

Uniform Guidance: Internal Control



U.S. Department of Education

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

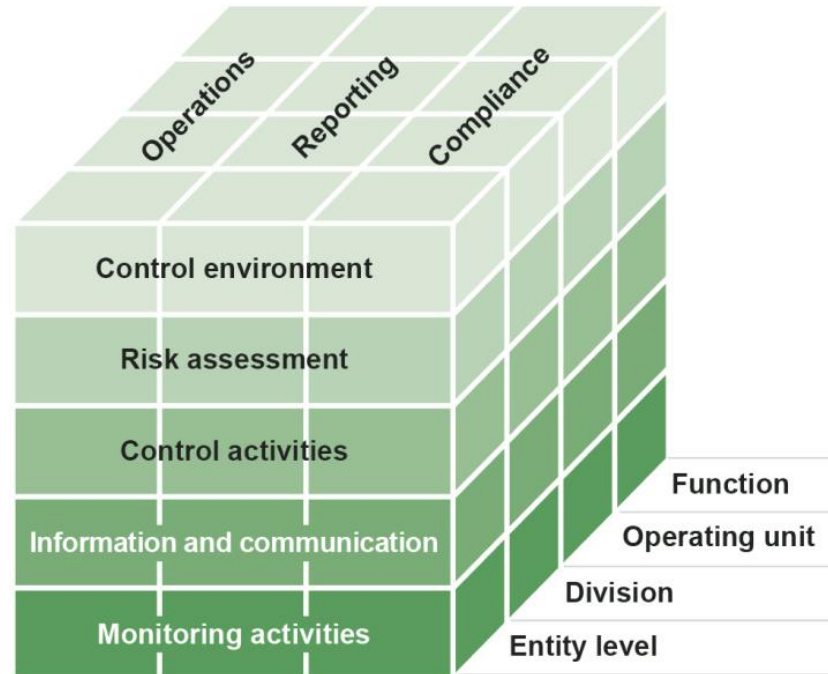
Internal Controls give reasonable assurance that the organization will achieve its objectives through

- ▣ 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

| Type of Control | Definition | Examples |
|---|---|--|
| <small>Tone at the Top</small> Tone at the Top <small>Tone at the Top</small> | <small>Demonstrate a commitment to the organization's integrity and ethical values.</small> Demonstrate a commitment to the organization's integrity and ethical values. <small>Demonstrate a commitment to the organization's integrity and ethical values.</small> | <ul style="list-style-type: none"> ● Directives ● Policies ● Lead by example |
| <small>Oversight</small> Oversight <small>Oversight</small> | <small>Oversight Body who oversees management's design, implementation, and operation of the organization's internal control system.</small> Oversight Body who oversees management's design, implementation, and operation of the organization's internal control system. <small>Oversight Body who oversees management's design, implementation, and operation of the organization's internal control system.</small> | <ul style="list-style-type: none"> ● Board of Directors ● Management Team ● Chief State School Officer |
| <small>Commitment to Competence</small> Commitment to Competence <small>Commitment to Competence</small> | <small>Management establishes expectations of competence on recruiting, developing, and retaining personnel.</small> Management establishes expectations of competence on recruiting, developing, and retaining personnel. <small>Management establishes expectations of competence on recruiting, developing, and retaining personnel.</small> | <ul style="list-style-type: none"> ● Position Descriptions ● Position Descriptions ● Required skills and certifications |
| <small>Accountability</small> Accountability <small>Accountability</small> | <small>Personnel's responsibilities.</small> Personnel's responsibilities. <small>Personnel's responsibilities.</small> | <ul style="list-style-type: none"> ● Day-to-day decision making ● Roles and responsibilities ● Lines of Authority |

