

Policies and Procedures/ Internal Control Testing

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Internal Controls



Internal Controls – Common Findings



**Inadequate
fiscal and
program
monitoring**



**Insufficient
training**



**Need to
enhance
technical
assistance or
guidance**



**Insufficient
staffing and
procedures for
internal audit**



**No risk
assessment or
fraud reporting
process**

Internal Controls Lessons Learned

- Establish internal controls and monitoring current funding
- Build off existing procedures, but adjust as needed
- Fast timelines add to fraud risk
 - have alerts, processes to enable reporting



These numbers are way off. But I do like them better than the auditor's numbers.

Internal Control – 200.1

A process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- a. Effectiveness and efficiency of operations;
- b. Reliability of reporting for internal and external use; and
- c. Compliance with applicable laws and regulations.

Internal Control Requirements - 200.303

The non-Federal entity **must**:

- a. Establish and maintain effective internal control ... 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 follow 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).

Internal Control Requirements – 200.303

The non-Federal entity **must**:

- b. Comply with Federal statutes, regs, and the terms and conditions of the Federal awards.
- c. Evaluate and monitor the non-Federal entity's compliance
- d. Take prompt action when instances of noncompliance are identified including in audit findings.
- e. Take reasonable measures to safeguard protected personally identifiable info (PII) and other information designated or deemed sensitive

Internal Controls - Requirements

Also consider:

The Compliance Supplement:

- Annually published by OMB
- Provides auditors with an auditing guide for major federal programs
- Part 6 – Internal Control
 - Summarizes requirements for internal control
 - Discusses important internal control concepts
 - Includes illustrations of entity-wide internal control

