Uniform Guidance Goals and Key Take-Aways

- **Internal Control**
  - 2 C.F.R. 200.303 Internal Controls are elevated as an accountability measure

- **Understanding Key Internal Control Elements**
  - Maintain effective internal controls to provide reasonable assurance
  - Standards for Internal Control in the Federal Government
  - Key areas of emphasis: Allowability, Monitoring, Functions/Operations

- **Internal Control Tool-kit**
Internal Control: Reasonable Assurance

Internal Controls give reasonable assurance that the organization will achieve its objectives through

- Effective and efficient operations
- Reliable reporting
- Compliance with applicable laws and regulations
Internal Control: Through and Through

Five components of Internal controls
Defining Internal Control

- Those processes by which you assure objectives are achieved efficiently, effectively, and with reliable, compliant reporting:
  - A Control Environment that sets the tone for the organization.
  - A Risk Assessment process that involves the identification and analysis of relevant risks.
  - Control Activities that include the policies and procedures that help ensure management directives are carried out and documented.
  - Information and Communication systems or processes that support the exchange of information.
  - Monitoring processes used to assess the quality of internal control performance over time.
Internal Control: Crucial Accountability

- The elevated the role of internal control:
  - Creates a transparent system of accountability for decision making around federal funds.
  - This system of accountability applies equally to Federal Agencies, grantees, and sub-recipients.

- While internal controls are not new to the financial world
  - They may be new to folks working on program implementation.
How It Works: Financial Management

Assessable units/functions must be able to:

- Identify all Federal award inflows and outflows
- Produce financial and performance results of each award/program
- Maintain records showing the source and use of funds
- Compare actual expenses with budgeted expenses
- Document allowability procedures
# Control Environment

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>Definition</th>
<th>Examples</th>
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</table>
| **Tone at the Top** | Demonstrate a commitment to the organization’s integrity and ethical values. | ●Directives  
●Policies  
●Lead by example |
| **Oversight** | Oversight Body who oversees management’s design, implementation, and operation of the organization’s internal control system. | ●Board of Directors  
●Management Team  
●Chief State School Officer |
| **Commitment to Competence** | Management establishes expectations of competence on recruiting, developing, and retaining personnel. | ●Position Descriptions  
●Position Descriptions  
●Required skills and certifications |
| **Accountability** | Personnel’s responsibilities. | ●Day-to-day decision making  
●Roles and responsibilities  
●Lines of Authority |
Risk Assessment

Risk Assessment

Risk Mitigation

Risk Threshold
Risk Assessment

Internal Controls – Examples of Risk Considerations

- Complexity of the process
- Level of manual intervention
- Fraud risk
- Management override
- Non-routine transactions
- Management by a third party;
- History of audit issues
- Changes in laws/regulations
- Human capital management
# Control Activities

<table>
<thead>
<tr>
<th>Type of Control</th>
<th>Definition</th>
<th>Examples</th>
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</thead>
</table>
| Preventive      | Control that helps management to avoid issues before they occur. | • Training  
• Review and Approval Process  
• Segregation of Duties |
| Preventive      | Control that helps management to avoid issues before they occur. |
| Detective       | Control that discover issues after they occur. | • Reconciliation  
• Trace Transaction to Source Document  
• Monitor Actual vs. Budget |
| Detective       | Policies and procedures that apply to all or a large portion of an organization’s IT systems. |
| General (IT)    | Policies and procedures that apply to all or a large portion of an organization’s IT systems. | • Security Management  
• Logical and Physical Access  
• Configuration Management |
| General (IT)    | Policies and procedures that apply to all or a large portion of an organization’s IT systems. |
| Application (IT)| Control that is incorporated into computer applications to ensure data accuracy and integrity. | • Edit Checks for Input Data  
• Interface  
• Data Management System Control |
Information and Communication

- Management communicates relevant and timely information to support the internal control system

<table>
<thead>
<tr>
<th>Factor</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience</td>
<td>The targeted recipients of the information anticipated to be delivered.</td>
</tr>
<tr>
<td>Nature of Information</td>
<td>The type of information being communicated.</td>
</tr>
<tr>
<td>Availability</td>
<td>The accessibility of information to the audience.</td>
</tr>
<tr>
<td>Cost</td>
<td>The amount of resources needed to communicate the information.</td>
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</table>
Management performs evaluations to ensure the design and operation of controls are efficient and effective.

<table>
<thead>
<tr>
<th>Common Terminology</th>
<th>Description/Examples</th>
</tr>
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<tbody>
<tr>
<td>Ongoing Monitoring</td>
<td>• Day-to-day management oversight</td>
</tr>
<tr>
<td></td>
<td>• Regular comparisons and reviews (leverage automated tools)</td>
</tr>
<tr>
<td>Separate Evaluations</td>
<td>• Internal/external audits</td>
</tr>
<tr>
<td></td>
<td>• Periodic self-assessments based on risk (control testing and evaluation)</td>
</tr>
<tr>
<td>Control Deficiency</td>
<td>• A potential or actual internal control issue or an opportunity to strengthen the organization’s internal control system.</td>
</tr>
<tr>
<td>Corrective Action</td>
<td>• Action item planned by management to remediate identified internal control deficiencies in a specific time frame.</td>
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</table>
Where Do Internal Controls Live?

