

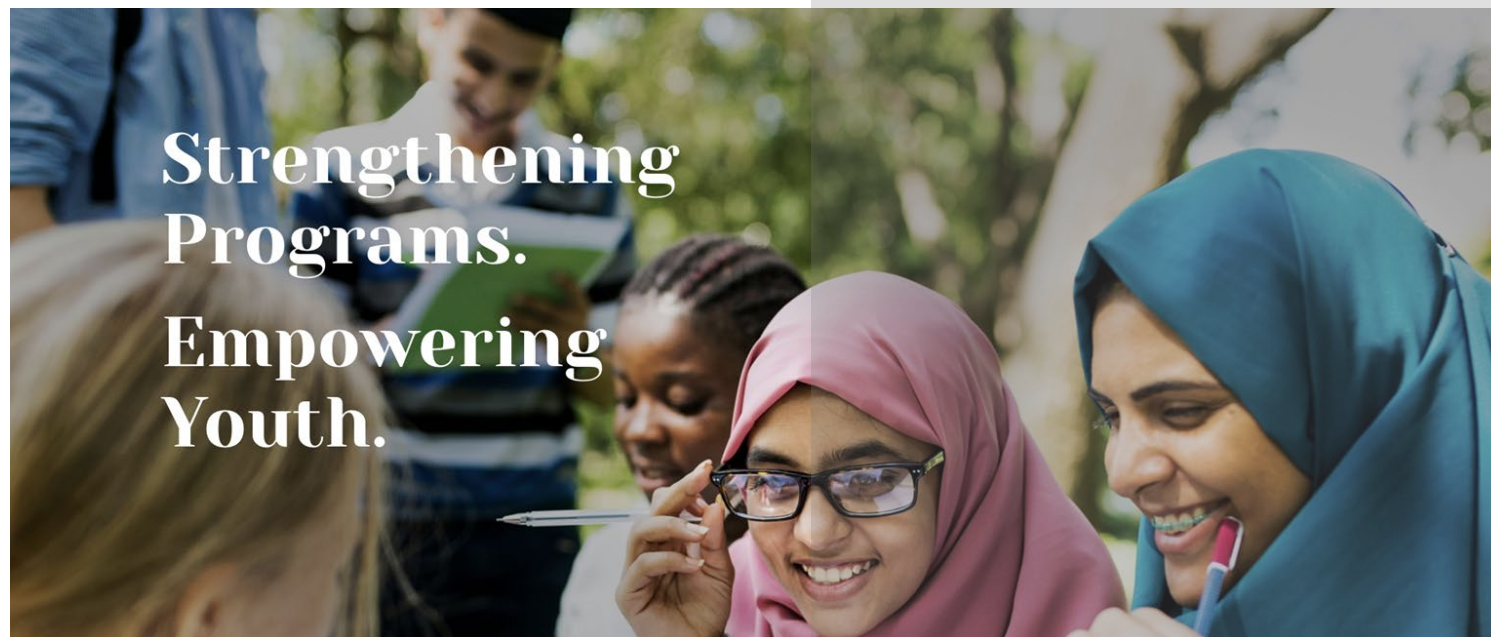


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**Strengthening
Programs.
Empowering
Youth.**

May 2023

Internal Controls and Best Practices

MAY 9, 2023



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Welcome and Introductions

LET'S GET TO KNOW ONE ANOTHER

WHAT IS ONE THING YOU WOULD LIKE TO LEARN TODAY?



