

Q&A



A-123 COMPLIANCE COSTS

How to sustain A-123 while cutting the cost of compliance.

Federal CFOs know that maintaining an effective internal control structure has always been a delicate balancing act between the cost of compliance and the benefits of monitoring the environment. Like most compliance requirements, OMB Circular A-123 is an unfunded mandate. And with continued reductions in appropriations expected as well as other competing priorities—such as the American Recovery and Reinvestment Act (ARRA) and Open Government Directive (OpenGov)—federal agencies are seeking ways to reduce the cost of compliance. At the same time, they are expected to sustain the A-123 process and produce value while achieving compliance.

This has left many organizations asking the same question: How can federal agencies sustain A-123 compliance and add value while streamlining compliance efforts and reducing overall costs? Agencies large and small can reduce their A-123 compliance expenses by employing a variety of strategies, including:

- Insourcing
- Improving business processes
- Reducing redundancies
- Applying a risk-based approach
- Utilizing technology

Tips for Sustaining A-123 Compliance:

- **Insource compliance efforts to reduce contractor expenses**
- **Improve business processes through re-engineering**
- **Leverage monitoring efforts already being conducted to eliminate redundancies**
- **Use a risk-based approach for control assessments**
- **Invest in risk framework and monitoring tools**

Q How does the insourcing process work for federal agencies?

Agencies that rely heavily on external consultants for compliance-related activities can transition some or all of these tasks to internal positions, or incorporate contractors' work into an existing infrastructure. First, they must explore a series of questions: Does the agency have a plan in place to transfer this work to federal employees? Does that plan include short- and long-term views? Has the plan been socialized among the CFO, CIO, and senior assessment team?

Contractors can aid this process by helping to prepare the plan and then conducting formal A-123 training and knowledge transfer with newly assigned employees. Additionally, contractors can assist management in preparing short- and long-term plans for sustaining the A-123 process, continue monitoring controls, and provide a project management office (PMO) perspective to ensure that all work is completed.

Q How can business process improvement help agencies reduce compliance costs?

Business process improvement and re-engineering help federal agencies redesign the way work is completed to better support agency mission and reduce overall business costs. Re-engineering begins with a high-level assessment of an organization's mission, strategic goals, and needs, and then works to optimize the performance and effectiveness of the steps needed to accomplish these objectives. By re-engineering existing business processes, agencies can often eliminate unnecessary or redundant activities to complete the same work smarter, faster, and more efficiently. Agencies can deploy various approaches for improving processes in order to perform a structured review of the current environment, allow for easy recognition of improvement opportunities, and implement accordingly.

Q What are compliance "silos" and how can they be leveraged to reduce redundancies?

All federal agencies work throughout the year to ensure compliance with the applicable federal requirements. Although similar or duplicative elements exist within various compliance requirements, most are completed separately in a silo environment by different departments, organizations, or groups. Federal agencies can reduce the cost of compliance by leveraging these overlapping requirements. They can begin by identifying all of the compliance efforts already being conducted to determine which have duplicative requirements. For example, the certification and accreditation (C&A) compliance requirement for financial systems has a number of similar control objectives that should be linked with and leveraged by A-123. Other duplicative compliance efforts may include the Federal Information Security Management Act (FISMA), Improper Payments Information Act (IPIA), ARRA, and OpenGov. If the work is already being conducted by another compliance requirement, why not get credit for it elsewhere and reduce the cost of compliance?

Instead of continuing to complete the same activities in multiple areas, federal agencies can lower their overall level of effort by eliminating silos and reducing duplicative work. Breaking down compliance silos and moving toward a collaborative effort for risk and compliance management requires a change in culture. When completed successfully, costs are reduced, redundancies are eliminated, and missions are better served.

Q What can federal agencies learn from the private sector about managing risk with shrinking resources and dollars?

Facing similar challenges, private sector organizations have successfully cut compliance costs by employing a risk-based approach to compliance and process improvement. Private companies are aligning their risk management programs with performance and cost management by linking them with organizational strategy under the enterprise risk management (ERM) umbrella. ERM is a process that is implemented enterprise-wide by an entity's leaders, senior management, and other personnel during strategy setting. It is designed to identify potential events that may affect the entity, manage risks to be within its risk appetite, and provide reasonable assurance regarding the achievement of entity objectives. The benefits of ERM include:

- Aligning risk appetite and strategy
- Linking growth, risk, and return
- Enhancing risk response decisions
- Minimizing operational surprises and losses
- Identifying and managing cross-enterprise risks
- Providing integrated responses to multiple risks

A successful ERM program will also help federal agencies strengthen and enhance their internal control environments and overall maturity while focusing efforts on the areas that warrant the most attention. For example, agencies must identify program risks that could lead to waste, fraud, and abuse in programs or financial reporting errors in financial statements. If certain business processes warrant higher risk consideration as a result of an enhanced ERM program, agencies should perform annual internal control assessments on the most important programs and place the remainder on a rotational schedule to reduce costs. In other words, if a program poses a particularly high risk for waste, fraud, and abuse—such as procurement—the agency should perform an assessment every year.

