# INTERNAL CONTROL REQUIREMENTS: MANAGING THE AWARD

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## LEARNING OBJECTIVES

- A general overview of the internal controls and how they work with grant management.
- The types of written procedures required and how to develop compliant procedures that conform to federal standards.
- Overview of recordkeeping requirements.
- A general overview of the ethical behavior required by all recipients, subrecipients, and their partners, and the written standards of conduct.
- An overview of the time and effort reporting requirements.

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## PART 1: WHAT ARE INTERNAL CONTROLS?
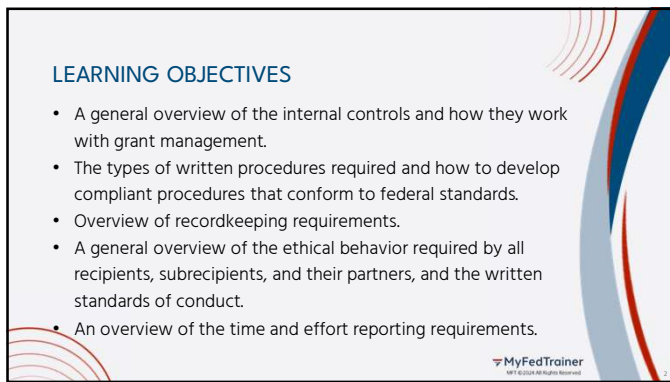
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## HOW ARE FEDERAL FUNDS MANAGED?
## OFFICE OF MANAGEMENT AND BUDGET (OMB)

2 CFR 200 serves as the code of federal regulations and the official guidance for managing all grant awards. It combined multiple cost circulars and administrative requirements into one document.

OMB updates 2 CFR 200 regularly with new requirements. The latest updates took place on October 1, 2024. It is a best practice to bookmark the URL and use keyword searches to access the latest compliance information.

https://www.ecfr.gov/current/title-2/subtitle-A

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## GOALS OF UNIFORM GUIDANCE

**Better Outcomes**
•More focus on performance measurements

**Spending Accountability**
•Target risk and add transparency
•Stronger oversight and accountability

**Lessen Administrative Burden**
•Reduce the burden on grantees & agencies
•Offer simplified indirect costs method
•Accept fixed amount awards for some projects.

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## WHAT ARE INTERNAL CONTROLS AND
## WHY ARE THEY IMPORTANT?

The Uniform Guidance (2 CFR 200) includes information on how you ensure effective grants management and administration.

**They have provided a framework for organizations to follow to develop policies (how), processes (what), procedures (what) and (when) that will allow them to comply with these requirements.**

THESE ARE INTERNAL CONTROLS

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## INTERNAL CONTROLS

**CONTROL ENVIRONMENT = TONE AT THE TOP**
**ASSESS RISK = IDENTIFY THREATS**
**CONTROL ACTIVITIES = POLICIES & PROCEDURES**

**MONITORING = WALK THE WALK**
**COMMUNICATION = COLLECT/SHARE INFO**

**Internal Controls**
- Set a culture of compliance
- Identify threats to compliance
- Put procedures in place and train staff
- Communicate risk
- Monitor for compliance

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## WHAT DOES IT SAY IN THE GUIDANCE?

**Section 200.303:**

a) 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.

b) Comply with the U.S. Constitution, Federal statutes, regulations, and the terms and conditions of the Federal award.

c) Evaluate and monitor the recipient's or subrecipient's compliance with statutes, regulations, and the terms and conditions of Federal awards.

(d) Take prompt action when instances of noncompliance are identified.

(e) Take reasonable cybersecurity and other measures to safeguard information including protected personally identifiable information (PII) and other types of information.

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## WHO IS COSO?

Committee of Sponsoring Organizations (COSO) of the Treadway Commission is an organization that develops guidelines for businesses to evaluate internal controls, risk management, and fraud deterrence.

Their framework is a Rubik's Cube-like matrix that outlines all the required activities that should be included in internal controls by functional role and department within an organization.

