Internal Controls and Self-Assessment

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WHAT IS A CONTROL SELF-ASSESSMENT?

- A management technique that reviews whether an organization's internal controls system is reliable.

- That is, an individual within an organization performs effectiveness testing to verify that key controls are functioning properly, resulting in the detection or elimination of weaknesses.

AGENDA

Internal Controls: Definitions & Requirements

Five Components of Internal Controls

Conducting a Self-Assessment

INTERNAL CONTROLS: DEFINITIONS & REQUIREMENTS
(2 CFR §§ 200.61; 200.62; 200.303)

INTERNAL CONTROLS DEFINED: 200.61

- A process, implemented by a non-federal entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - Effectiveness and efficiency of operations;
  - Reliability of reporting for internal and external use; and
  - Compliance with applicable laws and regulations.

RELATION TO FEDERAL AWARDS: 200.62

- A process designed to provide reasonable assurance regarding the achievement of the following objectives for federal awards:
  - Transactions are properly recorded and accounted for, in order to:
    - Permit the preparation of reliable financial statements and federal reports;
    - Maintain accountability over assets; and
    - Demonstrate compliance with federal statutes, regulations, and the terms and conditions of the federal award;

200.62 (CONT.)

- Transactions are executed in compliance with:
    - Federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program; and
    - Any other federal statutes and regulations that are identified in the <u>Compliance Supplement</u>; and
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

INTERNAL CONTROL REQUIREMENTS: 200.303

Non-federal entity must:

- Establish and maintain effective internal control over the federal award that provides reasonable assurance that the federal award is in compliance with statutes, regulations, and the terms and conditions of the award;
- Evaluate and monitor the compliance.
- Take prompt action when instances of noncompliance are identified.
- Take reasonable measures to safeguard protected personally identifiable information and other information designated as sensitive.

NON-FEDERAL ENTITY REQUIREMENTS – 200.302(B)(4)

Must maintain effective control over and accountability for:

- All funds
- Property
- Other assets

Must adequately safeguard all assets

Use assets solely for authorized purpose

MUST DO

INTERNAL CONTROL GUIDEBOOK?

200.303(a): 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 (Green Book); or
- "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

COMPONENTS OF INTERNAL CONTROLS: COSO

BACK TO BASICS
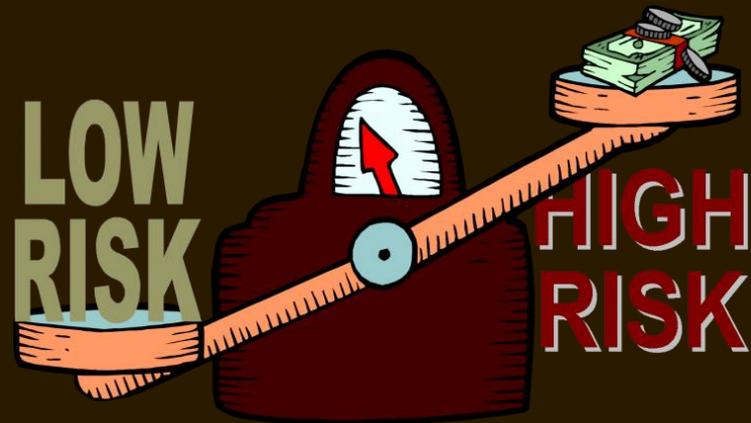
AT WHAT LEVEL OF RISK IS YOUR AGENCY?

KEEP IT SIMPLE!

- **S –** **Set the Stage for Compliance (Control Environment)**

- **I –** **Inform Staff (and Others) of the Requirements (Information and Communications)**

- **M –** **Make Certain Problem Areas are Identified (Risk Analysis)**

- **P –** **Prioritize and Improve Weaknesses (Control Activities)**

- **L –** **Learn the Law**

- **E –** **Enforce the Rules (Monitoring)**

SET THE STAGE FOR COMPLIANCE

- **Set tone that compliance is important and critical for success.**

- **Identify key goals and objectives that are specific, measurable, achievable, results-focused, and timely**

  – Includes policies re: how the agency wants to operate.

