SMART 3.0 Training
February 26, 2020

SMART 3.0 Training Strategies

SMART 3.0 Training Series:
The training modules are focused on:
Strategies for sound grant management that includes: Monitoring, Accountability, Risk mitigation and Transparency

These four themes are weaved throughout the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards also known as the Uniform Guidance (2 CFR Part 200 and 2 CFR Part 2900).

Grant Management Toolbox

DOL Grant Recipients & Subrecipients
Module Overview

- Financial Management
- Internal Controls
- Policies and Procedures

Understanding the Uniform Guidance

- Uniform Guidance has expanded the requirements and increased the focus on internal controls ([2 CFR Part 200](#))
- Internal controls are key to protecting and safeguarding grant assets
- Internal controls help ensure compliance
- Policies and procedures reduce risk that can impede the accomplishment of objectives

Financial Management

- Sound Management Practices
- Financial Management Standards
- Effective Management Systems
Sound Management Practices

Policy Guide

✓ Non-Federal entity is responsible for efficient and effective administration of award through use of sound management practices, and administering Federal funds in compliance with agreements, program objectives, and the terms and conditions of Federal award.

2 CFR 200.400

Sound Management Practices (cont.)

Policy Guide

✓ The non-Federal entity has the primary responsibility for employing whatever form of sound organization and management techniques to assure proper and efficient administration of the Federal award, in recognition of its own unique combination of staff, facilities, and experience.

✓ In other words, the grantee must establish an effective internal control structure, appropriate to its particular situation.

2 CFR 200.400

Financial Management Standards

- Identify all Federal receipts and expenditures
- Accurate, current, and complete disclosure
- Effective control over and accountability for assets
- Comparison of expenditures to budgets
- Written procedures for allowable costs
- Records that identify source and application of funds
- Written procedures for payments

2 CFR 200.302
Effective Management Systems

- Effective financial management systems include:
  - Clear delineation of roles and responsibilities
  - Written policies and procedures
  - Training
  - Internal controls
  - Effective oversight
  - Effective communication and information sharing

Effective Management Systems (cont.)

- Financial systems that provide reliable and current information:
  - Accounting controls
  - Accurate, timely reports
  - Budget controls
  - Asset management
  - Record retention/access controls

Knowledge Check 1 - Question

1. Which of the following does the Uniform Guidance consider to be a part of effective grant management? (Check all that apply)
   - Segregation of duties
   - Written policies and procedures
   - Separate bank account for each grant
   - Training
   - Internal Controls
   - Accrual accounting system
   - Effective oversight
   - Effective communication and information sharing
   - All of the above
Knowledge Check 1 - Answers

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   - Separate bank account for each grant
   - Training
   - Internal controls
   - Accrual accounting system
   - Effective oversight
   - Effective communication and information sharing
   - All of the above

   All of these items are listed by the Uniform Guidance as part of effective grant management except separate bank accounts and accrual accounting system.

Internal Controls

- Identify the Uniform Guidance's requirement for Internal Controls
- Discuss Internal Control Framework
- Review Key Internal Control Activities

What is the Goal of Internal Controls in the Federal Grant Environment?

- To provide reasonable assurance that grant requirements are complied with in a timely and cost-effective manner
- Completing work on the grant effectively and efficiently while staying in compliance with required by regulations
**Internal Controls – Definition**

- **2 CFR 200.61** Internal Controls: A process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - Effectiveness and efficiency of operations
  - Reliability of internal and external reporting
  - Compliance with laws and regulations

**Internal Controls Over Compliance Requirements**

- **2 CFR 200.62** Internal Controls Over Compliance Requirements: A process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:
  - Transactions are properly recorded and accounted for in order to
    - Prepare reliable financial statements/Federal reports
    - Maintain accountability over assets
  - Transactions are executed in compliance with
    - Federal statutes, regulations, terms and conditions of the award
    - Any other Federal statutes/regulations that are identified in the Compliance Supplement
  - Funds, property, other assets are safeguarded against loss from unauthorized use/disposition.