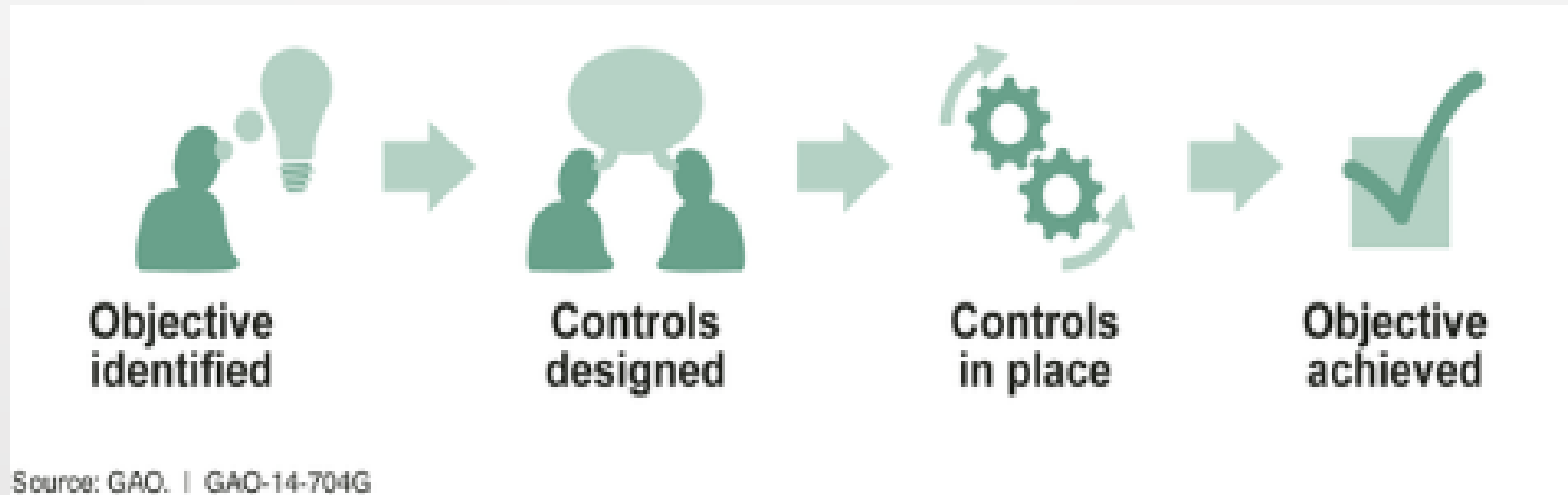
Internal Control Weaknesses

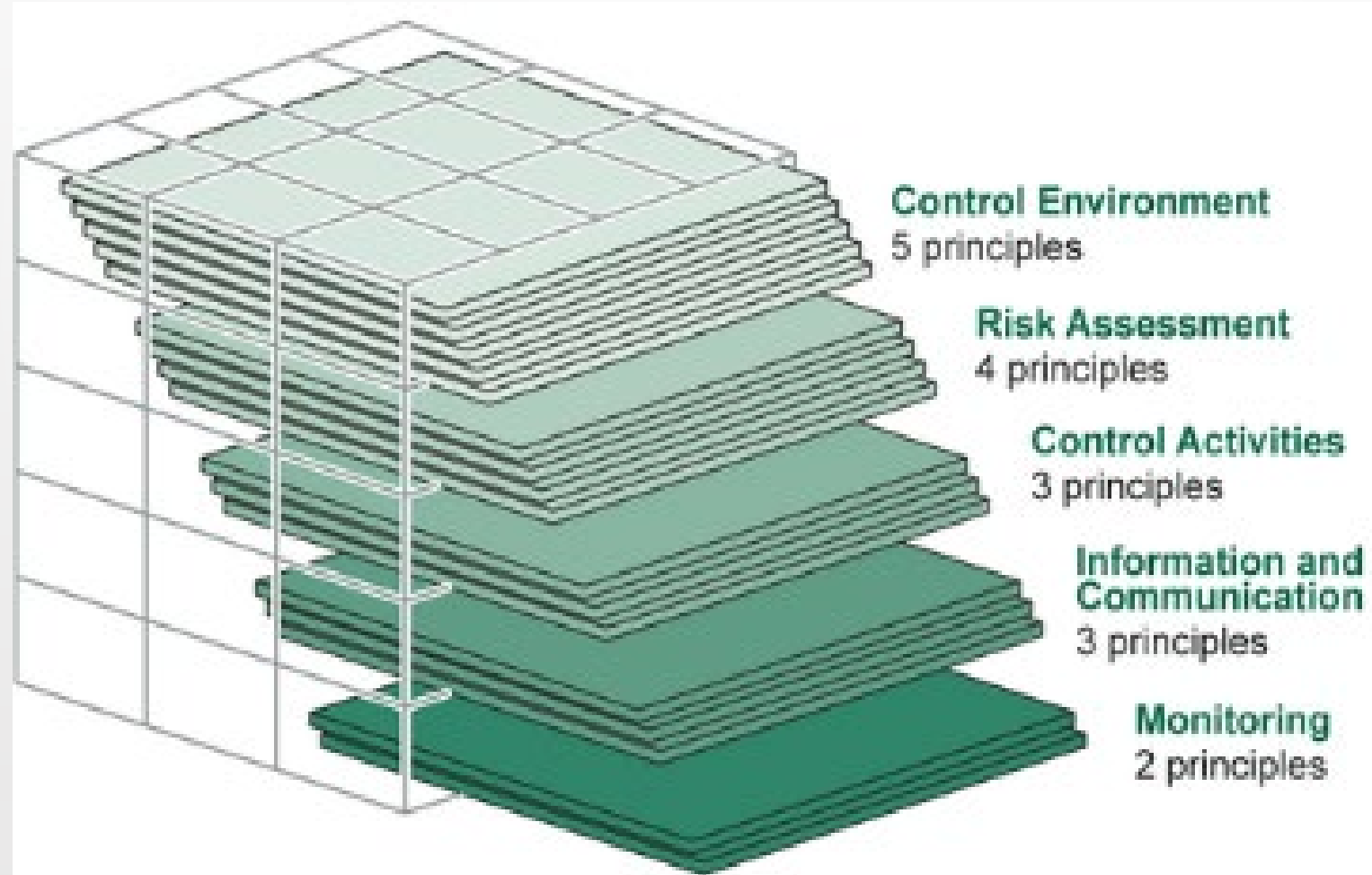
- Magical Letters
- Unsigned Forms
- Automatic Signatures
- Stolen Property
- Employees in the News



First rule – what happens in accounting stays in accounting.

