

The graphic shows the letters S, M, A, R, and T stacked vertically. Each letter is inside a circle. A dashed orange line connects the top of the S circle, goes around the M and A circles, and ends with a downward-pointing arrowhead at the bottom of the T circle.

S
M
A
R
T

Strategies

Monitoring

Accountability

Risk Mitigation

Transparency

Internal Controls

SMART 4.0

Hosted by the Office of Grants Management
Division of Compliance Assistance and Policy
Employment and Training Administration
U.S. Department of Labor.

SMART 4.0 Training Series

- The training modules are focused on: **S**trategies for sound grant management that includes **M**onitoring, **A**ccountability, **R**isk mitigation and **T**ransparency.
- **4.0 focuses on Risks Identification and SMART Practices!**



Disclaimer

SMART 4.0 is part of the catalog of SMART grant management tools. This conference and its materials should be viewed primarily as a support resource. It is not intended to be comprehensive but rather to provide an understanding of 2 CFR 200, 2 CFR 2900, and the management of ETA grants. The use of these SMART 4.0 modules does not ensure compliance. Any omission of an applicable Federal requirement does not waive a grant recipient or subrecipient's responsibility to comply with that requirement.

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Today's Speakers



First Last

Occupation/Title
Company Name

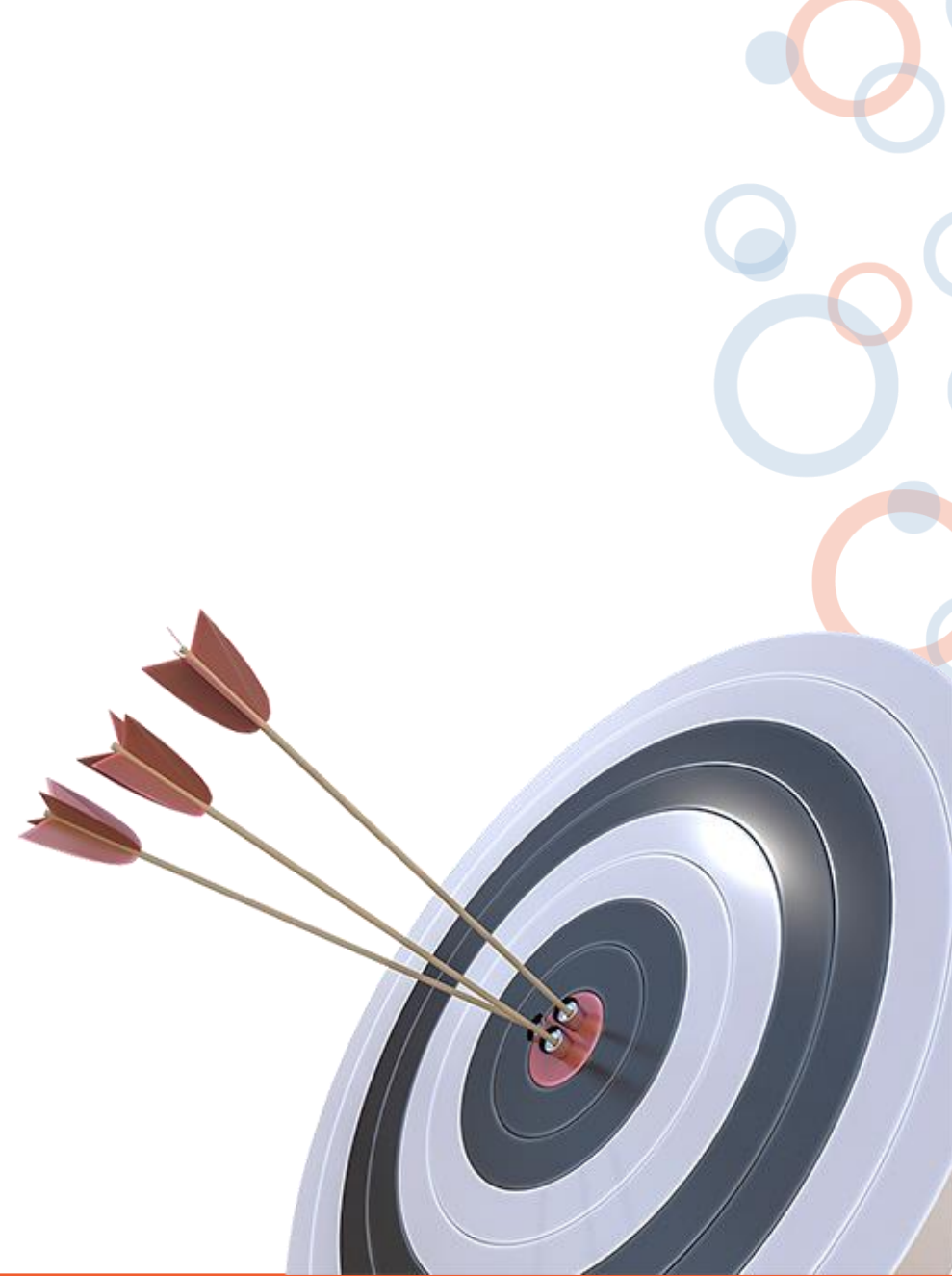


First Last

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Module Overview

- Basics of Internal Controls.
- Internal Control Structure.
 - Understanding your Organizational Structure.
 - Identifying, Analyzing, and Prioritizing Risk.
 - Managing Risk.
 - Effective Communication.
 - Monitoring & Continuous Improvement.
- Risks and SMART Practices.





Basics of Internal Controls

Law, Regulations & Guidance

- Applicable to internal controls in the management of Federal grants.
- Uniform Guidance has expanded the requirements and increased the focus on internal controls:
 - [2 CFR 200.1](#)
 - [2 CFR 200.302](#), [200.303](#), and [200.400](#)
 - [2 CFR 200.507](#) and [200.514](#)
- WIOA DOL Final Rule and WIOA Joint Final Rule:
 - [20 CFR 679.430](#)
 - [20 CFR 683.220](#)

Definition

2 CFR 200.1

- Internal controls are the **processes** designed and implemented by grant recipients to provide **reasonable assurance** regarding the achievement of objectives in the following categories:
 - Effectiveness and efficiency of operations.
 - Reliability of reporting for internal and external use.
 - Compliance with applicable laws and regulations.

Requirements

- Grant recipients are required to establish internal controls.
 - Provides assurance to the Federal awarding agency and the American public that funds are being managed and spent accordingly.
- Recipients with limited experience with Federal awards, or small entities managing a grant for the first time are encouraged to develop internal control systems based on the principles of SMART:
 - **S**trategies for effective grants management.
 - **M**onitoring.
 - **A**ccountability.
 - **R**isk mitigation.
 - **T**ransparency.

Internal Controls – Real Life Examples

Internal controls are part of our everyday lives:

- Locking up our car when we park.
- Storing your valuables in a locked drawer or closet while in the office.
