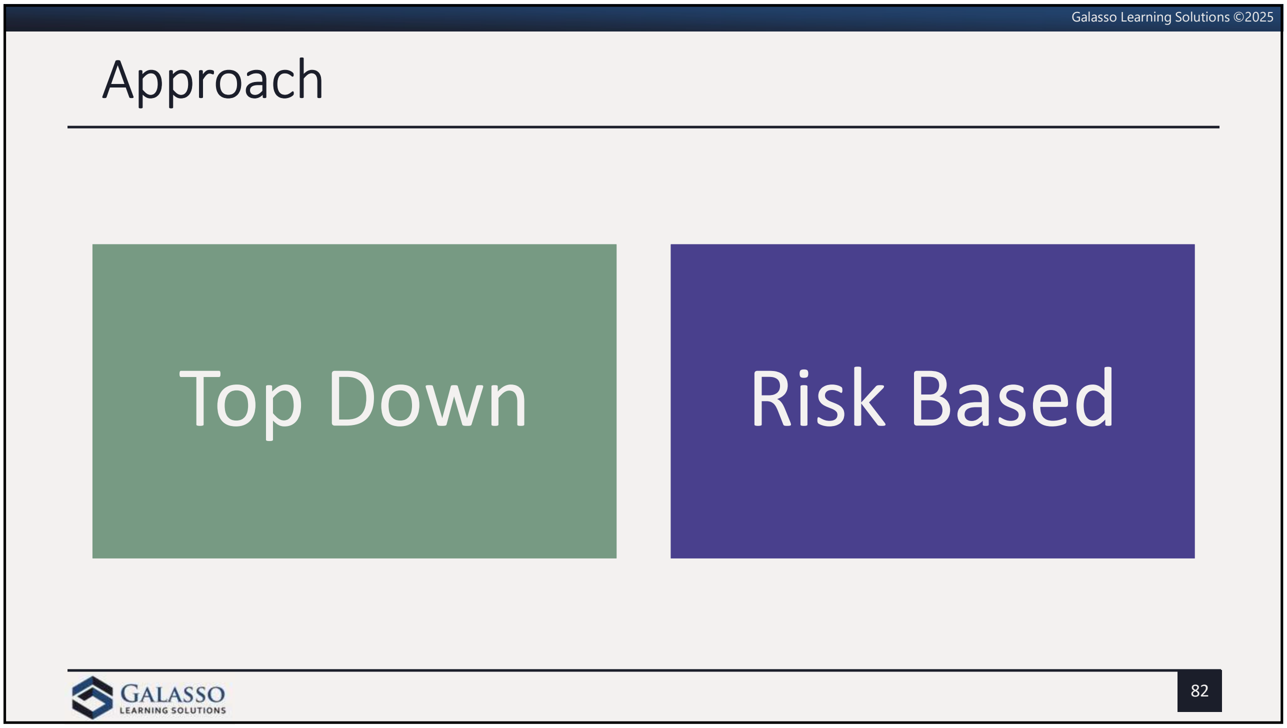
Methods

Brainstorming

Interviews

Checklists

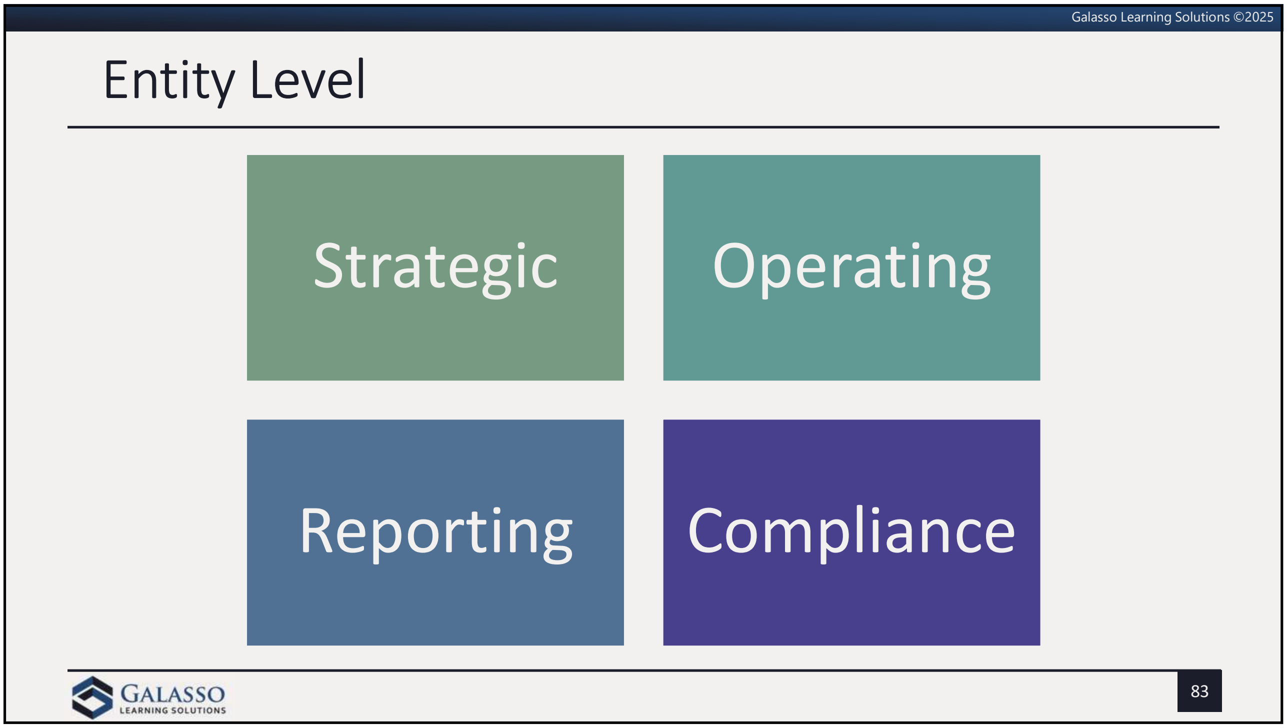
Surveys



Approach

Top Down

Risk Based



Entity Level

- Strategic
- Operating
- Reporting
- Compliance

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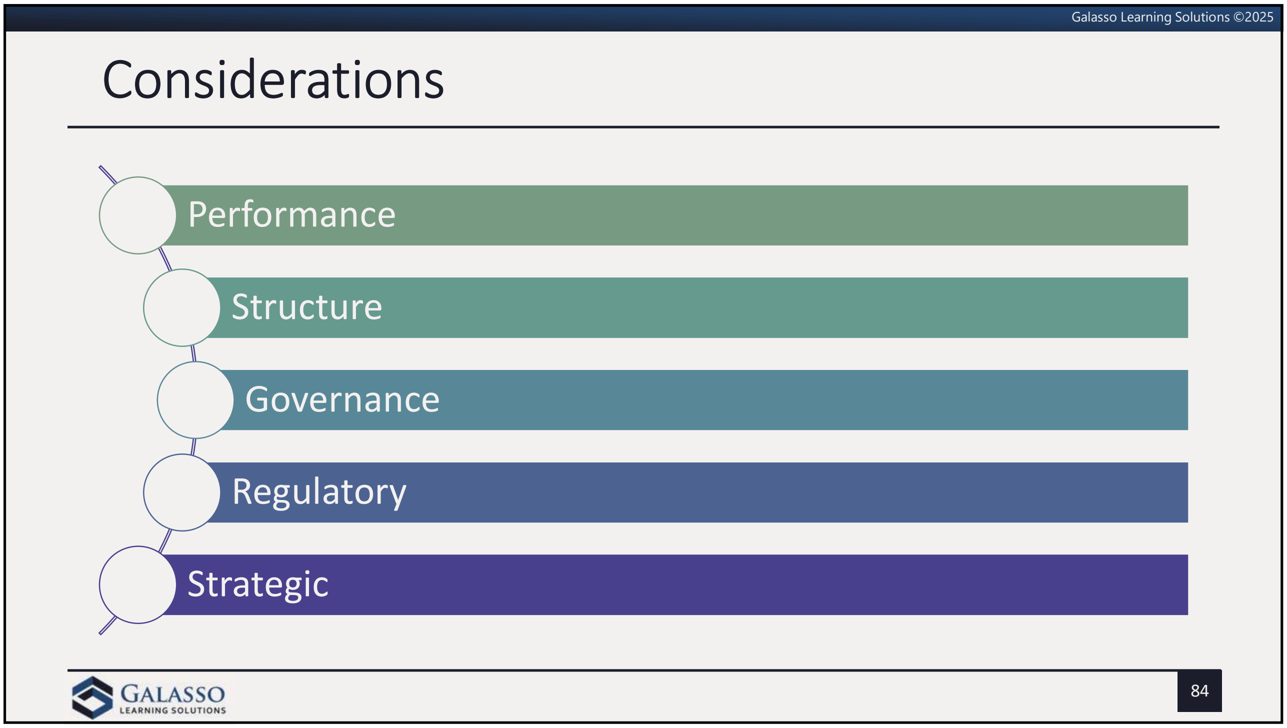

