

Internal Controls: Policies & Procedures

Monitoring and Compliance Updates
Shirley McFadden, NCDPI Monitoring and Compliance
Manager

Topics

- Why do Internal Controls matter?
 - Monitoring Landscape
 - Fiscal Requirements
 - Fiduciary Duty
- Internal Controls

Why do Internal Controls Matter?

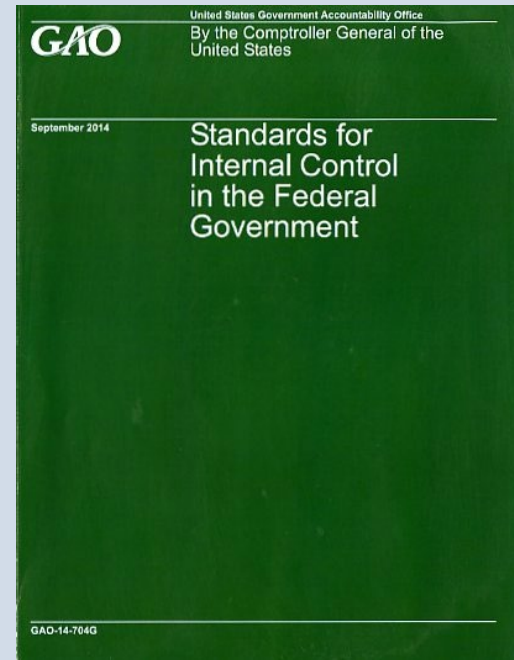
1. Fiscal Requirement
2. Monitoring will Test Compliance
3. Fiduciary Duty

Federal Fiscal Requirements: Internal Controls

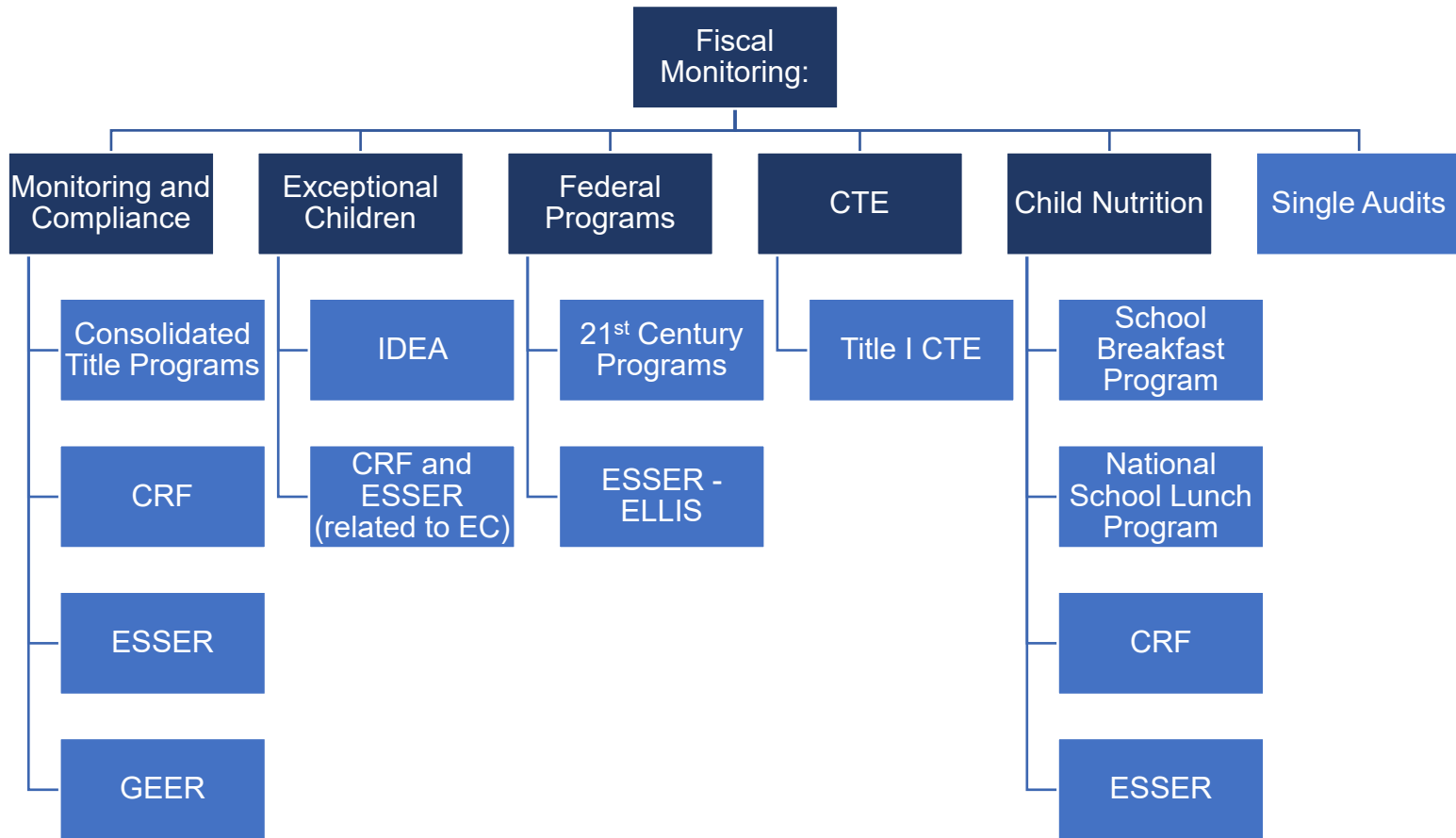
§ 200.303 Internal controls.

