

Workbook

Establishing Effective Policies, Procedures, and Management Controls

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Establishing Effective Policies, Procedures, and Management Controls

Building and Maintaining Programmatic and Fiscal Health



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Welcome to “Establishing Effective Policies, Procedures, and Management Controls”. This workbook focuses on how to develop and implement strong internal controls through a foundation of effective written policies and procedures. Applying these concepts will help keep your organization running smoothly, ensure that your programs adhere to CNCS standards, and help your organization maintain programmatic and fiscal health.

Learning Objectives

- Understand internal controls and the importance of up-to-date written policies and procedures
- Be able to identify the key elements of essential policies and procedures
- Explore the importance of staff compliance with internal controls
- Apply your knowledge of internal controls to real-life scenarios

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Some organizations will need to create good policies and internal controls from scratch. Others may need to modify or update their existing policies and controls. No matter the starting point, the knowledge presented here will help your organization be more effective.

Next, let's discuss the topics we will cover and how this workbook is organized.

Organization of Presentation

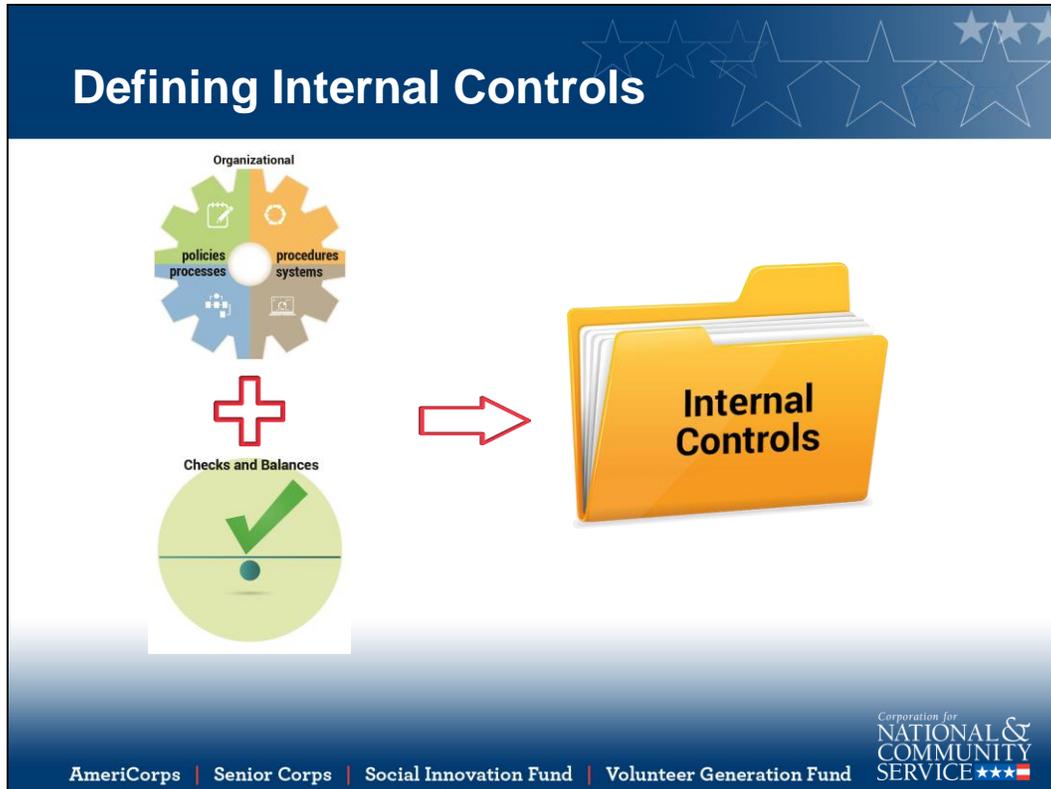
- Outline of the purpose of internal controls
- Analyze commonalities of good control environments
- Define characteristics of good written policies and procedures and explain how these promote an optimal control environment
- Review key elements of essential policies and procedures
- Explore internal controls, policies and procedures in real-world scenarios

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First, we'll outline the purpose of internal controls and show you what a good control environment looks like. Next, we'll review the characteristics of good written policies and procedures and explain how these promote an optimal control environment. After that we'll discuss how to incorporate these characteristics into your policies and procedures and finish up by exploring some real-world scenarios to identify what good internal controls look like.