Considerations

- Performance
- Structure
- Governance
- Regulatory
- Strategic

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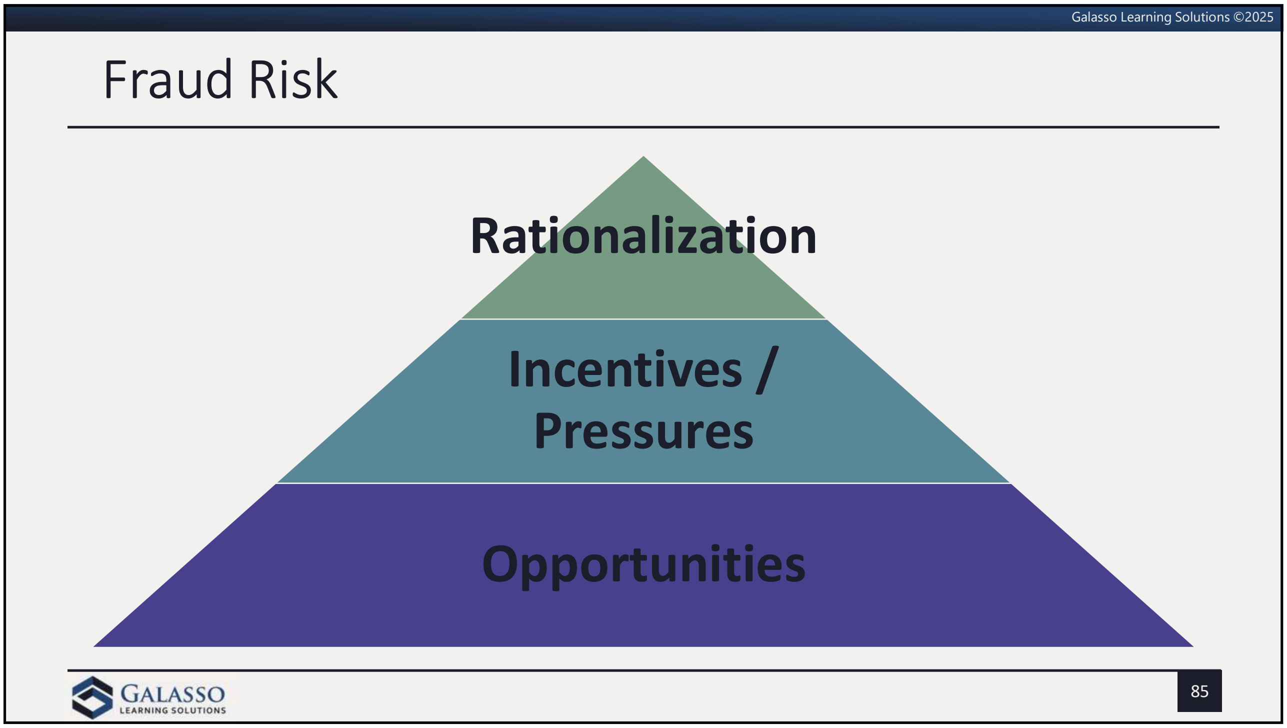

Fraud Risk

Rationalization

Incentives / Pressures

Opportunities

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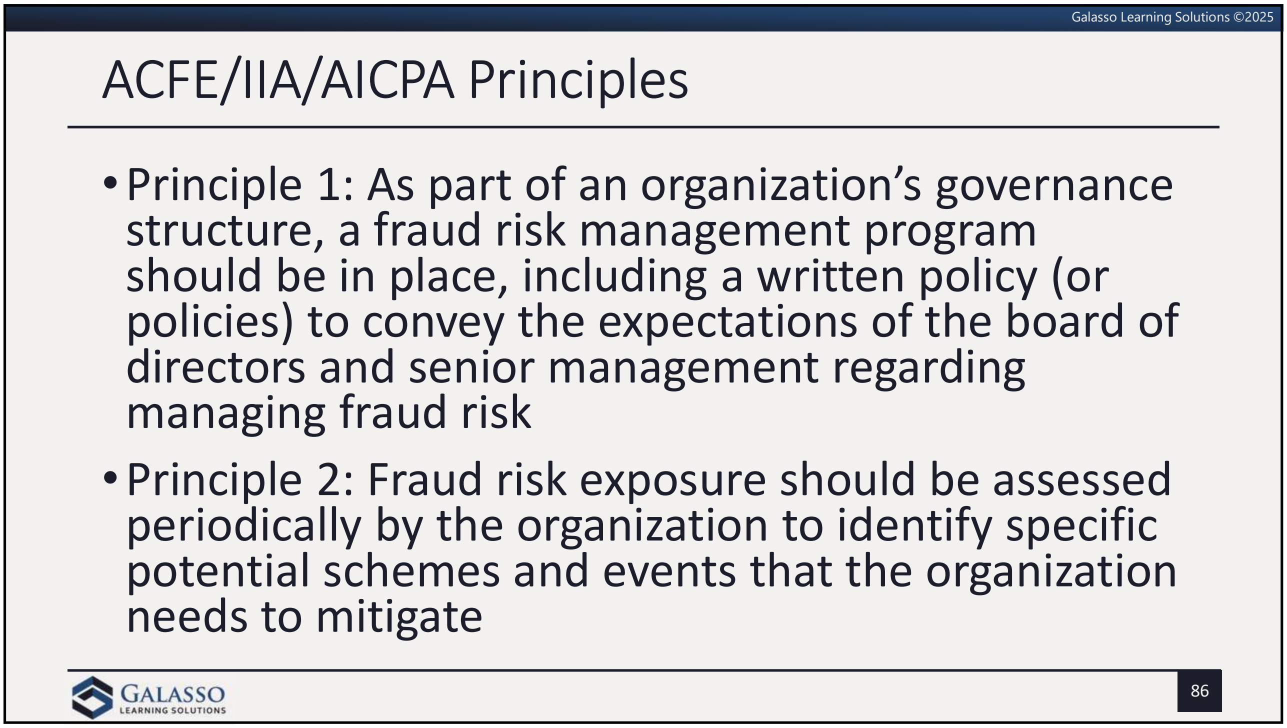

ACFE/IIA/AICPA Principles

- Principle 1: As part of an organization’s governance structure, a fraud risk management program should be in place, including a written policy (or policies) to convey the expectations of the board of directors and senior management regarding managing fraud risk
- Principle 2: Fraud risk exposure should be assessed periodically by the organization to identify specific potential schemes and events that the organization needs to mitigate

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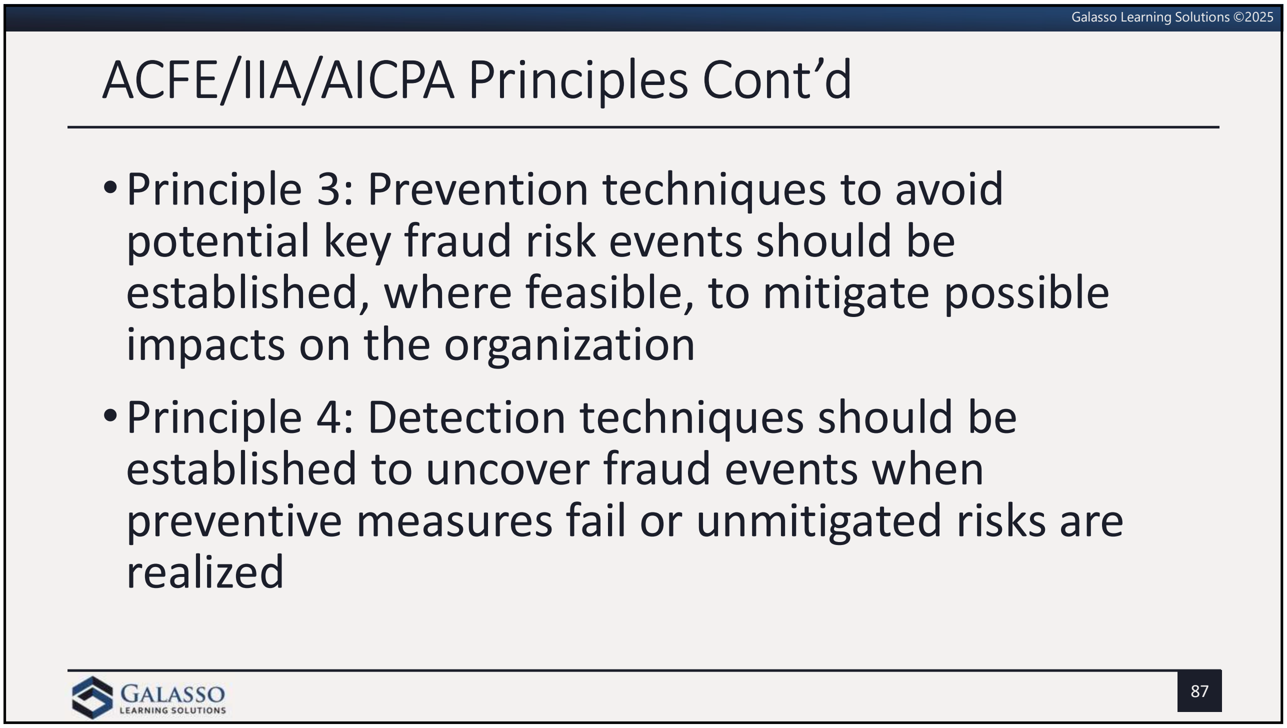

