



**Internal Controls
and Sponsored Programs**

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**Why do we need
Internal Controls?**



Internal Controls Why?

- Required under 2 CFR 200
- Focus resources on achieving organizational objectives
- Improve consistency
- Streamline work processes
- Help identify control/process issues
- Help manage and reduce risk
- Reduce opportunities for fraud
- Help us use limited resources efficiently by focusing on risks
- Provides feedback on the effectiveness of our operations
- Helps organizations remain focused on organizational objectives



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Internal Control Objectives per 2 CFR 200.61

Internal controls per 2 CFR 200.61 are needed to ensure:

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



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2 CFR 200.62 Internal control over compliance requirements for Federal awards

A process implemented by a awardees to provide **reasonable** assurance regarding the achievement of the following objectives for Federal awards:

- (a) **Transactions are properly recorded and accounted for**, in order to:
 - (1) Permit the preparation of reliable financial statements and Federal reports;
 - (2) Maintain accountability over assets; and
 - (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- (b) Transactions are executed **in compliance with**:
 - (1) 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
 - (2) Any other Federal statutes and regulations that are identified in the Compliance Supplement; and
- (c) Funds, property, and other assets are **safeguarded against loss** from unauthorized use or disposition.

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Internal Control (IC) Limitations

Internal Control limitations can result from:

- Suitability of objectives established as a precondition of IC
- Reality that human judgment in decision making can be faulty and subject to bias
- Breakdowns that can occur because of human failures (errors)
- Ability of management to override IC
- Ability of management, other personnel, and/or third parties to circumvent controls through collusion
- External events beyond the organization's control

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Expectation for Internal Control: Costs vs. Benefits

- Cost is not an acceptable reason alone to avoid implementation of responsible internal controls.
- Internal Controls models recognize the need to balance resources across the organization and encourages organization to focus on those of the greatest risk, complexity, or other factors related to achieving the organization's objectives



Objectives in Internal Control

- Management, with board oversight, sets entity-level objectives that align with the entity's mission, vision, and strategies
- **Setting objectives is a prerequisite to internal controls**
- Individuals who are part of the system of internal control need to understand the overall strategies and objectives set by the organization

There are 3 categories of objectives:

- **Operations** – achievement of entity's mission and vision. Also safeguarding assets
- **Reporting** – both financial and non-financial, internal and external
- **Compliance** – laws, rules, and regulations



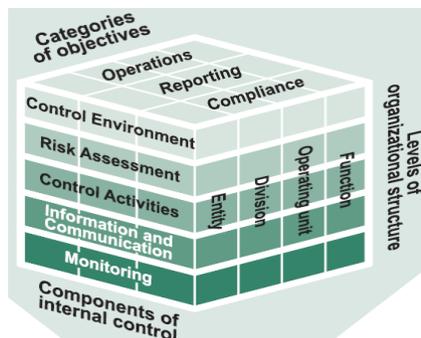
5 Components of Internal Control

1. **Control Environment** – set of standards, processes, and structures that provide the basis for carrying out internal control
2. **Risk Assessment** – process for identifying and analyzing risks to achieving entity’s objectives
3. **Control Activities** – actions established by P&P to help ensure management directives to mitigate risks to the achievement of objectives are carried out
4. **Information and Communication** – internal and external communication needed to carry out day-to-day controls
5. **Monitoring Activities** – evaluations on whether each of the 5 components of internal controls is present and functioning



What Defines Internal Controls for an Organization?

Relationship between the Entity’s Objectives, Compliance Expectations, Organizational Structure, and Internal Control’s Foundational Components



GAO – Standards for Internal Control in the Federal Government



Step 1: Assessing Risk



- Single Audit
- Internal Assessment
- External Assessment
- Review of monitoring activities
- Review of recent federal OIG audits
- Do it annually

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Step 2: Responsibly Building Internal Control Guidance

- What are our risk areas that need policies/procedures?
- What policies are we required?
- What policies make good sense?



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Step 3: Communicate Expectations

- Distribute new or changes to existing policies, if critical add an acknowledgement or confirmation of receipt requirement
- Provide training
- Provide resources on how to carry out the expectations



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Building Blocks for Your Internal Control Environment

Policies which are required to be maintained by organization's in written form include:

- Direct costing 2 CFR 200.302 (b)7
- Sponsor invoicing and payment 2 CFR 200.302 (b)6
- Conflicts of Interest in Procurement (individual and organizational) 2 CFR 200.318(c)1-2
- Compensation practices / Effort Reporting 2 CFR 200.430(a)1
- Procurement transactions 2 CFR 200.319(c)
- Procurement evaluation 2 CFR 200.320(d)
- Relocation costs 2 CFR 200.464(a)2
- Travel policy 2 CFR 200.474(a) or follow 5 U.S.C. 5701-11
- Conflict of interests in research 2 CFR 200.112
- Protocol approval requirements (human subjects, animals, and biosafety)
- Designation of individuals legally responsible for binding the organization 2 CFR 200.415



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Policies Not Required, but Recommended

Policies which are not specifically required by federal regulations, but which are necessary for organizational operations and risk mitigation include:

- Equipment management
- Project modifications and rebudgets
- Program income
- Cost share
- Cost transfers
- Subrecipient award issuance and monitoring
- Service/recharge center operation and pricing
- Cost overruns
- Prior Approvals
- Award closeout
- Record retention
- Export control
- Gift or grant determination
- Pre award responsibilities
- Post award responsibilities
- Principal Investigator/Project Director responsibilities
- Disclosure of violations of federal law
- F&A rate negotiation timeliness

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Step 4: Monitor

What Can We Do to Monitor Compliance in Our Operations?