Internal control is a process used by management to help an entity achieve its objectives.





Source: GAO. | GAO-14-704G

Control Environment Principles

1. A commitment to integrity and ethical values;
2. Independent oversight over the development and performance of internal controls;
3. Clearly defined organizational structure, clear reporting lines, appropriate authorities;
4. A commitment to attract, develop and retain competent individuals, clearly defined organizational structure; and
5. Maintain a level of competence that allows personnel to accomplish their assigned duties (and holding individuals accountable)

Control Environment Examples

- Well-written policies and procedures manuals
 - Addressing employee responsibilities, limits to authority, performance standards, hiring practices, whistleblower policies, conflict of interests, etc.
- Organizational chart (clear lines of authority and responsibility)
- Clear job descriptions
- Adequate training programs and performance evaluations.

Risk Assessment Principles

1. Clear objectives to enable the identification and assessment of risks;
2. Identify risks to achievement of objectives across the entity and analyze risks as a basis for determining how the risks should be managed;
3. Consider the potential for fraud; and
4. Identify and assess changes that could significantly impact the system.

Risk Areas

1. **Strategic** – political risk and risk from dependencies on other organizations
2. **Financial** – risk of audit findings and other things that would undermine reporting integrity
3. **Compliance** – fraud and non-compliance programmatic requirements.
4. **Operational** – risk that programs fail to meet their objectives and lack of technology

Risk Assessment Examples

- Have an established risk assessment process
 - Include key compliance objectives, identify and evaluate risk tolerances, create a specific risk matrix
- Provide training to employees to enable them to assess risks
- Have a process to identify and address fraud risks, as appropriate
- Identify internal and external changes that affect risk – e.g. new personnel, new technology, rapid growth...

Control Activities Principles

1. Select and develop control activities that contribute to the mitigation of risk and achievement of objectives to acceptable levels;
2. Select and develop general control activities over technology to support the achievement of objectives; and
3. Deploy control activities through policies that establish what is expected and ***procedures that put policies into action.***

Control Activity Examples

- Segregating Key Responsibilities
- Restricting Access to Systems and Records (Authorizations / Passwords)
- Implementing Clear Written Policies in Key Areas
- Maintaining Physical Control Over Valuable Assets (Security)
- Maintaining Appropriate Documentation (Approvals, Record Retention)
- Accurate and Timely Recording of Information
 - Check for accounting of transactions in numerical sequence

Information and Communication Principles

1. Obtain or generate or use relevant, quality information to support the functioning of the entity;
2. Internally communicate info, including objectives and responsibilities necessary to support the entity; and
3. Communicate with external parties regarding matters affecting the functioning of the entity.
 - Develop procedures for identifying pertinent information and distributing it in a form and timeframe that permits people to perform their duties efficiently.
 - All personnel must receive a clear message from top down that responsibilities must be taken seriously.



Information and Communication Examples

- Financial and programmatic systems accurately capture, process, and report pertinent information
- Adequate source documentation exists to support amounts and items reported
- The organization has effective channels to communicate information to employees responsible for compliance
- Effective channels exist for communications with federal granting agencies, oversight agencies, and cognizant agencies

