



Putting Principles into Practice

Using Internal Control to Achieve Specific Objectives

After completing this session you should...

- ☐ Have a refreshed understanding of basic components of a comprehensive framework of internal control
- ☐ Be able to identify *specific* risks to meeting *specific* objectives of *specific* aspects of your government's operations
- ☐ Understand how the design and functioning of specific control activities addressing specific risks to specific objectives fits into a broader internal control framework

Comprehensive Framework of Internal Control

COSO via “Green Book”

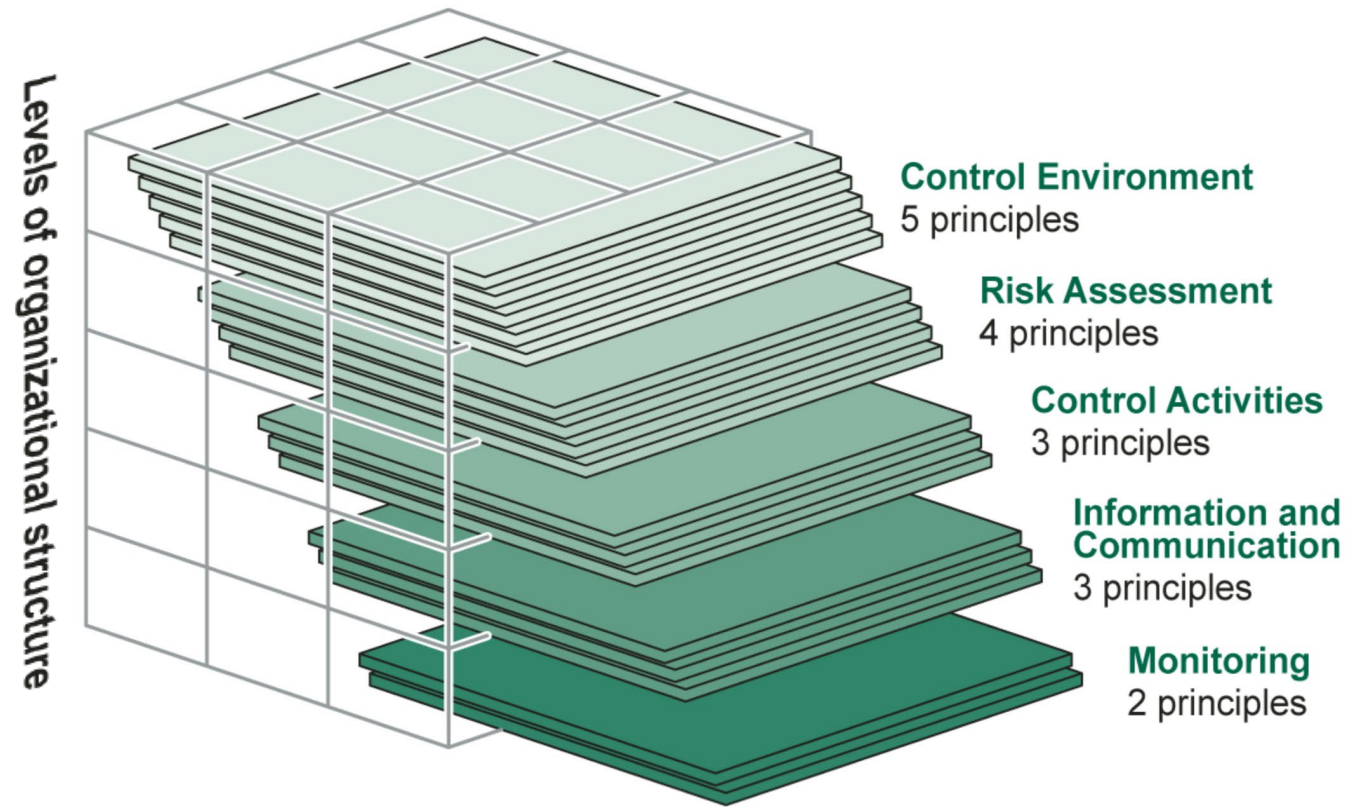
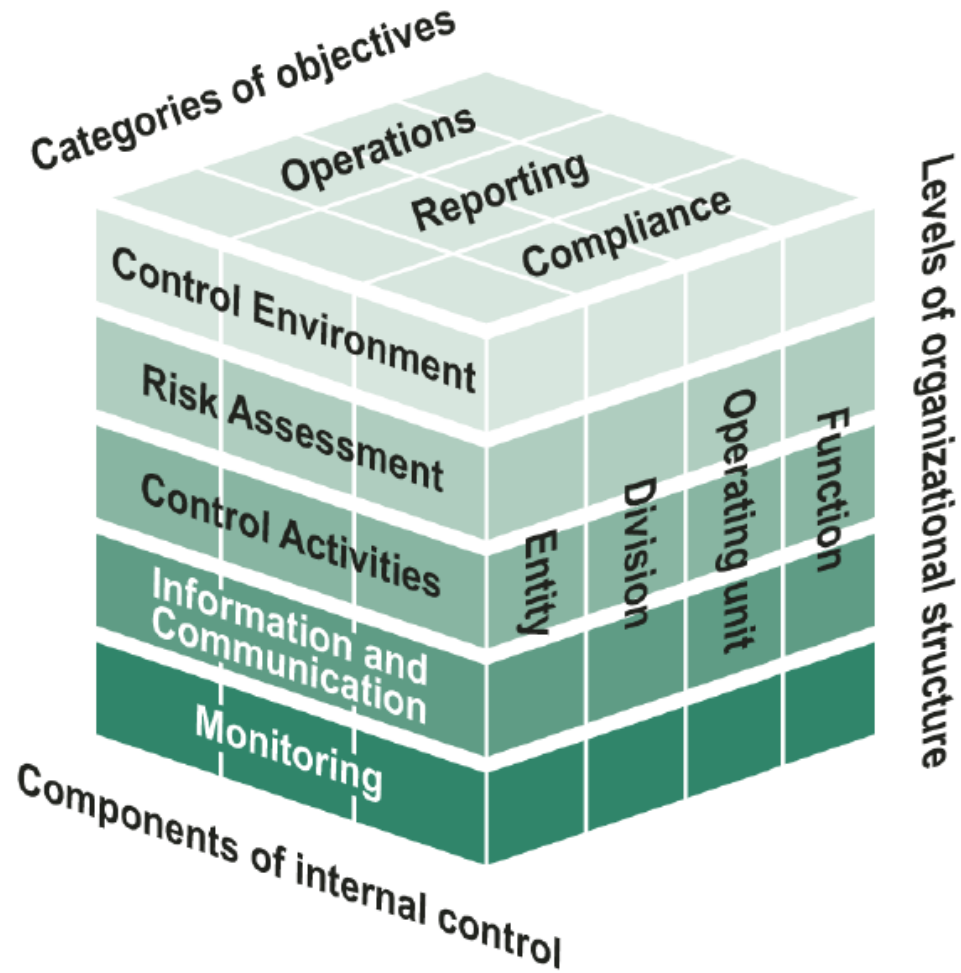
COSO Adapted to Government