ACFE/IIA/AICPA Principles Cont’d

- Principle 3: Prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate possible impacts on the organization
- Principle 4: Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realized

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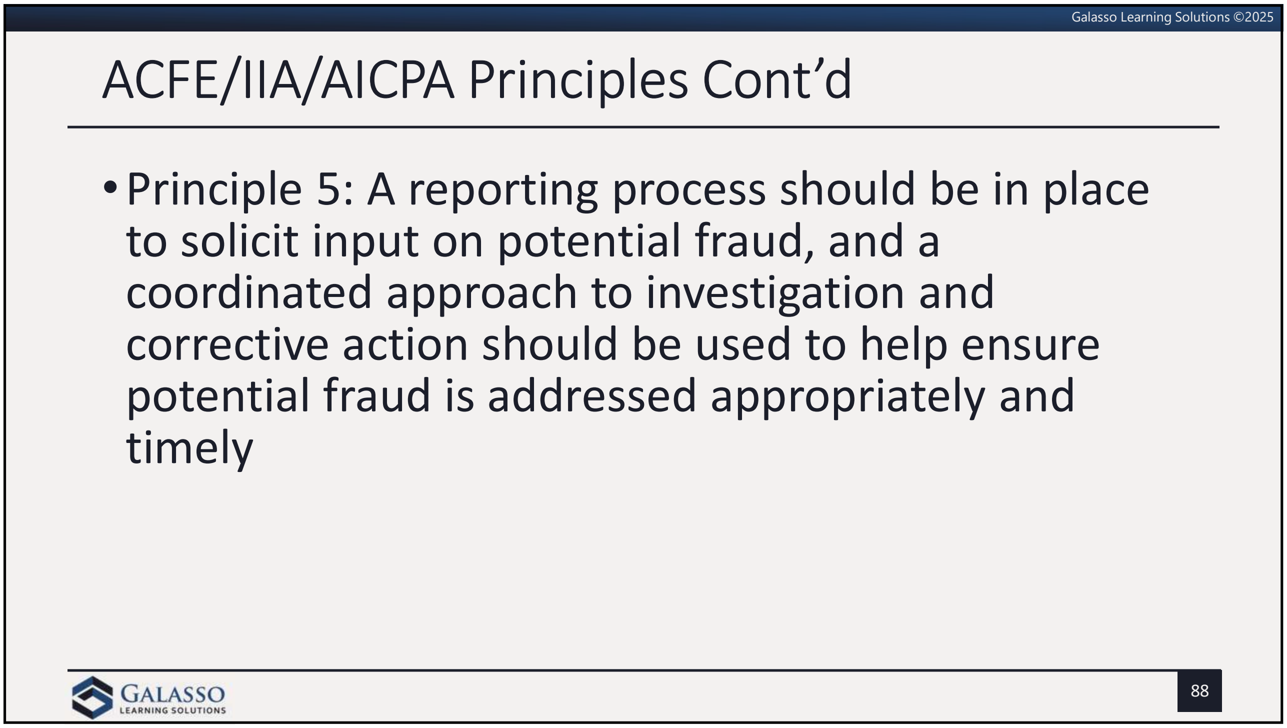

ACFE/IIA/AICPA Principles Cont’d

- Principle 5: A reporting process should be in place to solicit input on potential fraud, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely

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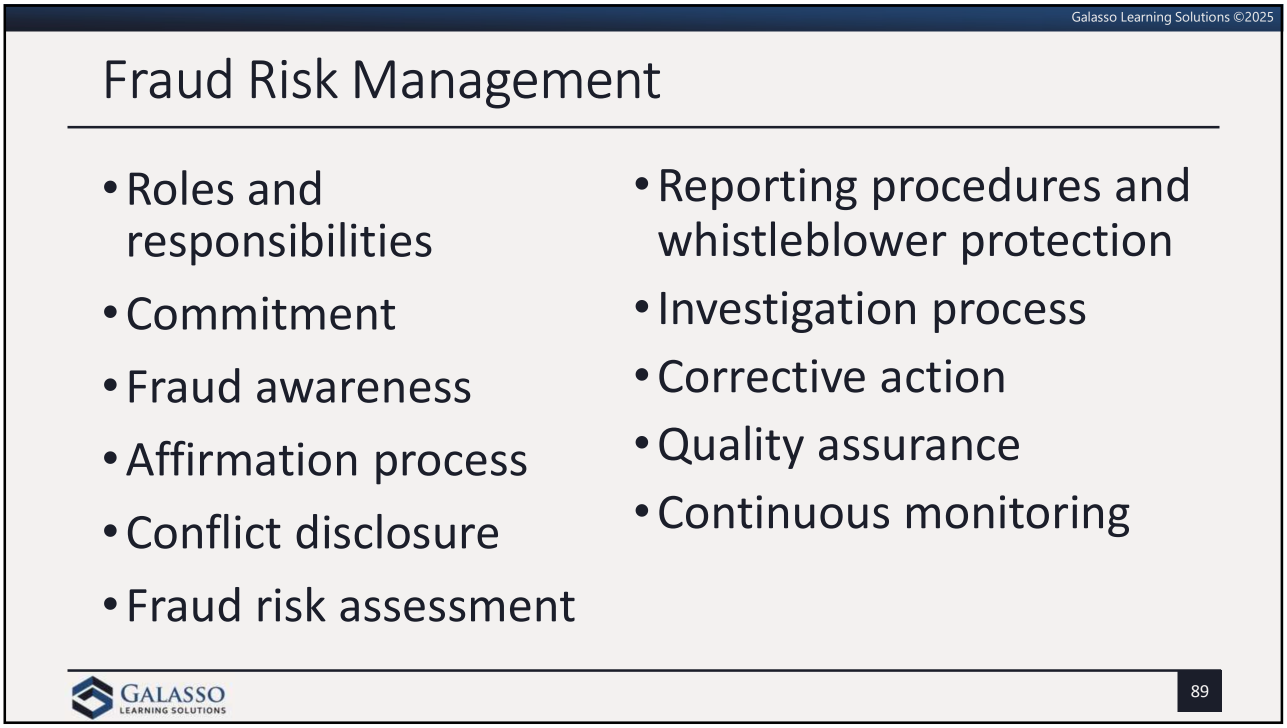
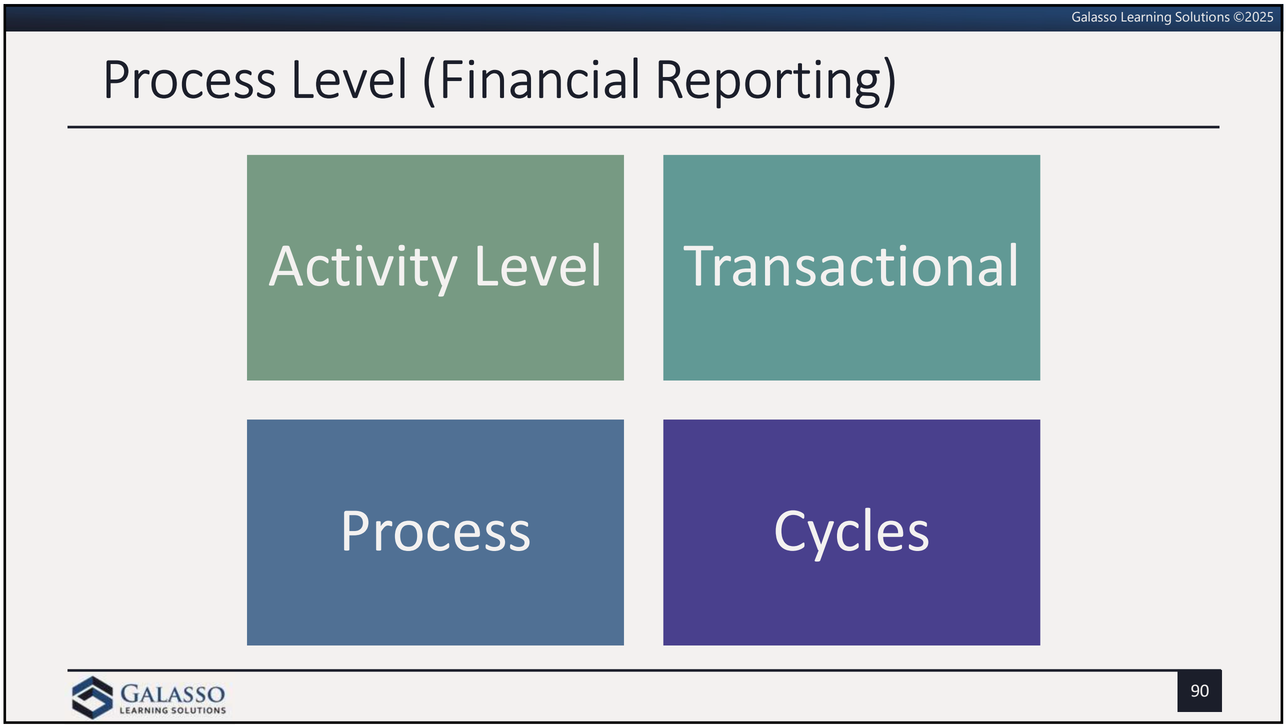


