

# Uniform Guidance and Internal Controls

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# Presentation Outline

- ❑ Uniform Guidance (2 C.F.R. part 200)
  - Background
  - Overview
  - Understanding the Requirements
- ❑ Internal Controls
  - Requirements
  - Developing and Implementing Internal Controls
  - Lessons from the Field

# Background

The *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, codified in 2 C.F.R. part 200 (Uniform Guidance) became effective for awards issued on or after December 26, 2014.

# Overview

§ 200.100, Purpose: 2 C.F.R. part 200 establishes, for all types of non-Federal entities:

- Uniform administrative requirements;
- Federal award requirements;
- Cost principles; and
- Audit requirements.

The Uniform Guidance is designed to streamline the requirements (previously issued in OMB Circulars) for using Federal grant funds, increase the efficiency and effectiveness of those funds, and increase accountability for the use of those funds.

## Overview (cont.)

In receipt of Federal funds, grantees are required to ensure they meet all applicable requirements. The Uniform Guidance is one source of compliance requirements. Others include:

- Terms and conditions of Federal awards;
- Federal program statute, regulations, guidance; and
- State statutes and regulations.

# Overview: How the Uniform Guidance is Organized

Subparts A, B, and C - Acronyms and Definitions, General Provisions, and Pre-Award Requirements

# Overview: How the Uniform Guidance is Organized (cont.)

Subpart D – Post Federal Award Requirements including:

- Financial Management
- Internal Controls
- Property and Procurement Standards
- Program Income
- Period of Performance
- Monitoring and Reporting
- Record Retention and Access
- Remedies for Noncompliance

# Overview: How the Uniform Guidance is Organized (cont.)

Subpart E – Cost Principles including:

- Allowable, Reasonable, Allocable Costs
- Prior Approval
- Direct and Indirect Costs
- General Provisions for Selected Items of Cost



# Overview: How the Uniform Guidance is Organized (cont.)

Subpart F – Audit Requirements

Appendices to part 200 (I through XI)

# Overview: State and Non-Federal Entity

The Uniform Guidance uses the terms “State” and “non-Federal entity.” It is important to remember that the term “non-Federal entity” includes States.

**§ 200.69 Non-Federal entity.** *Non-Federal entity* means a state, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a Federal award as a recipient or subrecipient.

# Understanding the Requirements

- It's all in the details.

For example, the term “personnel activity report” is not in the Uniform Guidance; however the requirements include standards to be met for documentation to support the distribution of employee salary and wages among specific activities or cost objectives. Without reading the Uniform Guidance, grantees run the risk of not meeting all Federal requirements.

# Understanding the Requirements

## (cont.)

2 C.F.R § 200.430(i)(1) **Compensation - personal services** requires non-Federal entities to maintain records that “accurately reflect the work performed.” These records must:

- Be supported by a system of internal control which provides reasonable assurance that the time being charged is accurate, allowable, and properly allocated;
- Be incorporated in the official records, such as payroll records;
- Reasonably reflect the employee’s total activity;
- Provide a time or percentage breakdown on all activities, both Federally funded and non-Federally funded, for the employee;
- Comply with the non-Federal entity’s pre-established accounting practices and procedures; and
- Support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award or cost activity.

# § 200.430(i) Compensation— personal services (cont.)

Budget estimates alone do not qualify as support for charges to awards, but they may be used for interim accounting purposes, provided that:

- Budget estimates produce reasonable approximations of the activity actually performed.
- Significant changes in the corresponding work activity are identified and entered into the payroll distribution system in a timely manner.
- The internal control system has processes to review the interim charges after the fact and make any needed adjustments

When using budget estimates on an interim basis, grantees must regularly reconcile estimates to ensure that they conform to actual staff activity. Grantees must make adjustments in the payroll distribution to align with actual time usage.

# § 200.430(i) Compensation— personal services

- Although personnel activity reports, per se, are not required, the specific requirements described above must be an active and accurate part of an agency's internal controls.
- If agencies wish to use a substitute system that does not meet the requirements in 2 C.F.R. § 200.430(i)(1), it must be approved by the cognizant agency and meet additional requirements in 2 C.F.R. § 200.430(i)(5)(i).