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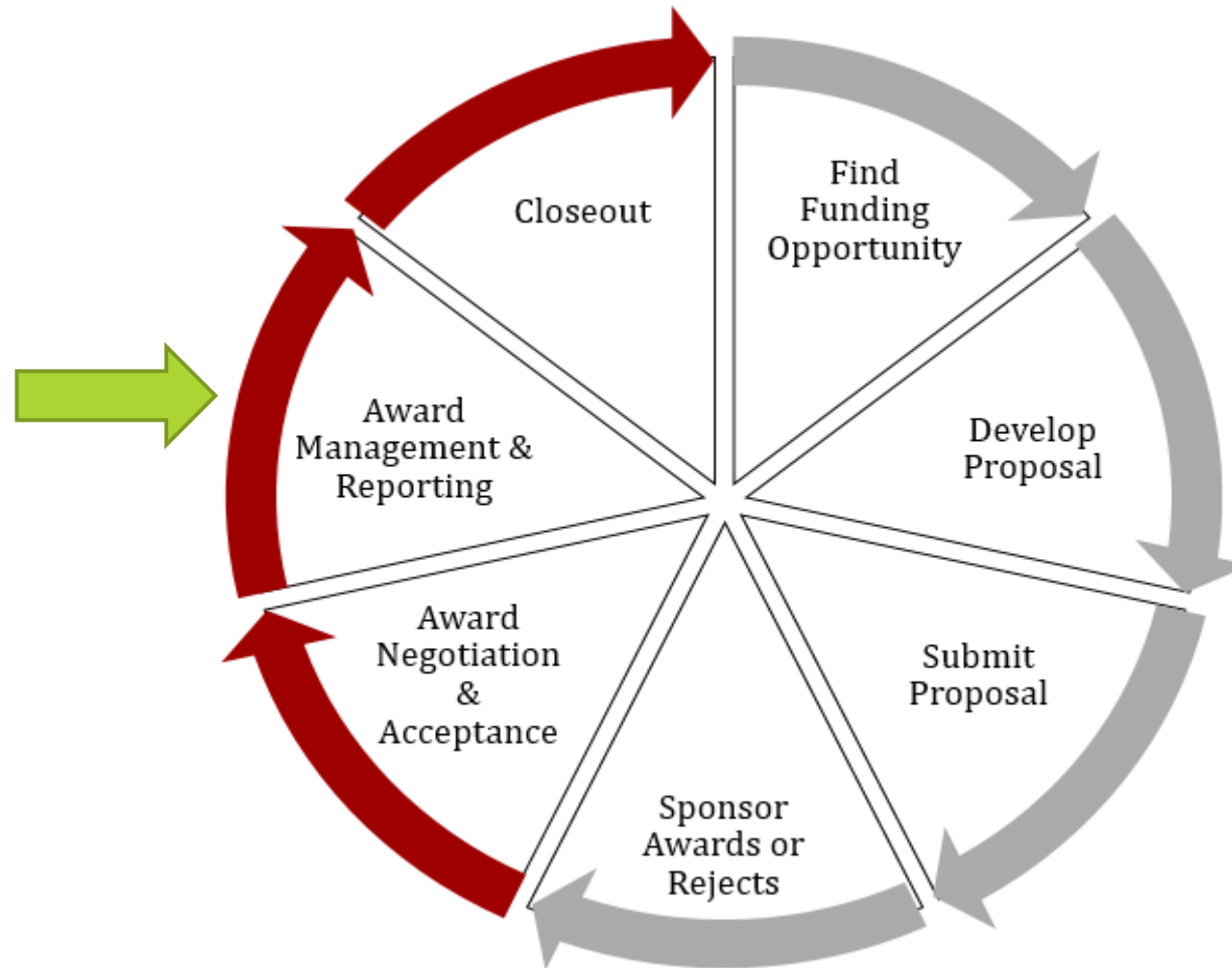


Today's Agenda

- ▶ The Funding Cycle
- ▶ What are Internal Controls?
- ▶ Best Practices for Internal Controls
- ▶ Components and Principles of Internal Control
- ▶ Mistakes and Fraud
- ▶ Internal Control Process



FUNDING CYCLE



What are Internal Controls?

- ▶ Infrastructure designed to protect the organization and prevent fraud. Best practices , policies and procedures, standards and ethical guidelines are put into place to ensure compliance.
- ▶ Three types of Internal Controls
 - ▶ Detective – designed to detect errors that **may have** occurred
 - ▶ Preventative –designed **to keep** errors **from occurring** in the first place
 - ▶ Corrective –designed to correct errors that **have been detected**

Purpose of Internal Controls

- ▶ Consistency, Efficiency and Effectiveness
- ▶ Separation of Duties
- ▶ Training
- ▶ Review/Approval
- ▶ Protecting Assets

Internal Control Focus and Functions

An Internal Control Process should support the following Organizational Functions:

- ▶ Effectiveness and Efficiency of Operations
- ▶ Reliability of Reporting for Internal and External Use
- ▶ Compliance with applicable Laws and Regulations

Internal Controls and Grant Management

Having an internal control process supports the overall grant management process:

- ▶ Provides assurance that an award is managed in compliance with the award terms and conditions, regulations and statutes
- ▶ Ongoing monitoring maintains compliance
- ▶ Addressing issues of noncompliance in a timely manner is a proactive approach
- ▶ Reduces the opportunity for fraud to occur

Know the Regulations

- ▶ Federal Regulations
- ▶ State Laws
- ▶ City/County Ordinances
- ▶ Agency/Sponsor Guidelines/Policies
- ▶ Organizational /Administrative Policies
- ▶ Award/Contract Terms and Conditions

Internal Control – Components and Principles

Components of Internal Control	Principles
Control Environment	<ul style="list-style-type: none">• Demonstrate Commitment to Integrity and Ethical Values• Exercise Oversight Responsibility• Establish Structure, Responsibility, and Authority• Demonstrate Commitment to Competence• Enforce Accountability

Summary of Green Book Components and Principles of Internal Control taken from [page 25 of 51 of OMB Circular no A-123](#).

