

# Title I Nuts and Bolts: Internal Controls



# Questions?

- Please submit your questions through the chat function. We will provide a list of Qs & As to all that have registered for this webinar.

# Internal Controls

- Internal Controls -- organization, policies, and procedures – are tools to help program and financial managers achieve results and safeguard the integrity of their programs.
- Federal employees must ensure that Federal programs operate and Federal resources are used efficiently and effectively to achieve desired objectives.

# Internal Controls

- Management has a fundamental responsibility to develop and maintain effective internal control. The proper stewardship of Federal resources is an essential responsibility of agency managers and staff.
- Internal control guarantees neither the success of agency programs, nor the absence of waste, fraud, and mismanagement, but is a means of managing the risk associated with Federal programs and operations.

# Internal Controls

- The following are areas where we have seen a lack of internal controls based on A-133 and OIG audits and program monitoring of the Title I Program:
  - Time/Effort
  - Subrecipient Monitoring
  - Equipment/Inventory
  - Payments/Reimbursements
  - Suspension and Debarment

# Audit Finding

- Time/Effort findings have been identified in both audits and through the SASA monitoring process:
  - Employees not maintaining appropriate semi-annual certifications or Personnel Activity Reports (PARS)
  - Time/effort for 100% employees not working under the conditions listed through the semi-annual certification
  - Time/effort for split-funded employees not working in the programs proportionate to the way their salaries are allocated

# Time and Effort

- 34 C.F.R. § 80.20 (a)(5) Source documentation: accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, **time and attendance records**, contract and subgrant award documents, etc.

# Semi-Annual Employee Certifications

- Employees who work solely on one Federal program must prepare a semi-annual certification that:
  - Is prepared and signed (after-the-fact) at least semi-annually
  - Is signed by the employee, or the supervisor having first-hand knowledge of the work performed by the employee; and
  - Acknowledges that the employee worked solely on the Federal program for the period covered by the certification.

*OMB Circular A-87, Attachment B, 8.h.(3)*

# Semi-Annual Employee Certifications (continued)

- Employees who work on one Federal program:

This is to certify that I, Mary Jones, worked 100% of my time on Georgetown County School District's Title I, Part A program duties for the period of October 1, 2009 to March 31, 2010.

Mary Jones

**Employee Signature**

April 10, 2010

**Date**

# Semi-Annual Certification

## SAMPLE SEMI-ANNUAL CERTIFICATION

I verify by my signature that the following employees, that I directly supervise, spent 100% of their time on the designated program during the six-month time period from July 1, 2010 through December 31, 2010.

Employee: Bruce Wright  
100% Title III

Employee: Bobby Stehle  
100% Title I, Part A

Employee: Carmen Black  
100% Title I, Part C

Employee: Bill O'Grady  
100% Title I, Part A

Supervisor Name: Nancy Abbott  
Supervisor Title: Director, Federal Programs

Nancy Abbott  
Supervisor Signature

January 14, 2011  
Date

# Personnel Activity Reports (PARs)

- Where employees work on multiple cost objectives (programs), a distribution of their salaries or wages will be supported by PARs
  - Employees working on more than one Federal program
  - Employees working on a Federal program and a non-Federal program



*OMB Circular A-87, Attachment B, 8.h.(4)*

# Personnel Activity Reports

- PARs must meet the following standards:
  - Reflect an after-the-fact distribution of the actual activity of the employee
  - Must account for the total activity for which the employee is compensated
  - Must be prepared at least monthly and must coincide w/ one or more pay periods; and
  - Must be signed by the employee