- **Make certain you have the proper people involved.**

SET THE STAGE FOR COMPLIANCE

Ensure you have an updated and accurate organizational chart.

- Each unit/office has identified mission, objectives, responsibilities.

  - For example: grant writing, payroll, program, etc.

- Clear job descriptions for staff within each office.

- Procedures for how each office operates.
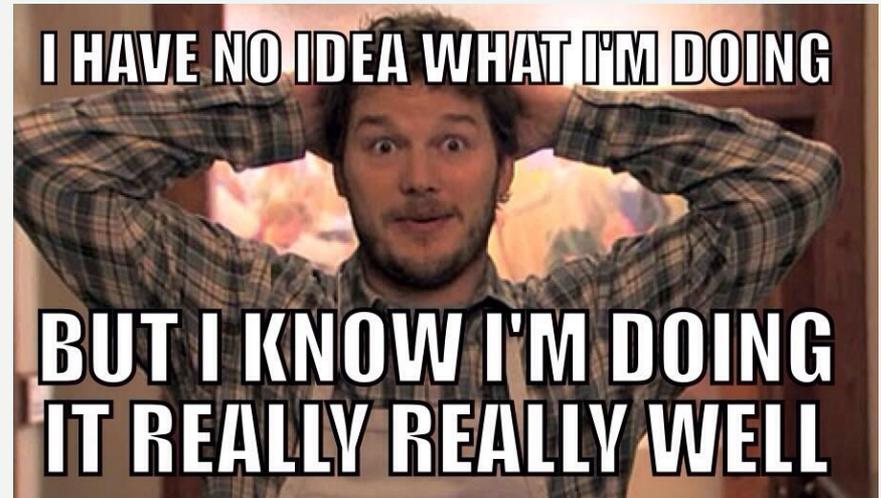
SET THE STAGE FOR COMPLIANCE

Checklist	Yes	No
Management sets a good example and regularly communicates high expectations regarding integrity and ethical values. Management understands the policies covering potential conflicts of interest.		
The office has an updated organizational chart that clearly identifies lines of reporting.		
The office has updated written policies and procedures related to all significant administrative processes specific to its operations.		
All employees are aware of their job responsibilities.		
Management holds personnel accountable for performing internal control responsibilities through mechanisms such as performance appraisals and disciplinary actions.		

INFORM STAFF (AND OTHERS) OF THE REQUIREMENTS

Ensure personnel receive relevant, reliable and timely information that enables them to carry out their responsibilities.

To **communicate** the **right information** to the **right people** at the **right time**!

- Include internal and external communications.

- Develop procedures for identifying pertinent information and distributing it in a form and timeframe that permits people to perform their duties efficiently.

- Clear message from top down.

The single biggest problem with communication is the illusion that it has taken place.

INFORM STAFF (AND OTHERS) OF THE REQUIREMENTS

Checklist	Yes	No
Management obtains the relevant data from reliable internal and external sources in a timely manner.		
Management communicates information throughout the entity using established reporting lines, ensuring that communication flows to all levels of the organization (down, across, up, and around).		
Management selects the appropriate method for communicating internally after considering the relevant factors (i.e., audience, nature of the information, etc.).		
Management selects the appropriate method for communicating externally after considering the relevant factors (i.e., audience, nature of the information, cost, etc.)		

MAKE CERTAIN PROBLEM AREAS ARE IDENTIFIED

- What can go wrong?

- How could we fail?

- How do we know whether we are achieving our objectives?

- On what information do we rely most heavily?

- What is our greatest legal exposure?

- Does past experience highlight any areas of particular concern (e.g., audit findings, fraud, in the news, etc.)?

- **How do we currently handle these concerns, or do we??**

BE HONEST WITH YOURSELF!