Fraud Risk Management

- Roles and responsibilities
- Commitment
- Fraud awareness
- Affirmation process
- Conflict disclosure
- Fraud risk assessment
- Reporting procedures and whistleblower protection
- Investigation process
- Corrective action
- Quality assurance
- Continuous monitoring



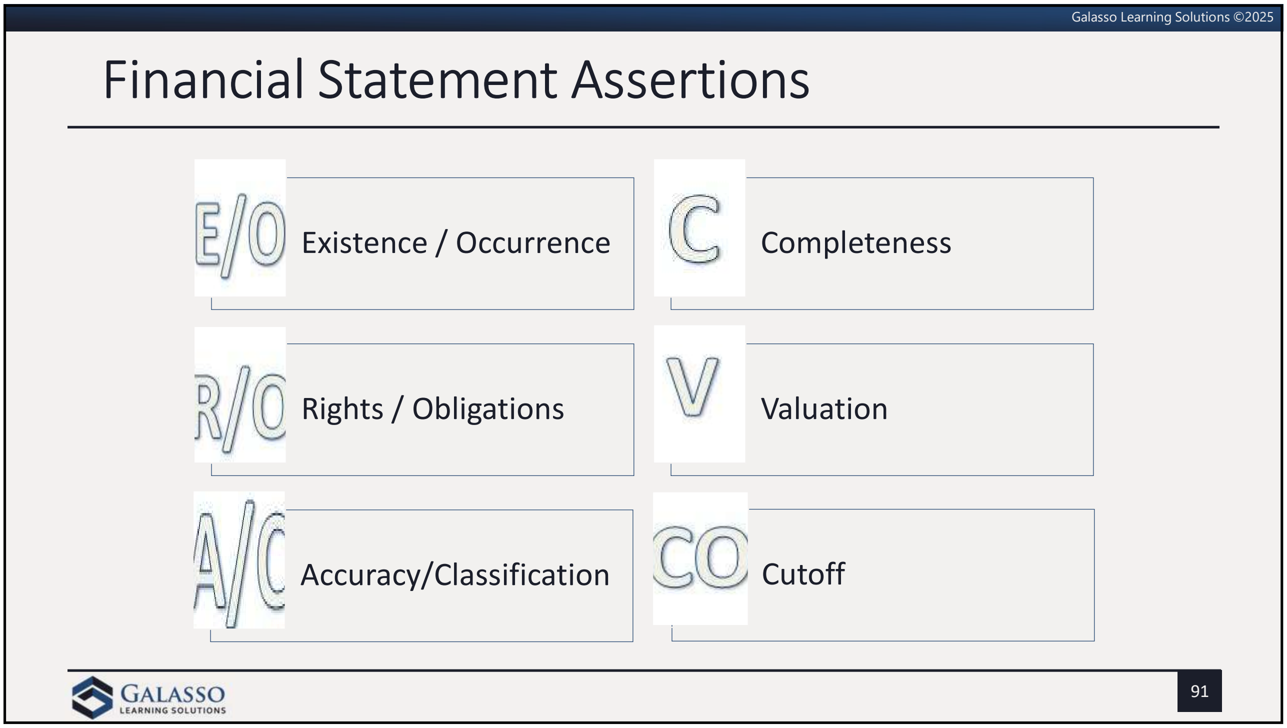
Process Level (Financial Reporting)

Activity Level

Transactional

Process

Cycles



Financial Statement Assertions

- E/O Existence / Occurrence
- C Completeness
- R/O Rights / Obligations
- V Valuation
- A/C Accuracy/Classification
- CO Cutoff

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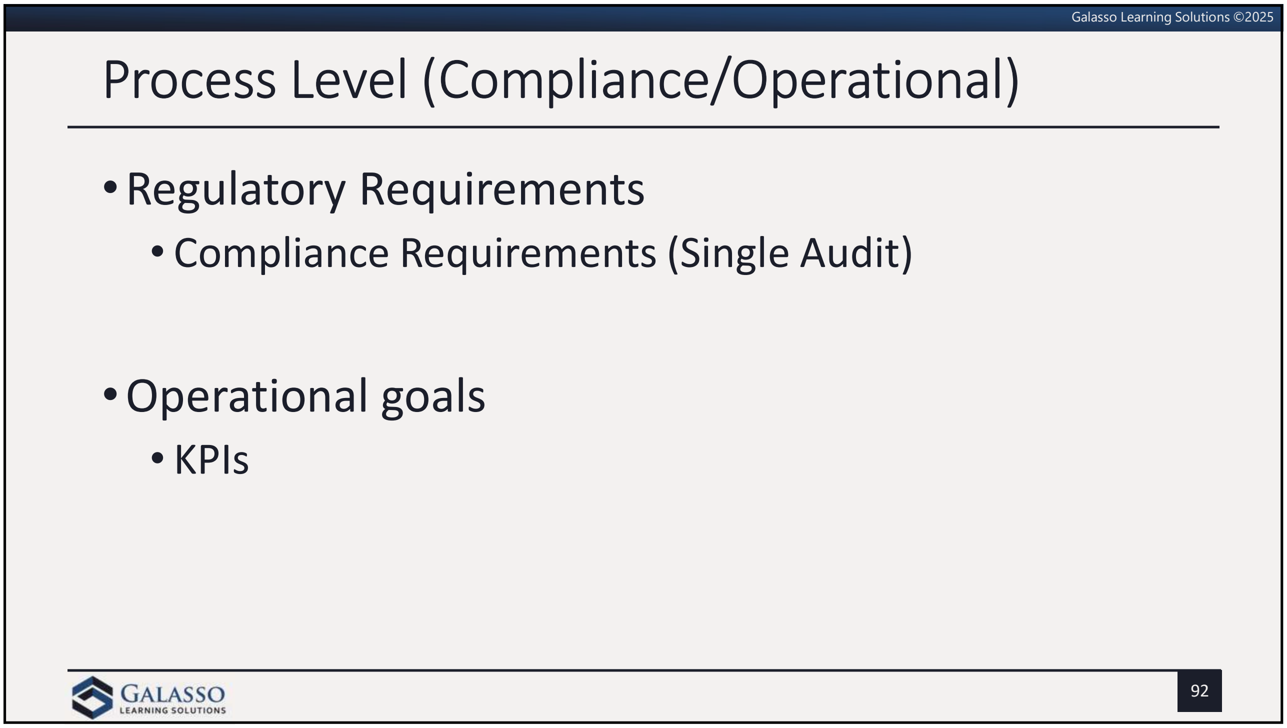

Process Level (Compliance/Operational)

- Regulatory Requirements
  - Compliance Requirements (Single Audit)
- Operational goals
  - KPIs

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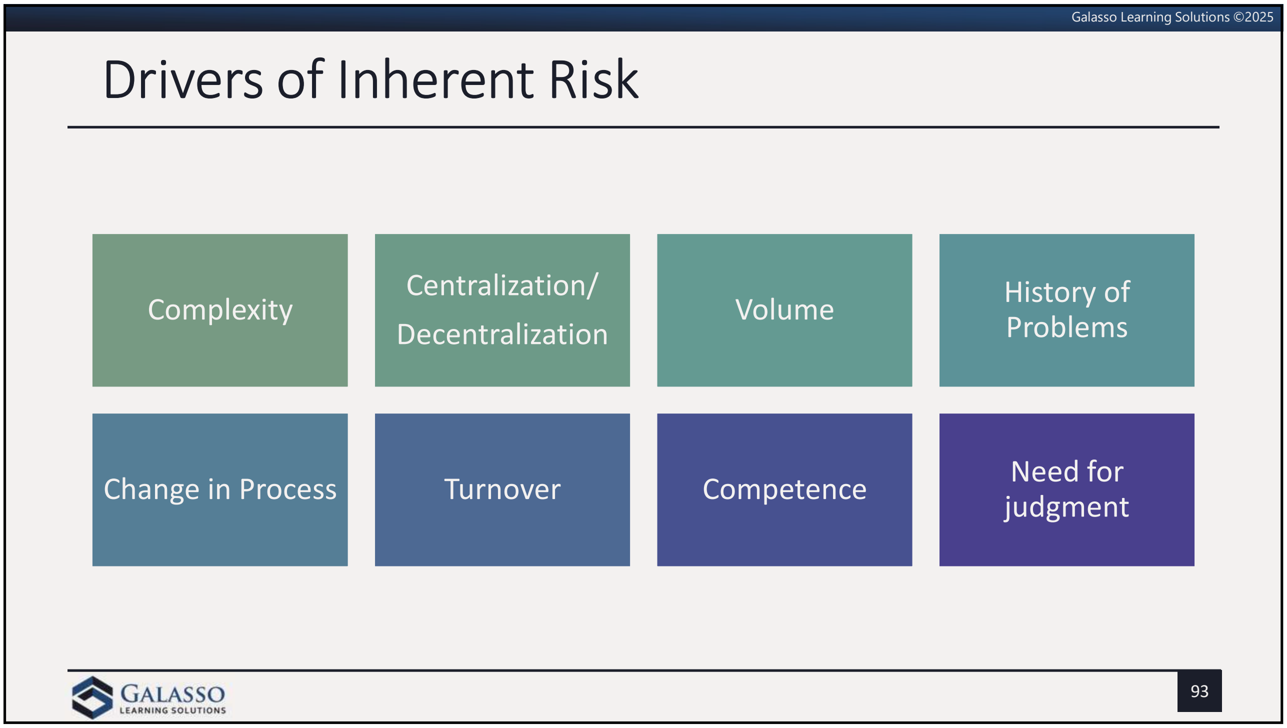