Another way to prioritize risk is through financial statement materiality. In addition to assessing high-risk processes based on qualitative factors, agencies need to examine the quantitative factors as well. The more dollars a business process handles (e.g., ARRA), the higher the probability that an error will impact financial statements. All federal agencies should take a risk-based approach to annual internal control assessments. While the high-risk controls within significant processes should be assessed every year, medium- and low-risk controls can be rotated over a period of three years if they are stable and no deficiencies exist.

Lastly, many agencies often rush to determine which controls to test, how much to test, what to document, and how to satisfy auditors for compliance purposes. Agencies should look beyond regulations and frame A-123 compliance as an ongoing, value-added procedure to standardize and upgrade processes and systems by embedding controls. Using a risk-based approach to compliance management and a rotational schedule for assessing low- to medium-risk business processes can help mitigate and reduce risk of financial reporting errors and waste, fraud, and abuse while at the same time reducing overall costs and level of effort.

Q How can federal agencies use tools to reduce compliance costs?

There are a number of tools on the market that federal agencies can explore. The tools available today provide a wide range of capabilities, including content and documentation management, workflow, process automation, policy management, corporate governance, dashboard/metrics, and reporting. The varying availability and maturity of compliance tools provides the biggest opportunity for consolidation of compliance efforts.

Many of these tools also align with multiple platforms and integrate with current systems, making them viable candidates for enterprise-wide application. As mentioned previously, because each federal act has its own appropriation and distinct set of resources, organizational silos result in redundancy of monitoring and testing efforts that satisfy more than one compliance requirement. Investing in tools that can be used enterprise-wide will align these overlapping frameworks to identify redundancies, saving time and money.

Many tools also offer various levels of automation capability, such as continuous monitoring tools, which work with either enterprise resource planning (ERP) or legacy systems. These tools help reduce the risk of manual data processing errors and fraud by automating processing and limiting access to financial systems and data. Automated controls cut down on the cost of compliance because once they are implemented, the *system* will monitor and report on controls, not *people*.


So why aren't federal agencies already using such tools? Despite the benefits they offer, the real challenge is often finding someone to take ownership and responsibility for implementing the system or tool department-wide. Instead, agencies end up with different silos and disparate tools that could be integrated with similar efforts to take advantage of common processes and requirements. Using tools to efficiently automate and manage compliance activities can help reduce the cost of compliance and the risk of non-compliance.

Q How can agencies prevent waste, fraud, and abuse from occurring from the start?

The bottom line is that the more automated and mature a control is, the lower the risk. Maturity relies on how well a control integrates with process functions on a daily basis. To identify the current state of controls versus the desired future state, MorganFranklin utilizes a general business process controls maturity framework for financial processes. Each control is ranked according to its reliability level, taking into account factors such as: the level of documentation and capable resources, the level of control integration with processes, how well the process is monitored, and the level of automated controls. If a control is integrated into a process, documented, communicated, understood, and monitored, it is more likely to mitigate the underlying risk.

The goal is to move the financial process controls into an optimized status as agencies lower risk and shift from monitoring controls to automating them. The maturity framework helps agencies plan a roadmap based on where they are in the maturity process, where they want to be in future years, and what they need to do to get there. Agencies can continue to move toward reaching a continuously monitored and optimized status while reducing compliance costs along the way.

SAMPLE BUSINESS PROCESS CONTROLS MATURITY FRAMEWORK

	Reliability Level				
	Unreliable	Informal	Standardized	Advanced	Optimized
Documentation	Very limited	Sporadic and inconsistent	Comprehensive and consistent	Semi-automated	Fully automated
Awareness and Understanding	Basic awareness	Understanding not communicated beyond management	Formal communication and some training	Comprehensive training on control-related matters	Proactive involvement
Perceived Value	Uninformed	Controls separate from business operations	Controls integral to operations	Control processes considered part of strategy	Commitment to continuous improvement
Control Procedures	Ad hoc and unlinked	Intuitive and repeatable	Formal and standardized	Semi-automated	Fully automated
Monitoring	For regulatory compliance	Informal	Reactive	Periodic monitoring begins	Real-time monitoring begins
<div style="display: flex; justify-content: space-between; align-items: center;"> REACTIVE  PROACTIVE </div>					