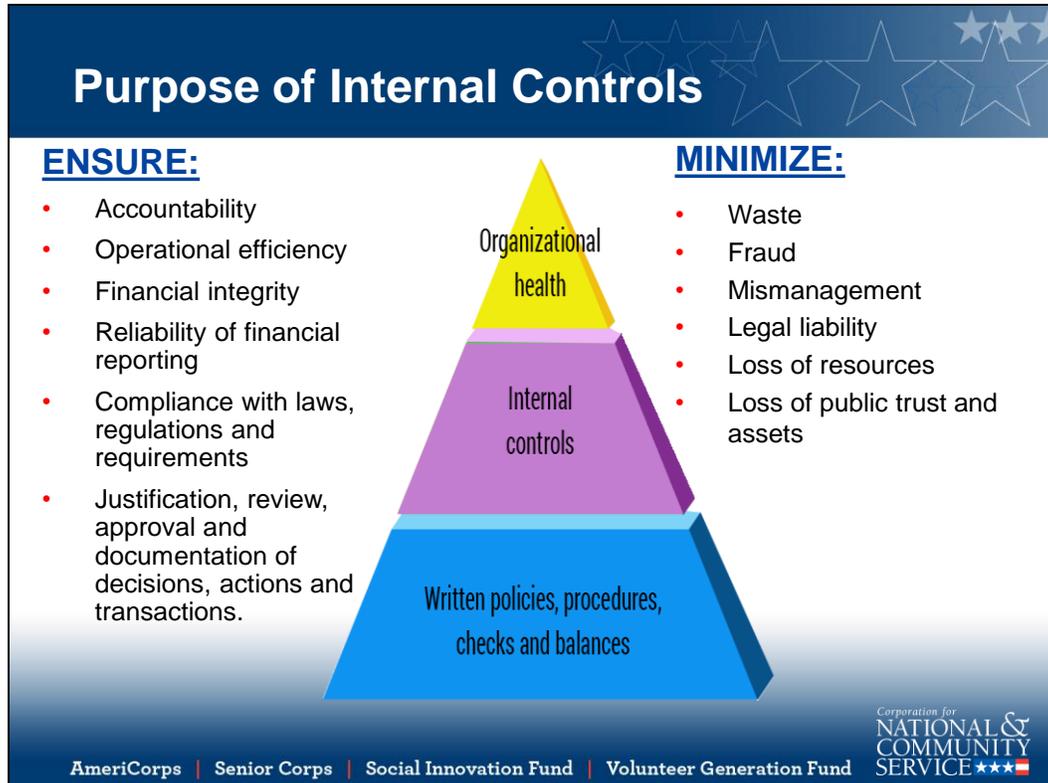
Let's get started!



Management controls, also referred to as Internal Controls, involve two separate but related efforts to keep your organization operating smoothly and transparently. First, internal controls are a structure of clearly written organizational policies, procedures, processes and systems to foster recordkeeping and to identify and delineate authorities, responsibilities and duties.

Secondly, this structure is complemented by a system of checks and balances to assure that every member of the organization adheres to the guidelines laid out in writing. Checks and balances are used so that staff and management understand and abide by the separations of authority, responsibilities and duties defined by the written policies.