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Drivers of Inherent Risk

Complexity	Centralization/ Decentralization	Volume	History of Problems
Change in Process	Turnover	Competence	Need for judgment

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Risk Assessment

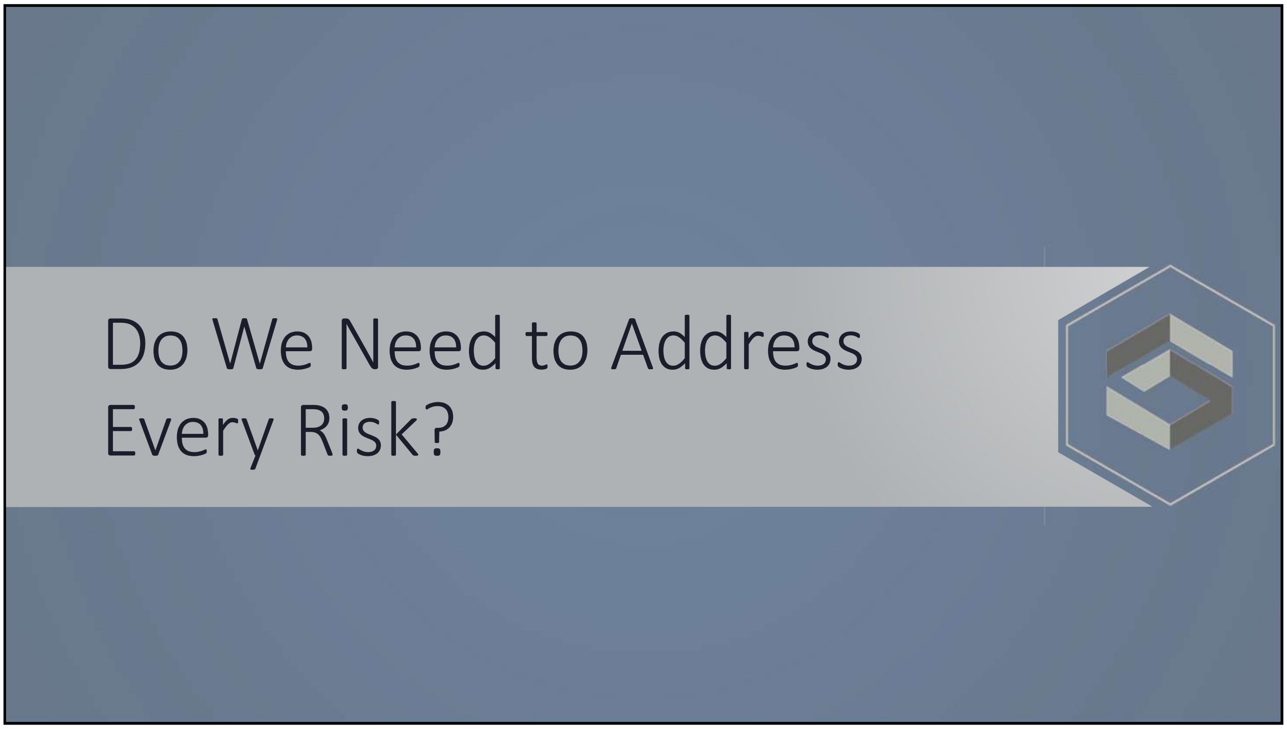
Assessment

Rankings

Likelihood

Impact

Identify Desired Response



Do We Need to Address Every Risk?

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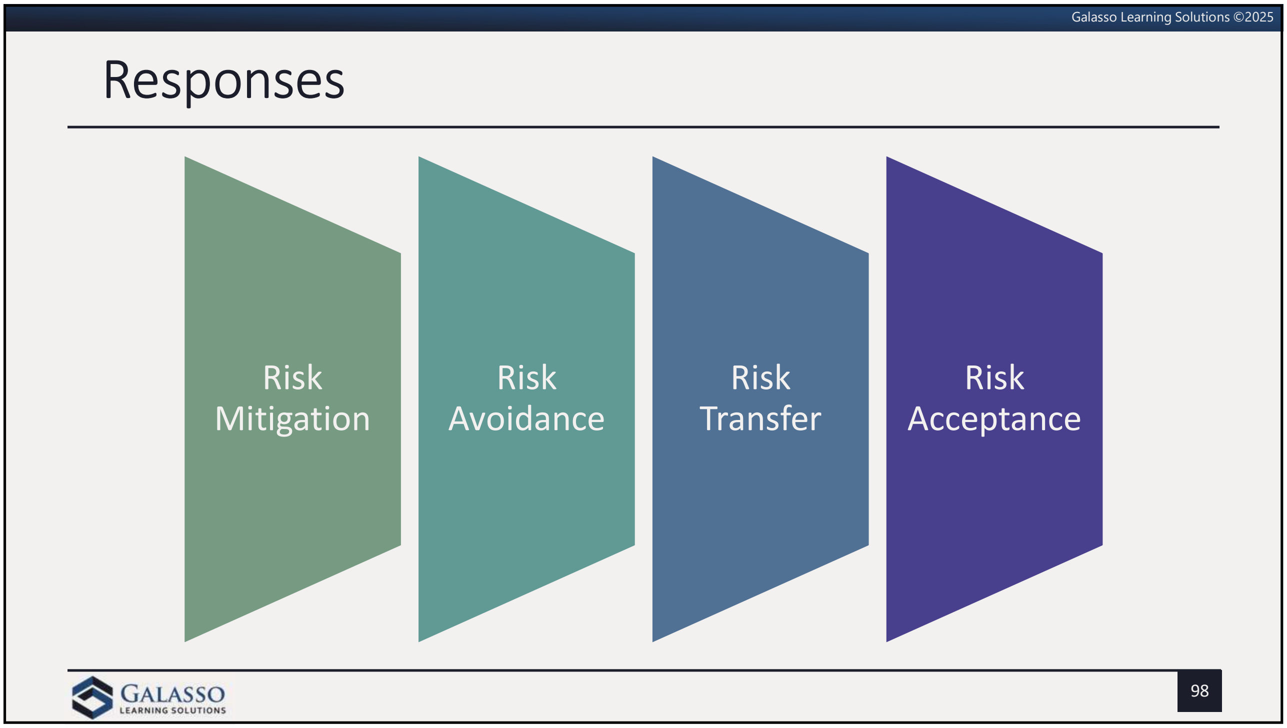