- ❑ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) *Internal Control - Integrated Framework* (2013)
- ❑ [Standards for Internal Control in the Federal Government](#) by the Comptroller General of the United States
 - Terminology and examples are for governments, general federal government
 - FREE

Key Terms & Concepts

- ❑ Internal control – A process effected by an entity's oversight body, management, and other personnel that provides a reasonable assurance that the objectives of an entity will be achieved
- ❑ Internal control system – A continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved
- ❑ Categories of objectives:
 - Operations – effectiveness and efficiency of operations
 - Reporting – reliability of reporting for internal and external use
 - Compliance – compliance with applicable laws and regulations +

Objectives, Levels, Components and Principles



Principles

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values
2. The oversight body should oversee the entity's internal control system
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals
5. Management should evaluate performance and hold individuals accountable for their control responsibilities

Principles (cont.)

Risk Assessment

6. Management should define objectives clearly to enable identification of risks and define tolerances
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system

Principles (cont.)

Control Activities

10. Management should design control activities to achieve objectives and respond to risks

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks

12. Management should implement control activities through policies

Principles (cont.)

Information and Communication

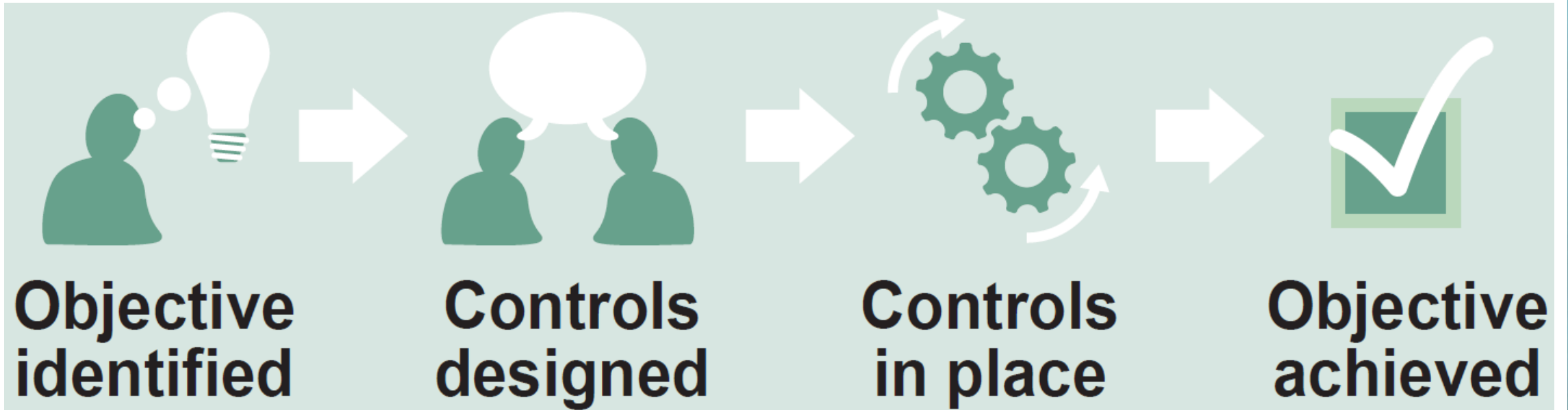
- 13. Management should use quality information to achieve the entity's objectives
- 14. Management should internally communicate the necessary quality information to achieve the entity's objectives
- 15. Management should externally communicate the necessary quality information to achieve the entity's objectives

Principles (cont.)

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results
17. Management should remediate identified internal control deficiencies on a timely basis

A Practical Approach



An entity uses the Green Book to design, implement, and operate internal controls to achieve its objectives related to operations, reporting, and compliance.

2022 Single Audit Compliance Supplement

Requirements Applicable to Assistance Listing No. 21.027

- A. Activities Allowed or Unallowed
- B. Allowable Costs/Cost Principles
- H. Period of Performance
- I. Procurement Suspension & Debarment
- L. Reporting
- M. Subrecipient Monitoring
- N. Special Tests and Provisions

Define Objective

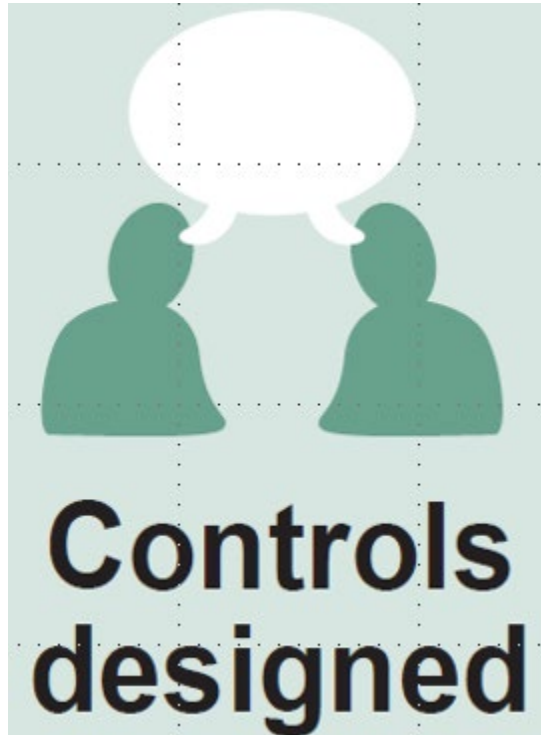


Risk Assessment Principles

6. Management should define objectives clearly to enable identification of risks and define tolerances

- ❑ Objective – Spend CSLFRF grant funds only for allowable activities/costs
 - Tolerance – known and suspected questioned costs < \$5,000

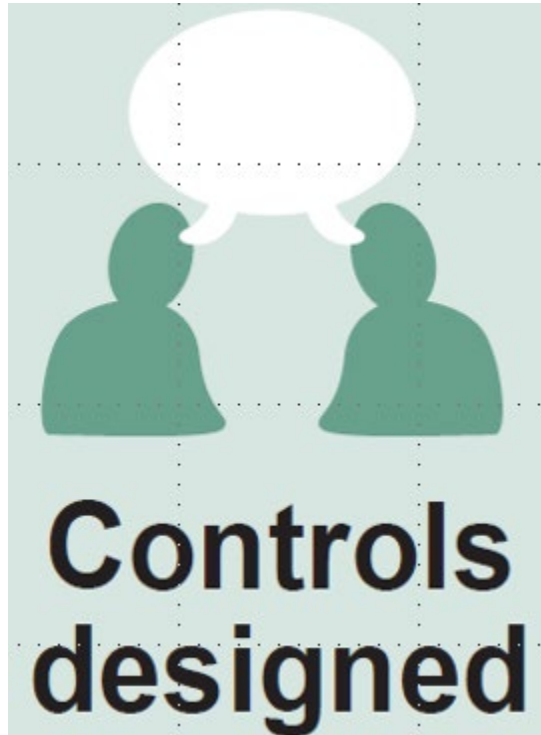
Design Controls



Risk Assessment Principles (cont.)

