

# INTERNAL CONTROLS IN FEDERAL PROGRAMS

# AGENDA

Internal Controls – Concepts

Federal Compliance Requirements

Final Tips & Takeaways



## **INTERNAL CONTROLS**

The plans, methods, policies, procedures, and other mechanisms used to fulfill the mission, strategic plan, goals, and objectives of the entity.

# WHY INTERNAL CONTROLS?

- **Operational Objectives**

- To provide program services
- To meet performance expectations
- To safeguard assets

- **Reporting Objectives**

- To disclose reliable, transparent, and timely information

- **Compliance Objectives**

- To legally conduct activities

## Accountability

means providing information to others about whether the organization:

- Achieved goals
- Handled resources properly
- Followed the law

## Risk affects success.

- Can distract strategy
- Can erode value
- Can create bias and bad decisions



# CONTROL FRAMEWORKS

- A control framework is a conceptual model to help management develop controls that provide accountability and encourage sound management practices.
  - Provides a baseline for measuring effectiveness
  - Applies to any type or size of entity
  - Principles-based provides flexibility about control design
  - Helps eliminate ineffective, redundant, or inefficient controls that provide minimal value
- Green Book
  - Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States
- COSO
  - Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission



# **FIVE COMPONENTS OF AN INTEGRATED INTERNAL CONTROL FRAMEWORK**

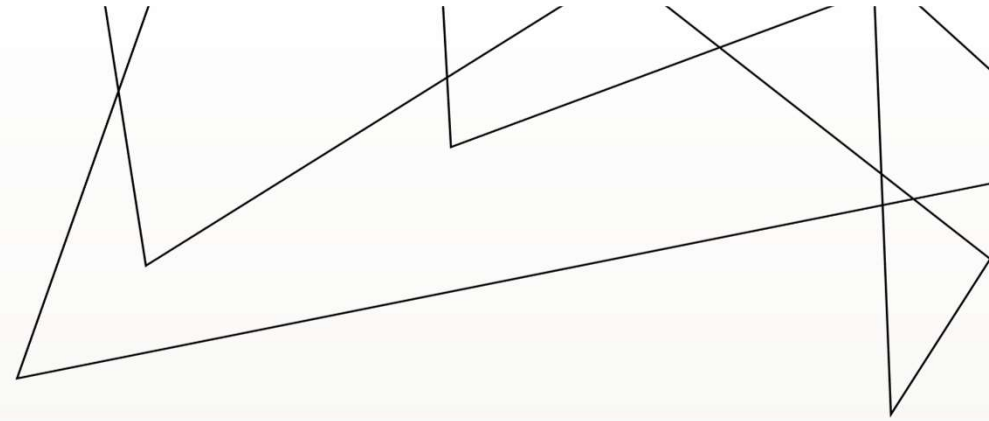
- **Control Environment**
  - Leadership's "Attitude" about Internal Controls
- **Control Activities**
  - Practices, Procedures, Mechanisms, Tasks, etc.
- **Risk Assessments**
  - Identifying Goals, Risk to Goals, and Responses
- **Information and Communication**
  - Information Systems should provide Reliable/Useful Information
- **Monitoring**
  - How do you know the internal control system is working?