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Monitoring Tools for Pre Award?

- Internal receipt and submission deadline reports
- Electronic system rejections (particularly in relation to organizational seniority)
- Timeliness of staff review and submission
- Secondary review within pre award, sampling as part of performance monitoring
- Post Award review of errors upon set up.



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Monitoring Tools for Post Award?

- Award set up reports with a secondary review
- Secondary review of award terms and conditions acceptance
- Rebudgeting transactions with a secondary review
- Burn rates – expenditure progression
- Performance benchmark payments
- Timeliness of invoicing reports
- Delinquency payment reports
- Reconciliation report review
- Delinquent effort report submissions
- Reduction in effort from original award setup with out prior approval for greater than 25%
- Sabbatical leave reports
- Secondary review of cost transfers
- Review of expenditure approval to ensure authorized approvers
- Monitoring of subrecipient invoices and progress report submissions
- Desk audits and site visit compliance monitoring for subawardees.
- Closeout timeliness and accuracy

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Post Award Nonfinancial Monitoring

- Reconciliation of progress report requirements and transmittals
- International students assigned to research projects
- Restricted agent usage in research
- Protocol expirations associated with funded projects
- High risk purchases (animals, controlled substances)

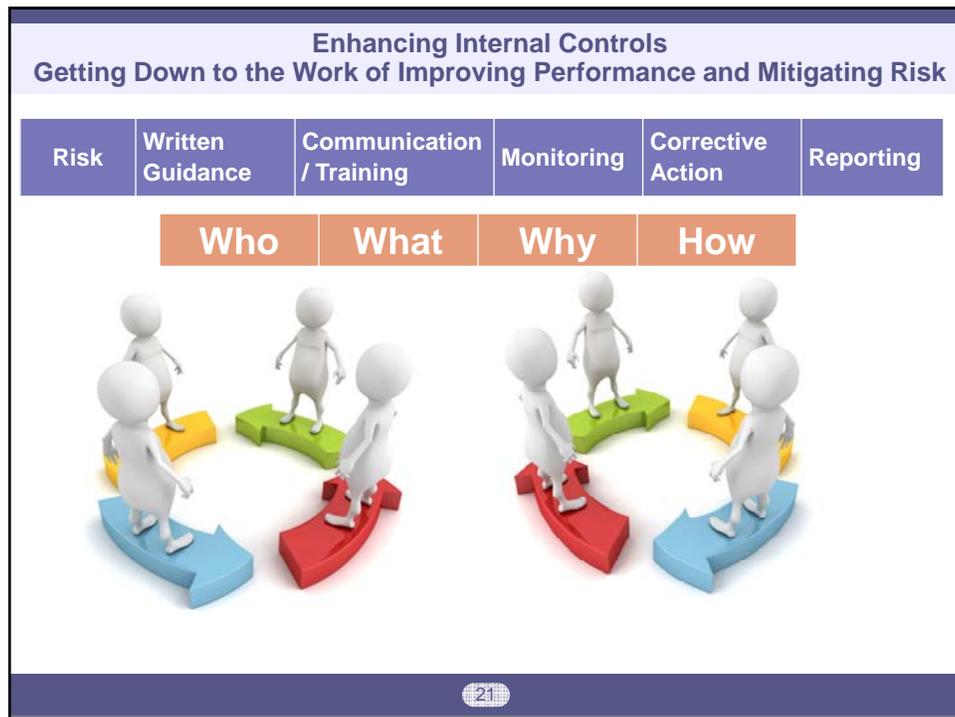


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Making it Happen: Responsibility for Internal Controls



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Key Takeaways

- Assess your risks
- Focus internal control infrastructure building on written guidance and system control efforts based on risks
- Document roles and responsibilities
- Educate and train your employees on Internal Control expectations and their role
- Communicate across departmental lines and discuss roles and responsibilities
- Review current policies and procedures and revise or improve as necessary
- Review high risk operation, reporting, and compliance objectives specific to your role or department's role and ensure strong internal controls
- Monitor (reports, secondary internal reviews, internal audit, and external assessment)
- Take corrective action
- Be consistent in your corrective actions
- Document internal control improvements, decisions, and actions taken

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**Internal Control
A Sponsored Programs Expectation and Responsibility**

Questions

