

# Senior Corps Virtual Conference 2014

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**Session:** Establishing Internal Controls: Creating Tools for Compliance

**Speakers:**

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- Debra Briddell, FFMC Grants Management Specialist



**This session will begin shortly.**

# Establishing Internal Controls

## Creating Tools for Compliance



# Session Objectives

- Define internal controls and explain the importance of written policies and procedures
- Explain the key components of internal controls, selected policies and procedures and need for compliance
- Explain the interrelationship between program and fiscal matters
- Provide compliance findings due to lack of adequate controls

# Live Session Features

- Respond in real-time: polling feature
  - All polling questions are multiple choice
  - The facilitator walks participants through when polling is “open” and when polling is “closed” and instant results are displayed
- Have your questions answered and provide your feedback: chat feature
  - Throughout this live session, chat in your questions as they arise
  - Questions not addressed during this live session will be posted to Financial Management message board in the FFMC Exhibit Booth

# Agenda

Activity	Duration
Definition and Basis of Internal Controls	10 minutes
Purpose and Elements of Internal Controls	15 minutes
Insufficient Internal Controls: Implications	5 minutes
Q&A	10 minutes

# Session Sources

- CNCS and Federal laws, rules, and regulations
- CNCS grant terms and provisions
- Generally accepted accounting and financial principles and practices

# Compliance Documents

- National & Community Service Act of 1990
- Code of Fed. Regulations (CFR)
- OMB Circulars (part of CFR)
- State & Local Regulations
- Notice of Funding Opportunity (NOFO)
- Notice of Grant Award
  - Special Terms & Conditions
- Certifications and Assurances

# What are Internal Controls?

- Organizational policies, procedures, processes and systems
- Clear identification and appropriate separation of authorities, responsibilities, and duties
- Help ensure financial integrity of organization
  - Improve effectiveness & efficiency of operations
  - Provide reliable financial reporting
  - Help ensure compliance with various laws, regulations, and requirements

# Why Internal Controls?

- They provide a system of checks and balances
- They protect the organization from financial abuse and enhance its ability to achieve its goals
- They aren't an "organizational burden," but a way to optimize resources

# Objectives and Goals of Internal Controls

## Objectives

- Provide an adequate audit trail
- Ensure segregation of duties
- Provide for physical safeguard of assets
- Ensure records are adequate



## Goals

- Improve accountability
- Meet performance and budget targets
- Improve reliability and compliance
- Prevent loss
- Support effective management
- Minimize opportunity for fraud
- Justify, review, and document decisions, actions, and transactions
- Reduce legal liability

# Elements of Good Internal Controls

- Written policies, procedures and processes
- Adequate review process for financial transactions, financial reports, budgets, etc.
- Adequate cash management procedures
- Safeguarding assets
- System to track participants' & employees' activities
- Something in policies that address internal control issues

# Examples of Key Policies & Procedures

- Authorizations of transactions
- Payroll procedures
- Cash receipts procedures
- Procurement policies
- Travel regulations
- Financial reporting
- Budgeting
- Record retention
- Conflict of interest
- Timekeeping

# Specific Policies Governing Federal Funds

- FFR Completion
- Drawdown of federal funds
- Matching requirements

# Questions?



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# Staff Time and Activity Reports

- Signed by either employee or individual with firsthand knowledge, plus the supervisor
- Reflect after-the-fact time determination of actual activity
- Prepared monthly, coincide with one or more pay periods
- Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization
- Provide support for charges for salaries and wages that also are supported by records indicating the total number of hours worked each day

# In-Kind Contributions

- Document the basis for determining value of personal services, material, equipment, building and land
- Obtain written acknowledgement from the donor
  - Name and signature of donor
  - Date and location of donation
  - Detailed description of item or service
  - Estimated value of contribution, how value was determined, who made the determination
  - Whether the contribution was obtained with Federal funds

**\*\*\* Keep a copy of the receipt in your files \*\*\***

# Job Description

- Job title
- Reports to
- Supervises
- Basic function
- Duties and responsibilities
- Qualifications
- Classification

# Accounting Systems

- System must be capable of:
  - Distinguishing grant vs. non-grant related expenditures
  - Identifying costs by program year
  - Identifying costs by budget category
  - Differentiating between direct and indirect costs (administrative costs)
- Maintains federal and non-federal matching funds separately from grant funds
- Records in-kind contribution as both revenues and expenses

# Chart of Accounts

- Numerical outline of accounts (codes)
- Narrative description of each line item (object class)
- Note special accounts created to track CNCS specific grant funds

# Budgetary Controls

- Monitor budgets
- Explain budget variations
- Ensure compliance with laws, regulations, and CNCS provisions
- Ensure compliance with requirements for prior approvals or modifications
- Assure budget changes are properly approved
- Review adjustments between line items

# Budget Development & Execution

## Both Program & Fiscal Staff should:

- Assist in developing the program budget by line item
- Develop the system to track budget versus actual expenses
- Review the budget versus actual expenses quarterly, at a minimum, but more frequently may be more effective
- Determine what line items funds can be reallocated based on periodic reviews
- Know when CNCS approval is needed for budget changes

# Documentation Internal Controls

## Documentation should ensure:

Costs conform to grant/contract limitations

Costs are allowable under the budget and Cost Principles

Costs are treated consistently

Costs are in accordance with Generally Accepted Accounting Principles (GAAP)

## Documentation should support:

Services or goods that were obtained

The justification for why the transaction is allowable for grant purposes

The value of the in-kind contribution

# Polling Question #1

In which areas of your organization have you established internal controls?

None

Accounting

Timekeeping

All Areas

# Ideal Internal Control Environment

- Positive atmosphere
- Code of conduct and code of ethics
- Timely communications with the Board
- Documented policies and procedures
- Safeguards for whistleblowing
- A clear chain of command



# Responsibility for Internal Controls

- Board
- Executives
- Directors and department heads
- Managers and supervisory personnel
- Individuals

# Program and Fiscal Compliance as a Team Effort

- Helps establish a strong program
- Enhances cooperation and collaboration
- Promotes communication
- Cultivates a common purpose

# Roles and Responsibilities

- Program Staff
  - Develop budgets
  - Address participant issues
  - Reconcile incurring costs
- Fiscal Staff
  - Apply standard accounting and personnel practices
  - Apply special grant requirements

# Polling Question #2

How often does your program and fiscal staff meet?

Weekly

One per month

Once per quarter

Once per year

# Why Collaborate?

- Program and Fiscal staff may provide a different perspective on issues
- Each person has different experiences from which to draw
- Together, each can use their talent and experience to contribute to the success of the program

# Questions?



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# Consequences and Implications of Insufficient Controls

- Noncompliance audit findings
- Mismanagement of Federal funds
- Funding sources are jeopardized
- Inconsistencies in processes, reviews, approvals
- Inefficient use of time and resources
- Repayment of disallowed or unallowable costs

# Examples of Audit Findings

- Types of Audits
  - Questioned Cost
  - Material Weakness

## General Examples

Late submission of financial reports

Missing or questionable source documents

Times and activity /evaluations not signed or dated

Financial reports don't reconcile to the general ledge

## Member Eligibility Examples

Inaccurate documents, records, files

Unacceptable justification for changes made to time and activity reports

# General Q&A

# Internal Controls - Handouts

- Key Elements of Policies and Procedures
- Policies and Procedures
- Separation of Duties

# In Conclusion

- Internal controls affect every level in all organizations, regardless of size
- Creation and monitoring of internal controls is a continual process
- Strong internal controls allow an organization to achieve its goals effectively and efficiently
- Review current internal controls and policies and procedures to be sure they are sufficient