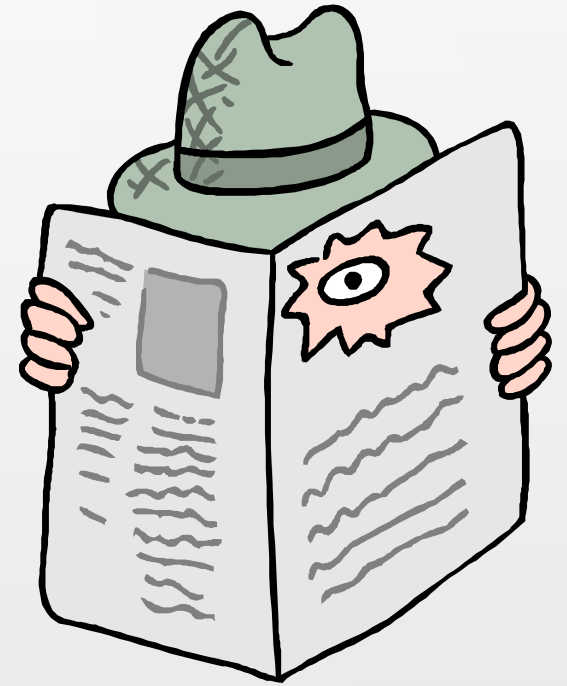
The largest problem with communication is the illusion that it has occurred.

Monitoring Principles

1. Select, develop and perform ongoing and/or separate evaluations to ascertain whether the components of internal controls are present and functioning;
2. Evaluate and communicate internal control deficiencies in a timely manner to parties responsible for taking corrective action.

Types of Monitoring Activities

- Ongoing program and fiscal monitoring
- Regular oversight by supervisors
- Record reconciliation
- Formal program reviews/audits
- Annual single audits



Monitoring Control Examples

- Review findings, recommendations, and other observations by independent auditors
- Track implementation of corrective action plans
- Review key performance indicators
- If you have internal audit function – ensure its responsibilities and audit plan is aligned to risk assessment
- Have policies and procedures for correcting any findings in a timely manner

Update Policies and Procedures!



Documentation Requirements

- Retention Requirements For Records – 2 CFR 200.334
- When original records are electronic and cannot be altered, there is no need to create and retain paper copies. (UGG Section 200.336)
- UGG = **three years**
- BUT... Watch applicable Statute of Limitations!
 - (Example, USDE = 5 years under the General Education Provisions Act)



Purpose of Policies and Procedures

But also...

- Internal Controls
- Staff Changes and Transitions
- Avoid Audit & Monitoring Findings

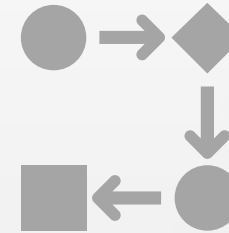
Policies vs. Procedures



Policy

A **policy** is a guiding principle used to set direction in an organization.

- Change infrequently
- State generally who, what, when, or why
- Broad and general



Procedure

A **procedure** is a series of steps to be followed as a consistent and repetitive approach to accomplish an end result.

- Continuously change and improve
- State specifically who, what, when, and how
- Offer a detailed description of activities

Why update?



Required Policies



Conflicts of Interest Policy – 2 CFR 200.318(c)



Accounting Policies – 2 CFR 200.306(h)(2)(i); 200.400; and 200.430(i)(v)



Time and Effort Policies – 2 CFR 200.430(a)(2)



Fringe Benefits Policies – 2 CFR 200.431



Employee Health and Welfare Policies – 2 CFR 200.437(a)



Travel Reimbursement Policy – 2 CFR 200.475(a)

Required Procedures



Procedures - Real property sales procedures – 2 CFR 200.311(c)(2)



Time & Effort Procedures – ED Cost Allocation Guide



Written Allowability Procedures – 2 CFR 200.302(b)(7); 200.403(c)



Written Cash Management Procedures – 2 CFR 200.302(b)(6) and 200.305



Written Procurement Procedures – 2 CFR 200.318(a), 200.319(d), and 200.320



Procedures for Managing Equipment – 2 CFR 200.313(d)

Suggested Policies and Procedures



Record Retention



Audit Resolution



Program Specific Requirements



For the pass-through entity: Subrecipient Monitoring (listed in OMB Compliance Supplement)

After Your Policies and Procedures Are Done...

- ❑ Make policies and procedures easily available to staff!
- ❑ Training!!!!
- ❑ Review and Revise (annually/as-needed)





Questions?!





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