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award ...



Federal Fiscal Monitoring Landscape



Fiscal Monitoring Reviews

Other Possible
Monitoring Efforts /
Audits

Office of State Auditors

U.S. Department of Education

Office of Inspector General

Other NC DPI Divisions

Fiduciary Duty

Your organizations are receiving a significant amount of tax payer dollars at the State, Local, and Federal level.

You are responsible for being good responsible stewards of tax-payer dollars

Internal Controls can also help you design, evaluate, and improve your processes

Federal Fiscal Requirements: Uniform Guidance 2 CFR 200

**Uniform
Guidance
2 CFR
200**

Establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards

Who must follow this?

Subrecipient – entity that receives a subaward from a pass-through entity to carry out part of a Federal award

What is this applicable to?

All **Federal grants**

Some portions apply to **financial assistance**

Other types likely less applicable

Federal Fiscal Requirements: Internal Controls

§ 200.303 Internal controls.

The non-Federal entity must:

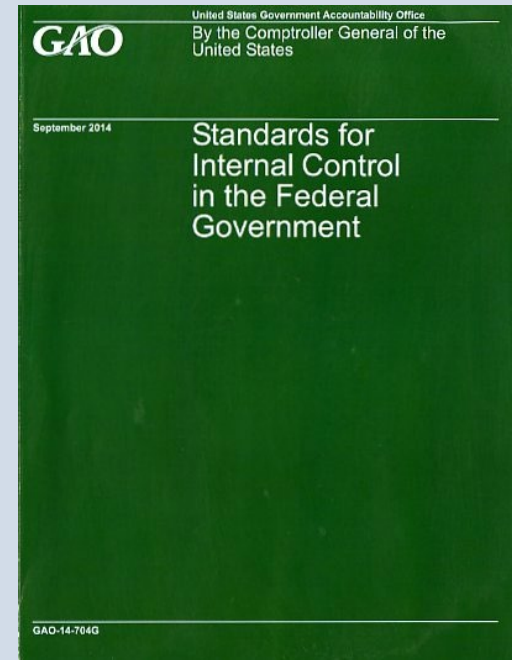
- (a) Establish and maintain effective internal control over the Federal award ... These internal controls should be in compliance with ... “Standards for Internal Control in the Federal Government” ...

(Green Book)

Green Book –

Standards for Internal Control in the Federal Government (the “Green Book”), sets the standards for an effective internal control system for federal agencies and provides the overall framework for designing, implementing, and operating an effective internal control system.

An entity uses the Green Book to help achieve its objectives related to operations, reporting, and compliance.