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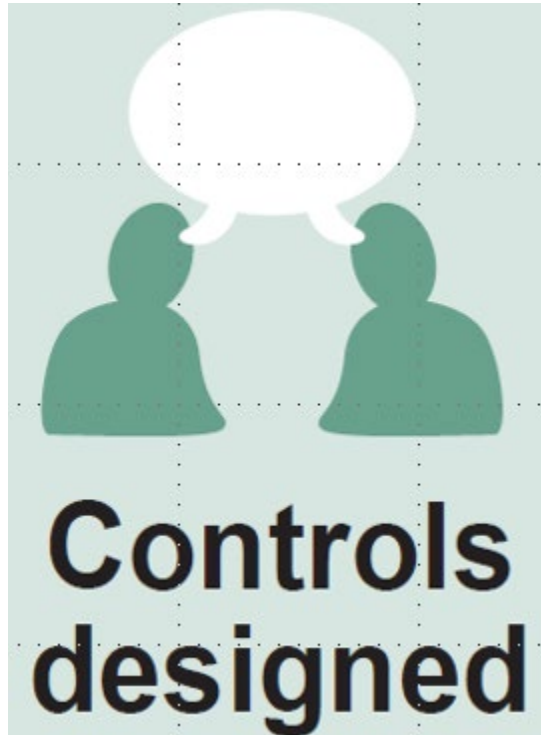
Design Controls (cont.)



What are some risks to achieving our objective?

- ☐ Might not know what's allowable
- ☐ Opportunities for fraud
 - By employees
 - By subrecipients
 - By contractors
 - By beneficiaries
 - By third parties

Design Controls (cont.)

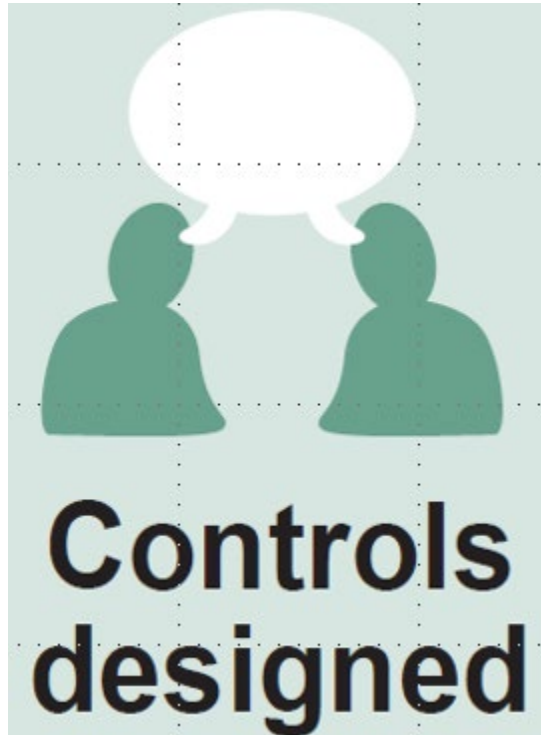


Risk Assessment Principles (cont.)

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system

[For future consideration]

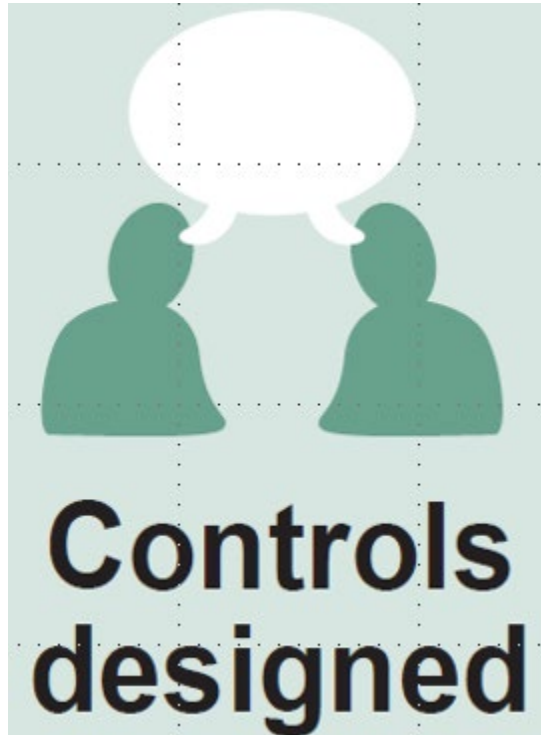
Design Controls (cont.)