# Understanding the Requirements

(cont.)

Remember - make sure you understand the details related to the requirements before you make changes to your systems.

# Understanding the Requirements

## (cont.)

- Don't overlook the Appendices.

The Appendices contain some important information. For example, Appendix II to part 200—"Contract Provisions for Non-Federal Entity Contracts Under Federal Awards" contains the Federal provisions that must be included in State/agency contracts.

§ 200.22 **Contract.** *Contract* means a legal instrument by which a non-Federal entity purchases property or services needed to carry out the project or program under a Federal award.



# Understanding the Requirements

## (cont.)

- Focus on systems and how they support one another in ensuring compliance with requirements.

Subpart D—Post Federal Award Requirements  
2 C.F.R. § 200.302 **Financial management.**

Each State must expend and account for the Federal award in accordance with State laws and procedures for expending and accounting for the State's own funds. In addition, the... financial management systems... must be sufficient to permit the preparation of reports..., and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

# Internal Controls

## § 200.302 Financial management.

The financial management system must:

- Identify all Federal awards received and expended and the Federal programs under which they were received;
- Provide accurate, current, and complete disclosure of the financial results of each Federal award;
- Identify the source and application of funds. These records must contain authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation;

# Internal Controls (cont.)

## § 200.302 Financial management

- Provide effective control over, and accountability for, all funds, property, and other assets, and assure they are used solely for authorized purposes (see § 200.303 Internal controls); and
- Include written procedures for payment processes and allowability of costs in accordance with the Cost Principles.

# Internal Controls (cont.)

2 C.F.R. § 200.303 **Internal controls.** The non-Federal entity must:

- Establish and maintain effective internal controls that provides reasonable assurance that the non-Federal entity is managing the award in compliance with all requirements;
- Comply with Federal statutes, regulations, & terms and conditions of the award;
- Evaluate and monitor the non-Federal entity's compliance;
- Take prompt action when issuance of non-compliance are identified, including from audit findings; and
- Safeguard protected personally identifiable information.

# Internal Controls - Requirements

2 C.F.R. § 200.61 - *Internal controls* means a process, implemented by a non-Federal entity, 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.

# Risk Management

- a. **Risk assessment** is the organizations process of identification and analysis of relevant **risks** in agencies efforts to achieve agency goals.
- b. This assessment forms the basis for determining how the **risks** should be managed, i.e. internal controls.
- c. Commitment to effective risk management is key to creating efficient and effective internal controls.

# Compensating Controls

Once the risks have been identified, control activities are implemented to mitigate identified risk. Those additional controls are called compensating controls. Compensating controls are a type of control used to discover, prevent, or mitigate mistakes and other types of risk.

- Separation of duties is a compensating control.

For example:

Separate employees are responsible for authorizing services, receiving and validating invoices, and issuing payments

# Internal Controls (cont.)

The following are several examples of areas in which written procedures are required:

- Implementation of payment system (2 C.F.R. § 200.302(b)(6));
- Procedures for determining the allowability of costs in accordance with Subpart E (Cost Principles) and the award terms and conditions (2 C.F.R. § 200,302(b)(7));
  - This includes, but is not limited to compensation for personnel staff, cost incurred by advisory councils, equipment costs, participant support costs, maintenance and repair costs, advertising costs, etc.
- The nature and scope of each service provided (34 C.F.R. § 361.50(a));