Internal Controls

- **Definition of Internal Controls (per Green Book)**

- Internal control comprises the:

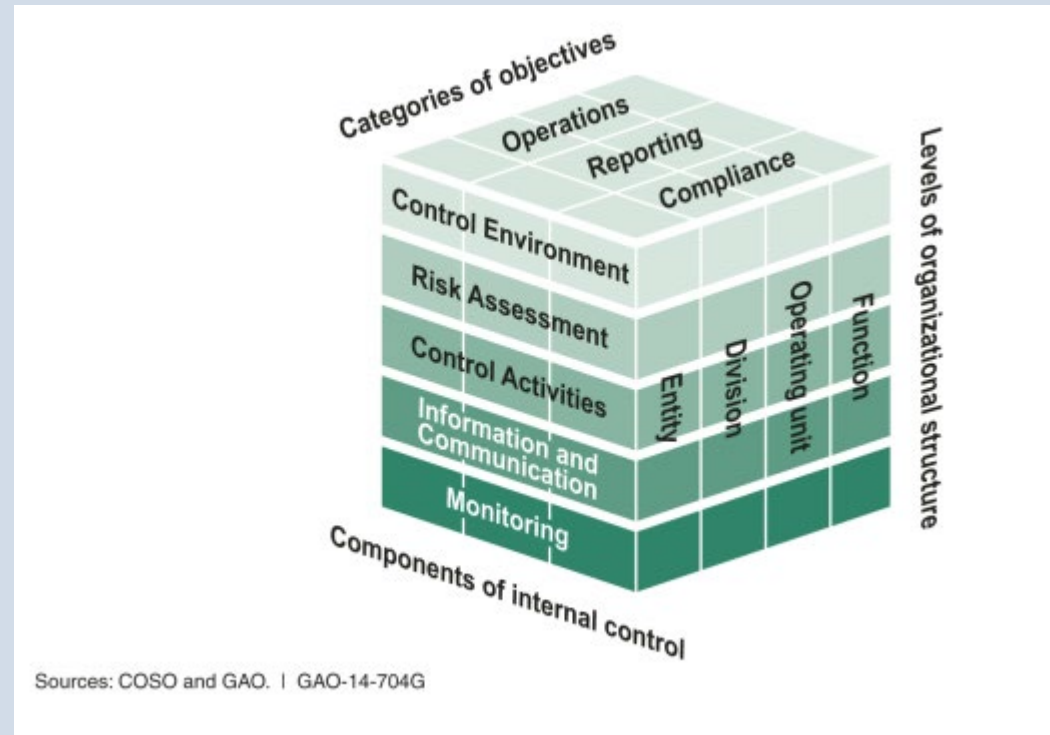
- **Plans, methods, policies, and procedures** used to fulfill the mission, strategic plan, goals, and objectives of the entity.

- Internal control serves as the first line of defense...

- In short, internal control helps managers achieve desired results through effective stewardship of public resources..

Federal Fiscal Requirements: Internal Controls

- 5 Components of Internal Control
- 17 Principles
- Attributes



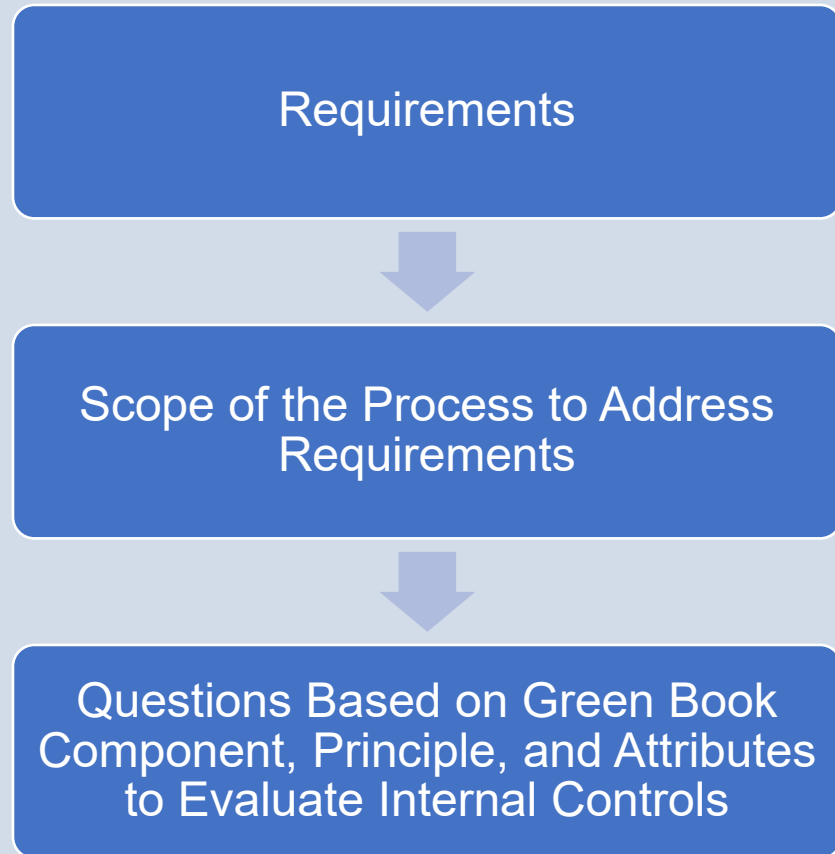
Federal Fiscal Requirements: Internal Controls