**Specific functions/processes**

- Payments/cash management
- Compensation/personnel expenses
- Procurement
- Property management
- Financial monitoring
- Subrecipient monitoring
Determining Allowability

- Basic standards for allowability remain the haven’t changed:
  - Necessary, reasonable, allocable, and documented

- The documentation tells the story
  - Reconstruct the story of a particular use of funds then clear determination is possible.
  - The more difficult it is to reconstruct the story, the more you will have to rely on other mechanisms to ensure proper use of funds.
Factors Affecting Allowability
2 CFR § 200.403

Generally a cost is reasonable if it is:

- Reasonable in its nature, and does not exceed that which would be spent by a “prudent person”
- Necessary for the performance of the Federal Award
- Conforms to limitations/exclusions in the law or the Uniform Guidance
- Comparable to market prices for the geographic area
Factors Affecting Allowability
2 CFR § 200.403

- Treated consistently as a direct, rather than indirect, charge
- Accounted for in accordance with Generally Accepted Accounting Principles
- Consistent with State/local procurement rules
- Not included as a cost or used to meet cost sharing or matching requirements
- Adequately documented
Reasonable
2 CFR § 200.404

In determining reasonableness you must consider:

- Whether the cost is of a type generally recognized as ordinary and necessary for the award
- Market prices for comparable goods or services for the geographic area
- Whether Individual acted with prudence in the circumstance
- The degree to which the entity follows established practices and policies regarding the incurrence of costs
In determining allocability you must consider whether:

- It can be assigned to a particular cost objective
- Purchased for a particular award
- Necessary to implement the objectives of the grant
- The item of cost *proportionally benefits* two or more projects or activities, that cost should be allocated to the projects based on the benefit received
Discussion Time! Given a Function...

- Accounting
- Payment System
- Property Standards/System
- Procurement Standards/System,
- System for Monitoring and Reporting Program Performance

Make an argument for why your function is most important to the efficiency and effectiveness of a grantee.
Mitigating Strategies

- Additional control activities put in place to mitigate risk presented
- Those additional controls are called compensating controls.
- Compensating controls are a type of control used to discover, prevent, and or mitigate mistakes.
Examples of Compensating Controls

- Segregation of duties:
  - One employee responsible for ensuring allowability based either on program law or uniform guidance,
  - One person to do the accounting portion of the job, and
  - One person responsible for signing the checks.
  - Segregation of duties can be difficult for businesses with small staffs. Compensating controls, in this case, may include maintaining and reviewing decision making logs and supporting documentation.
How to Identify Opportunities for TA

Program Performance Reporting

- Compare accomplishments to objectives for time period
  - Quantified where applicable
  - With trend analysis, if available
- If objectives were not met, the reasons why
- Other pertinent information, e.g., Cost overruns, High unit costs
- Site-Visits
Sources of Data to Inquire About Internal Control

Program Reporting – Fiscal Monitoring

Examine source data

- Information in the Department’s G5 Grant System
- Expenditure Reports
- Budget Submission
- Other Financial Reports
- Single State Audits
- Source Documents
Systems to Inquire About Internal Control

Record Retention and Access

- Retain for three years after submission of final expense report:
  - Financial records
  - Supporting documents
  - Statistical records
  - Other grantee records

- Access should be timely and reasonable
Sub-recipient Monitoring

- Grantees must monitor the activities of
  - Contractors
  - Vendors
  - Sub-recipients
Systems to Inquire About Internal Control

Sub-recipient Monitoring

- Grantees must evaluate the risk of sub-recipient activities, especially considering:
  - Prior experience with similar sub-awards
  - Results of audits
  - New or substantially changed systems of the sub-recipient
- Imposition of specific sub-award conditions may be warranted
Sub-recipient Monitoring

- Grantees must monitor the performance of subrecipients
  - Review of financial and programmatic reports
  - Follow-up to ensure identified deficiencies/findings are remediated
  - Issue determinations related to audit findings

- Grantees should offer training and assistance to subrecipients where needed
New flexibility: “system of internal control” for documenting personnel compensation:

- Requirements for personnel compensation are found at 2 CFR 200.430-431
- Alternative accounting processes are allowable for sampling in-time distribution reporting
- Federal agencies may approve alternative accounting methods for blended funds
Walk-thru of Tool-kit

- The toolkit includes:
  - A glossary of terms, common language, associated with the internal controls field.
  - A “quick check” document that can facilitate an initial self-assessment.
  - A second tier self-assessment to hone in on problematic areas.
  - An example of a procurement flow chart which includes a series of questions you might ask yourself in assessing a aspects of an example procurement process. These questions are illustrative of the type of analysis you should conduct. In determining the allowability of expenditures involving Federal funds.
  - Template to use as a starting point in documenting the organization’s internal control system.
Tool Kit: Glossary
## Manager’s Quick Check
### Assessment of Internal Control

Management throughout an entity is responsible for establishing and maintaining internal control systems that help the entity and achieve its objectives. The entity’s objectives include, but are not limited to:

- **Operational efficiency and effectiveness**
- **Reliability of financial reporting**
- **Compliance with applicable laws and regulations**

The following checklist provides a starting point for managers to assess the internal control system within their particular office.