# Internal Controls (cont.)

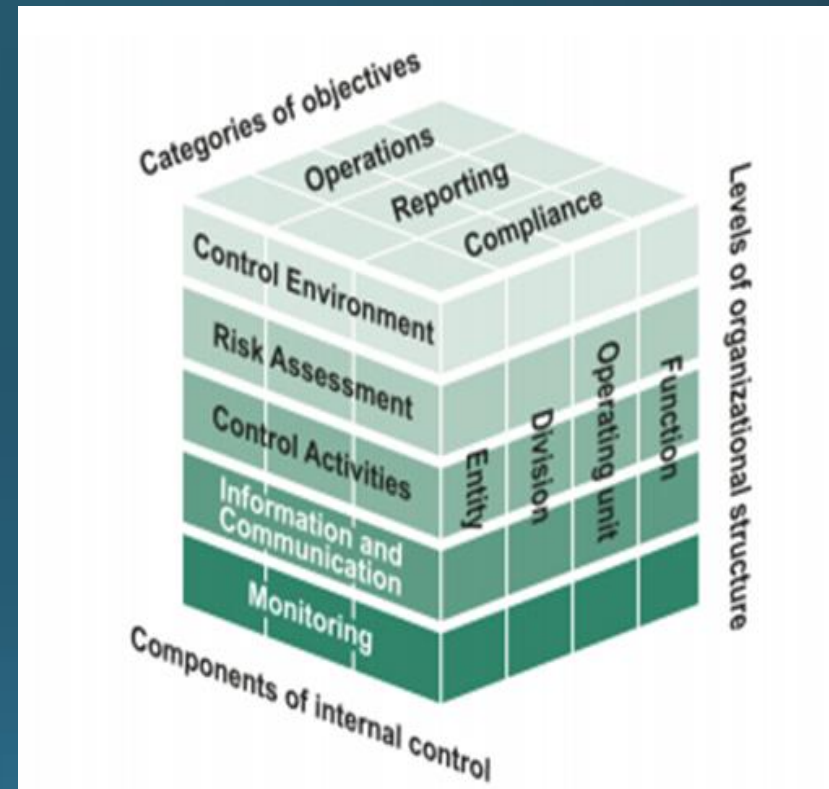
- Standards for procurement transactions (2 C.F.R. § 200.317); and
- Standards for conduct covering conflicts of interest governing performance of employees engaged in the administration of contracts (2 C.F.R. § 200.318(c)(1)).

# Developing and Integrating Internal Controls

- There is no standardized set of internal controls as they will differ based on each agency's structure, processes and State requirements.
- RSA's review of internal controls is to determine whether the agency's internal controls meet the requirements at § 200.303.
- The State is authorized to adopt any set of internal controls that meets the requirements at § 200.303.

# Five Components of an Internal Control System:

- Control Environment that sets the tone for the organization.
- A Risk Assessment process that involves the identification and analysis of relevant risks.
- Control Activities that include the policies and procedures that help ensure management directives are carried out and documented.
- Information and Communication systems or processes that support the exchange of information.
- Monitoring processes used to assess the quality of internal control performance over time.



# Types and Examples of Internal Controls

- a. **Preventive controls** are designed to keep errors or irregularities from occurring in the first place. Example: Locks to a secure area.
- b. **Detective controls** are designed to find problems within an agency's processes. Example: Security cameras
- c. **Corrective controls** are designed to detect and notify management of problems occurring within the agency's processes. Example: Backing up data.

# Examples of Internal Control Procedures

- a. Separation of Duties
- b. Access Controls
- c. Internal Audits
- d. Standardized Documentation
- e. Periodic Reconciliations
- f. Approval Authority

# Example: RSA/VR Award Internal Control Processes

- a. **Separation of Duties:** Different people generate the award amounts, enter the award allocations, and obligate the funds.
- b. **Access Controls:** Staff are limited to their specific roles within the grants management system.
- c. **Physical Audits:** RSA receives yearly external audits of the award process to ensure procedures were followed and awards were issued correctly.
- d. **Standardized Documentation:** Process is documented among staff and in detailed Standard Operating Procedures approved by Risk Management Services.