**Internal Controls Requirements**

- Use effective internal controls over Federal awards that provide reasonable assurance of compliance
- Comply with Federal statutes, regulations, and terms and conditions
- Evaluate and monitor compliance
- Take prompt action when instances of noncompliance are identified
- Safeguard protected personally identifiable information (PII) and other sensitive data

2 CFR 200.303
Internal Controls – Subrecipient Level

- Subrecipient responsibility
  - Must establish and maintain effective internal control over the Federal award

- PTE responsibility
  - Review and understand subrecipient’s internal control system
    - Evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring
    - Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward

Internal Control Framework

- Describe the components and activities of an effective internal control framework
  - "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) [http://www.coso.org/ic.htm](http://www.coso.org/ic.htm)

- Identify the functions and operations for which non-Federal entities must have written policies and procedures

COSO View of Internal Controls

- Internal controls is a process
  - Designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.
  - Effected by an entity's board of directors, management, other personnel
  - Carried out by individuals who must be given the tools and structure, and who must be held accountable.
COSO Internal Control Integrated Framework

COSO Component 1: Control Environment

- Set of standards, processes, and structures that provides the basis for carrying out internal controls across the organization.
- Pervasive influence on all the decisions and activities of an organization.
- Effective organizations set a positive “tone at the top.”
- Factors include integrity, ethical values, and competence of employees, and management’s philosophy & operating style.

COSO Component 1: Control Environment (cont.)

- Organization demonstrates integrity and ethical values
- Commitment to attract, develop, and retain competent individuals that align with the organization’s objectives
- Board of Directors demonstrates independence from management and exercises oversight of the development and performance of internal controls
- Management’s philosophy and foundation includes appropriate authorities and responsibilities in the pursuit of the organizations’ objectives
COSO Component 2: Risk Assessment

- Risks are internal and external events that threaten the accomplishment of objectives.
- Methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their outcomes.

Risk Assessment: Equipment – Example

2 CFR 200.313

- Secure and restrict access to equipment to reduce the risk of loss or unauthorized use.
- Perform periodic physical inventories to verify existence, quantities, location, condition, and utilization.
- Base the level of security on the vulnerability of items being secured, the likelihood of loss, and the potential impact should a loss occur.

These principles apply to other assets as well: cash, credit cards, laptops, supplies, etc.

COSO Component 3: Control Activities

- Tools (Policies, procedures, and processes)
- Designed and implemented to help ensure that management directives are carried out.
- Help prevent or reduce the risks that can impede the accomplishment of objectives.
- Occur throughout the organization, at all levels, and in all functions.
- Include:
  - Approvals
  - Authorizations
  - Verifications
  - Reconciliations
  - Security of assets
  - Reviews of operating performance
  - Adequate separation of duties
Control Activities: Separation of Responsibilities

- **Authorizing**
  - A separate person authorizes the transaction
- **Recording**
  - A separate person records the transaction
- **Reconciling**
  - A separate person reconciles the transaction
- **Custody**
  - A separate person holds or has custody of the asset

Segregation of Duties: Financial Management

- Budgeting
- Cash Management
- Accounts Payable
- Financial Reporting
- Information Systems
- Travel
- Purchasing & Contracting
- Property Management
- Personnel & Payroll
- Participant Related Payments

Control Activities for Grant Management

- Formal written policies and procedures
- Adequate monitoring, including of subrecipients
- Reconciliation processes
- Secured, safeguarded assets
- Segregation of duties and responsibilities
- Review and approval processes
- Adequate documentation for all costs/activities
COSO Component 4: Communication and Information

- Pertinent information must be captured, identified, and communicated on a timely basis.
- Effective information and communication systems enable the organization’s people to exchange the information needed to conduct, manage, and control its operations.
- Records and information systems must be sufficient to provide reliable reporting and demonstrate compliance with the Federal award.
- In a broader sense, effective communication must ensure information flows down, across, and up the organization.
  - Quality of information
  - Effectiveness of communication

Communicating Policies and Procedures

- To be effective, policies and procedures must be understood and used.
- Existing policies and procedures:
  - Communicated through training to new board members, staff, subrecipients.
  - Followed up to ensure implementation.
- Newly developed policies and procedures:
  - Distributed by official issuance.
  - Accompanied by appropriate training.
  - Be prepared to deal with possible attitudes.
- Important to create ownership.
- Provide appropriate forums.

COSO Component 5: Monitoring

- Assess internal controls system’s effectiveness... Are they operating as intended?
- Ongoing monitoring occurs in the course of everyday operations:
  - React to changing conditions... Have controls become outdated, redundant, or obsolete?
  - Internal control deficiencies should be reported upstream, with serious matters reported to top management and the board.
- Includes monitoring subrecipient compliance and taking timely appropriate actions when necessary.
Causes of Ineffective Internal Controls

- Inadequate staff and subrecipient training and education
- Outdated or nonexistent policies and procedures
- Inadequate management systems
- Lack of Understanding

Lack of Internal Controls

- Fraud, Embezzlement and Theft
  - By management, employees, customers, vendors, or the public-at-large
- Loss, Misuse or Destruction of Assets
  - Unintentional loss of physical assets such as cash, inventory, and equipment