Risk Assessment



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

| Type of Control | Definition | Examples |
|---|--|---|
| Preventive Preventive | Control that helps management to avoid issues before they occur. | <ul style="list-style-type: none"> ● Training ● Review and Approval Process ● Segregation of Duties |
| Detective Detective | Control that discover issues after they occur. | <ul style="list-style-type: none"> ● Reconciliation ● Trace Transaction to Source Document ● Monitor Actual vs. Budget |
| General (IT) General (IT) | Policies and procedures that apply to all or a large portion of an organization's IT systems. | <ul style="list-style-type: none"> ● Security Management ● Logical and Physical Access ● Configuration Management |
| Application (IT) Application (IT) | Control that is incorporated into computer applications to ensure data accuracy and integrity. | <ul style="list-style-type: none"> ● 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

| Factor | Description |
|-----------------------|---|
| Audience | <ul style="list-style-type: none">• The targeted recipients of the information anticipated to be delivered. |
| Nature of Information | <ul style="list-style-type: none">• The type of information being communicated. |
| Availability | <ul style="list-style-type: none">• The accessibility of information to the audience. |
| Cost | <ul style="list-style-type: none">• The amount of resources needed to communicate the information. |

Monitoring

- ❑ Management performs evaluations to ensure the design and operation of controls are efficient and effective

| Common Terminology | Description/Examples |
|----------------------|---|
| Ongoing Monitoring | <ul style="list-style-type: none">•Day-to-day management oversight•Regular comparisons and reviews (leverage automated tools) |
| Separate Evaluations | <ul style="list-style-type: none">•Internal/external audits•Periodic self-assessments based on risk (control testing and evaluation) |
| Control Deficiency | <ul style="list-style-type: none">•A potential or actual internal control issue or an opportunity to strengthen the organization's internal control system. |
| Corrective Action | <ul style="list-style-type: none">•Action item planned by management to remediate identified internal control deficiencies in a specific time frame. |

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

Generally a
cost is
reasonable if
it is:

- ❑ 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

Allocable

2 CFR § 200.405

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

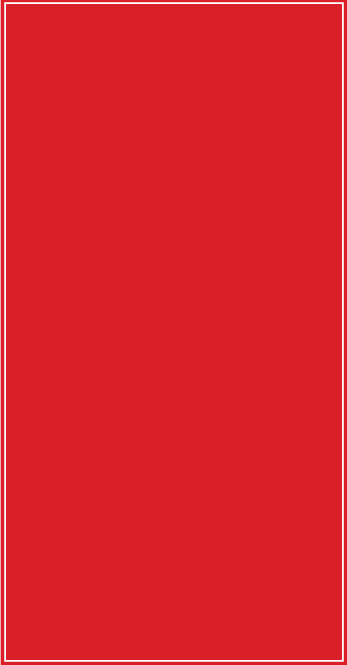
Discussion Time! Given a Function...

- 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



Systems to Inquire About Internal Control

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



Systems to Inquire About Internal Control

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



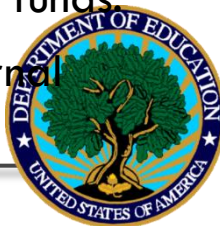
Time and Effort: Flexible and Accountable Internal Controls Poster Child

- ❑ 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

Internal Control - Glossary

Control Environment – sets of standards, processes, structures, and environment established and maintained by management to provide the foundation and basis for carrying out an internal control system over the organization.

| Common Terminology | Description |
|--------------------------|--|
| Tone at the Top | Management leads by example through directives, attitudes, and behavior to demonstrate a commitment to the organization's integrity and ethical values. |
| Standards of Conduct | Management defines and communicates the organization's expectations of ethical values to employees and other related parties through different formats, such as policies, operating principles, guidelines etc. Management also establishes a process for evaluating individual and or team adherence to the organization's approved Standards of Conduct and takes action when nonconformities occur. |
| Oversight | Board of Directors Oversight: Body who oversees management's design, implementation, and operation of the organization's internal control system. |
| Organization Structure | Management defines roles and assigns responsibilities at different units or levels of the organization to operate in an efficient and effective manner. |
| Commitment to Competence | Management establishes expectations of competence on recruiting, developing, and retaining personnel. |
| Accountability | Personnel's responsibilities, such as day-to-day decision making, attitudes, and behaviors that are enforced by management through performance reviews and or disciplinary actions. |

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Internal Control - Glossary

Risk Assessment involves a dynamic and interactive process for identifying and analyzing risks from both external and internal sources to achieve the organization's objectives. This assessment helps management to determine how risks should be managed.