MAKE CERTAIN PROBLEM AREAS ARE IDENTIFIED

Checklist	Yes	No
Management has a process for analyzing risks, including both inherent and residual risk, and considers internal and external risk factors.		
Management considers the types of fraud that can occur (e.g., fraudulent financial reporting, misappropriation of assets, corruption), as well as other forms of misconduct (such as waste and abuse).		
Management identifies significant changes to internal and external conditions that have already occurred, or are expected to occur, and that could significantly impact the internal control system.		
Management analyzes and responds to identified changes and related risks in order to maintain an effective internal control system.		

PRIORITIZE AND IMPROVE WEAKNESSES

What do we currently have in place to prevent identified weaknesses?

- Training

- Approvals, Authorizations

- Verifications

- Reconciliations

- Performance reviews

- Segregated duties

- Security measures

- Maintenance of appropriate documentation.

- To Improve the Weakness, the Control MUST
  - Address the risk in question;
  - Be required by the organization (i.e., addressed in policies and procedures); and
  - Be embedded in the operational functions (e.g., has occurred within the last 12 months).

PRIORITIZE AND IMPROVE WEAKNESSES

Checklist	Yes	No
Management promotes continuous improvement and solicits input and feedback from employees at all levels regarding issues that may impact the entire office.		
Policies exist that document the control activities utilized by the office.		
Management considers segregation of duties in designing control activity responsibilities to help prevent fraud, waste, and abuse in the internal control system.		
Assets (e.g., equipment) are physically secured and periodically counted.		
All employees understand which records they must maintain and the required retention period.		
Management periodically reviews the control activities for effectiveness.		

LEARN THE LAW

- Training for Staff
    - Certification/Grants Testing
- Legal Requirements
    - Uniform Grants Guidance 2 CFR Part 200
    - Program Statutes, Regulations, and Rules
    - State and Local Law

LEARN THE LAW

Checklist	Yes	No
Staff obtain training in areas relevant to their position to ensure an understanding of the rules and regulations applicable to their position.		
The agency conducts training on internal policies and procedures.		
The agency obtains feedback from staff on professional development needs and considers feedback in decision-making.		

ENFORCE THE RULES

- Self-evaluations can be routine, periodic, or random.

  – Regular oversight by supervisors

  – Spot Checks

  – Record reconciliation

  – Ongoing program and fiscal monitoring

  – Formal program reviews/audits

  – Annual single audits

- If any review reveals that control activities do not satisfy the weakness, the severity of the problem should be described as well as the action steps being undertaken to resolve the issue(s).

ENFORCE THE RULES

Checklist	Yes	No
Management routinely spot-checks transactions, monitoring files, records, and reconciliations to ensure compliance.		
Budgets are compared to actual results and deviations are followed up on a timely basis.		
Management periodically assesses the effectiveness of the organization structure and evaluates the appropriateness of policies and procedures.		
Management completes and documents corrective actions to remediate internal control deficiencies on a timely basis.		

CONDUCTING A SELF-ASSESSMENT

SELF-ASSESSMENT: DON'T WAIT

- Audit & monitoring reports are great assessment tools for internal controls…but
    - Corrective Actions are dictated by Feds or Pass-Through; and
    - Could include monetary liability = repayment of funds

- If non-federal entities identify and mitigate risks through corrective action prior to audit or monitoring visit:
    - Any findings might not include liabilities; or
    - Could avoid findings altogether

SELF-ASSESSMENT STEP 1: IDENTIFICATION

Identify Areas to Assess:
- Prior audit/monitoring findings
  - Especially repeat findings
- Ongoing corrective actions
- Compliance areas that auditors will test
  - OMB Compliance Supplement

OMB COMPLIANCE SUPPLEMENT

12 Compliance Requirements:

1. Activities Allowed or Unallowed
2. Allowable Costs/Costs Principles
3. Cash Management
4. Eligibility
5. Equipment & Real Property Management
6. Matching, Level of Effort, Earmarking
7. Period of Availability/Performance
8. Procurement and Suspension & Debarment
9. Program Income
10. Reporting
11. Subrecipient Monitoring
12. Special Tests & Provisions

SELF-ASSESSMENT STEP 2: REVIEW DOCUMENTATION

• Audits and Monitors only have the documentation to tell the story

Reviewer can not reconstruct what has happened without documentation.