Control Activities Principles

10. Management should design control activities to achieve objectives and respond to risks

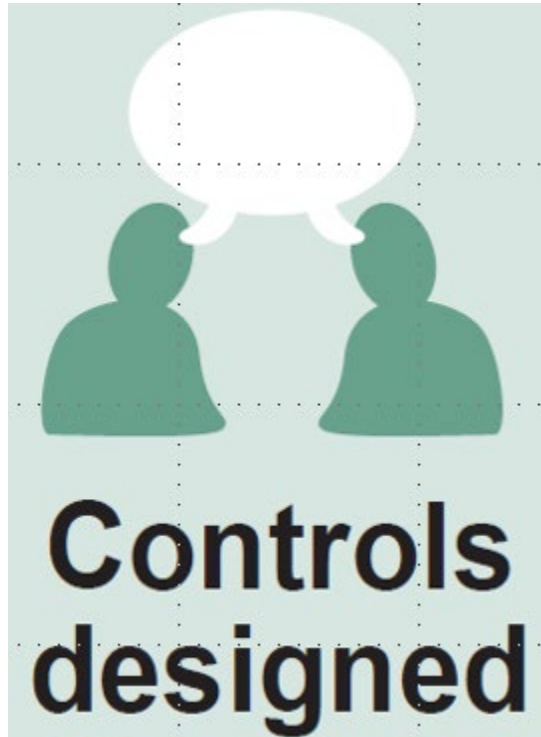
Design Controls (cont.)



Controls to reduce risk of unallowable spending due to lack of knowledge

- ☐ Identify sources of information about allowable and unallowable activities and spending
- ☐ Develop a budget for spending CSLFRF
 - With allowability of individual items established in advance
- ☐ Assign responsibility for appropriate individuals to research allowability and require that one of them certify to the allowability before encumbering or expending

Design Controls (cont.)



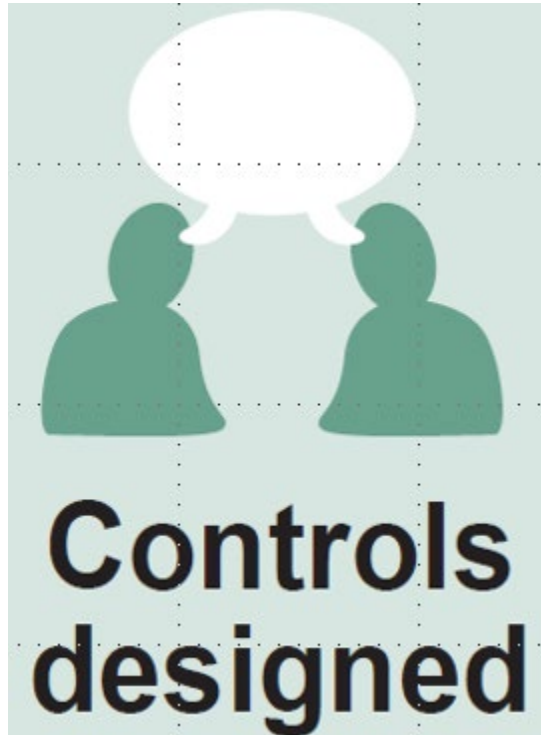
Controls to reduce risk of unallowable spending due to lack of knowledge

❑ Identify sources of information about allowable and unallowable activities and spending

○ [Treasury Department CSLFRF webpage](#)

- ✓ Final rule
- ✓ Final rule overview
- ✓ Final rule FAQs
- ✓ Compliance and reporting guidance
- ✓ and more

Design Controls (cont.)



- ❑ Identify sources of information about allowable and unallowable activities and spending (cont.)
 - Uniform Guidance [2 CFR Part 200, Subpart E](#)
 - [2022 Single Audit Compliance Supplement](#)

Eligible Uses of CSLFRF

The best way to begin evaluation of whether a specific use is an eligible use of SLFRF funds is to consider which of the four eligible use categories the use may fall into.

Ordered from the broadest and most flexible to the most specific:

1. Providing government services, to the extent of the reduction in the recipient's general revenue due to the public health emergency [standard allowance of \$10 million or formula].
2. Supporting the COVID-19 public health and economic response by addressing COVID-19 and its impact on public health as well as addressing economic harms to households, small businesses, nonprofits, impacted industries, and the public sector.