| Common Terminology | Description |
|----------------------------|---|
| Risk | The possibility that one or irregularly will happen to negatively affect the organization to achieve an objective related to operations, reporting, and compliance. |
| Inherent Risk | The risk to an organization that may lead to potential financial loss, inappropriate disclosure or other onerous conditions, in the absence of management's response to the risk. |
| Residual Risk | The risk that remains after management responds to inherent risk. |
| Fraud Risk | Fraud involves obtaining something of value through willful misrepresentation. Types of fraud include fraudulent financial reporting, misappropriation of assets, and corruption. Incentive pressure, opportunity, and attitude rationalization are the primary fraud risk factors. |
| Risk Identification | A process to recognize, discover, determine and categorize risks that exist or are anticipated relating to the organization's objectives. Objectives should be specific, measurable, attainable, and relevant to enable the identification of risk. Risk can be identified through two types of assessment, quantitative and qualitative risk analysis. |
| Quantitative Risk Analysis | A numerical based assessment on financial line items amount to determine materiality threshold (refer to GAO Financial Audit Manual for additional guidance). |
| Qualitative Risk Analysis | A more subjective analysis based on external and internal events. Examples include complexity of process, level of manual intervention, management's 3 rd party history of audit issues, changes in laws and regulations, human capital management. |
| Risk Tolerances | Setting the acceptable level of variation for the organization's objectives. When operating within risk tolerances, management has greater assurance that the organization will achieve its defined objectives. |
| Risk Responses | Management considers the significance of the identified risks and level of risk tolerances to design responses and take specific actions. Risk responses may include the following: <ul style="list-style-type: none"> Avoidance: no action due to insignificance of the risk Avoidance: take action to stop the entire or partial process causing the risk Reduction: take action to reduce the possibility/extent of the risk Sharing: take action to transfer or share risks across the organization or with external parties. |

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Tool Kit: Manager's Quick Check

Page 1 of 2

Manager's Quick Check Assessment of Internal Control

Management throughout an entity is responsible for establishing an internal control system that helps each unit achieve its mission, accomplish its goals, minimize risks, and continuously adapt to change. An effective internal control system is the mechanism through which management safeguards Federal funds and maximizes the value of every dollar.


Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the Department. Internal control is not one event, but a series of actions that occur throughout the entity's operations. As a result, controls exist both entity-wide and office-unit specific (e.g., segregation of duties). In both cases, controls are most effective when fully integrated into the business process management uses to guide its operations rather than seen as separate activities. To achieve success, all managers need to (1) be knowledgeable about, and support, entity-wide controls, and (2) implement practical and effective internal controls specific to their particular office/unit.

An entity's objectives and related risks can be broadly classified into one or more of the following three categories:

- Efficiency and effectiveness of operations
- Reliability of reporting
- Compliance with laws and regulations

The following checklist provides a starting point for managers to assess the internal control system within their particular office/unit. Please note that some of the controls listed in the checklist may be inapplicable to some office/unit. The value of the checklist lies in its brevity, so long as it is completed with a critical eye.

Organization of the checklist is consistent with the five interrelated components of internal control defined by the GAO Green Book:

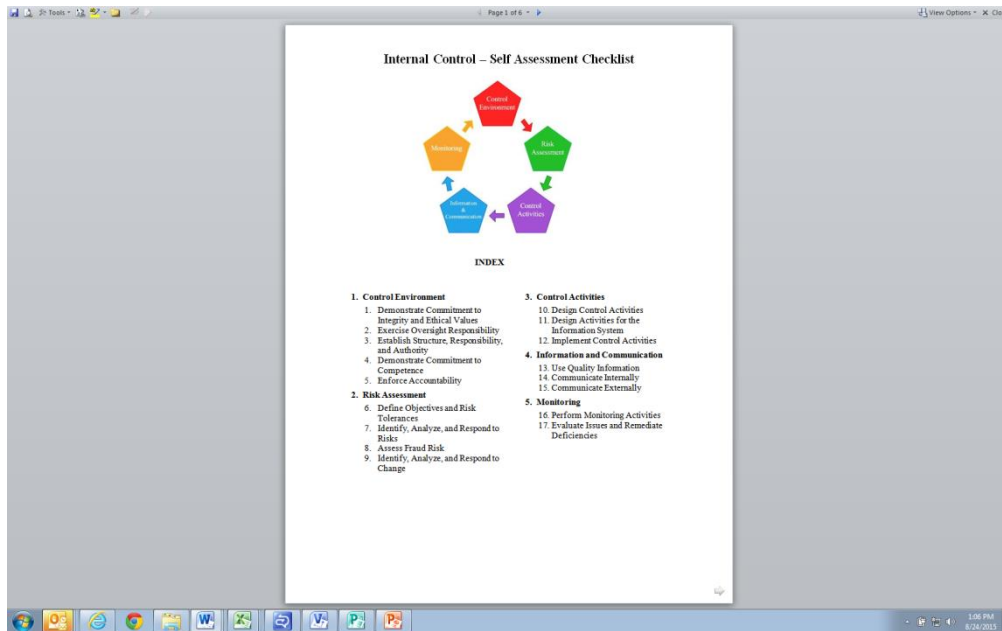


Manager's Quick Check Assessment of Internal Control

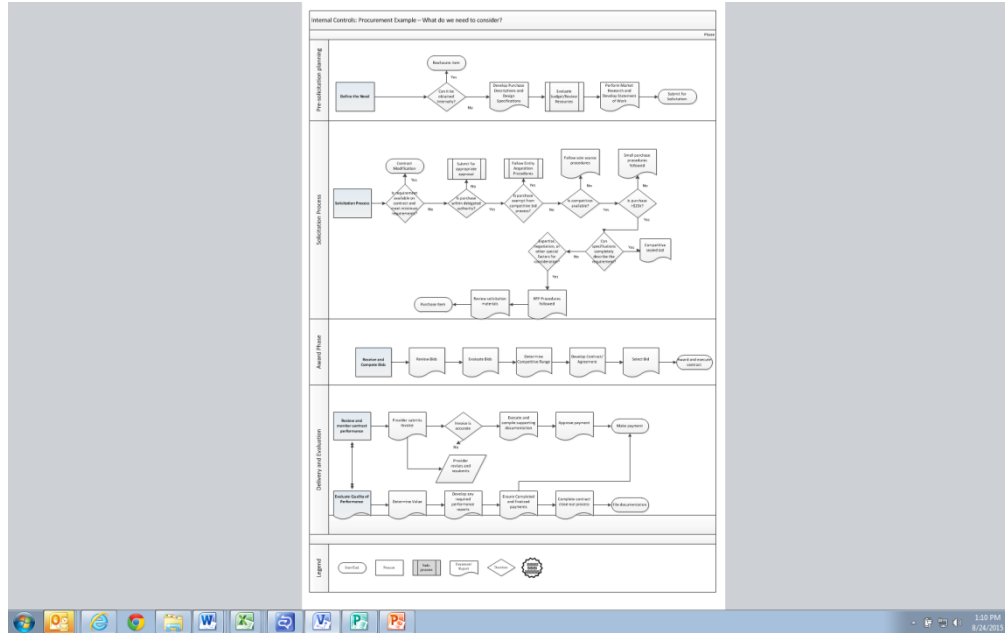
| | Strongly Agree | Agree | Disagree | Strongly Disagree |
|--|----------------|-------|----------|-------------------|
| Management understands the entity's policies covering potential conflicts of interest and appropriate use of entity resources. Management sets a good example and regularly communicates high expectations regarding integrity and ethical values. | | | | |
| The office/unit has an organizational chart that clearly identifies lines of reporting. The organizational chart is up to date and regularly updated. | | | | |
| The office has written policies and procedures related to all significant administrative processes specific to its operations. These policies and procedures are up to date and regularly reviewed/updated. | | | | |
| All employees, including managers, are aware of their job responsibilities. Management is aware of the competency levels of all employees related to the specific grant program(s) for which the office/unit is responsible. | | | | |
| Management insists on full and open disclosure of financial or business issues with all employees. Exceptions to office policy occur infrequently, and when they occur they must be approved and documented. | | | | |
| Decision-making processes are deliberate and consistent. Policies and procedures are in place to ensure appropriate levels of management are involved. | | | | |
| The office/unit has written short- and long-range plans as well as a written mission statement that has been distributed to all employees. The office/unit has written objectives that include measurement criteria. Objectives were developed with input from employees at all levels. | | | | |
| The office/unit engages in a formal, repeatable process to identify and consider the implications of external risk factors (e.g., new or changed regulations) and internal risk factors (e.g., new personnel) on office/unit-side objectives and plans. | | | | |
| Management promotes continuous improvement and solicits input and feedback from employees at all levels regarding issues that may impact the entire office. | | | | |
| For all major initiatives, management regularly reviews actual performance and compares it to objectives and budgets forecasts, as well as to historic performance. Performance reviews of specific functions or activities (e.g., determinations of eligibility, etc.) are regularly conducted and unexpected results or unusual trends are investigated. | | | | |
| Financial duties are segregated among different people. Assets (e.g., equipment) are physically secured and periodically counted. All employees understand which records they must maintain and the required retention periods. | | | | |
| Management ensures all employees receive relevant information regarding grant requirements, conditions, legislation, regulatory developments, economic changes or other external factors that may affect the office/unit. | | | | |
| Management promotes and fosters trust between employees, supervisors, and other offices. Employees are encouraged to provide recommendations for improvement. Ideas are recognized and rewarded. | | | | |
| Standards and expectations are communicated to key outside entities and individuals (e.g., vendors, consultants, contractors, sub-recipients). Information is openly shared with outside evaluators. | | | | |
| Management routinely spot-checks transactions, monitoring files, records, and reconciliations to ensure expectations are met. Budgets are compared to actual results and deviations are followed up on a timely basis. | | | | |
| Information provided by external auditors about control-related matters are considered and acted on at high levels. Findings are considered and immediately acted upon, and timely corrective action is taken. | | | | |
| Management periodically assesses employee attitudes, reviews the effectiveness of the organization structure, and evaluates the appropriateness of policies and procedures. Internal controls are subject to a formal and continuous internal assessment process. | | | | |