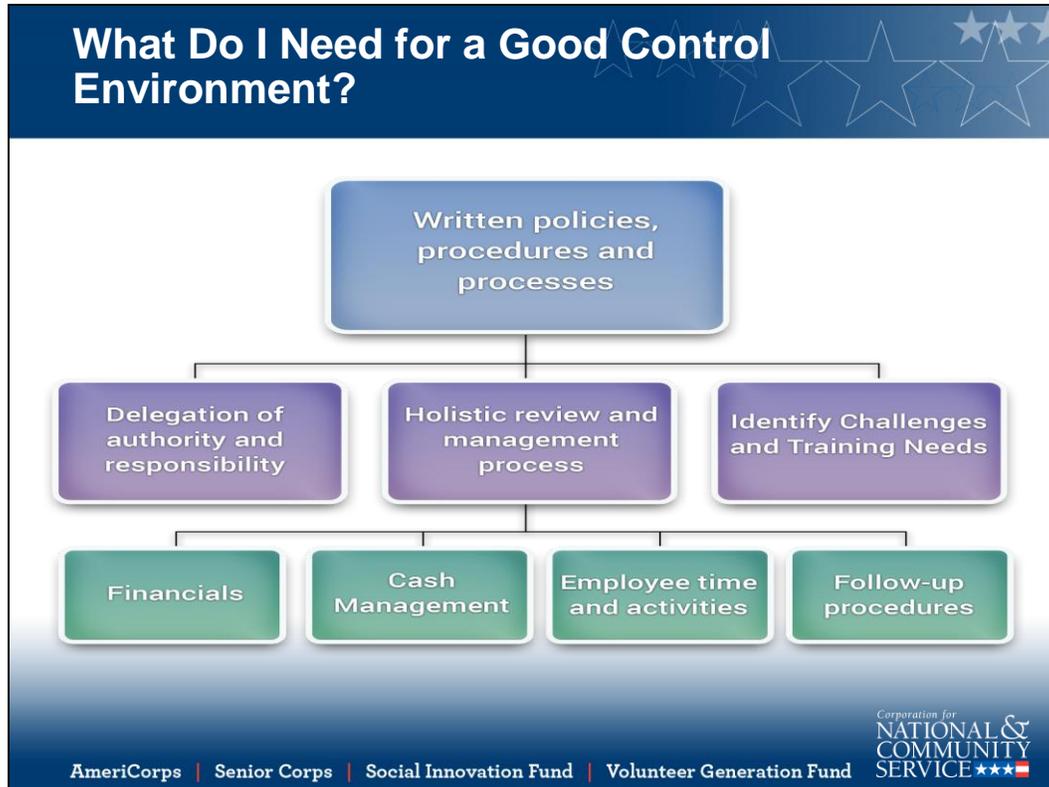
Together written policies and procedures that include appropriate checks and balances for the implementation of those procedures provides an organization with internal controls.



Internal controls support a wide variety of goals that are essential to a healthy organization. Also, internal controls minimize waste; fraud; mismanagement; legal liability; and the loss of resources, public assets and trust.

In this way internal controls promote the organizational health that allows your organization to provide essential services to the community through your grant programs.

Next, let's consider what you need to have a good control environment.



In order for internal controls to function effectively in your organization you need a good control environment. As suggested on the previous page, a good control environment relies on clearly written policies, procedures and processes.

These written policies should accomplish 3 main goals:

- Delegate authority and responsibility;
- Identify challenges and training needs; and
- Provide for the holistic review and management of the organization's processes.

In order to accomplish this last goal of management and review, written guidelines and procedures are needed that specify the requirements for financial reporting, cash management, and employee timekeeping. To allow these functions to adapt and change alongside the realities of operating your organization, a follow-up and feedback system should be clearly presented in writing.

Who is Responsible for Internal Controls?

- Board
- Executive management
- Program management
- Fiscal Management



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In your organization, many people are responsible for internal controls. The responsibility for creating and maintaining internal controls doesn't fall to any single person or group, but instead is shared throughout the organization.

Some of the main stakeholders are the:

- Board of directors
- Executive managers
- Program managers, and
- Fiscal managers

While these groups, and individuals within these groups, have the main roles that are responsible for creating and managing internal control procedures, each staff member should be informed about his or her role in complying with the internal control initiatives.

Next, let's turn to how to implement internal controls.

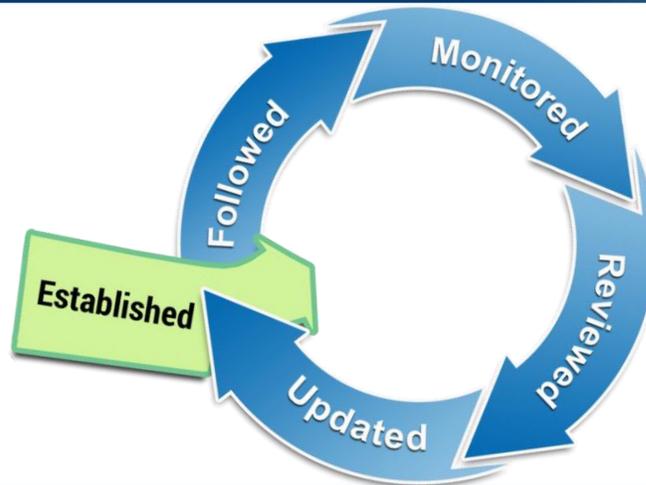
How to Implement Internal Controls?