Source: https://www.i-sight.com/resources/coso-framework-what-it-is-and-how-to-use-it/

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## THE COSO RUBIK'S CUBE

COSO designed the internal controls Rubik's cube

• How do all these pieces fit together?

• How do they fit into the world of federal grants?

• How can you make them fit into your

organization?

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Source: https://www.i-sight.com/resources/coso-framework-what-it-is-and-how-to-use-it/

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## 17 INTERNAL CONTROL PRINCIPLES

| Components | Principles |
|---|---|
| | 1. Commitment to integrity and ethical values |
| | 2. Independent board of directors' oversight |
| | 3. Structures, reporting lines, authorities, responsibilities |
| | 4. Attract, develop and retain competent people |
| | 5. People held accountable for internal control |
| Control Environment | 6. Clear objectives specified |
| | 7. Risks identified to achievement of objectives |
| Risk Assessment | 8. Potential for fraud considered |
| | 9. Significant changes identified and assessed |
| Control Activities | 10. Control activities selected and developed |
| | 11. General IT controls selected and developed |
| | 12. Controls deployed through policies and procedures |
| Information & Communication | 13. Quality information obtained, generated and used |
| | 14. Internal control information internally communicated |
| Monitoring Activities | 15. Internal control information externally communicated |
| | 16. Ongoing and/or separate evaluations conducted |
| | 17. Internal control deficiencies evaluated and communicated |

Just like a funder **identifies strategies to achieve its mission**, internal controls **define components that represent the "approach"** to support the three trust-building goals of internal controls.

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## WHAT DOES THIS LOOK LIKE IN PRACTICE?

**01** **Separation of duties**: Establishes a breakdown of duties so that no one person can single-handedly conduct the entire procedure in a transaction. This separation ensures a check and balance system.

**02** **Policies and procedures**: Written policies and procedures should be made available to personnel and must describe processes for planning, organizing, directing, controlling, and reporting on organizational operations.

**03** **Documentation**: Ensures detailed, accurate, and sufficient information is recorded and retained to support and corroborate program transactions.

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## WHAT DOES THIS LOOK LIKE IN PRACTICE?

**04** **Authorization**: Establishes transactions that should be reviewed and authorized before execution.

**05** **Asset safeguarding**: Physical assets susceptible to misappropriation or misuse, such as cash and fixed assets, are properly secured and accessible only to authorized personnel.

**06** **Reconciliations**: Accounting reconciliations corroborate that recorded transactions are accurate and provide the most current information for reporting. Physical reconciliations ensure assets purchased with program funds are being properly utilized.

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## SEGREGATION OF DUTIES

**Internal controls require adequate segregation of duties (SOD).**

**Prevent** problems by **NOT** having one person responsible for:
- Custody
- Recordkeeping
- Authorization

**Demonstrate** segregation with:
- Review of reports
- Custody of assets
- Authorization process

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## INTERNAL CONTROLS: EXAMPLES BY DEPARTMENT

| Program Office | Human Resources |
|---|---|
| • Review Timecards | • Review actions for personnel |
| • Purchase Requisition and Authorization | • Review pay rate changes |
| • Review expense reports | • Conduct background checks |
| • Training | • Communication |
| | • Monitoring |
| | • Training |

| Procurement | Finance/Accounting |
|---|---|
| • Enforce policies and procedures | • Ensure proper charging of accounts |
| • Review/monitor contractor compliance | • Enforce policies and procedures |
| • Ensure competition as required | • Communicate results |
| • Training | • Training |
| | • Tracking multiple grants |

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Let's go through a sample process – If you are reviewing a subrecipient's expense report, what is your process? Who is involved, when do they get involved and what are the steps?

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## MONITORING

**Internal controls include monitoring:**

- Do you have ongoing monitoring of procedures?
- How do you test effectiveness?
- Are you conducting reviews periodically?
- Are internal controls working as expected?

Monitoring happens "after the fact"

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### RESOLVING NONCOMPLIANCE

Internal controls include resolving noncompliance:

- Management must respond and RESOLVE promptly
- Actions and corrective actions implemented as appropriate
- Follow-up on reports of non-compliance
- Disclose violations

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## CONFIDENTIALITY

**Internal controls should protect information from accidental or deliberate unauthorized disclosure** –
This involves the IT department!