DPI fiscal monitoring reviews are designed to evaluate processes using the components, principles, and attributes.

- Allowable Costs
- Personal Compensation
- Equipment & Inventory
- Contracts
- Cash Management
- Procurement Standards

Federal Fiscal Requirements: Internal Controls Application through Key Compliance Areas

- Allowable Costs
- Personal Compensation
- Cash Management
- Equipment & Inventory
- Contracts



Federal Fiscal Requirements

Uniform Guidance: Allowable Costs

Requirements Per § 200.403, 303

- (a) Be **necessary and reasonable** for the performance of the Federal award and be allocable thereto under these principles.
- (b) **Conform to any limitations** or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be **consistent with policies and procedures** that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded **consistent treatment**. A cost may 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 Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) **Not be included as a cost or used to meet cost sharing or matching requirements** of any other federally-financed program in either the current or a prior period. See also [§ 200.306\(b\)](#).
- (g) Be **adequately documented**. See also [§§ 200.300](#) through [200.309 of this part](#).
- (h) Cost must be **incurred during the approved budget period**. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to [§ 200.308\(e\)\(3\)](#).
- Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award.
- Internal Controls and safeguarding of assets.

Federal Fiscal Requirements

Uniform Guidance: Allowable Costs

Scope of the Process:

Goods, Services, Construction, Compensation

Controls should address initial request, prior approvals, verification of purchase and payment

Federal Fiscal Requirements

Uniform Guidance: Allowable Costs

Reference the Internal Control Questionnaire Allowable Cost Section

This identifies questions to consider in evaluating whether your organization has key Internal Controls in place to achieve compliance and mitigate risks associated with Allowable Costs

Federal Fiscal Requirements

Uniform Guidance: Compensation- Personal Services

Requirements Per 2 CRF 200.430i:

(1) Charges to Federal awards for salaries and wages must be based on **records that accurately reflect the work performed**. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are **accurate, allowable, and properly allocated**;

(ii) Be incorporated into the **official records**...

(iii) Reasonably reflect the **total activity** for which the employee is compensated by the non-Federal entity, not exceeding 100% ...

(iv) Encompass federally-assisted and **all other activities** ...

(v) Comply with the established accounting **policies and practices** ...

(vii) Support the **distribution of the employee's salary** or wages among specific activities or cost objectives...

Federal Fiscal Requirements

Uniform Guidance: Compensation- Personal Services

Scope of the Process:

Salaried, Hourly, Substitutes,

Stipends, Bonuses, Split Funded employees, multiple cost objectives....

Controls should address initial employee set-up and any changes that impact the funding source.

Federal Fiscal Requirements

Uniform Guidance: Compensation- Personal Services

Reference the Internal Control Questionnaire Allowable Cost Section

This identifies questions to consider in evaluating whether your organization has key Internal Controls in place to achieve compliance and mitigate risks associated with Allowable Costs

Federal Fiscal Requirements

Uniform Guidance: Cash Management

Requirements § 200.305 Federal payment.

b(1) The non-Federal entity must:

- maintain written procedures that minimize the time elapsing between the transfer of funds disbursement by the non-Federal entity
- Maintain a financial management systems that meet the standards for fund control
- Advance payments ...must be limited to the minimum amounts neededtimed to be in accordance with the actual, immediate cash requirements
- The timing ...must be as close as is administratively feasible to the actual disbursements

House Bill 18 (pending), State Controller Policy, General Statute and DPI Policy:

A public school unit and its officers and employees shall make a final disbursement to the ultimate payee no later than the third business day after the day the public school unit draws upon moneys deposited with the State Treasurer.

