

Internal Controls, Policies, and Written Procedures

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Focus on Internal Controls

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§200.303 Internal Controls

As a subrecipient you **must** establish and maintain effective internal control over the Federal award that provides reasonable assurance that you are managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award

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Uniform Grant Guidance

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- Also known as:
 - 2 C.F.R. Part 200
- Establishes rules that apply to all Federal grants
- Streamlines the Office of Management and Budget (OMB) Circulars into one, comprehensive policy guide
- Effective for the Federal grants awarded for fiscal school year 2015-16



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An effective internal control system increases the likelihood that the objective will be met

- First line of defense in safeguarding assets
- Not one event, but a series of actions that occur throughout your school district's operations
- People are what make internal controls work

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Identify an objective

“I want to be sure that all costs coded to the IDEA grant are allowable per State and Federal rules and regulations”



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Implement the control

Sally puts together the federal grant budget, checking that only allowable costs are included



Jim codes payroll by identifying the individuals in the budget with the appropriate project code

All supplies and purchased services are processed through the school district's purchasing process (PO, receipt, invoice, payment)

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Design a control

“Sally is most familiar with what is an allowable cost so we will have her approve all budget items for IDEA.”

“Sally should also be the one to review and approve the claims.”

“Jim in accounting processes payroll and verifies supplies were received or services were performed before approving an invoice for payment.”



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Jim codes the invoices with IDEA's project code

Jim prepares the IDEA claim by pulling the project code from the general ledger for the time period being claimed



Sally approves the claim verifying the costs are in agreement with the approved budget and allowable

Jim submits the claim to DPI

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Objective achieved

“Costs claimed on the IDEA grant are allowable per Federal rules and regulations”



WRITTEN PROCEDURES

No longer “best practice”
but a **REQUIREMENT**

should **must**

Policy & Procedures

POLICY

Why you administer things a certain way

The goal or objective

PROCEDURE

How you perform the functions necessary to conform to your policy

Step by step process to implement the control

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What written procedures must your LEA have in place?

Develop written procedures for:

- Cash Management - §200.302(b)(6)
- Allowability of Costs - §200.302(b)(7)
- Conflict of Interest - §200.318(c)(1-2)

Ensure that existing written procedures are in compliance with:

- General Procurement Standards - §200.318-.326
- Equipment Management Requirements - §200.313

Procedures / Not Work Stoppages

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- Written procedures should ensure claiming of allowable costs without blocking or slowing down activities
- Make the procedures reliable but not onerous
- Accountability is important, but just as important is allowing the program area timely access to Federal funds to implement grant activities

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Technical Assistance

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- DPI Technical Assistance
 - Wisegrant website
 - ✦ Allowable Costs – Required Written Procedures
 - Includes Compensation
 - ✦ Cash Management of Federal Funds
 - ✦ Equipment
 - ✦ Procurement
 - ✦ Conflict of Interest
 - <http://dpi.wi.gov/wisegrants>

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Procedures / Not Mission Impossible

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- Written procedures should outline manageable steps
- Everyone involved must know the procedures and implement them, otherwise the procedures do not matter (and there will be a non-compliance finding)
- If the procedure is overly complicated or the people involved in authorizing are never available, the subrecipient is setting the stage for staff to ignore procedures in order to move work along

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ALLOWABILITY OF COSTS

§200.302

Financial Management

(b) (7)

Written procedures for determining the allowability of costs prior to claiming grant fund

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ALLOWABILITY OF COSTS

Required written procedures must address how the subrecipient is ensuring that costs on the federal grant, and ultimately claimed, are allowed under the individual Federal program *and* in accordance with the cost principles established in the Uniform Grant Guidance

- This includes how charges made to the grant for personnel are determined

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ALLOWABILITY OF COSTS

Subpart E

Cost Principles

§200.400 -
§200.475

- Addresses 55 “items of cost” that receive clarification regarding allowability, *in general*, for using federal funds

Is not an exhaustive or minutely detailed list, so...

- Provides guidance on “Basic Considerations” to apply to all costs, listed or not listed

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Factors affecting allowability of costs

- Cost principles (Uniform Grant Guidance)
- Cross cutting federal statutes/regulations
 - ✦ EDGAR
- Program statute and regulations
 - ✦ IDEA, ESEA, etc.
- Terms and conditions of the federal award
 - ✦ Grant award
- Other governing regulations
 - ✦ State statutes
 - ✦ District policies

**CONFORM TO LIMITATIONS OR EXCLUSIONS
2 CFR §200.403(b)**

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Factors affecting allowability of costs

Necessary

- A cost is “necessary” if it meets an important program objective - it must address an existing need

Reasonable

- “Prudent Person” Standard
(2 CFR §200.404)



**REASONABLE AND NECESSARY
2 CFR §200.403(a)**

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Factors affecting allowability of costs



The cost must be consistent with policies, regulations, and procedures that apply uniformly to both federal awards and other activities of the subrecipient