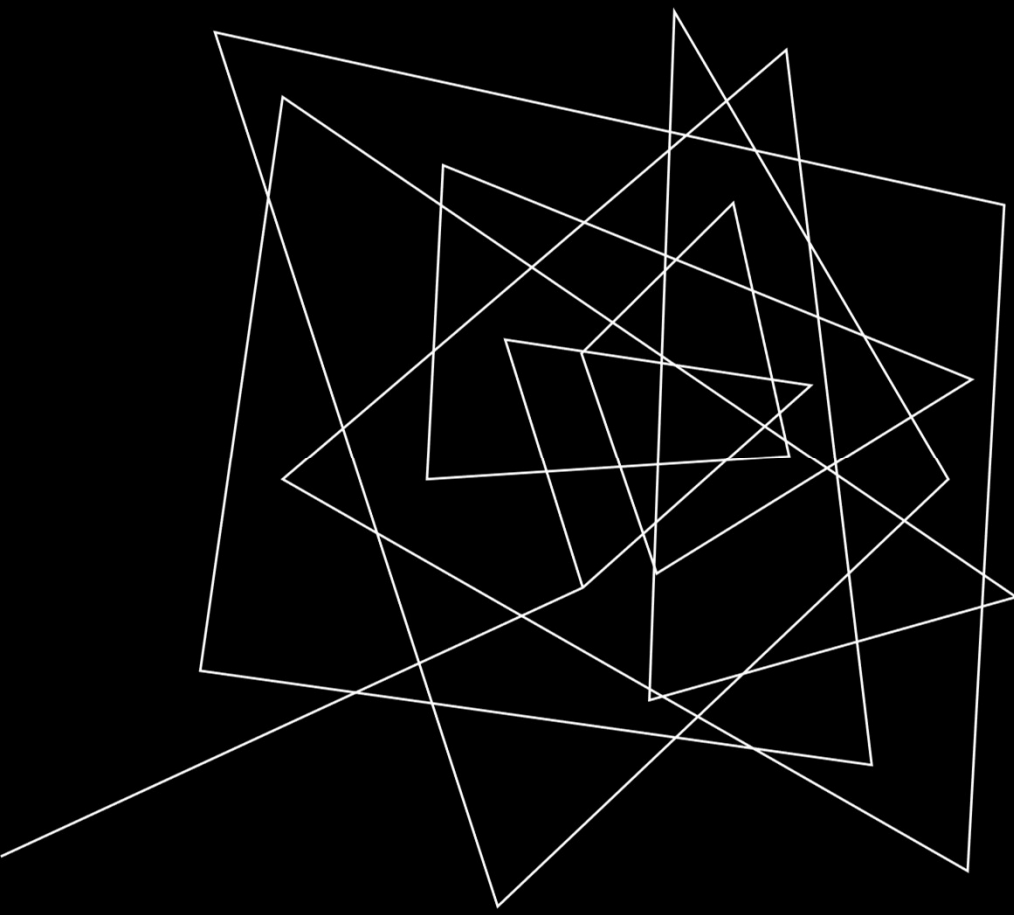
## **MOM 399**

- “Management is responsible for establishing and maintaining an effective internal control system.”

### **MOM 399 Recommends:**

- “Each agency director should designate one senior manager as the agency’s internal control officer.”
- “Internal Control Reviews” should include:
  - Updating/creating policies and procedures to reflect current processes;
  - Updating organization charts;
  - Reviewing and organizing electronic and paper file structures;
  - Identifying electronic databases used in processing fiscal and program activities;
  - Identifying financial data reports/queries, where they are located, and how they are accessed; and
  - Completing an inventory of capital assets.





# FEDERAL PROGRAM RESOURCES

UNIFORM GUIDANCE

OMB COMPLIANCE  
SUPPLEMENT

PART VI OF THE  
COMPLIANCE SUPPLEMENT

## UNIFORM GUIDANCE

## INTERNAL CONTROL OVER COMPLIANCE

### 2 CFR 200.303

- Establish, **document**, and maintain **effective** internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls **should** align with the 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).

### **This means:**

Complying with Award Terms

Evaluating and Monitoring Compliance

Taking Prompt Action When Noncompliant

Protecting Sensitive Information (PII)

## COMPLIANCE REQUIREMENTS – AUDITORS WILL TEST SIX

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- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Equipment and Real Property Management
- Matching, Level of Effort, and Earmarking
- Period of Performance
- Procurement and Suspension and Debarment
- Program Income
- Reporting
- Subrecipient Monitoring
- Special Tests and Provisions

# ALLOWABLE ACTIVITIES

## Using federal funds for the program's authorized purposes

- E.g. Administrative Activities, Outreach Activities, System Improvement Activities, Food Purchasing, Construction Activities.
- Requirements and prohibitions are specific to each program and can be specified in statutes, regulations, or award terms.
- Has management provided instructions to staff through written policies or procedures that specify allowable or prohibited activities?
- Have the budgeting and accounting systems been set up to separately track allowable or prohibited activities?
- Does management have processes or systems to collect or track nonfinancial information?
- Do contractor proposals and subawards specify allowable/prohibited activities?