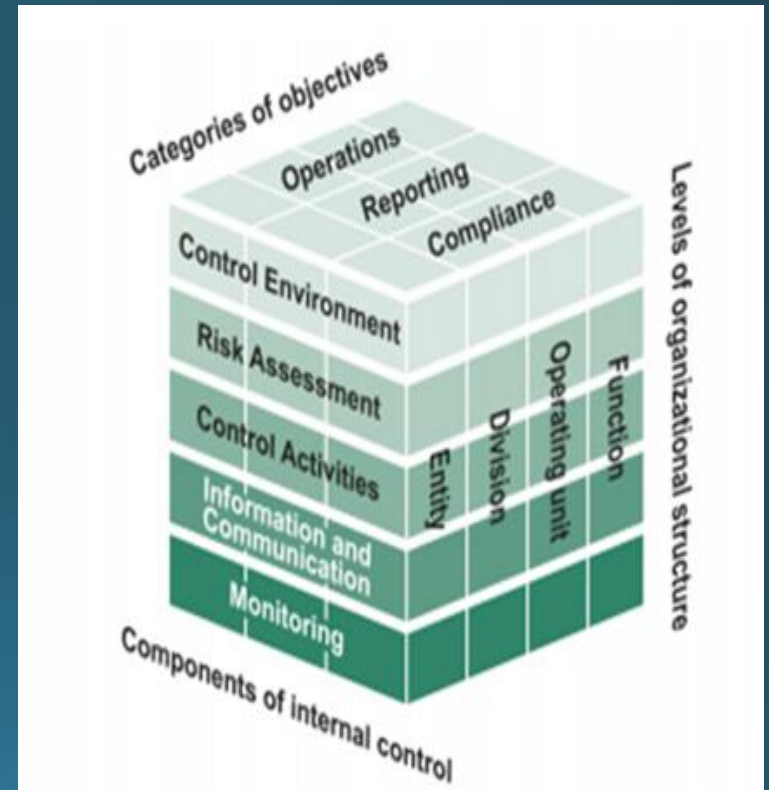
# Example: RSA/VR Award Internal Control Processes (cont.)

- e. **Trial Balances/Periodic Reconciliation:** After each step of the process staff check to ensure grant totals match. Process stops if figures don't reconcile.
- f. **Approval Authority:** Awards are obligated only after all the procedures have been completed and authority from the Commissioner of RSA has been received in writing.

# A Closer Look at the Internal Controls Diagram

The components of internal controls are further broken down into *categories of objectives* (operations, reporting, and compliance) and *levels of organizational structure* (function, unit, division, entity).

What category and level is a control activity that requires supervisors to periodically review VR counselors' case files for documentation employment?





# GAO Green Book for Internal Controls

*Standards for Internal Control in the Federal Government*, known as the "Green Book," sets the standards for an effective internal control system for Federal agencies

For more information, please see the Department's page on Internal Controls at:

<https://www2.ed.gov/policy/fund/guid/uniform-guidance/internal-controls.html>



# Agency Monitoring of Internal Controls

Agencies must:

- Establish a process to monitor compliance with requirements and written processes (2 C.F.R. § 200.303(c)); and
- Take prompt action when instances of non-compliance are identified (§ 200.303(c)).

# Agency Monitoring of Internal Controls

Exercise: Identifying Risk and Designing Controls

- What are the specific risks?
- What type of controls can be implemented to mitigate these risks?
- What outcomes can the agency expect from these efforts?

# Critical Areas for Internal Control Policies

The following examples are a few of the areas of internal controls that have the most potential for risk or are often the components of the onsite visit with the most findings

- a. Ensuring all obligations occur within the appropriate period of performance and are liquidated against the appropriate grant award within the period of performance (2 C.F.R. §§ 200.71, 200.77, 200.302(b)(3), & Section 19(a)(1) and (b) of the Rehab Act)
- b. Reporting allowable and accurate expenditures, and submitting timely and accurate SF-425s (§§ 200.328 & 200.403)
- c. Requirements and responsibilities for non-Federal share requirements (§ 200.307)
- d. Counselors authorizing services and equipment (§ 200.302(b)(3))
- e. Contract monitoring (for all contracts, not just vendors) (§ 200.328)