- Subrecipients cannot apply different rules for allowable costs based on funding source

CONSISTENT WITH POLICIES & PROCEDURES 2 CFR §200.403(c)

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CONSISTENT WITH POLICIES AND PROCEDURES

2 CFR §200.403(c)

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EXAMPLE

If the subrecipient's policy does not reimburse employees for professional association memberships, an exception cannot be made to reimburse the same costs because federal funds are available

MEMBERSHIP RENEWAL
Annual Dues

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CONSISTENT WITH POLICIES AND PROCEDURES

2 CFR §200.403(c)

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EXAMPLE



If the per-diem rate for employees whose salary and travel are paid from state/local funds is one amount, then there cannot be a separate, higher amount for employees paid from federal funds

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ONCE THE COST HAS BEEN DETERMINED TO BE ALLOWED...IT MUST BE ALLOCABLE

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A cost is allocable to a particular Federal award if the goods/services involved are assignable to that Federal award in accordance with relative benefits received

- To what extent are the expenditures charged to a particular grant program benefiting the program?
 - ✦ When an LEA charges 100 percent of an expenditure to a federal program, the LEA must ensure that the program is receiving the entire benefit of these costs

ALLOCABLE TO FEDERAL AWARDS

2 CFR §200.405(a)

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ALLOCABLE TO FEDERAL AWARDS

2 CFR §200.405(a)

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EXAMPLE 1

- A teacher spends 25% of their time on the federal award therefore 25% of the teacher's salary is charged to the federal award

Allocable with supporting
Time and Effort documentation

EXAMPLE 2

- Grant funded staff use the Internet, so the LEA charges 3% of the network costs to the federal award

Not Allocable

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Personnel Time & Effort Records

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These records must:

- Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated
- Be incorporated into the official records of the subrecipient
- Support the distribution of the employee's salary among cost objectives if the employee works on multiple, unrelated activities (per grant guidelines)

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COMPENSATION - PERSONNEL

§200.430

Standards for Documentation of Personnel Expenses

(i)

Personnel salary and benefit charges made against the Federal awards must be based on records that accurately reflect the work performed

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Personnel Time & Effort Records

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Budget estimates do not qualify as supporting documentation, but may be used for interim accounting purposes, if the system for establishing the estimates has a proven track record that budgeted amounts are close to actual amounts

- Documentation records should be adjusted in a timely manner if there are significant changes in the employee's work activity

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Personnel Time & Effort Records

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- The subrecipient's system of internal control must include processes to review after-the-fact interim charges made to a Federal award based on budget estimates
- All necessary adjustments must be made such that the final amount charged to the Federal award is ACCURATE, ALLOWABLE, and PROPERLY ALLOCATED

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CASH MANAGEMENT

§200.305

Payment

- Advance Payment
 - Requesting Federal funds for expenditures not yet incurred
- Cost Reimbursement
 - Requesting Federal funds for expenditures after they have been liquidated

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CASH MANAGEMENT

§200.302

Financial Management

(b) (6)

The sub-recipient's financial management system must have:

- Written procedures regarding cash management and claiming of federal funds

§200.305 Payment

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Advance Payment

- Subrecipient must :
 - ✦ Maintain written procedures that minimize the time elapsing between the transfer of funds from DPI and the disbursement of those funds
 - ✦ Maintain financial management systems that meet the standards for fund control and accountability per the Uniform Grant Guidance

§200.305 Payment

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Advance Payment

- Subrecipient must :
 - ✦ Advance funds limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the LEA in carrying out the purpose of the approved program or project
 - As close as administratively feasible to the actual disbursements

§200.305 Payment

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Cost Reimbursement

- Preferred when requirements of cash advance not met
- Almost always method used by school districts
- Expenditures are obligated and liquidated prior to reimbursement

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When might an LEA have an advance payment?

Accrued payroll at year end

- Set up a payable on June 30th
- File a final claim on July 10th
- Payment of the payroll occurs in July and August

Cost Reimbursement – Obligating Funds

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When can you begin to obligate the funds?

Must be made within the grant period (July 1-June 30)

- Obligation – the amount of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the grantee during the same or a future period

Cost Reimbursement – Obligating Funds

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§76.708 When certain subgrantees may begin to obligate funds

- Formula grants – DPI may not authorize an applicant to obligate funds until the date that the applicant submits its application to the State in substantially approvable form or July 1, whichever is later
- Discretionary grants – DPI may not authorize an applicant for a subgrant to obligate funds until the award is made

Cost Reimbursement – Obligating Funds

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A fiscal transaction should be approved:

- By a person (program manager) who can attest the planned/actual expenditure is allowable and approved under the Federal program and
- By another person (business manager/accountant) who can attest to the availability of funds and to its consistency with the approved budget and who enters the transaction into the fiscal record
- Each of these individuals should initial or sign the documentation for the transaction

EDGAR §76.707 When Obligations are Made

If the obligation is for -	The obligation is made -
(a) Acquisition of real or personal property	On the date on which the school makes a binding written commitment to acquire the property.
(b) Personal services by an employee of the school	When the services are performed.
(c) Personal services by a contractor who is not an employee of the school	On the date on which the school makes a binding written commitment to obtain the services
(d) Performance of work other than personal services	On the date on which the school makes a binding written commitment to obtain the work.
(e) Public utility services	When the school receives the services
(f) Travel	When the travel is taken.
(g) Rental of real or personal property	When the school uses the property.
(h) A pre-agreement cost that was properly approved by the State under the cost principles identified in 34 CFR 74.171 and 80.22.	