An LEA is not allowed to request State Funds to cover both their Federal obligations.

Cash is to be actively managed. The DPI zero-out process cannot be used to reconcile federal cash needs at the end of each month. Excess federal funds should be sent back to DPI if unused.

Federal Fiscal Requirements

Uniform Guidance: Cash Management

Scope of the Process:

Federal Cash Drawdowns (although the State has similar laws)

Controls should address cash drawdown and payment approach, cash management including return of excess funds

Federal Fiscal Requirements

Uniform Guidance: Equipment and Inventory

Requirements § 200.313d

- (1) Property **records must be maintained that include** a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A **physical inventory** of the property must be taken and the results reconciled with the property records at least once **every two years**.
- (3) A control system must be developed to ensure adequate **safeguards to prevent loss, damage, or theft** of the property. Any loss, damage, or theft must be investigated.
- (4) **Adequate maintenance** procedures must be developed to keep the property in good condition.
- (5) If the non-Federal entity is authorized or required to sell the property, proper sales procedures must be established to ensure the **highest possible return**.

Federal Fiscal Requirements

Uniform Guidance: Equipment and Inventory

Scope of the Process:

Equipment – per unit cost \$5k and useful life more than one year and high-risk items (technology)

Controls should address the asset management life cycle

Federal Fiscal Requirements

Uniform Guidance: Contracts

Requirements § 200.327

The non-Federal entity's contracts must contain the applicable provisions described in appendix II to this part. There are 11 possible contract provisions that may need to be included in the purchase orders or contracts for goods and services.

Federal Fiscal Requirements

Uniform Guidance: Contracts

Scope of the Process:

Purchase orders if used for purchase of goods, contracts for goods and services

Controls should address contract preparation and how terms are addressed when the vendor's contract must be used

In Summary

- Internal controls can be used to help you achieve your goals for any program or process
- Encourage you to:
 - Review the Green Book
 - Continuously assess and improve your internal controls
 - Update written policies and procedures
 - Review the Uniform Guidance for other federal fiscal requirements as well including but not limited to:
 - Procurement Standards
 - Budget to Actual Reporting

Questions?

Shirley McFadden
Shirley.mcfadden@dpi.nc.gov



Internal Controls and Procedures Questionnaire

Unit:

Organization:

Name of Employee Completing this Form: _____

Date Completed: _____

Instructions:

Your organization has been scheduled for a monitoring review by the NC Department of Public Instruction Monitoring and Compliance (MAC) Section. The following questions were developed to help the MAC understand the internal controls, or policies and procedures, that your organization has in place. Please take some time to consider and document the answers to the following questions and submit the response by the date requested in the email. If the answer is already found in a policy, please reference the policy and include any additional information in the space for responses.

The answers to the questions will allow us to ensure we ask for appropriate and adequate documentation and to make the review as efficient as possible. We will use this information to assist us in our phone interview as well.

Note: The principles selected and used to prepare this questionnaire and determine adequate internal controls for subrecipients, correlates to the “Internal Control Integrated Framework” referenced in 2 CFR § 200.303 Internal controls. Grant subrecipients are required to:

- (12) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Activities Allowed/Allowable Costs		
2 CFR 200.302 (b) requires: The financial management system of each non-Federal entity must provide for the following (7) Written procedures for determining the allowability of costs in accordance with subpart E of this part and the terms and conditions of the Federal award.		
Principle: Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.		
Question	Policy Reference	Response, if additional comments needed in addition to policy or procedure is not documented



1. Who can make a purchase?		
2. Who is responsible for authorizing expenditures?		
3. Who is responsible for authorizing expenditures related to time?		
4. Who is assigned the responsibility for making sure they understand the allowable costs and activities for federal funds?		
Principle: Management should demonstrate a commitment to recruit, develop, and retain competent individuals.		
Question	Policy Reference	Response, if additional comments needed in addition to policy or procedure is not documented
1. How do the staff involved in purchases and payments learn about federal requirements?		
Principle: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.		
Question	Policy Reference	Response, if additional comments needed in addition to policy or procedure is not documented
Purchases of Goods and Services:		
1. What is the request process for making purchases for goods and services?		
2. What is the purchasing process (including micro-purchases, bidding requirements, contract requirements, procurement cards etc)?		
3. Who approves payment? What is the payment approval process for purchases of goods and services?		
4. Do you require the purchaser justify the purchase in writing? Verbally?		