- Ensure record retention guidelines also followed with electronic records
- Train employees on protection protocols and access restrictions
- Identify and protect Personally Identifiable Information (PII)
- Additional cybersecurity requirements

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## ENGAGE THE ORGANIZATION

The goal is **compliance**

Consider how internal controls reduce the risk of waste, fraud, and abuse of federal awards

- How do policies and procedures **prevent** problems?
- How is bad behavior **deterred**?
- How is noncompliance **detected**?

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## WHY IS REPORTING IMPORTANT?

- Demonstrates organizational progress and outcomes toward advancing the funder's priorities and objectives
- Funders have deadlines and delays that impact their reporting
- Diminishes risk on recipient being a good steward of public funding
- Boosts chances of additional funding by indicating advancement toward common objectives and maintaining communication with funder

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## THREE WAYS TO CREATE A CULTURE OF COMPLIANCE

1. Guide policies for both financial management and legal governance support ethical behavior and sensible management of resources.

2. Establish ongoing meetings and check-ins between different functions and roles responsible for administering grant funding.

3. Create job descriptions that align with the grant administrative functions.

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# PART 2: WRITTEN PROCEDURES

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## IF IT ISN'T WRITTEN, DOES IT EXIST?

Written policies assure the funder, the awarding agency, pass-through entity and the public that you have organizational internal controls in place and are well documented. This is necessary to avoid:

- High-risk situations
- Disallowed costs
- Waste, fraud and abuse of funds
- Inconsistencies in various processes
- Lack of clarity in core grant administrative job functions

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## SAMPLE POLICIES TO DEVELOP

**Ethics**

- Report unethical behavior and fraud
- Safeguards for employees
- Actions arising from fraud investigations

**Funding Oversight**

- Reporting structure and important grant dates
- Time and effort reporting
- Performance reviews
- Adherence to national policy requirements (lobbying, drug-free workplaces, debarment and suspension)
- Single audit preparation and management

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## SAMPLE POLICIES TO DEVELOP

**Program Management**

- Code of conduct
- Program reporting process
- Subrecipient monitoring
- Grant budget tracking
- Prior approval requirements

**Financial Management**

- Budget management
- Cash management policy
- Coding and monitoring expenses
- Maintenance of effort
- Indirect cost rate agreement
- Travel policy
- Allowable costs policy

- Allowable costs policy
- Budget special categories (program income, carryover)
- Procurement policy
- Equipment management and retention
- Record keeping policy

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## SAMPLE BUDGET MODIFICATION POLICY (FROM MYFEDTRAINER'S EDITABLE TEMPLATE):

**Submitting Budget Revisions**

Unless the federal awarding agency indicates a letter of request is sufficient, we will use the same format for budget revisions as the application budget format.

[Note that the authorization below is an example of the best practices for providing additional oversight when budget revisions are requested for a federal award.]

In order to coordinate communication between all stakeholders, budget revisions must be approved by our authorized organization representative.

[Enter the organization's approver for budget revisions--typically a senior leader, such as an executive director, president, or senior government official.]

The federal awarding agency is supposed to notify us within 30 calendar days from the date of receipt of the request for budget revisions.

If the revision is still under consideration at the end of 30 calendar days, the federal awarding agency is required to inform us in writing of the date when we may expect a decision.

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## SAMPLE PROGRAM INCOME POLICY (FROM MYFEDTRAINER'S EDITABLE TEMPLATE):

<Office Name> must account for program income generated by grant activities according to the terms and conditions of the grant. Program income is gross income earned from grant activities that generate direct costs allocable to the grant award. For example, any fees earned from the sale of products or services under the grant would be considered program income since the creation of those products or services generates direct costs allocable to the grant. Any drawdowns of federal grant funds must take into account program income.