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? | |
|---|--|
| Phase | |
| Control Environment | <p>Has Leadership:</p> <ul style="list-style-type: none">* Demonstrated a Commitment to Integrity and Ethical Values<ul style="list-style-type: none">- Does the entity actively set an ethical tone around procurement procedures and expectations?- Are there ethics requirements, certifications, etc.?- 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<ul style="list-style-type: none">- Are there policies and procedures for the procurement processes and decision making?- Are there clear lines of responsibility and authority?* Demonstrated Commitment to Competence<ul style="list-style-type: none">- Are there competency requirements?- Are the competencies clearly communicated and is training toward those competencies provided?* Enforced Accountability<ul style="list-style-type: none">- 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? |
| Notes | |

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Tool Kit: Risk Assessment Questions


| Internal Controls: Procurement Example – What do we need to consider? | |
|---|---|
| Risk Assessment | <p>Has Leadership:</p> <ul style="list-style-type: none">* Defined process objectives and risk tolerances<ul style="list-style-type: none">- Has the entity assessed areas of vulnerabilities?- Does the entity have data to inform the impact of vulnerabilities i.e. what is at stake should a control failure occur- Are there articulated processes that utilize that likelihood and impact data to inform risk thresholds?* Strategically address known risks to minimize the impact on the stated objective<ul style="list-style-type: none">- Are there mitigating controls in place?- Do processes have business rules to prevent or detect errors?- Has the entity assessed the risk of procurers? E.g. LEAs |
| Notes | |

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Tool Kit: Control Activities Questions

| Internal Controls: Procurement Example – What do we need to consider? | |
|---|--|
| | Phase |
| Control Activities | <p>Has Leadership:</p> <p>* Developed specific control activities for the procurement process?</p> <ul style="list-style-type: none">- 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? |
| Notes | |



Tool Kit: Information Questions

| Internal Controls: Procurement Example – What do we need to consider? | |
|---|---|
| | Phase |
| Information & Communication | <p>Has Leadership:</p> <ul style="list-style-type: none">* 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? |
| Notes | |