5. How is the grant program allocation documented for each transaction?		
6. Where is documentation kept?		
Time:		
7. What is the process for ensuring time charged to a grant is allocated to the right funding source?		
8. What is the process for documenting time to each grant or funding sources (i.e. timesheets, activity reports, certifications)?		
9. Does the time sheet identify the Federal funding source or cost objective?		
<p>10. Who approves time to ensure work was completed and what is the process? Who ensures it is allowed to be charged?</p> <p>If the payroll or timekeeping system is set up electronically, are there periodic approvals? If not: (1) How are individuals initially approved for the codes that are set up in the system? How are changes made? (2) Is there a periodic check to ensure payroll is accurate by reconciling to ensure retirees, terminations, changes, transfers, were all processed in the system properly?</p>		
11. If there are individuals that are 100% charged to the grant, how is this documented (if not using a timesheet)? If a list is used, how often is the list of these individuals reviewed?		



12. Where is documentation to support time kept?		
13. Are substitute teachers utilized, if yes, what are the time and attendance and pay processes?		
14. Are special payments made for extra duties, if yes, what are the processes surrounding these?		
15. Are payments made for stipends, bonuses and or special situations, if yes, what are the processes surrounding these?		
Principle: Management should implement control activities through policies.		
1. Are the policies used to ensure a cost is allowable and allocable documented?		
2. Are all of the procedures discussed to this point documented in policy and/or procedures? (May be documented in other policy Time and Effort Policies)		
3. Are policies consistent for federal and non-federal funds, both for direct and indirect costs? Please note N/a if the organization does not use indirect costs rates.		
4. Are policies documented that identify types and costs allowed and unallowable for federal grants?		
5. Do organizational policies address cost sharing and matching principles?		
6. Are federally financed purchases treated consistently with other purchases made with other sources of funds?		



Principle: Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.		
1. Is there a process in place to periodically monitor compliance (i.e. internal monitoring, audits, management reviews, Board reviews)?		
Period of Availability		
Principle: Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.		
1. Has anyone been assigned the responsibility for knowing the period of performance/availability?		
2. Is this person part of the purchasing review and approval process?		
Principle: Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.		
1. What process is in place to ensure the that the expenditure, of funding, is used within the period of availability?		
Contracts Appendix II to Part 200		
Principle: Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.		
1. Who is responsible for drafting written contracts?		
Principle: Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.		
1. Do you have a contract template? If so, please attach a copy along with your response.		



2. Is there a contract checklist or other review document or process that ensures required contract terms are included? If so, please describe. If a checklist please attach the template.		
Principle: Management should implement control activities through policies.		
1. Is there a documented procedure describing the process for establishing a contract? If yes, please describe or provide a copy of the policy and reference.		
Equipment §200.313		
Principle: Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives.		
1. Who is responsible for adding and deleting assets and inventory from the inventory log?		
2. Who is responsible for conducting inventory for the organization?		
Principle: Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.		
1. What is the threshold for fixed asset or equipment management in your organization?		
2. How often is an inventory expected to be conducted?		



3. Please describe the inventory procedures used by the organization to maintain inventory.		
4. Please describe the inventory count procedures that are used by your organization.		
5. What are the procedures for disposition of equipment?		
6. What are the procedures for investigating loss, damaged, or theft of equipment? How is the process documented?		
Cash Management §200.305		
Principle: Management should design the entity’s information system and related control activities to achieve objectives and respond to risks.		
<p>1. Please describe the organizations cash management process as it relates to federal funds. Include how frequently cash is generally requested, what triggers the requests, and how frequently disbursements are made.</p> <p>If this is documented, please feel free to reference the document where this information can be found and provide any additional information here.</p>		
Principle: Management should implement control activities through policies.		
1. Is there a documented procedure describing the cash management procedures? If yes, please describe or provide a copy of the policy and reference.		



Budgets		
Principle: Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.		
1. Who is responsible for preparing and analyzing budget to actual expenditures?		
Principle: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.		
1. How frequently are budget to actual expenditures reports completed and analyzed?		