Establish good written policies and procedures and reinforce them with checks and balances

The diagram illustrates the components of internal controls. On the left, there are two main elements: 'Organizational' and 'Checks and Balances'. The 'Organizational' element is represented by a gear with four segments labeled 'policies', 'processes', 'procedures', and 'systems'. Below it is a red plus sign. The 'Checks and Balances' element is represented by a green circle with a white checkmark. A red arrow points from these elements to a yellow folder icon on the right labeled 'Internal Controls'. At the bottom of the slide, there is a footer with the text: 'AmeriCorps | Senior Corps | Social Innovation Fund | Volunteer Generation Fund' and the 'Corporation for NATIONAL & COMMUNITY SERVICE' logo with three stars.

When key stakeholders decide to implement or modify internal controls, they do so by leveraging a strong combination of written policies, procedures, checks and balances. In the next section, we'll detail what goes into developing good policies and procedures, both in general and through the exploration of specific key elements.

Characteristics of Good Policies and Procedures



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The most important characteristic of good written policies and procedures is that they are visible to and clearly understood by the entire organization. To this end, policies and procedures should be established, followed, monitored, and reviewed. This process is one that repeats itself constantly throughout the grant cycle and the life of your organization.

Guidelines for Written Policies and Procedures

Written policies and procedures:

- Are the standards for the organization's operations
- Provide clear and consistent communication of expectations
- Set expectations that answer the question, "What tasks need to be done?"
- Describe how and when tasks should be completed, as well as who should complete them
- Include examples of how to follow the policy or procedure properly

Written policies and procedures act as the standards for an organization's operations. They should be written clearly to communicate their messages. Specifically, policies outline what tasks need to be done. Procedures complement policies by explaining how and when those tasks should be completed, as well as who should be primarily responsible for completing them. It's important to note that the best policies and procedures explain the rationale behind them and give enough structure to assure that members of an organization can follow them to the letter without ambiguity or hesitation.

Examples of Policies and Procedures

- **Authorization of transactions**
- **Payroll procedures**
- **Cash receipts procedures**
- **Procurement policies**
- **Travel regulations**
- **Financial reporting**
- **Budgeting**
- **Record Retention**
- **Conflict of Interest**
- **Timekeeping**

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This list contains examples of organizational functions for which policies and procedures are needed for good internal control. These examples are functions that generally apply to every organization. In addition to establishing and following the policy and procedures for these functions, the organization must monitor, review and update them regularly.

Examples of Policies and Procedures

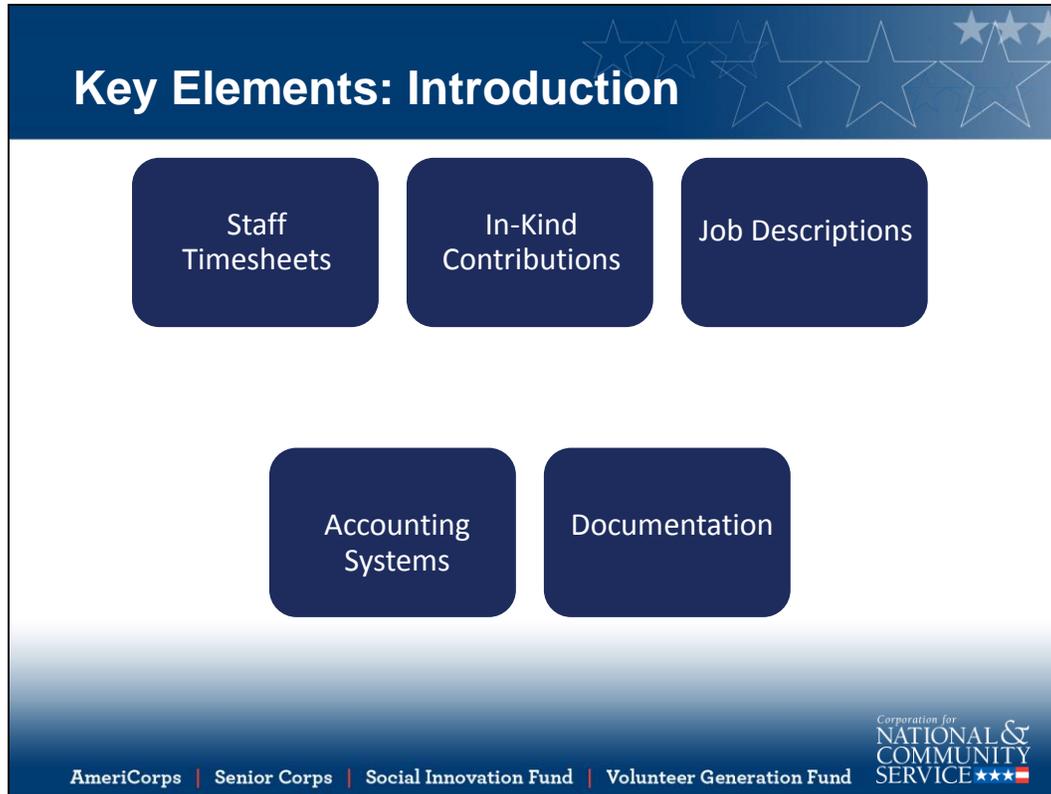
CNCS Federal Funding-Specific Policies:

- FFR completion
- Drawdown of Federal funds
- Matching requirements
- Participant eligibility requirements

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CNCS provides learning materials on these topics through the National Service Knowledge Network at www.nationalservice.gov



In the next section, you will be able to explore the key elements of some of the most important policies and procedures. The next few pages will provide an in-depth perspective, illustrating how many of the most important functions of an organization are controlled and streamlined through effectively written guidelines.

Key Elements: Staff Timekeeping

<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Staff Timekeeping</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">In-Kind Contributions</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Job Descriptions</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Accounting Systems</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center;">Documentation</div>	<p style="text-align: center;"><u>Objective</u></p> <ul style="list-style-type: none"> Account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization 	<p style="text-align: center;"><u>Key Elements</u></p> <ul style="list-style-type: none"> Signed and dated by employee and by supervisor Reflect after-the-fact determination of actual activity Are prepared monthly and coincide with one or more pay periods
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Reporting staff activities, sometimes referred to as timekeeping, helps an organization to track and document the activities for which its employees are compensated each day. It allows the organization to verify that the personnel budget is being put to good use, and also provides a system of documentation to assure that employees are adequately and correctly compensated for their time. In order for timekeeping to be effective, several criteria must be met:

- There must be a record that the employee and a supervisor agree that those activities are correctly documented and authorized to be paid for.
- The record must be completed after-the-fact and represent what the employee actually did that day rather than what was planned through the budget or some other means. Ideally, activities should be recorded at the end of an employee’s day or soon thereafter.
- For ease of bookkeeping and to avoid confusion, timekeeping records should be submitted in accordance with pay periods and generally at least monthly.
- Each staff activity report, or “timesheet”, should be closed, processed and reviewed before the employee’s time is compensated.

Key Elements: In-Kind Contributions

	<u>Objective</u>	<u>Key Elements</u>
<p>Staff Timekeeping</p> <p>In-Kind Contributions</p> <p>Job Descriptions</p> <p>Accounting Systems</p> <p>Documentation</p>	<ul style="list-style-type: none"> Document the basis for determining the value of personal services, material, equipment, buildings, and other donations Provide supporting documentation of ALL donations to justify charges to the grant 	<ul style="list-style-type: none"> Written receipt Name and signature of donor Date of donation Location of donation Estimated value of the donation, how this value was determined and who made that determination Indication of whether or not the contribution was obtained with federal funds

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Receipts for In-Kind contributions are essential documentation for your grant. These receipts document the value of any gift – materials, equipment, personal services, buildings or land, and record how that value was determined. This information proves that your organization received a gift of a certain value, and that the value you claim was the result of a fair appraisal. All receipts must be available for CNCS staff review as supporting documentation to justify the allocation of federal and non-federal share in the grant budget.