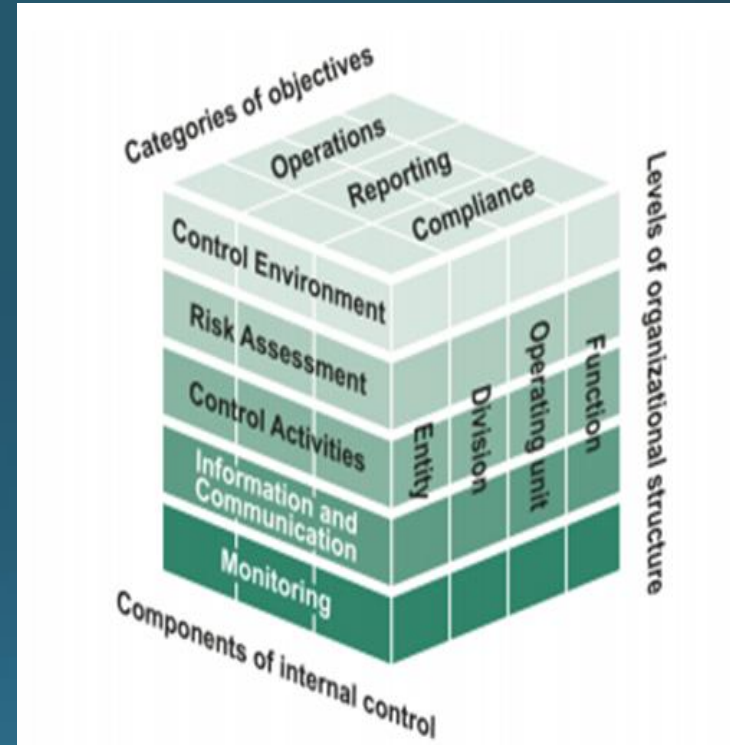
# Situation Specific Examples:

## Period of Performance –

Ensuring the proper assignment of obligations and expenditures to the correct period of performance.

(2 C.F.R. § 200.77)

- What are the specific risks?
- Preventative Controls
- Detective Controls
- Corrective Controls
- Positive outcomes

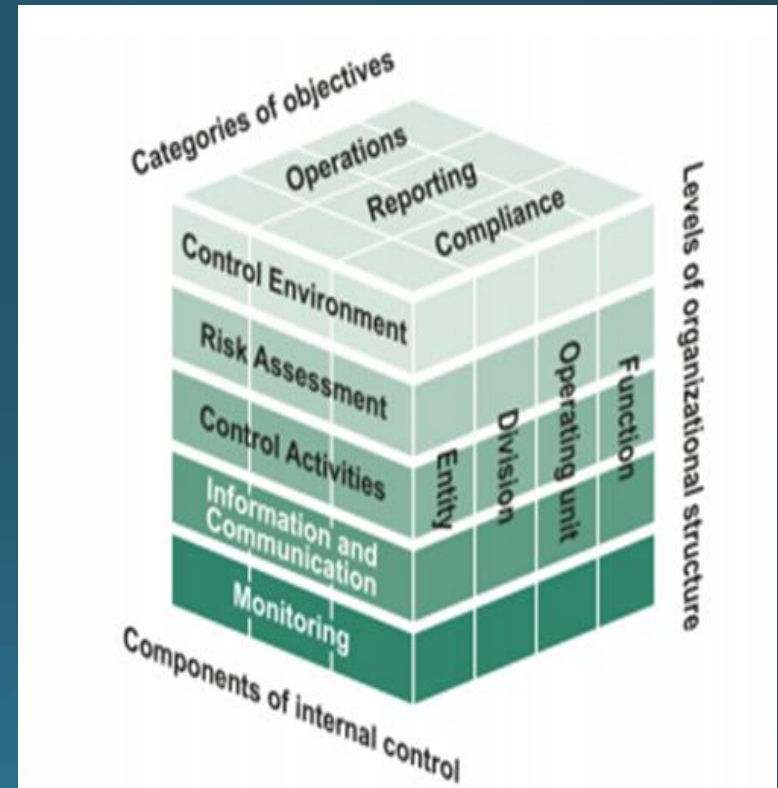


# Situation Specific Examples:

## Reporting Timely and Accurate SF-425s

(2 C.F.R. § 200.328)