## Audit Finding 2015-016

University purchased equipment with grant.

- Terms of grant did not list equipment purchases as an eligible activity
- University believed activity under the grant could not occur without the equipment.
- Federal awarding agency eventually approved the equipment purchase.

## ALLOWABLE COSTS

**Incurring costs that are conforming, necessary, reasonable, consistent, and legitimate.**

- Part E of Uniform Guidance (2 CFR 200.400-499)
- Do budgeting or accounting systems track disallowed categories?
- Are approval or reconciliation procedures adequate?
- Are payroll allocations supportable by actual results?
- Is the indirect cost methodology consistently applied to all programs?

### **Audit Finding 2023-067**

Agency did not properly manage its cost allocation plan, resulting in misallocated indirect costs

- Repeat finding (4 times)
- Affected several major programs
- Agency hired a consultant to modernize cost allocation procedures, but still noncompliant.

# CASH MANAGEMENT

## Ensuring costs of money are minimized

- Are drawdowns and disbursements timed to minimize interest costs?
- Are cash flow forecasts developed to ensure immediate needs can be met?
- Are drawdowns reviewed by supervisors to ensure rebates and other credits are properly accounted for?
- Are approved CMIA/TSA clearance patterns followed?
- Were subrecipient's written procedures and interest-bearing accounts verified prior to authorizing advance payments?

## Audit Finding 2021-042

Agency requested \$1.7M twice.

- Held onto cash for more than a month.
- Agency did not have adequate review procedures to detect excess cash.
- Corrective actions included developing a quarterly review procedure.



## ELIGIBILITY

### **Making sure beneficiaries are eligible.**

- Are eligibility determinations documented?
- Does the information system track supervisory review and approval?
- Do procedures prevent disbursements until eligibility has been approved?

### **Audit Finding 2023-041**

Agency provided funds to several ineligible subrecipients.

- Agency spreadsheet for tracking eligible entities didn't include all entities that were paid.
- \$7M of questioned costs.
- Agency must resolve the finding with its oversight agency.

# EQUIPMENT AND REAL PROPERTY MANAGEMENT

## Ensuring accounting and use of property are proper.

- Do written policies/procedures instruct staff about acquiring, safeguarding, and disposing of property?
- Do the accounting records properly track federal interest?
- Is there segregation of duties between those with custody of the property and those responsible for the accounting records?

## Audit Finding 2023-077

University did not adequately perform physical inventories, tag capital assets, or track disposals.

- University did not ensure a designated person to oversee inventory.
- Corrective actions included hiring a responsible person and an intern.

# MATCHING, LEVEL OF EFFORT, AND EARMARKING

## Ensuring activity levels and matching requirements are met

- Were anticipated matches, activities, and earmarks incorporated into the budgetary system?
- Do accounting systems segregate activity so it is verifiable and not applied to more than one program?
- Are tracking sheets reconciled to the accounting system regularly?
- Are current-to-prior-year activity reports documented and reviewed?
- Have forms been developed to demonstrate that earmarks were satisfied?

## Audit Finding 2023-044

Agency did not adequately track matching funds.

- Agency kept several conflicting versions of tracking spreadsheet.
- Agency did not track expenditures at other state agencies.
- Agency did not have a documented process.
- Corrective actions included designating a fiscal manager to review and approve tracking sheet.

## PERIOD OF PERFORMANCE

### Ensuring costs are incurred during the period of the grant

- Do policies/procedures instruct staff on the timelines of the grant, including the close out period, and include clear definitions of expenditure accruals and “obligations”
- Are grant trackers updated frequently enough to ensure costs are reimbursed in the correct period?
- Do supervisors review journal adjustments, encumbrances, and subaward agreements to ensure costs are obligated to the federal award within the obligation period?

### Audit Finding 2023-062

#### Agency charged costs

- Incurred before the period of performance (journalized expenditures)
- Not obligated by the obligation deadline (personnel costs)
- \$850K of Questioned Costs
- Corrective actions included new protocols to deactivate personnel cost centers after the obligation deadlines.