Eligible Uses of CSLFRF (cont.)

3. Providing premium pay for eligible workers performing essential work, offering additional support to those who have and will bear the greatest health risks because of their service in critical sectors.
4. Investing in water, sewer, and broadband infrastructure; making necessary investments to improve access to clean drinking water, to support vital wastewater and stormwater infrastructure, and to expand affordable access to broadband internet.

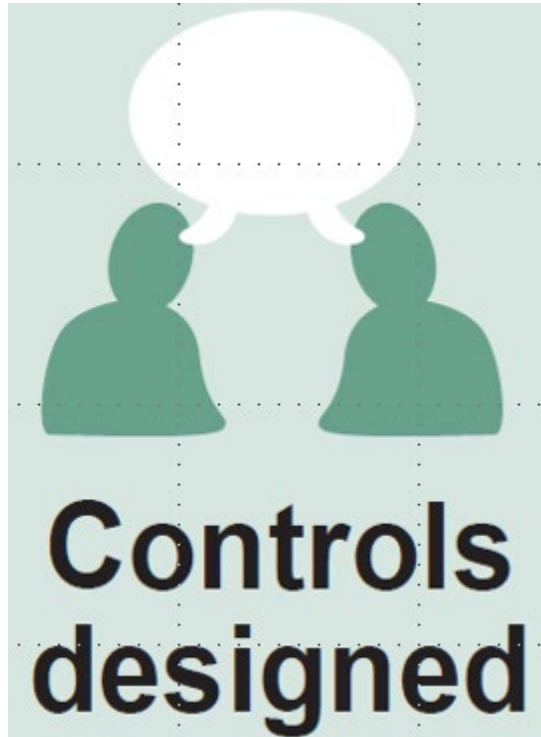
Providing Government Services (a.k.a. “Lost Revenue”)

- ❑ *Providing government services.* “A recipient may use funds for the provision of government services to the extent of the reduction in the recipient’s general revenue due to the public health emergency, calculated according to this paragraph.” (31 CFR §35.6)
- ❑ Recipients may use funds up to the amount of revenue loss for government services; *generally, services traditionally provided by recipient governments are government services, unless Treasury has stated otherwise.* (SLFRF Final Rule Overview)

Restrictions that Apply Across All Categories:

- ❑ For states and territories – No offsets of a reduction in net tax revenue resulting from a change in state or territory law
- ❑ For all recipients except Tribal governments – No extraordinary contributions to a pension fund for the purpose of reducing an accrued, unfunded liability
- ❑ For all recipients –
 - No payments for debt service and replenishments of rainy day funds
 - No satisfaction of settlements and judgements
 - No uses that contravene or violate the American Rescue Plan Act
 - No uses that are not in accordance with Uniform Guidance conflict of interest requirements, and
 - No uses that violate other federal state and local laws and regulations

Design Controls (cont.)

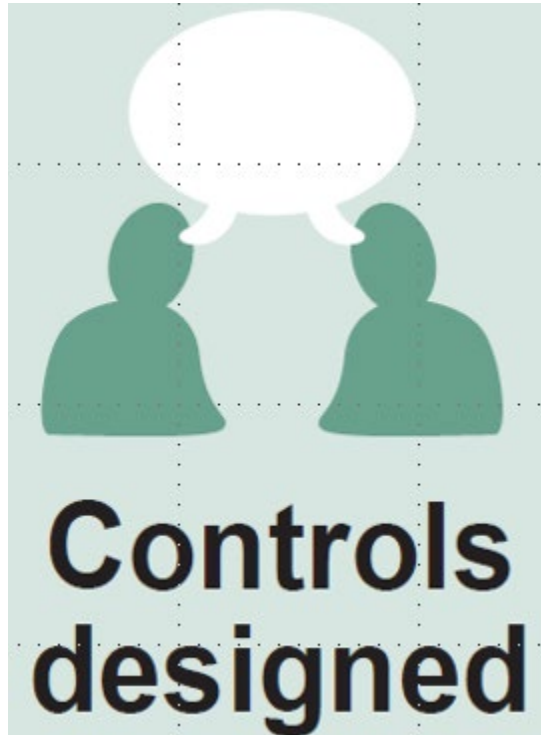


Control Activities Principles (cont.)