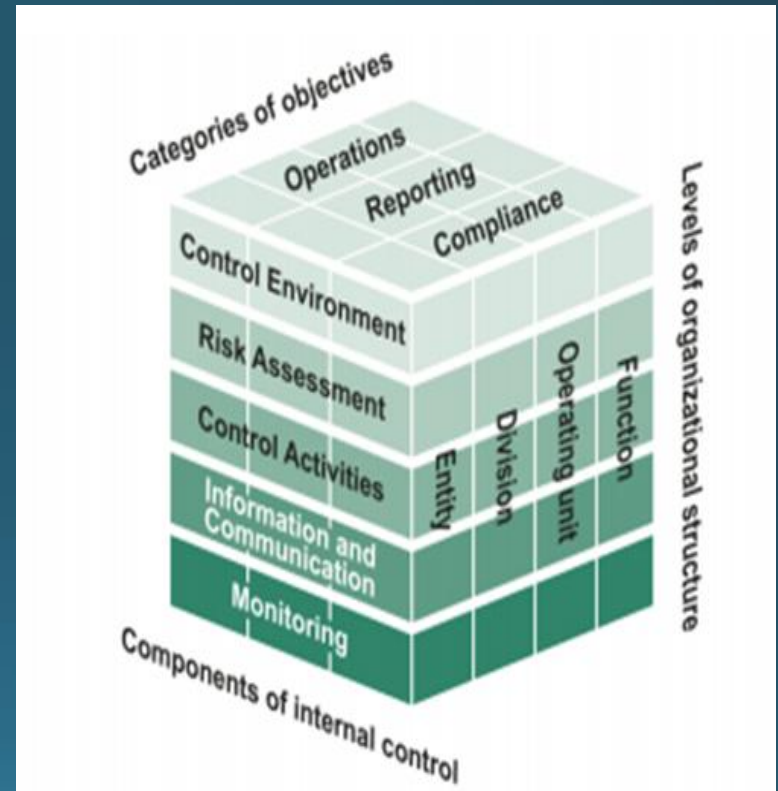
- What are the specific risks?
- Preventative Controls
- Detective Controls
- Corrective Controls
- Positive outcomes



# Situation Specific Examples:

## Determining Allowability of Costs Used to Meet the Non-Federal Share Requirement (2 C.F.R. Subpart E – Cost Principles)

- What are the specific risks?
- Preventative Controls
- Detective Controls
- Corrective Controls
- Positive outcomes