A sample donation receipt form and specific examples can be found on the National Service Knowledge Network Online Learning Center under Financial Management eCourses, “Match and In-Kind”: www.nationalservice.gov/resources

Key Elements: Job Descriptions

<div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Staff Timekeeping</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">In-Kind Contributions</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px; border: 2px solid red;">Job Descriptions</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center; margin-bottom: 5px;">Accounting Systems</div> <div style="background-color: #003366; color: white; padding: 5px; text-align: center;">Documentation</div>	<p style="text-align: center;"><u>Objective</u></p> <ul style="list-style-type: none"> Outline the duties and responsibilities for each role in an organization 	<p style="text-align: center;"><u>Key Elements</u></p> <ul style="list-style-type: none"> Job title Supervisor Direct reports Basic functions Duties and responsibilities Authorizations Qualifications Classification
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Job descriptions are required to recruit new talent and promote within an organization, and play an integral part in defining the duties and responsibilities of staff members during their tenure with an organization.

Public job descriptions promote transparency and help eliminate confusion in the workplace.

With respect to internal controls, what a specific position is authorized to do is particularly significant. For example, the check and balance between authorizing expenditure and issuing the payment are typically documented in position descriptions.

Key Elements: Accounting Systems

	<u>Objective</u>	<u>Key Elements</u>
Staff Timekeeping	<ul style="list-style-type: none"> • Provide a clear line of support for all grants an organization receives 	<ul style="list-style-type: none"> • Distinguish between different grants • Distinguish between CNCS and matching funds for each grant • Distinguish between grant and non-grant related expenditures • Identify costs by program year • Identify costs by budgetary category • Distinguish between direct and indirect costs • Record in-kind contributions as both revenues and expenses
In-Kind Contributions		
Job Descriptions		
Accounting Systems		
Documentation		

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An effective accounting system allows an organization to track its budget, monitor its expenditures and revenues, and group financial transactions according to a variety of factors. Accounting systems provide the level of fiscal transparency needed to support an organization’s grants. To this end for each grant an accounting system must:

- Identify income and expenditures by grant
- Identify federal CNCS funds and non-federal matching funds and in-kind donations for each grant
- Distinguish between expenditures for the purposes of the grant program and non-grant-related expenditures
- Identify costs by program year
- Identify costs by budget category (personnel, travel)
- Distinguish between direct and indirect (may be referred to as “overhead” or “administrative” costs)
- Record each in-kind contribution as revenue for purposes of non-federal share, and in the expense category for which the contribution was used (printing, supplies, equipment)

Key Elements: : Documentation

	<u>Objective</u>	<u>Key Elements</u>
Staff Timekeeping	<ul style="list-style-type: none"> • Provides evidence of what services or goods were obtained • Justifies why the transaction is allowable for the grant purposes • States the value of the contribution • Supports allowable costs 	<ul style="list-style-type: none"> • 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)
In-Kind Contributions		
Job Descriptions		
Accounting Systems		
Documentation		

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Documentation of expenses goes hand in hand with accounting and assures that your use of grant money is justifiable and allowable under the terms of the grant. Documentation shows what goods or services were obtained, justifies why each of the expenditures was allowable for grant purposes, and states the value of an in-kind contribution. Without documentation an organization cannot prove that grant funds were used to finance the intended purposes of the grant award.

Conclusion

Additional resources and support:

- Your CNCS grant officer
- Your CNCS program officer
- Complementary materials and eCourses accessible on the National Service Knowledge Network:
www.nationalservice.org/resources

This concludes the workbook on establishing effective policies, procedures and management controls. Now you should be able to review your organization's policies and procedures to be sure they provide adequate internal controls. In addition, applying the content of this workbook will help you assure that staff members understand their roles in compliance and that the management controls in your organization are being followed.

Knowledge Check: Scenario

	Project	Charge Description	PLC	Account	Pay Type	Sat 10/11	Sun 10/12	Mon 10/13	Tue 10/14	Wed 10/15	Thu 10/16	Fri 10/17	Charge Totals
1	10345.0002.0001	Program management		3234-001-01	R			8.0					8.0
2	112456.0005.0001	Budget development/review	VAP	4305-001-01	R				8.0				8.0
3	12345176.0001.0005	Volunteer Organization		5678-001-01	R					8.0			8.0
4	12345.0001	General Overhead		2516-001-01	R						8.0		8.0
5	198765.002.001	Bid & Proposal 0005		6758-001-01	R							8.0	8.0
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
17													
18													
19													
20													
21													
22													
23													
Regular								8.0	8.0	8.0	8.0	8.0	40.0
Overtime													
Total								8.0	8.0	8.0	8.0	8.0	40.0

Signature:
 Holiday
 Leave
 Non-Work Day
 Approval:

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Scenario:

You are the financial officer in an organization who is responsible for performing a final check on employee timesheets and issuing paychecks. At close of business October 13th you receive this timesheet. The pay period ends on the 25th. You are hesitant to approve payment because you notice that the timesheet is missing several elements of internal control.