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks

- ☐ Configure system controls to require approval by authorized person(s) with responsibility to certify allowability

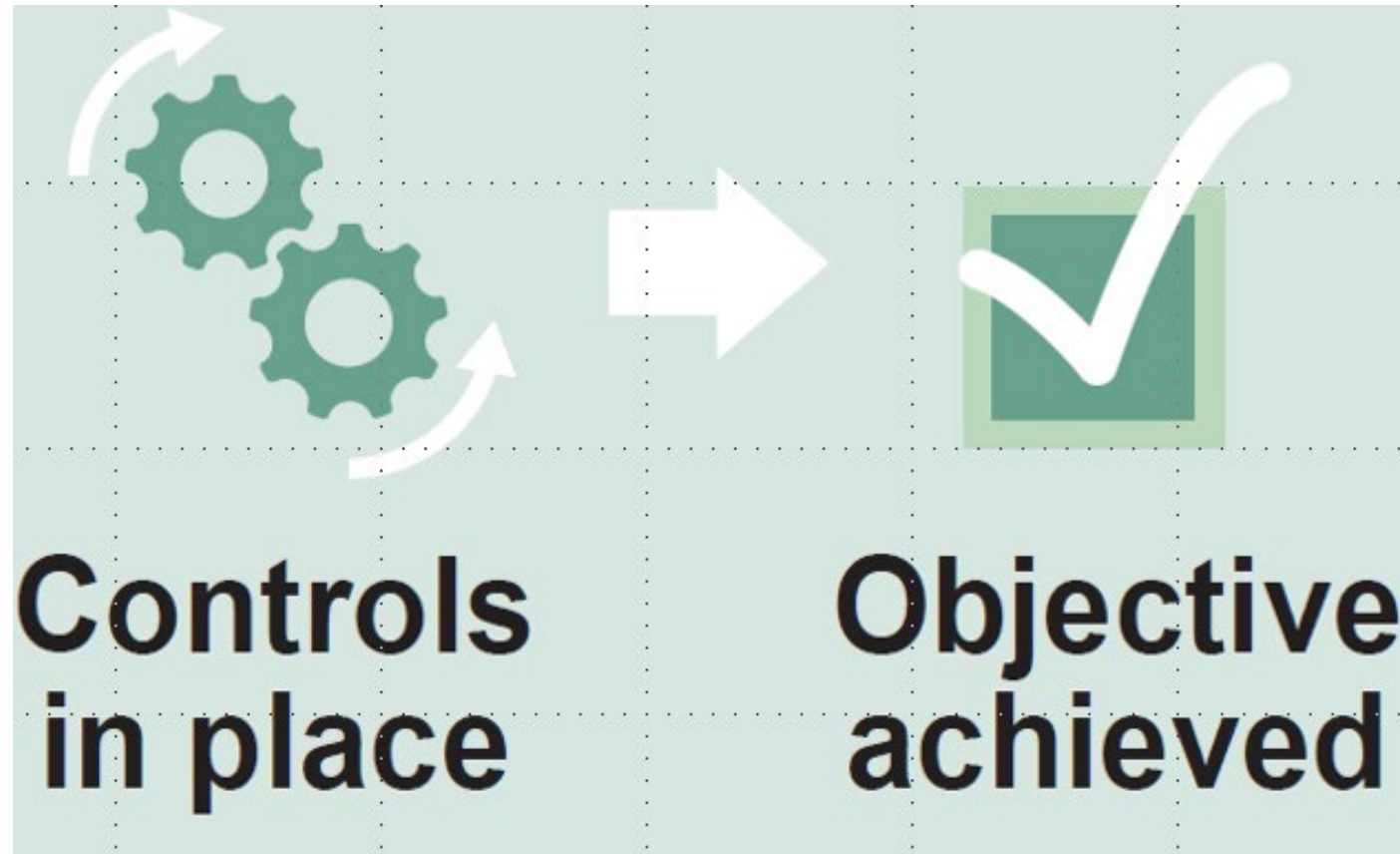
Design Controls (cont.)



Control Activities Principles (cont.)

12. Management should implement control activities through policies

- ☐ Establish, document, and communicate
 - Requirement for approval by authorized person(s) *and documentation thereof*
 - Requirement for monthly budget to actual results for the grant program *and documentation thereof*



Monitoring (and Single Audit Testing)

- ❑ Select expenditures

- ❑ Test internal controls

- Verify the documentation of required approvals and completed reviews
- Note: Internal control only functioning if cost is allowable

- ❑ Test compliance

- Verify that selected expenditure is actually an allowable cost for an allowable activity

Control Environment

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5.	Management should evaluate performance and hold individuals accountable for their control responsibilities

❑ Examples

- Code of conduct / employee handbook
- Employee evaluations
- Board review of monthly financials, budget v. actual results
- Regular updates from senior management
- Departmental meetings