*OMB Circular A-87, Attachment B, paragraph 8. h. (5)*

# Personnel Activity Reports (continued)

Pay Period 18: August 17 – 28, 2009

Monday	Tuesday	Wednesday	Thursday	Friday
8 – 5 Title I Monitoring of Fauquier County Schools- 8 hrs	8-11 Title III Began development of SEA handbook-3 hrs 12-5 Title I app review-5 hrs	8-5 Title III Monitoring of Prince William and Spotsylvania County School Districts-8 hrs	8-5 Title I application review-8 hrs	8-12 Title I app review- 4 hrs  1-5 Title III app review – 4 hrs
8-10 Title I app review- 2 hrs  11-5 Title III Monitoring of Manassas Park School District-6 hrs	8-12 Title I app review- 4 hrs  1-5 Title III Monitoring of Manassas Schools- 4 hrs	8-5 Attended Title I State Conference- 8 hrs	8-5 Attended Title I State Conference- 8 hrs	Annual Leave   Bi-weekly Total: TI: 47 hrs (65%) TIII:25 hr (35%)  <i>Denise Brown</i> <u>8/31/2009</u>

# Consolidating State Admin Funds

- An SEA may consolidate amounts made available to it for administrative purposes if the SEA can demonstrate that the majority of its resources for administrative purposes are derived from non-Federal sources.
  - The SEA may use its own reasonable standard for making this determination; and
  - State funds used for programmatic purposes (for example: funding for the State's school for the deaf and blind) would not be used for administrative purposes, and thus, would not contribute to the majority of non-Federal funds.

# Consolidating State Admin Funds

- Q: If a State consolidates administration funds for more than one Federal program (for example: Title I, Parts A, C, D, Title III and Title V) and an employee works on a program or programs that are part of the consolidation what is required?
- A: an employee who works solely on a single cost objective (the consolidated cost objective in this case) must furnish a semi-annual certification.

# Consolidating LEA Admin Funds

- An LEA, with approval from its SEA, may consolidate and use for the administration of one or more ESEA programs not more than the percentage , established in each program, of the total available for the LEA under those programs.

# Consolidating LEA Admin Funds

- The SEA shall establish procedures for responding to requests from LEAs to consolidate administrative funds and for establishing limitations on the amount of funds under those programs that may be consolidated for administration.

# Consolidating LEA Admin Funds

- Q: If an LEA consolidates administration funds for more than one Federal program (for example: Title I, Parts A, C, D, Title III and Title V) and an employee works on a program or programs that are part of the consolidation what is required?
- A: an employee who works solely on a single cost objective (the consolidated cost objective in this case) must furnish a semi-annual certification.

# Consolidating Funds in Schoolwide Programs (SWPs)

- If a school operating a SWP consolidates all its Federal, State and local funds in a consolidated schoolwide pool, an employee paid with funds from that pool is not required to file a semi-annual certification or a PAR.

See OMB Circular A-133 Compliance Supplement 2010 and

See U.S. Department of Education Non-Regulatory Guidance, February 2008  
Title I Fiscal Issues: Maintenance of Effort, Comparability, Supplement not  
Supplant, carryover, Consolidating Funds in Schoolwide Programs and  
Grantback Requirements.

<http://www.ed.gov/programs/titleiparta/fiscalguid.doc>

# SWPs That Do Not Consolidate Funds

- An employee of a school operating a SWP that does not consolidate Federal, State and local funds must adhere to OMB Circular A-87, Attachment B, paragraph 8.h:
  - If the employee works solely on a single Federal cost objective (program), a semi-annual certification must be signed.
  - If the employee works on multiple activities or cost objectives a PAR must be maintained.

See Title I Fiscal Issues Guidance (2008) Question E-17

# Know Your State Policies & Procedures

- 34 CFR § 80.20 (a)(3) Internal control: **effective control and accountability** must be maintained for all **grant and subgrant cash, real and personal property, and other assets**. Grantees and subgrantees must adequately safeguard all such property and must assure it is used solely for authorized purposes.
- Examples: Monitoring findings for LEA and SEAs not maintaining control over equipment with a purchase price of less than \$5,000.

# Know Your State Policies & Procedures

- 34 C.F.R § 80.20 (a): a State must expend and account for grant funds in accordance w/ State laws and procedures for expending and accounting for its own funds.
- Audit Finding: An LEA spent Title I funds on food & beverages...State's policy is that funds could only be used for a working lunch during an all day meeting or nutritional snacks for extended day student programs. State policy also required an agenda that clearly identified the activity in which participants are engaged.