**Completion of the checklist is consistent with the five important components of internal control outlined by the GAO/Green Book.**

<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
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<tbody>
<tr>
<td>Control Environment</td>
<td>The foundation of effective internal control. It sets the stage for other components of internal control.</td>
</tr>
<tr>
<td>Risk Assessment</td>
<td>Identifies and evaluates risks to achieving objectives.</td>
</tr>
<tr>
<td>Control Activities</td>
<td>Designed to help ensure that management’s control objectives are met.</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>Ensures that relevant information is captured, communicated, and used within the entity.</td>
</tr>
<tr>
<td>Monitoring</td>
<td>Ongoing and periodic process designed to ensure the quality of internal control is maintained.</td>
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</table>

**The table below provides a detailed assessment of the components of internal control.**
Tool Kit: Self Assessment (6 pages)
Tool Kit: Process Map with Questions
Tool Kit: Control Environment Questions

Internal Controls: Procurement Example – What do we need to consider?

Has Leadership:
- Demonstrated a Commitment to Integrity and Ethical Values
  - Does the entity actively set an ethical tone around procurement procedures and expectations?
  - Is there an established code of conduct for employees? Requirements for those making procurement requests and for those processing procurement requests?
- Established Structure, Responsibility, and clear lines of Authority
  - Are there policies and procedures for the procurement processes and decision making?
  - Are there clear lines of responsibility and authority?
- *Demonstrated Commitment to Competence
  - Are there competency requirements?
  - Are the competencies clearly communicated and reviewed toward those competencies provided?
- *Enforced Accountability
  - Does leadership take action to correct errors in decisions regarding the procurement process?
  - Are staff held accountable for their actions?
  - Are processes modified as needed to minimize and/or mitigate errors?
### Tool Kit: Risk Assessment Questions

**Internal Controls: Procurement Example – What do we need to consider?**

<table>
<thead>
<tr>
<th>Risk Assessment</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Has Leadership:</strong></td>
<td></td>
</tr>
<tr>
<td>* Define process objectives and risk tolerances</td>
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<tr>
<td>- Has the entity assessed areas of vulnerabilities?</td>
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<tr>
<td>- Does the entity have data to inform the impact of vulnerabilities i.e., what is at stake should a control failure occur</td>
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<tr>
<td>- Are there articulated processes that utilize both likelihood and impact data to inform risk thresholds?</td>
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<tr>
<td>* Strategically addressed known risks to minimize the impact on the stated objective</td>
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</tr>
<tr>
<td>- Are there mitigating controls in place?</td>
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<tr>
<td>- Do processes have built-in rules to prevent or detect errors?</td>
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<tr>
<td>- Has the entity assessed the risk of procurers? E.g., LEAs</td>
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</tr>
</tbody>
</table>
Tool Kit: Control Activities Questions

Internal Controls: Procurement Example – What do we need to consider?

Has Leadership
- Developed specific control activities for the procurement process?
- Are there documentation requirements?
- Does the entity have sufficient staff to ensure segregation of duties?
- Is there a mechanism in place to inform staff if a step has been skipped?

Control Activities

Notes
Tool Kit: Information Questions

Internal Controls: Procurement Example – What do we need to consider?

**Has Leadership:**
- Demonstrated a commitment to the use of data to inform decisions?
- Are there policies and practices in place to receive and communicate information in a timely manner?
- Are deficiencies identified in the procurement process communicated and remediation activities shared?
- Are there clearly stated lines of authority responsible for communication?
- Has management established formal mechanisms for communication regarding procurement processes up and down the hierarchy?
- Has management established clear lines of communication and technical support and assistance for procurers?
- Has management set clear expectations for procurers for procurement submissions?
Tool Kit: Process Map sample
Tool Kit: Internal Control Guidance
Tool Kit: Assessible Unit Process Form
Resources

- Your Department program officer
- The Department’s one-stop shop for information: [Uniform Guidance Technical Assistance for ED Grantees](#)
  - Includes links to COFAR, OMB and EDGAR
  - Includes FAQs
  - Includes specific crosswalks between Parts 74 and 80 of EDGAR and the Uniform Guidance
- Email questions to: [uniformgrantguidanceimplementation@ed.gov](mailto:uniformgrantguidanceimplementation@ed.gov)