SELF-ASSESSMENT STEP 2: REVIEW DOCUMENTATION (CONT.)

- Policies & Procedures:
  - Compliant with federal rules
  - Reflect actual practices
- Job descriptions
  - Accurate
  - Updated recently
- Organizational Chart
  - Up-to-date
  - Clear lines of authority
- Most recent audit/monitoring reports
- Current or recently completed corrective action plans
- Specific conditions on federal awards (look at GAN or subsequent correspondence)

MANDATORY POLICIES AND PROCEDURES

Written policies and procedures required by the UGG
- Written Cash Management Procedure - § 200.302(b)(6) & § 200.305
- Written Allowability Procedures - § 200.302(b)(7)
- Written Conflicts of Interest Policy - § 200.318(c)
- Written Procurement Procedures - § 200.319(c)
- Written Method for Conducting Technical Evaluations of Proposals and Selecting Recipients - § 200.320(d)(3)
- Written Travel Policy - § 200.474(b) & (d)
  - Otherwise, non-federal entity is held to the rates and amounts established under 5 U.S.C. 5701-11
- Inventory Management - § 200.313(d)
  - Although not expressly required, UGG makes references to such procedures
  - Lacking such procedures has also resulted in audit exceptions

DOCUMENTATION ISSUES

- Are records kept by school, grant, fiscal year?
- Do you backup documentation?
  - Where and how often?
- What happens when staff retire or voluntarily leave?
- What happens when staff are fired?
- What happens when a school closes?
- Staff keep documentation at home?

SELF-ASSESSMENT STEP 3: STAFF INTERVIEWS/DISCUSSIONS

- Identify relevant staff
  - Program-specific staff (allowability, eligibility, reporting)
  - Contracts office (procurement and suspension & debarment)
  - Warehouse or Receiving Dept. (inventory)
  - Accounting/Fiscal staff (cash management, supplanting, financial management)
- Interview staff on compliance issues
  - Current practices
  - Familiarity with policies & procedures
  - Relevant audit/monitoring findings
  - Status of any corrective actions

SELF-ASSESSMENT STEP 4: IDENTIFY RISKS

- Risk Mapping
  - Risk factors: based on prior doc review, staff interviews, and prior findings
  - Prioritize: Most likely to occur & will have the biggest impact
  - Focus on highest priorities but DO NOT ignore lowest items