Opportunity – Actual Case – Theft of UI Benefit Checks

- Undelivered UI Benefit Checks
  - Maintained 60 days before cancelled
  - One clerk
    - Received checks, maintained the check log, custody of checks in unlocked file cabinet, disposed of checks
    - Great opportunity for employee theft
- Internal controls need to eliminate opportunity
  - Segregate duties of receipt, logging, custody, disposition
  - Physically cancel checks after 7-10 days
  - Maintain adequate logs of disposition actions
  - Witness to validate action
Consequences for Lack of Internal Controls

- Business Interruptions
  - System breakdowns or catastrophes
  - Excessive re-work to correct for errors.

- Erroneous Management Decisions
  - Inadequate, or misleading information

Knowledge Check 2 – Question

1. Internal controls are designed to provide reasonable assurance of achieving which of the following objectives?
   - Effectiveness and efficiency of operations
   - Identical system of internal controls for every type of organization
   - Reliability of reporting for internal and external use
   - Compliance with applicable laws and regulations
   - Absolute assurance of preventing wrongdoing
   - All of the above

   CMS Objective 3.a Internal Controls

Knowledge Check 2 – Answer

1. Internal controls are designed to provide reasonable assurance of achieving which of the following objectives?
   - ✓ Effectiveness and efficiency of operations
   - ✗ Identical system of internal controls for every type of organization
   - ✓ Reliability of reporting for internal and external use
   - ✓ Compliance with applicable laws and regulations
   - ✗ Absolute assurance of preventing wrongdoing
   - ✗ All of the above

Since the internal control environment varies by organization, it is not expected that each organization would have identical controls in place. Also, no internal control system will produce absolute assurance of preventing wrongdoing.
Knowledge Check 3 – Question

1. Can you identify a number of internal controls that relate to accounts payable?

Knowledge Check 3 – Answer

1. Can you identify a number of internal controls that relate to accounts payable?

- Separation of duties between approving purchases, receiving materials ordered, approving invoices for payment, and reconciling records.
- Authorization and approval process – Review authorization signatures periodically and update when changes occur; review documents to ensure that authorizations are present.
- Accountability controls – Reconcile ledgers to ensure transactions are properly recorded, monitor to ensure that payments are timely, take measures to prevent duplicate payments, ensure that coding is accurate and correct fund sources are charged.
- Review and reconciliation controls – Review invoices for accuracy before paying, check invoices against purchase orders, review and reconcile ledgers monthly, ensure that verification of receipt of goods is matched with invoice for payment.

Other Answers?

Policies & Procedures

- Necessary for effective internal controls
- Many required by UG to be formalized in writing
- Others should be formalized as sound management practice
- Other mandated by program statute/regulations
Policy vs. Procedure

**POLICY**
- Guideline that regulates organizational activities; position statement

**PROCEDURE**
- Description of the normal method for handling things; protocols, steps

What Policies and Procedures Does Your Organization Need?

<table>
<thead>
<tr>
<th>Organizational Chart</th>
<th>Job Descriptions</th>
<th>Grant Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Office responsibilities</td>
<td>• The roles and responsibilities of grant staff</td>
<td>• Grant administration</td>
</tr>
<tr>
<td>• Interactions between divisions, offices</td>
<td>• Separation of duties/processes</td>
<td>• Partners</td>
</tr>
<tr>
<td>• Interactions with external entities</td>
<td></td>
<td>• Subrecipients</td>
</tr>
</tbody>
</table>

Establishing Policies & Procedures

- Some are required
- Sound management practices
Requirements for Written Policies and Procedures

- Required written policies and procedures:
  - Payments 2 CFR 200.302(b)(6), and 2 CFR 200.305
  - Procurement 2 CFR 200.318
  - Competition 2 CFR 200.319
  - Method for evaluation and selection 2 CFR 200.320
  - Allowable costs 2 CFR 200.302(b)(7)
  - Compensation 2 CFR 200.430
  - Fringe Benefits 2 CFR 200.431
  - Employee relocation costs 2 CFR 200.464
  - Travel costs 2 CFR 200.474
  - Other Program Requirements (check regulations)

- Put these into clearly written policies and procedures

- All relevant parties should have copies

Recommended Policies and Procedures

- Accounting System
  - Budget Controls and Modifications
  - Chart of Accounts
  - Receivables
  - Payables
  - Approvals
  - Documentation
  - Audits and Resolution
  - Small Purchase Process – Credit Card, Petty Cash
  - Drawdowns and Cash Management