# PROCUREMENT AND SUSPENSION AND DEBARMENT

## Ensuring vendor relationships are proper

- Do written policies/procedures instruct staff about verifying vendors and conducting free and open competitive bidding?
- Has procurement staff received procurement training?
- Are procurement records kept?
  - E.g., rationale for method of procurement, selection of contract type, contractor selection/rejection, and basis for contract price?
- Does management use standard forms?
  - E.g., purchase orders, contracts, requests for proposals, cost/price analyses, bid evaluations, etc.?
- Are contractor licenses, certifications, or insurance verified/documented?

## Audit Finding 2021-003

Agency did not follow open bidding requirements – instead a sole-source procurement.

- Agency had incorrectly applied a federal best practice instead of following state and federal law.
- The agency revamped its sole-source procurement processes to include additional reviews and approvals.

# PROGRAM INCOME

## Ensuring any earnings on federal funds are handled correctly.

- Does the accounting system segregate program income from other sources?
- Does management review activity reports to ensure drawdowns properly handle program income?
- Do written policies/procedures outline processes for program income?
  - E.g., Deduction, Addition, or Cost Sharing/Matching

## Audit Finding 2007-2-26

Agency did not deduct income from the sale, use, or lease of real property acquired with federal funds from the federal share of program costs.

- The agency received \$1M in revenues from renting property, but did not segregate it in the accounting records.
- Agency developed new procedures to properly segregate the program income in the accounting records.

# REPORTING

## **Submitting financial and performance reports properly**

- Do supervisors review and approve reports?
- Does staff reconcile reports to the accounting system?
- Is supporting documentation retained?
- Do written policies and procedures instruct staff about how and when to submit reports?
- Have back ups been added to the federal system to ensure continued access?

## **Audit Finding 2023-070, 071, & 072**

Agency did not accurately, completely, or timely report subawards in the FFATA system.

- Sometimes reported more than needed.
- Other times, did not report needed information.
- Sometimes wrong or duplicated amounts.
- Corrective actions included updating policies/procedures.

# SUBRECIPIENT MONITORING

**Are subawards properly monitored to ensure program outcomes are met.**

- Are template subaward agreements used to ensure communication of required information?
- Are risk assessments of subrecipients documented?
- Are desk reviews or site visits documented and conducted in accordance with assessed risk levels?
- Are audit reports of subrecipients reviewed and followed up on?

## **Audit Finding 2021-054**

Agency did not perform post-award monitoring

- The program had simply amended existing state agreements to include additional federal funds.
- Program management were then caught off guard when the auditors came asking about documentation to demonstrate compliance with federal subrecipient monitoring rules.
- Corrective actions included developing a post-award monitoring program.

## TAKEAWAY/TIPS

### COSO/GREEN BOOK

- CAN HELP EVALUATE AND ORGANIZE CONTROLS
- POLICY DOCUMENTS OFTEN FOLLOW STRUCTURE OF GREEN BOOK
- MOM 399 RECOMMENDS USE OF GREEN BOOK

### FEDERAL COMPLIANCE REQUIREMENTS

- CAN ALSO HELP EVALUATE AND ORGANIZE CONTROLS
- USE COMPLIANCE REQUIREMENTS LISTED IN THE OMB COMPLIANCE SUPPLEMENT
- SEE ALSO PART VI TO COMPLIANCE SUPPLEMENT FOR SUGGESTED CONTROL ACTIVITIES

# HOW TO PREPARE FOR A SINGLE AUDIT?

- Understand your programs. Read OMB Compliance Supplement and other program materials.
- Understand procurement laws and policies. Read the DOA Procurement manual.
- Establish communication channel with federal agency – Ask questions!
- Establish plan for supporting documentation/filing system.
- Review, assess, and gather evidence of implementation of prior audit findings.
- Create or update documented policies, procedures, manuals, etc.
- Consider designating a responsible individual or partnering with an accounting firm to help with audit preparation.
- Provide auditors with access to systems and records.



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