Information and Communication

Information and Communication
13. Management should use quality information to achieve the entity's objectives
14. Management should internally communicate the necessary quality information to achieve the entity's objectives
15. Management should externally communicate the necessary quality information to achieve the entity's objectives

□ Examples

- Board review of monthly financials, budget v. actual results
- Internal communications (newsletters, intranet bulletin boards)
- Suggestion “boxes”
- Whistleblower tips lines,
- Vendor communications

Monitoring

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results

17. Management should remediate identified internal control deficiencies on a timely basis

☐ Examples

- Internal audit
- Whistleblower tip lines
- Employee evaluations
- Corrective action plans

What Does My Signature Mean?

Signatures/Certification/Electronic Approvals

- ❑ Used to document control activities that take place outside of the system (manual)
- ❑ Rely on signer's
 - Understanding of controls (rules)
 - Diligence
 - Integrity and/or Desire to avoid negative repercussions

To What are You Certifying?

❑ Does the document (paper or electronic)...

- State what the signer is attesting to?
- Identify consequences of fraudulent or negligent certification?

EXAMPLE

Personal expense reimbursement form

- ✓ Preapproved purpose and amount
 - Within preapproved price guidelines or
 - As a result of a documented urgent need, retroactively approved
- ✓ Reasonable and necessary to achieve a specific, stated objective
- ✓ Actually paid
 - Unless allowance/per diem

What Does Your Approval Mean?

☐ Does the document (paper or electronic)...

- State what the approver is attesting to?
- Identify consequences of fraudulent or negligent approval?

☐ Does the approver have an explicit list of what should be verified prior to approval?

EXAMPLE

Invoice approval for outside contractors paid for document reviews:

- ✓ Document IDs, entity names, and reviewer completion have been checked to records of award decisions
- ✓ None of the listed reviews was previously paid
- ✓ Number of reviews listed for payment agrees to number for which payment is sought
- ✓ Pay rate per review is in accordance with GFOA's agreement with reviewer

Fraud Examples – Engineering Control Activities

Kickback Scheme

- ❑ Gardner, in her capacity as the Director of Food Services for [ISD], helped secure lucrative contracts for Caliendo's company, Smart Starts, to provide prepackaged breakfast meals for public school students.
- ❑ In exchange, Caliendo kicked back a portion of the contract proceeds totaling more than \$100,000 to Gardner through fraudulent payroll deposits and other payments.
- ❑ To conceal the illegal nature of the arrangement, those payments were deposited into a bank account that was created in the name of one of Gardner's family members.
- ❑ The kicked back funds were spent by Gardner on international vacations, a leased vehicle, and home furnishings. Approximately \$13,000 in kicked back funds were also withdrawn by Gardner in cash from ATMs located near her home and workplace.
- ❑ <https://www.osc.state.ny.us/press/releases/2022/11/dinapoli-former-long-island-school-official-pleads-guilty-kickback-scheme>

What Information Do We Need?

❑ Procurement policies

- Does district have procurement policies?
- What are they?
 - ✓ Are the adequate?
- How were they circumvented?

❑ Detection

- How long had it been going on?
- How did scheme become known?

Lapping Scheme

- ❑ Andrews, 77, is charged with allegedly stealing \$78,881.55 in tax, water and sewer payments that were made in cash between 2012 and 2020.
- ❑ Andrews concealed the thefts with a Ponzi-like scheme by applying one property owner's payment to another.
- ❑ She spent the funds on, among other things, social outings with friends and pull-tab games at the American Legion Hall in Oneida.
- ❑ <https://www.osc.state.ny.us/press/releases/2022/10/dinapoli-former-oneida-city-chamberlain-arrested-stealing-more-78000-city-funds>

Fraudulent Payments

- ❑ Ronda Kish, 54, served as the department's Treasurer, and her former sister-in-law, Marion Brundage, 52, was its Secretary and First Assistant Chief.
- ❑ From 2016 to 2020, Kish allegedly stole \$8,675 from the Department by making unauthorized cash withdrawals and writing checks to herself for supposed reimbursements that had no receipts or approval from the department's board. Kish used the money to pay personal expenses, including numerous credit card bills.
- ❑ During the same time period, Brundage allegedly stole \$2,601 by writing checks to herself for supposed reimbursements.
- ❑ <https://www.osc.state.ny.us/press/releases/2022/10/dinapoli-two-former-oramel-fire-officials-charged-theft-more-11000-oramel-fire-department>

Other Examples...

For More information

Government
Finance Officers
Association
Technical Services
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GFOA.org



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