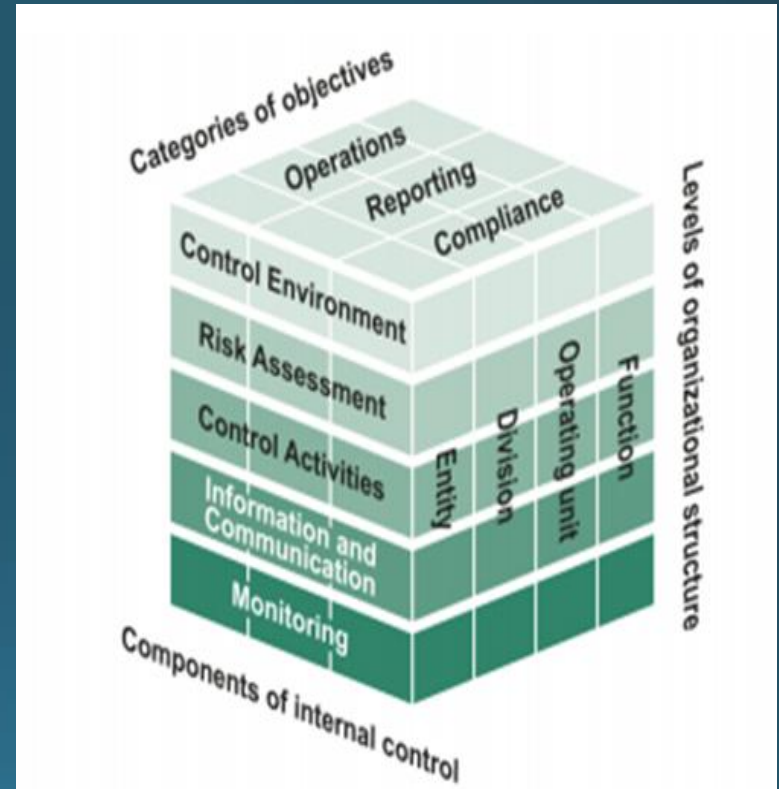


# Situation Specific Examples:

## Counselors Authorizing Services and Equipment

(2 C.F.R. § 200.302(b)(3))

- What are the specific risks?
- Preventative Controls
- Detective Controls
- Corrective Controls
- Positive outcomes



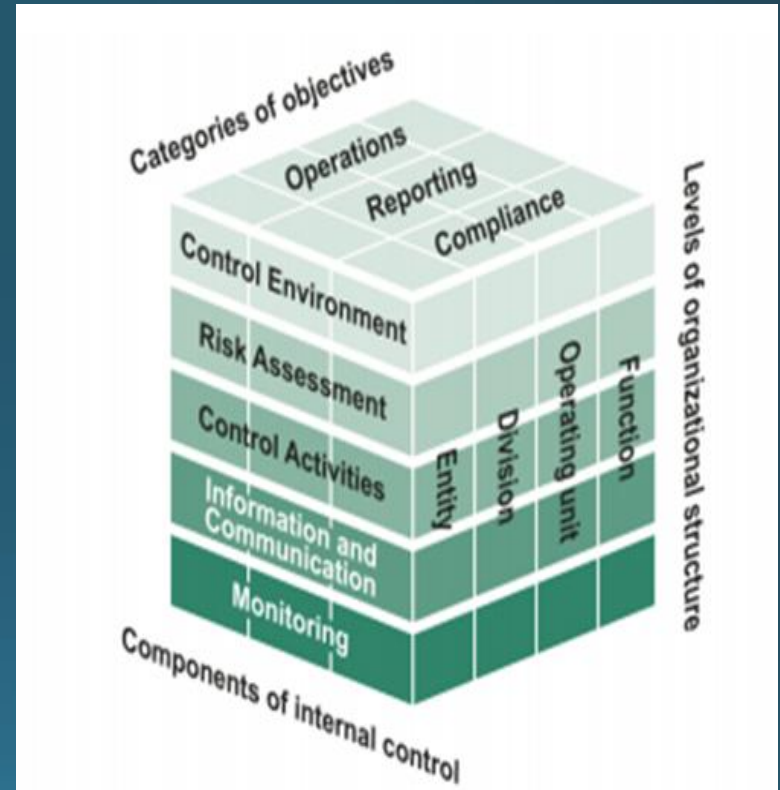


# Situation Specific Examples:

## Contract Monitoring (for all contracts, not just vendors)

(2 C.F.R. § 200.328)

- What are the specific risks?
- Preventative Controls
- Detective Controls
- Corrective Controls
- Positive outcomes



# Lessons From the Field

- Procedures exist but are not well documented
  - Example: Many grantees can describe great contract monitoring processes, but those processes are not written down
- Having no risk assessment or a weak risk assessment.
  - Example: Grantees have written contract monitoring processes, but do not have a way to demonstrate those processes work
- Training is not sufficient or frequent enough for staff to remember their respective responsibilities
  - Example: Central office staff can articulate contract monitoring processes, but field staff are not implementing processes in line with requirements

# Does Your Agency Have Internal Controls For?

- Reporting
- Supervision
- Documentation
- Separation of duties
- Safeguarding assets
- Payment processes (approval/authorization)
- Reconciliation
- Compliance requirements (e.g., period of performance, determining allowability of costs, etc.)

# Questions



If you have any additional questions after the presentation, please email them to [RSAfiscal@ed.gov](mailto:RSAfiscal@ed.gov).