# Know Your State Policies & Procedures

- EDGAR § 80.20 (a)(5) Source documentation: accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc.
- Purchase Cards (P-cards): used to purchase food, beverages and gifts...no P-card receipts, cash register receipts, invoices nor justifications (The purchase of the food, beverages and gifts were unallowable according to the SEA's policies, plus the costs were inadequately documented.)

# Subrecipient Monitoring

- The United States Department of Education (ED) allocates funds to its grantees (typically the SEA or sometimes another type of entity).
- The SEA allocates the funds to its subgrantees (typically the LEA or sometimes another type of entity).
- The legal responsibility for oversight of these Federal funds falls under the SEA's role.

# Subrecipient Monitoring

One of the fundamental legal citations for this requirement is found in EDGAR as stated below:

**EDGAR at 34 CFR § 80.40** Monitoring and reporting program performance requires Grantees to manage the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

# Subrecipient Monitoring

This EDGAR regulation requires SEAs to oversee Federal funds used in the respective program, but the regulation provides flexibility in how this requirement is satisfied. The regulation does not outline how SEAs are to monitor their LEAs.

# Subrecipient Monitoring

- The problem lies with how SEAs comply with this requirement because subrecipient monitoring refers to how a grantee oversees its program to ensure effective internal controls of its subrecipients. Auditors frequently have findings in this area and this issue has also been identified as an area of weakness during many Title I monitoring visits.

# Subrecipient Monitoring includes (but is not limited to)

- Program compliance
  - Improper Payments (e.g. P-card use)
  - Equipment for Title I programs in the public and private schools
    - Acquisition
    - Maintenance
    - Disposition
- Fiscal compliance (auditors are asking for specialized monitoring in this area)
  - Reliance on the issues identified through the Single Audit Process are not enough
- Monitoring schedules (desk v. onsite reviews and risk analysis v. cyclical reviews)
- Corrective actions to program monitoring and audit issues
- ARRA funds (Reporting, CFDA number, and Central Contractor Registry)

# Subrecipient Monitoring and its relation to the Improper Payments Act of 2002

“The attached guidance outlines how Federal agencies should implement the **Improper Payments Information Act of 2002 (Public Law No: 107-300)**. This legislation greatly expanded the Administration's efforts to **identify and reduce erroneous payments in the government's programs and activities**. When implemented, this guidance promises to **improve the integrity of the government's payments and the efficiency of its programs and activities**”.

# Subrecipient Monitoring and the Office of Inspector General (OIG)

- Typically the Office of the Inspector General (OIG) develops a work plan of activities that it will investigate.
- The OIG has the discretionary authority to respond to hotline complaints when it determines how it will investigate matters (some complaints may be anonymous)

# If subrecipient monitoring is identified as an issue...

- Many auditees have identified considerations in its response as reasons for its issues in the subrecipient monitoring area including (but not limited to):
  - Limited staff capacity
  - Guidance regarding ARRA funds (reporting, oversight, CFDA numbers, etc.)
  - Miscellaneous

- Regardless of the considerations given by the auditee for “ineffective” subrecipient monitoring, the regulations still require the SEA to oversee the use of these funds.
- Therefore, these strategies may be useful in ensuring an effective subrecipient monitoring plan.

# Subrecipient Monitoring should include...

- A clearly defined and comprehensive monitoring plan that includes the statutory requirements and a method to monitor (including follow-up) of compliance;
- A method that allows the SEA to select subrecipients on a risk-based or cyclical nature (the issues from various LEAs must be addressed regardless of the method---this selection should be data-driven)
- Consideration regarding the capacity or redesign of SEA staff to address the fiscal and programmatic issues involved in implementing the Title I (or other Federal) program since Title I (and many Federal programs) is both fiscal and programmatic in nature.

# Excess cash on hand

- Audit Finding: The SEA did not ensure that its LEAs spent funds in a timely manner after funds were transferred to its LEAs.
- 34 CFR 80.21 states that methods and procedures for payment shall minimize the time elapsing between the transfer of funds and the disbursement by the subgrantee in accordance with Treasury regulations at 31 CFR part 205.
- Segregation of duties is also an issue in this area.