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Responses

Risk Mitigation

Risk Avoidance

Risk Transfer

Risk Acceptance

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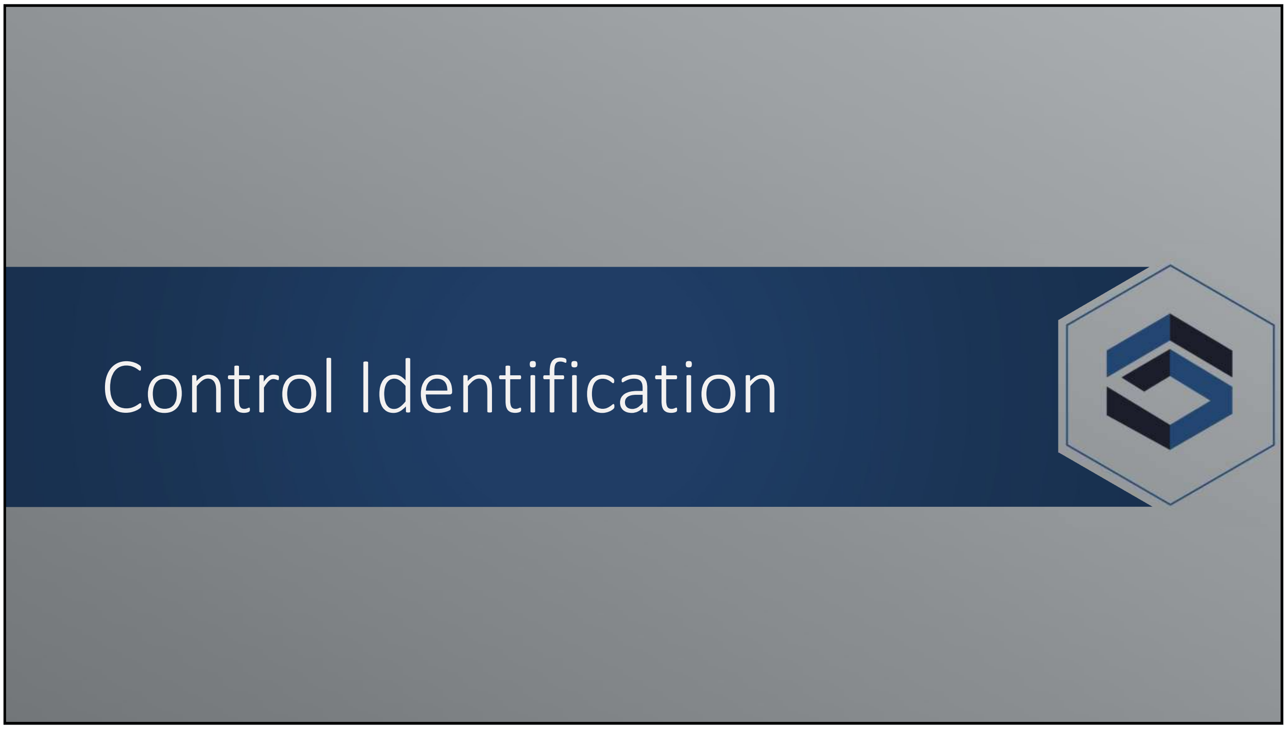

Control Identification

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Are All Controls the Same?

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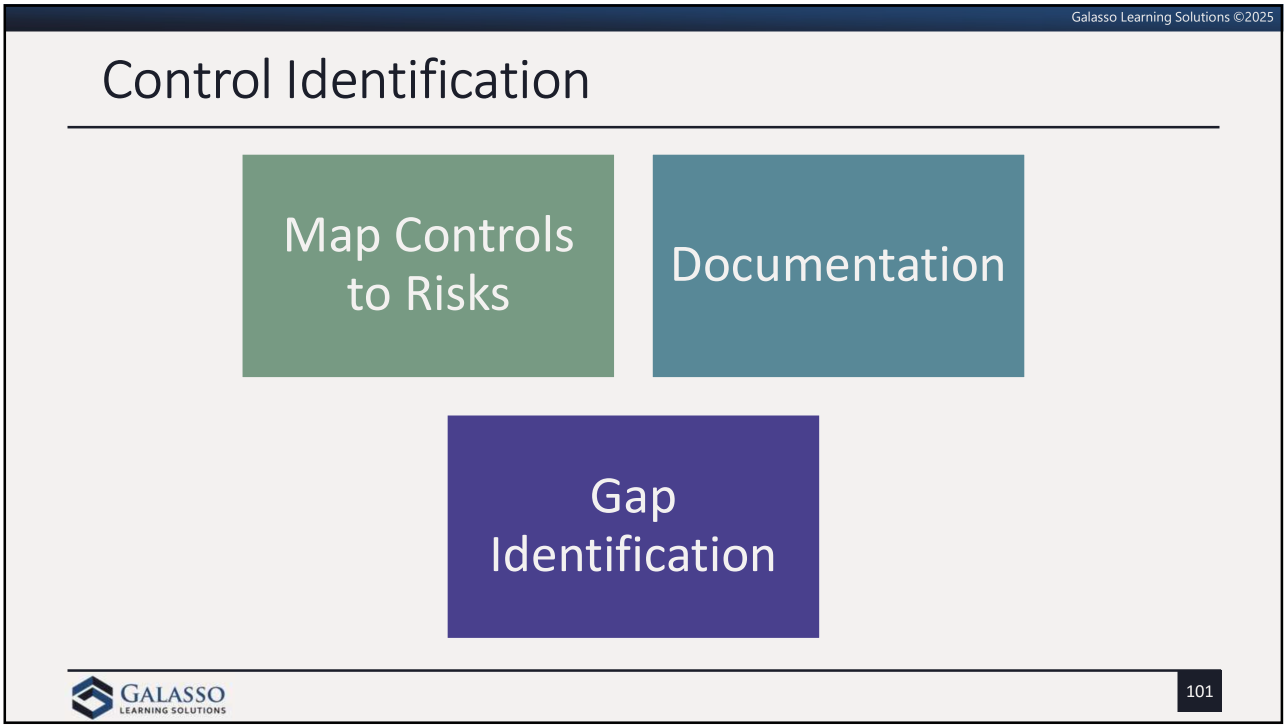

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Control Identification

Map Controls to Risks

Documentation

Gap Identification

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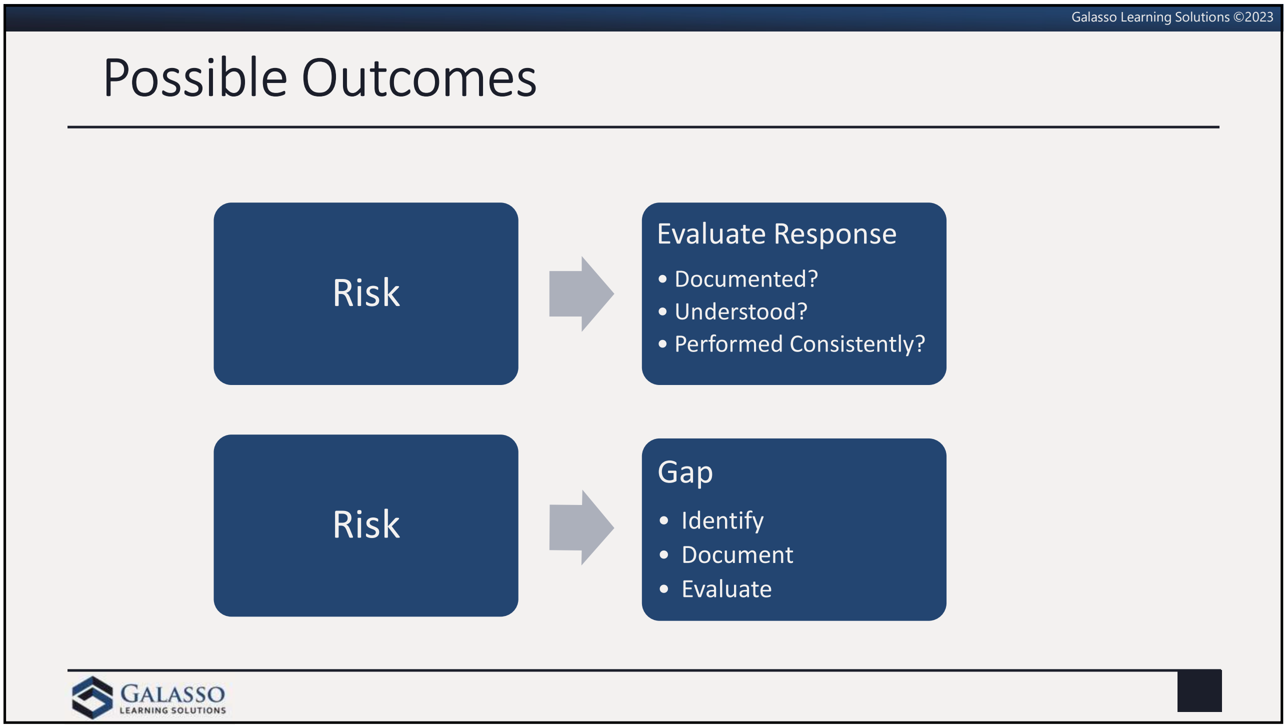

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Possible Outcomes

Risk

Evaluate Response
- Documented?
- Understood?
- Performed Consistently?

