

From: [Christopher Hanks](#)
To: [Green Book Comments](#)
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Subject: Comment on "Standards for Internal Control in the Federal Government: 2024 Exposure Draft"
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In the private sector, the definition and purpose of "internal controls" is to ensure the reliability and accuracy of financial statements:

(see: <https://www.investopedia.com/terms/i/internalcontrols.asp#:~:text=Internal%20controls%20are%20the%20mechanisms,promote%20accountability%2C%20and%20prevent%20fraud>.

The government is not a business. It is "the public sector." In the Green Book, therefore, the GAO defines internal controls differently: "Internal control is a process designed to help an entity achieve its objectives." (quote from "Fast Facts" at: https://www.gao.gov/products/gao-24-106889?utm_campaign=usgao_email&utm_content=daybook&utm_medium=email&utm_source=govdelivery.)

The GAO's alternative definition of "internal control" does indeed make sense in the private sector - because the objective of businesses is to make money, which is what financial statements (balance sheets, income statements, and cash flow) measure. But in the public sector, the GAO's new definition of "internal control" is the equivalent of GAO saying: "Government entities should have process designed to help them achieve their objectives." This new definition, needless to say, is unlikely to be viewed as new and helpful advice to anyone in government trying to get things done.

In fact, apart from the class of internal controls addressing cyber security, the internal controls GAO wants to see in the government are pretty much the same as the standard, private-sector internal controls designed to produce reliable financial statements, as evidenced by the emphasis the GAO has placed (for more than 30 years now, ever since the passage of the CFO Act of 1990) on the "importance" of producing private-sector-style financial statements in government that auditors bless each year.

Today, most government agencies (with the notable exception of the Department of Defense) are now spending enough time and money each year to have sufficient "internal controls" in place to enable them to produce "balance sheets," "income statements," and "cash flow" statements that external auditors are willing to bless each year. (Since 2018, the DoD has been spending about \$1.0 billion/yr on improving internal controls, but across-the-board "clean opinions" have not been achieved and are not expected to be achieved for some time.) Aside from accomplishing that internal accounting objective, therefore, the question is this: Are are all the agencies now getting clean opinions on their financial statements accomplishing their actual (i.e., "non-accounting") missions any more effectively and efficiently than they were before getting those clean opinions?

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