Internal Control – Components and Principles

Components of Internal Control	Principles
Risk Assessment	<ul style="list-style-type: none">• Define Objectives and Risk Tolerances• Identify, Analyze, and Respond to Risk• Assess Fraud Risk• Analyze and Respond to Change

Internal Control – Components and Principles

Components of Internal Control	Principles
Control Activities	<ul style="list-style-type: none">• Design Control Activities• Design Activities for Information Systems• Implement Control Activities

Internal Control – Components and Principles

Components of Internal Control	Principles
Information and Communication	<ul style="list-style-type: none">• Use Quality Information• Communicate Internally• Communicate Externally

Internal Control – Components and Principles

Components of Internal Control	Principles
Monitoring	<ul style="list-style-type: none">• Perform Monitoring Activities• Remediate Deficiency

Best Practices for Implementing Internal Controls



ESTABLISH CLEAR
POLICIES AND
PROCEDURES



ENSURE THERE IS A
PROCESS TO
FOLLOW



TRAIN STAFF,
VOLUNTEERS, ETC.
ON THE PROCESS



FOLLOW THE
PROCESS



BE CLEAR ABOUT
SEPARATION OF
DUTIES



SEEK OUT
RESOURCES



INVEST IN ANNUAL
TRAINING

Policy vs Procedure vs Guideline

- ▶ Policy – “a course or principle of action adopted or proposed by a government, party, business, or individual.”
- ▶ Procedure – “an established or official way of doing something”
- ▶ Guideline - a general rule, principle, or piece of advice
- ▶ How To - giving practical instruction and advice, more departmental specific

- ▶ Example:
 - ▶ Policy – you must wash your hands
 - ▶ Procedure – turn on water, put soap in hands, scrub for 20 seconds, rinse
 - ▶ Guideline – handwashing is a good idea
 - ▶ How To – buy the soap from Costco, it’s cheaper, unscented and we can use the ProCard

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Terms to keep in mind

Mistake ... “wrong judgment, misunderstanding, a wrong action or statement proceeding from faulty judgment, inadequate knowledge, or inattention.”

Fraud ... “entails knowingly and intentionally providing false information, fraudulent documents, or false statements.”

Why do things go wrong?

- ▶ Cost
- ▶ Short-staffed
- ▶ Lack of Communication
- ▶ Human Error
- ▶ Management

When Mistakes Happen

**Addressing
common
mistakes in
grant
management:**



**Calculation
error in the
excel workbook**



**Missing
documentation
(report, email,
etc.)**



**Program
requirements
changed**



**Something,
simply got
overlooked**

Examples of Fraud

- ▶ Stealing cash
- ▶ Falsifying timesheets or submitting timesheet for someone else
- ▶ Falsifying a report to cover up a mistake
- ▶ Taking leave without supervisor approval
- ▶ Falsifying reimbursement request
- ▶ Falsifying travel expense report
- ▶ Using institutional funds for personal use
- ▶ Over-purchasing to get a bonus item/kick back

Grant Fraud Awareness

- ▶ Resource from the [Office of the Inspector General](#):

GRANT FRAUD AWARENESS

Grantees and government employees play an important role in fighting fraud, waste and abuse related to taxpayer funded programs. Offices of Inspectors General exist to help prevent and investigate fraud, waste, abuse and misconduct related to government operations. It is in everyone's best interest to ensure government operates at optimum efficiency and effectiveness and that grant funds are used properly.

Fraud Assumptions

Fraud can and does happen. The best strategy to mitigate the risks is to increase awareness of the common fraud schemes and encourage appropriate risk management efforts to prevent issues or detect them as early as possible.

Fraud Consequences

The consequences of fraud can include debarment from receiving future funding, administrative recoveries of funds, civil law suits and criminal prosecution– or a combination of all or some of these remedies.

What is Grant Fraud?

Grant funds are awarded for a specific “public purpose” and grantees must use those funds as agreed and within certain parameters including the Office of Management and Budget Circulars and granting agency guidelines. Most issues of fraud, including grant fraud, essentially relate to “lying, cheating, and stealing.”

Fraud in the News

- ▶ The Seattle Times- More than \$800,000 in Seattle homeless funds intended for Mary's Place shelter may have been stolen, emails show
- ▶ Washington Post – “A professor used \$185K in research grants on strip clubs, iTunes and more, officials say” -



Internal Control Process: Separation of Duties

DISCUSSION: LET'S TALK ABOUT
WHAT THIS LOOKS LIKE IN A NON-
PROFIT ORGANIZATION

Internal Control Process: Financial Reports

- ▶ DISCUSSION: LET'S TALK ABOUT WHAT THIS LOOKS LIKE IN A NON-PROFIT ORGANIZATION





Internal Control Process: Payroll

- ▶ DISCUSSION: LET'S TALK ABOUT WHAT THIS LOOKS LIKE IN A NON-PROFIT ORGANIZATION



Internal Control Process: Cash Receipts

- ▶ DISCUSSION: LET'S TALK ABOUT WHAT THIS LOOKS LIKE IN A NON-PROFIT ORGANIZATION



Internal Control Process: Procurement

- ▶ DISCUSSION: LET'S TALK ABOUT WHAT THIS LOOKS LIKE IN A NON-PROFIT ORGANIZATION



Internal Control Process: Reconciliation & Monitoring of Accounts

- ▶ DISCUSSION: LET'S TALK ABOUT WHAT THIS LOOKS LIKE IN A NON-PROFIT ORGANIZATION

AUDITS

Audits help a grantee organization improve their accounting, financial management, and award management practices



A grantee organization may receive an audit from the grant sponsor or an outside agency



Federal award recipients are required to have an audit if they expend more than \$750,000 in Federal funds in a single fiscal year



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Questions?



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