Risk

Gap
- Identify
- Document
- Evaluate

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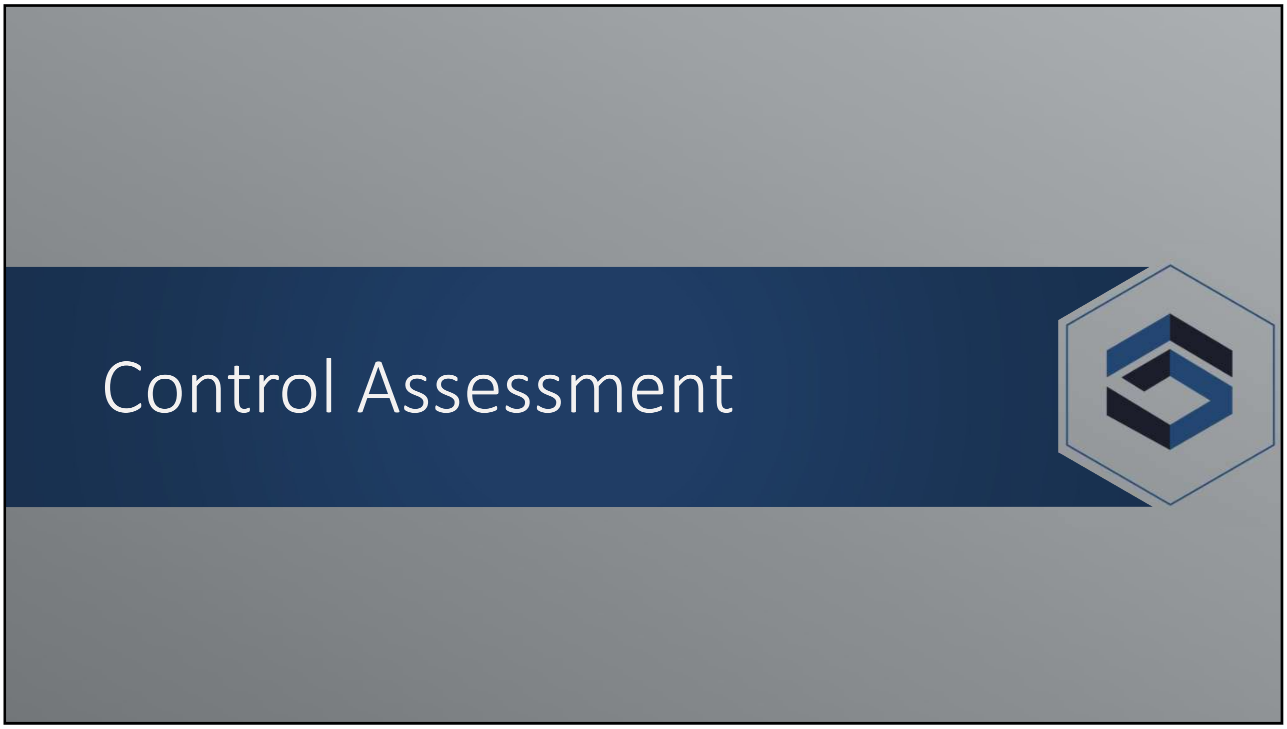

Control Assessment

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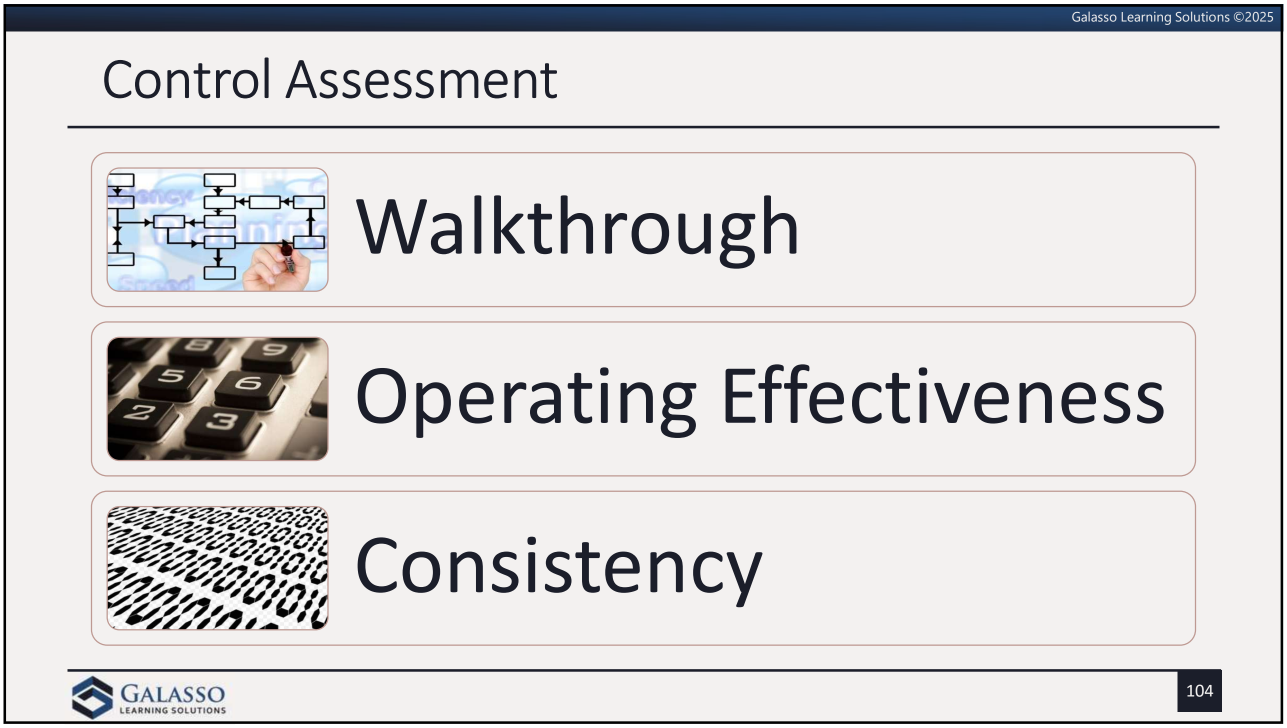

Control Assessment

- Walkthrough
- Operating Effectiveness
- Consistency

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Gap Analysis & Remediation

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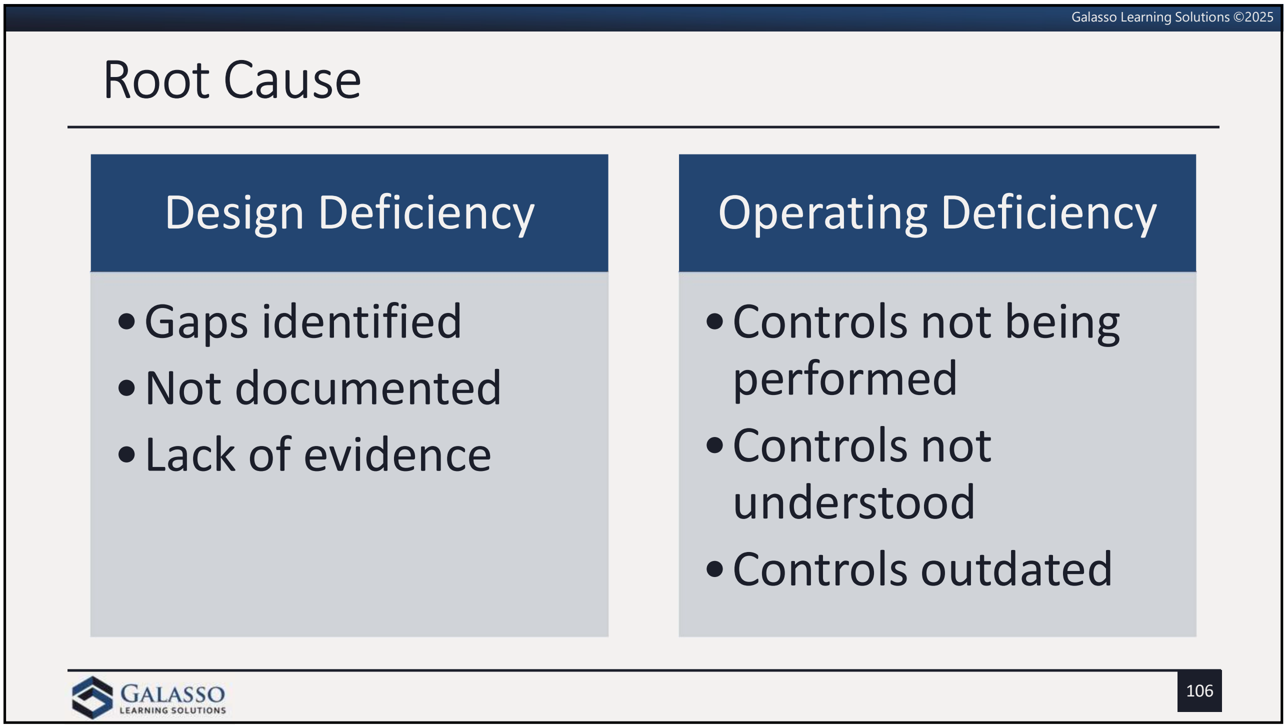