Examine the timesheet and select the internal controls you think are missing.

Knowledge Check#1: Question

What internal control(s) are missing from the timesheet?

- Supervisor Signature
- Employee Signature
- After-the-fact determination of activity
- Time sheet submittal corresponds to pay periods

Take a moment to examine the question and the answer options. When you're ready, turn to the next page for the correct answers.

Knowledge Check #1: Answer

	Event	Charge Description	PLC	Account	Pay Type	Sat 10/11	Sun 10/12	Mon 10/13	Tue 10/14	Wed 10/15	Thu 10/16	Fri 10/17	Charge Totals
1	10345.0002.0001	Program management		3234-001-01	R			8.0					8.0
2	112456.0005.0001	Budget development/review	VAP	4305-001-01	R				8.0				8.0
3	12345176.0001.0005	Volunteer Organization		5678-001-01	R					8.0			8.0
4	12345.0001	General Overhead		2516-001-01	R						8.0		8.0
5	198765.002.001	Bid & Proposal 0005		6758-001-01	R							8.0	8.0
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
17													
18													
19													
20													
21													
22													
23													
Regular								8.0	8.0	8.0	8.0	8.0	40.0
Overtime													
Total								8.0	8.0	8.0	8.0	8.0	40.0

Signature: Holiday Leave Non-Work Day Approver:

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First and foremost, this timesheet has been submitted without a supervisor’s signature in the “approval” box. Without a supervisor signature you as the financial officer have no verification that the information on this timesheet is correct.

In fact, you should know that some of the information provided is suspect because you received the timesheet on October 13th, but work hours for the rest of the week are already documented. This means that projections of future work are being recorded.

Finally, remember that in the scenario, the submittal of the timesheet did not correspond to the pay periods established by the organization. If you were the financial officer reviewing this timesheet, these changes would have to be made before the time sheet could be approved.

Knowledge Check#2: Question

What consequences could result if the timesheet was approved?

- Supervisor cannot answer for billable time
- Employee's billable time may not be accurately reported
- Employee may not be compensated or have compensation revoked due to inaccurate record keeping

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Consider the repercussion if, instead of sending the timesheet back for revision, you instead approved payment based on the timesheet. Look through the list provided and see if you can identify which consequences could result from timesheets that are missing these internal controls.

Knowledge Check#2: Answer

What consequences could result if the timesheet was approved?

- ✓ Supervisor cannot answer for billable time
- ✓ Employee's billable time may not be accurately reported
- ✓ Employee may not be compensated or have compensation revoked due to inaccurate record keeping

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All of the options provided are possible consequences of a timesheet that lacks compliance with internal control procedures.

Without a supervisor signature on the timesheet, the organization has no documentation to verify that the information was reviewed and validated as true and correct; and, therefore, that any payment from grant funds was justified.

Since the employee is reporting work before it could have been completed, there is no accurate record of actual activity to support any payment made for that work.

Insufficient recordkeeping could cause an employee not to be fairly compensated for the time that he/she did actually work.

Finally, review of timekeeping records is a standard audit procedure and lack of valid records is a frequent cause of questioned costs.

Learning Aid: Exercise Worksheet

Instructions:

Fill in the chart to create a visual representation of who is responsible for the internal controls in place in your organization. Use the chart to clarify who is responsible for keeping the policy for each internal control up to date and enforced and who is responsible for the task(s) that implements the control procedure. The list below is basic internal controls that should appear on your chart. If you can't identify who is responsible for the policy and the procedures for a topic that might indicate a gap in your organization's controls that needs to be addressed. Adapt the chart to your organizational structure.

Example Internal Controls

Authorization of transactions
Payroll
Cash receipts
Procurement
Travel
Financial reporting
Budgeting
Record Retention
Conflict of Interest
Timekeeping