Cost Reimbursement – Liquidating Funds

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§200.343(b) Closeout

Unless DPI authorizes an extension, a non-Federal entity must liquidate all obligations incurred under the Federal award not later than 90 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award

- Liquidation – to liquidate an obligation, the service has occurred or the purchased item has been received and payment has been made to vendor or provider

Cost Reimbursement – Expenditure Report

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Requests for funds of Federal grants awarded by DPI must be completed using the form PI-1086

- Some grant programs still use an Excel version
- Larger formula grants have moved to a web-based format

The PI-1086 is a summary report, all detail to support the claim, such as purchase orders, is maintained by the recipient

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Management of Equipment

§200.313

Equipment

(d)

The Uniform Grant Guidance identifies the procedures for managing equipment purchased in whole or in part with Federal funds

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§200.302

Financial Management

(b)(5)(6)(7)

The sub-recipient must:

- Be able to match expenditures with approved grant budgeted amounts
 - If it is not approved on the budget, it is not an allowed cost – even if it would be if it was on the budget
 - Claims, even though “rolled up,” must align with detailed budget

2 CRF §200 DEFINITIONS

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Equipment (§200.33):

Tangible personal property (including IT systems) having a useful life of more than one year and a per-unit cost equal or greater to the capitalization level established by the sub-recipient; or \$5,000

Acquisition cost (§200.2) –

Freight, installation, accessories, auxiliary apparatus to make the equipment usable is included in the threshold cost of equipment

§200.318**General
Procurement
Standards**

The subrecipient must use its own documented procurement procedures which reflect applicable State and local regulations, provided that the procurements conform to applicable Federal laws and the Uniform Grant Guidance

CONFLICT OF INTEREST**§200.318****General
Procurement
Standards****(c)(1)**

The LEA must maintain written standards of conduct covering conflict of interest and governing the actions of its employees engaged in the selection, award and administration of contracts

**PROCUREMENT
TRANSACTIONS**

The subrecipient must use its own documented procurement procedures which reflect applicable State and local regulations, provided that the procurements conform to applicable Federal laws and the Uniform Grant Guidance

All procurement transactions must be conducted in a manner providing full and open competition

- The subrecipient must have written procedures regarding solicitations to ensure this requirement is met

Conflict of Interest (§200.318(c)(1))

These written standards must include that:

- No employee, officer, or agent may participate in the selection, award, or administration of a contract supported by a Federal award if he or she has a real or apparent conflict of interest

A conflict of interest would exist if

- The employee, officer, or agent (including school board members) or
- Any member of his or her immediate family or
- His or her partner

engaged in the selection of a vendor but also had a potential financial or a tangible personal benefit created through the contract, including selecting an organization which employs or is about to employ any of the listed parties

Conflict of Interest (§200.318(c)(1))

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The written standards must provide for disciplinary actions to be applied for violations of conflict of interest or gratuities by officers, employees, or agents of the non-Federal entity

Conflict of Interest (§200.318(c)(1))

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These written standards must also include:

That officers, employees, and agents of the subrecipient must neither solicit nor accept gratuities, favors, or anything of monetary value from contractors or parties to subcontracts

However, the subrecipient may set standards for situations in which the financial interest is not substantial or the gift is an unsolicited item of nominal value

Conflict of Interest (§200.318(c)(2))

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If your LEA has a parent, affiliate, or subsidiary organization, you must also maintain written standards of conduct covering organizational conflicts of interest

- Organizational conflicts of interest means that because of relationships with a parent company, affiliate, or subsidiary organization, the LEA is unable or appears to be unable to be impartial in conducting a procurement action involving a related organization

The subrecipient must disclose, in writing, to the pass-through entity all violations of Federal criminal law involving **fraud, bribery, or gratuity violations** potentially affecting the Federal award

Fraud Notification:

<http://goo.gl/forms/HPaogoXEdV>

Failure to make required disclosures will result in noncompliance, and remedies may include suspension or debarment

DPI Monitoring

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When would DPI request a copy of a subrecipient's written procedures?

- When there is non-compliance or suspected non-compliance regarding Federal grant funds
- Single audit findings

Corrective Actions

- Update written procedures to be in compliance
- Train staff on procedures
 - ✦ Funds will be withheld until corrective action has been implemented and reviewed by DPI