- Bank Reconciliation
- Program Income
- Interest Income
- Human Resources – hiring and selection
- Compensation and Fringe Benefits
- Complaints/Grievances
- Cost Policies - Allowable Costs, Indirect Costs
- Staff Travel
- Participant/Program Services
- Purchasing
- Monitoring
- Incident Reporting
- Property/Equipment Management
- Record Retention
- Match and Leveraged Resources
- Reporting (Financial and Performance)
- Internal Controls, Segregation of Duties
- Policies and Procedures for the Board

Effective Policies and Procedures

- Compliant
  - With rules and regulations

- Clear
  - Precise, easy to understand, unambiguous

- Complete
  - Addresses the process flow; appropriate level of detail; does not leave major unanswered questions

- Current
  - Regular review, modify if needed

- Communicated
  - To all levels of the organization
Knowledge Check 4 - Questions

True or False

1. WIOA requires specific policies that are in addition to those identified in the Uniform Guidance. True

2. The Uniform Guidance requires that policies on allowable costs, payments, competition, and the method for evaluation and selection of subrecipients must be in writing. True

3. When policies are not explicitly required to be in writing, the non-Federal entity has total discretion in deciding which policies to develop. False

4. Policies and procedures define for staff what authority they have to act and make decisions within their assigned duties and responsibilities. True

Knowledge Check 4 - Answers

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3. When policies are not explicitly required to be in writing, the non-Federal entity has total discretion in deciding which policies to develop. False

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Module Review

- Financial Management
- Internal Controls
- Policies and Procedures

Core Monitoring Guide – Objective 3.a. Internal Controls

- Indicator 3.a.1: Effectiveness and Efficiency of Operations
  - Are policies and procedures communicated to all levels of staff, and if applicable, subrecipients?

- Indicator 3.a.2: Reliability of Reporting for Internal and External Use
  - Is access to the financial and performance reporting system limited to appropriate personnel?

- Indicator 3.a.3: Compliance with Applicable Laws and Regulations
  - Does the grant recipient evaluate and monitor its compliance with statutes, regulations, and the terms and conditions of Federal Awards?

- Indicator 3.a.4: Safeguard on Assets
  - How does the grant recipient safeguard physical and intangible assets?

SMART Checklist

- Financial Management Standards and Internal Controls
  - Review and update the organization's control environment, this includes its mission statement, personnel handbook, code of conduct policies, and any other materials that would address the functions and conduct of employees, management, and/or Board members.
  - Examine internal control processes and, if feasible, incorporate the internal control framework of the Comptroller General and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) [2 CFR 200.303]
  - Obtain management and/or Board approval of all new or updated policies and procedures.
  - Communicate and train all staff on new and updated policies and procedures.
SMART Checklist (cont.)

- Develop and test systems to permit the preparation of reliable financial statements and financial reports.
- Incorporate the standards for documentation supporting the reasonableness, allocability, allowability, and consistent treatment of costs. (2 CFR 200.302)
- Install or update control system to reasonably safeguard funds, cash-like assets, equipment, property, and other assets from theft, loss, or damage.
- Install processes and update procedures that safeguard personally identifiable information.

ETA and Uniform Guidance Resources

- Core Monitoring Guide
  - Objective 3.a Internal Controls
- Grant and Financial Management TAG
  - Chapter 2: Financial Management Standards and Internal Controls
- Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR Part 200
  - 2 CFR 200.61
  - 2 CFR 200.302
  - 2 CFR 200.303
  - 2 CFR 200.305
  - 2 CFR 200.310
  - 2 CFR 200.319
  - 2 CFR 200.320
  - 2 CFR 200.430
  - 2 CFR 200.431
  - 2 CFR 200.464
  - 2 CFR 200.474

Web Resources

- What is the best way to find your local American Job Center (AJC)?
  - See DOL’s Service Locator
- Want More Information?
  - DOL ETA.gov/Grants
  - Training Opportunities
  - How to Apply
  - Manage Your Awarded Grant
  - Resources and Information
  - ETA Grantee Handbook
  - Annual Grant Terms Template
  - Core Monitoring Guide
  - Uniform Guidance Quick Reference Sheet
- Standards for Internal Control in the Federal Government (Green Book)
- Want More Training?
  - WorkforceGPS’s Grants Application and Management Community of Practice
  - Financial Reporting
  - Subrecipient Management and Oversight
  - Indirect Cost Allowance
  - Policies and Procedures
  - Procurement and Performance-Based Contracts
  - Capital Assets and More
- Standards for Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
Remember the Grant Management Toolbox!

Questions?

Please complete your evaluations.

Thank You