RISK MAPPING
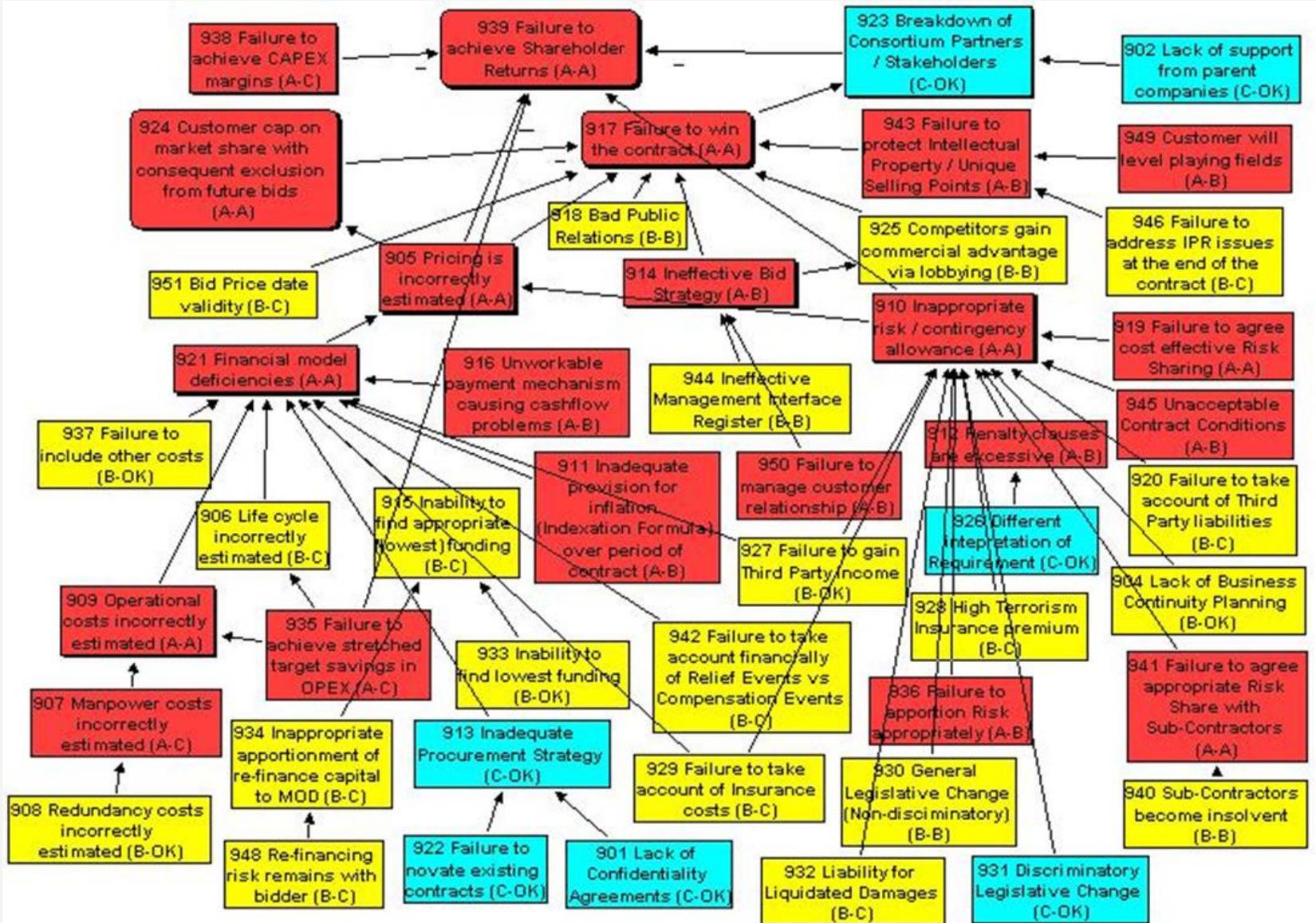
Example: "Current Risk Severity Map" graphically shows the level of risk prior to mitigation.

RISK MAPPING (CONT.)

SELF-ASSESSMENT STEP 5: MITIGATION/CORRECTIVE ACTION

Draft and implement a corrective action plan (CAP) IMMEDIATELY!

- Don't wait until auditor or monitoring team is onsite

CAP Must focus on specific activities to mitigate identified risk(s)

- Specific Measurable Objectives
- Timelines
- Clear Lines of Responsibility

Relevant staff must be notified and included in discussions and rafting of the plan

SELF-ASSESSMENT STEP 6: MONITORING

Once CAP is in place, monitoring should take place at regular intervals
- Intervals should align with CAP deadlines
- Before any upcoming audit/monitoring visit

Is the CAP progressing?
- Are objectives being met?
- Are deadlines adhered to?

If CAP is not having the desired effect, must be revised

SELF-ASSESSMENT STEP 7: REPEAT!

Self-Assessment is ongoing

Questions?

"It's safe to come out – the auditors have gone."