# Equipment

- OMB Circular A-87 defines Equipment as: an article of personal property having a useful life of more than one year and acquisition cost which equals or exceeds the lesser of the capitalization level set by the State or \$5,000.
- Your State's policy may have a threshold less than \$5,000.

# Equipment

- Property records must be maintained that include:
  - A description of the property
  - A serial # or other id #
  - The source of property
  - Who holds title
  - Acquisition date & cost of the property
  - Location, use & condition of property
  - Any disposition data (including date of disposal and sale price)

# Equipment

- A physical inventory of the property must be taken and the results reconciled w/ the property records at least once every 2 years.
- A control system must be developed to ensure adequate safeguards to prevent loss, damage or theft of the property. Any loss, damage, or theft shall be investigated.
- Adequate maintenance procedures must be developed to keep the property in good condition.

# Suspension and Debarment

- Discuss the regulation;
- Example of an audit finding;
- Good practices auditors recommend;
- An ideal example of a fictional district's policies and procedures on this regulation.

# TITLE 34 Subpart C

## Post-Award Requirements

- **PART 80**\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS  
**Sec. 80.35** Subawards to debarred and suspended parties.
  - Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, "Debarment and Suspension."

# TITLE 34 Subpart C Responsibilities of Participants Regarding Transactions

- **PART 85\_**GOVERNMENTWIDE DEBARMENT AND SUSPENSION

**Sec. 85.300** What must I do before I enter into a covered transaction with another person at the next lower tier?

- When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
  - (a) Checking the Excluded Parties List (EPLS); or
  - (b) Collecting a certification from that person if allowed by this rule; or
  - (c) Adding a clause or condition to the covered transaction with that person.

# Example of Audit Finding

- LEA audit finding:
  - District did not have documentation to support contracts with vendors who are not suspended or debarred parties.
  - This District is required to ensure vendors with procurement contracts exceeding \$25,000 are not suspended or debarred before entering into contracts with the vendor.
  - The auditors found that vendors that entered into contracts with the District that were paid with Federal dollars, were not verified beforehand to not be suspended or debarred.
    - No adequate system in place, until recently, to ensure that procurement contracts entered into with vendors are not suspended or debarred parties by the federal government.

# Good Practices Recommended by Auditors

- SEAs and LEAs implement a system to verify the vendors they will be entering into contracts with, paid with Federal dollars, are not suspended or debarred by the Federal government at the time of the contract.
- That verification checks be performed either by:
  - collecting a certification from the entity;
  - adding a clause or condition to the covered transaction with the entity; or
  - checking the Excluded Parties List System (EPLS) at <http://epls.arnet.gov>.
- SEAs and LEAs should maintain documentation of when the verification was performed.

# Example of Adequate Policy and Procedure in Place

- **John Doe Sunshine District**
  - Electronic on-line purchasing software
    - When the purchase orders (POs) or requisition for payment (RPAs) over \$25,000 come through this software, an email is sent to the Purchasing Manager.
  - The Purchasing Manager checks the Federal EPLS website for disbarment of vendor debarred by the Federal government.
  - This information is then printed and attached to the vendor of the PO or RPA and reviewed and verified when received in the Accounting Department.
  - Vendors with purchasing orders over \$10,000 are crosschecked semiannually by the Accounting Manager printing off a list of these vendors and by the Purchasing Manager reviewing the list and checking the vendors over \$25,000 with EPLS for debarment.

Thank you for your participation. Please feel free to contact us if you have questions.

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# Resources

OMB Circular A-87:

[http://www.whitehouse.gov/omb/circulars\\_a087\\_2004#attb](http://www.whitehouse.gov/omb/circulars_a087_2004#attb)

Title I Fiscal Issues Non-Regulatory Guidance

<http://www.ed.gov/programs/titleiparta/fiscalguid.doc>

Education Department General Administrative Regulations (EDGAR):

[http://www.access.gpo.gov/nara/cfr/waisidx\\_04/34cfr80\\_04.html](http://www.access.gpo.gov/nara/cfr/waisidx_04/34cfr80_04.html)