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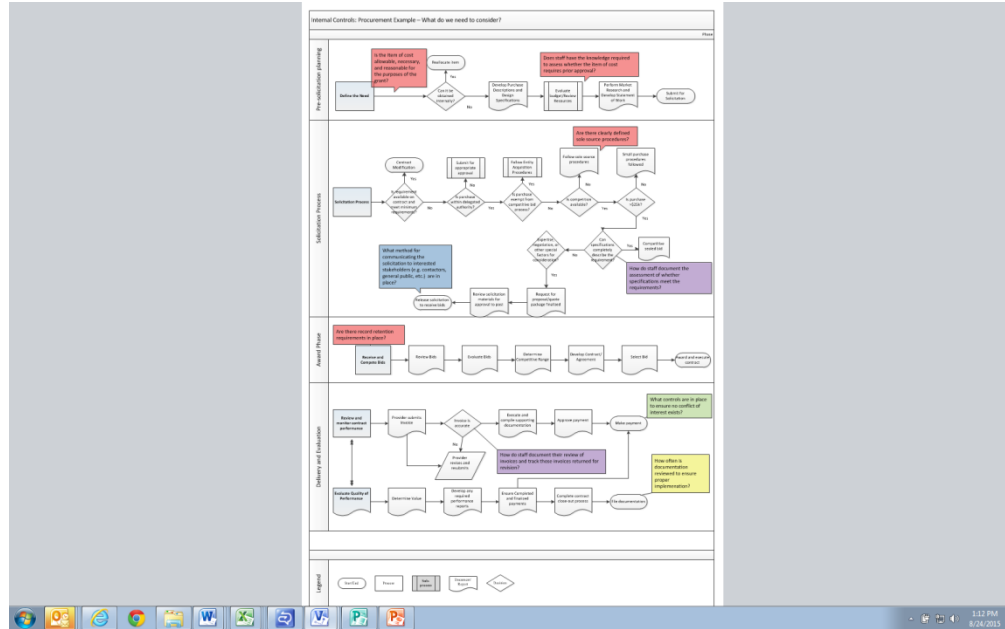
Tool Kit: Monitoring Questions

| Internal Controls: Procurement Example – What do we need to consider? | |
|---|--|
| | Phase |
| Monitoring | <p>Has Leadership:</p> <ul style="list-style-type: none">* Demonstrated a Commitment to monitoring the efficacy of its procurement process?- Has management collected data to serve as a baseline of efficiency?- Does the procurement process have periodic monitoring systems, continuous monitoring systems, and/or both?- Are the data collected evaluated?- Are there established lines of reporting and are results reported?- Is there a mechanism in place to make sure that communicated procurement system corrections are implemented and effective?- Is there any way to document procurement process efficiency and effectiveness and/or implementation of corrective actions? |
| Notes | |

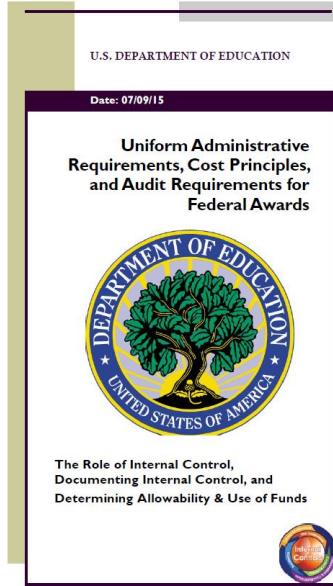
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Tool Kit: Process Map sample



Tool Kit: Internal Control Guidance



Tool Kit: Assessable Unit Process Form

Assessable Unit Internal Control

[Assessable Unit] [Assessable Unit Manager] [Date]

Operating Environment:

Significant Business Processes

| Business Processes | Process Owner | Process Documentation |
|-------------------------|---------------|---|
| 1) [Business Process 1] | | Description: |
| a) [Sub-Process 1.1] | | Description: Inherent Risks: Control Activities: Evaluation and Results: |
| b) [Sub-Process 1.2] | | Description: Inherent Risks: Control Activities: Evaluation: |
| 2) [Business Process 2] | | Description: |



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