Root Cause

Design Deficiency

- Gaps identified
- Not documented
- Lack of evidence

Operating Deficiency

- Controls not being performed
- Controls not understood
- Controls outdated

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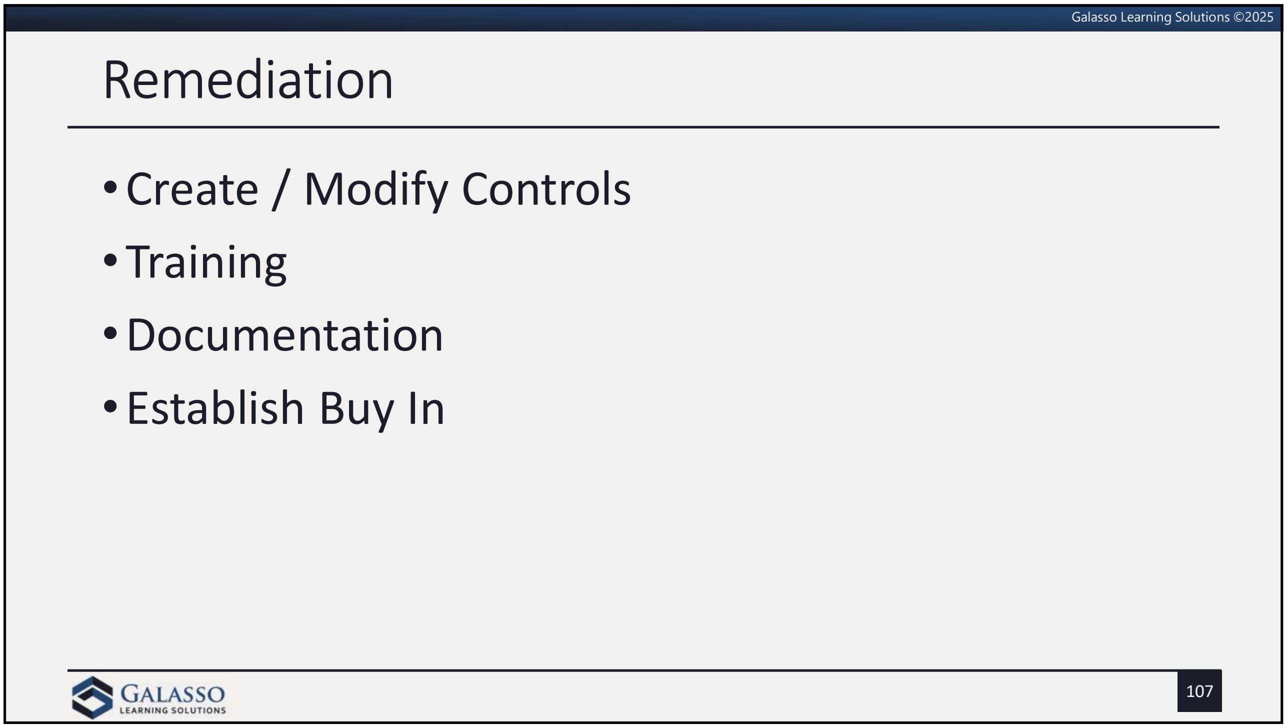

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Remediation

- Create / Modify Controls
- Training
- Documentation
- Establish Buy In

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What’s Next?

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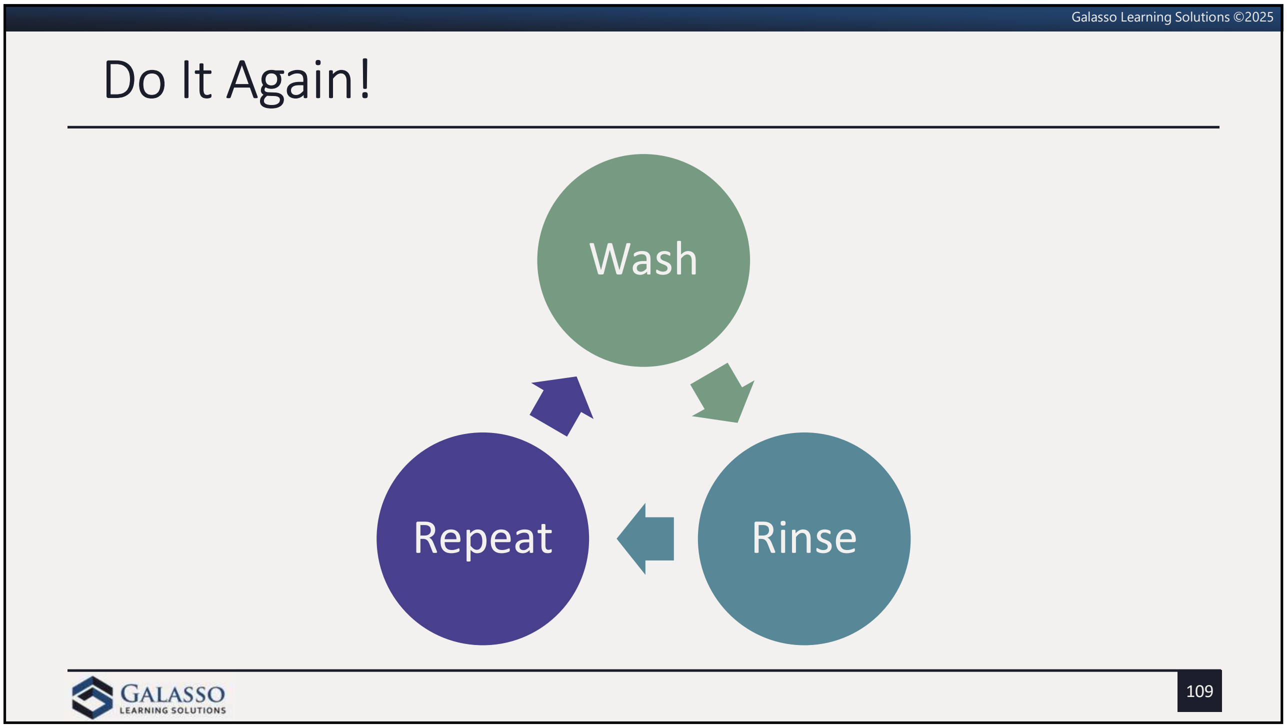

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Do It Again!

Wash

Rinse

Repeat

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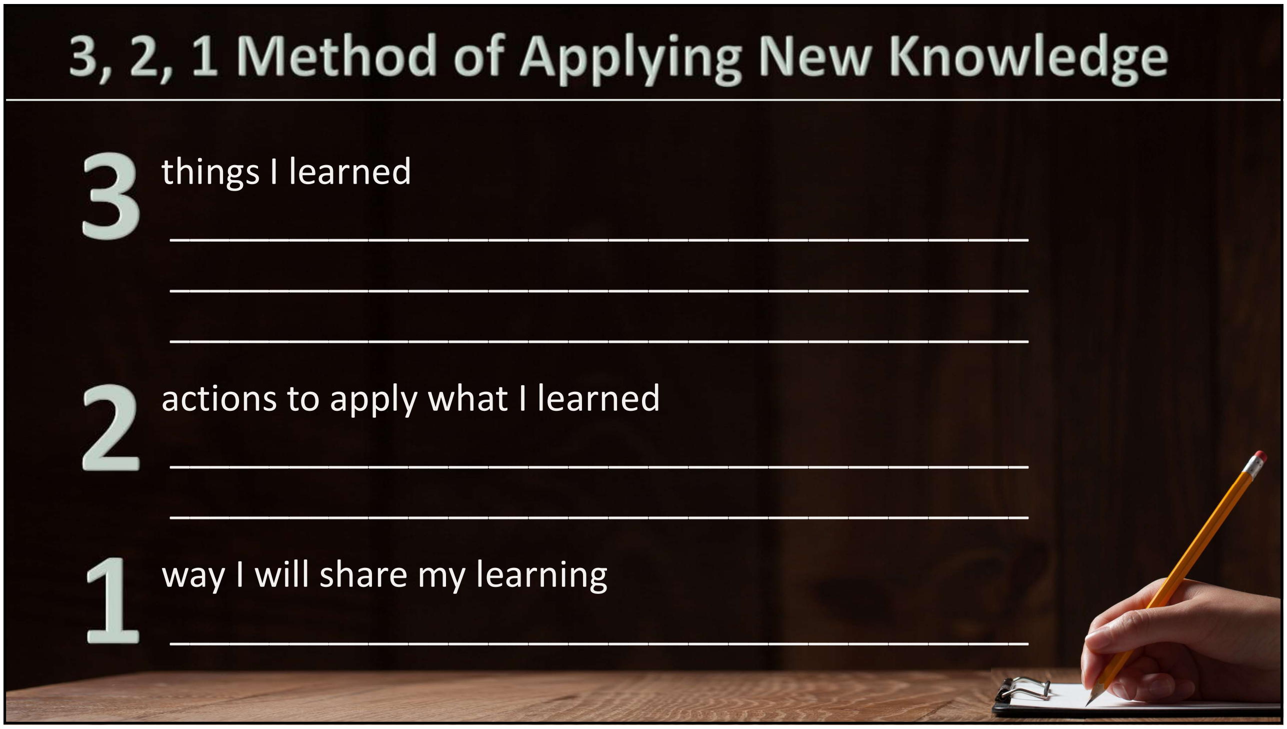

3, 2, 1 Method of Applying New Knowledge

3 things I learned

____

____

____

2 actions to apply what I learned

____

____

1 way I will share my learning

____

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What Questions Do You Have?

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Content last reviewed: 5/30/25

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