The SF-270 requires entry of any program income generated in the period of the request for advance or reimbursement. Not all program income requires reporting. Check the award terms and conditions as well as § 200.307 Program income to determine the types of program income that must be reported against drawdowns of grant funds and the property treatment of that income as an addition, deduction, or match.

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## RULES FOR STATES

States must follow the same procurement policies and procedures it uses for non-federal procurements and also comply with the following:

- § 200.321 Contracting with small businesses, minority businesses, women's business enterprises, veteran-owned businesses, and labor surplus area firms
- § 200.322 Domestic preferences for procurement
- § 200.323 Procurement of recovered materials
- § 200.327 Contract provisions

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# PART 3: RECORD KEEPING

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## WHY IS RECORD KEEPING IMPORTANT?

- Required in 2 CFR 200.334 – Record Retention
- A component of your internal controls process – a policy should be in place that outlines the rules for record keeping
- Involves program, financial and administrative staff based on how they are part of the award administration
- Ensuring access to accessible information is critical for single audit preparation

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## TYPES OF RECORDS
**Record retention includes many types of records:**

- Financial records
- Procurement records
- Real property and equipment records
- Subrecipient monitoring documentation
- Suspension and debarment compliance
- Contract provisions (such as Davis Bacon Act)
- Audit records and corrective action plans

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## IMPORTANCE

- It is a federal requirement
- Must maintain files for single audits
- PTEs will want subrecipient monitoring and procurement information for future awards
- Information could be requested in the future, after award period has passed
- Costs can be disallowed if documentation is inadequate

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## TIMEFRAME

**The general rule for record retention:**

- 3 years from the date of submission of the final expenditure report, but some exceptions and often longer period required....

- If federal agency authorizes: 3 years from the date of submission of the annual or quarterly expenditure report

- Coronavirus State and Local Fiscal Recovery Funds require 5 years of record retention**

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## EXCEPTIONS TO EXTEND TIMEFRAMES FOR RECORD KEEPING

| Property | • Real property and equipment records are to be retained for three years from the date of the final disposition of the property. |
| --- | --- |
| Litigation | • If litigation, claims, or audits started before the 3-year period expires, records are to be retained until all actions are resolved and final actions are taken<br>• Do you have a cease destruction, or legal hold process built into your record retention policy? |
| Program Income | If the terms and conditions of the award require the recipient or subrecipient to report on program income earned after the period of performance, the program income records must be retained for 3 years from the end of the recipient's or subrecipient's fiscal year in which the program income is earned. |

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## INDIRECT COST PROPOSALS

**Indirect Cost Proposals:**
Records for indirect cost rate computations or proposals, cost allocation plans, and any similar accounting computations:
- **If submitted for negotiation**, the 3-year retention period for supporting records starts from the date of submission.
- **If not submitted for negotiation**, then the 3-year retention period for supporting records starts from the end of the fiscal year covered by the proposal, plan, or other computation.

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## RIGHT TO ACCESS

The right to access records extends as long as records are retained...

- If records exist, they are available for review
- They are DISCOVERABLE!
- Right to timely and unrestricted access to personnel – current and past employees
- For interviews and discussions related to documents pertinent to the award
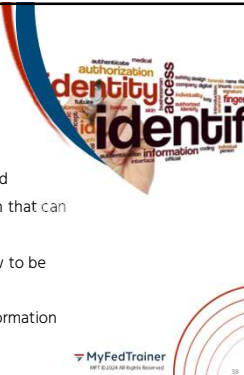
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## RIGHT TO ACCESS

Access to recipient records with the exception for Personally Identifiable Information (PII):

- Includes name, social security numbers, credit card numbers, bank information, and other information that can be used to identify people
- The exception doesn't apply to PII required by law to be disclosed
- Can be accessed if awarding agency requests information (even after the record retention period)

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## SESSION REVIEW

- The objectives of strong internal controls is compliance with regulations and terms and conditions of the federal award.
- Important to prepare policies that comply with 2 CFR 200 requirements and cover different control functions.
- Records are generally maintained for three years upon award closeout.
- The federal government retains rights to timely and unrestricted access to records and personnel.

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