- Routinely changing passwords to our credit card and bank accounts.
- Not leaving laptop or phone unattended in a public setting.

Internal Controls – Benefits

- Identify redundancies in operating and compliance processes.
 - Provides you an opportunity to effectively and efficiently manage your grant operations.
- Promotes an early warning system.
 - Enables grant staff to early identify and correct any deficiencies, errors, and RISKS.
- Provides transparency to your organization's processes.
 - May result in more favorable audit opinions.
- Assigns accountability to grant staff.
 - With adequate separation of duties.

5 Effective Measures to Maximize Internal Controls

- An understanding your organizational structure.
 - Identifying the roles and responsibilities of your staff and management.
- Identifying, analyzing, and prioritizing risks.
 - Includes looking at weakness and gaps at your organization, analyzing them, and identify which ones to address first.
- Managing risk.
 - Once those gaps and weakness are identified and analyzed, using control activities to manage those risks.
- Effective communication.
 - Communicating and training grant staff on internal controls.
- Monitoring and continuing improvement.
 - Ensuring that internal controls are operating appropriating and how can your organization improve in the process.



Internal Control Structure

Organizational Structure (1)

- Understanding business processes within your organizational structure and separation of duties.
- Outline how certain activities or services are completed.
- Understand the individual and collaborative roles that staff and management play, and how or could any of these roles be circumvented or overridden.
 - Create a chart or diagram that conveys an organization's internal structure by providing details on roles, responsibilities, and relationships between individuals with an organization.

Staff

- Are positioned on the front line and have a direct impact on the application of internal controls.
- As part of hiring practices, your organization should strive to find individuals that are reliable, competent, and value ethics.
 - Reliable staff communicate information objectively and timely.
 - Competent staff effectively perform their duties with sound judgement.
 - Ethical staff perform without prejudice and conflict.

Managers

- Works behind the scenes to set the tone.
- Promotes an environment that encourages personal and ethical standards by all staff.
- Managers are responsible for developing an organizational structure that includes:
 - Communicating clear goals and mission of organization;
 - Establish clear instruction and guidance to staff;
 - Identifies lines of hierarchy and communication;
 - Selecting of the right individuals for tasks, and
 - Holds themselves and others accountable for mitigating risk and promoting internal controls.

Small Organizations

- Separation of duties may be difficult when staff and resources are limited.
- Establish effective hiring policies to hire competent, responsible, and knowledgeable individuals.
- Management in small organizations are often involved in everyday operations.
 - As having proper segregation of duties is hard to achieve.
- Compensating Controls – alternative solution to an internal control that may be costly to implement but helps to mitigate risk.

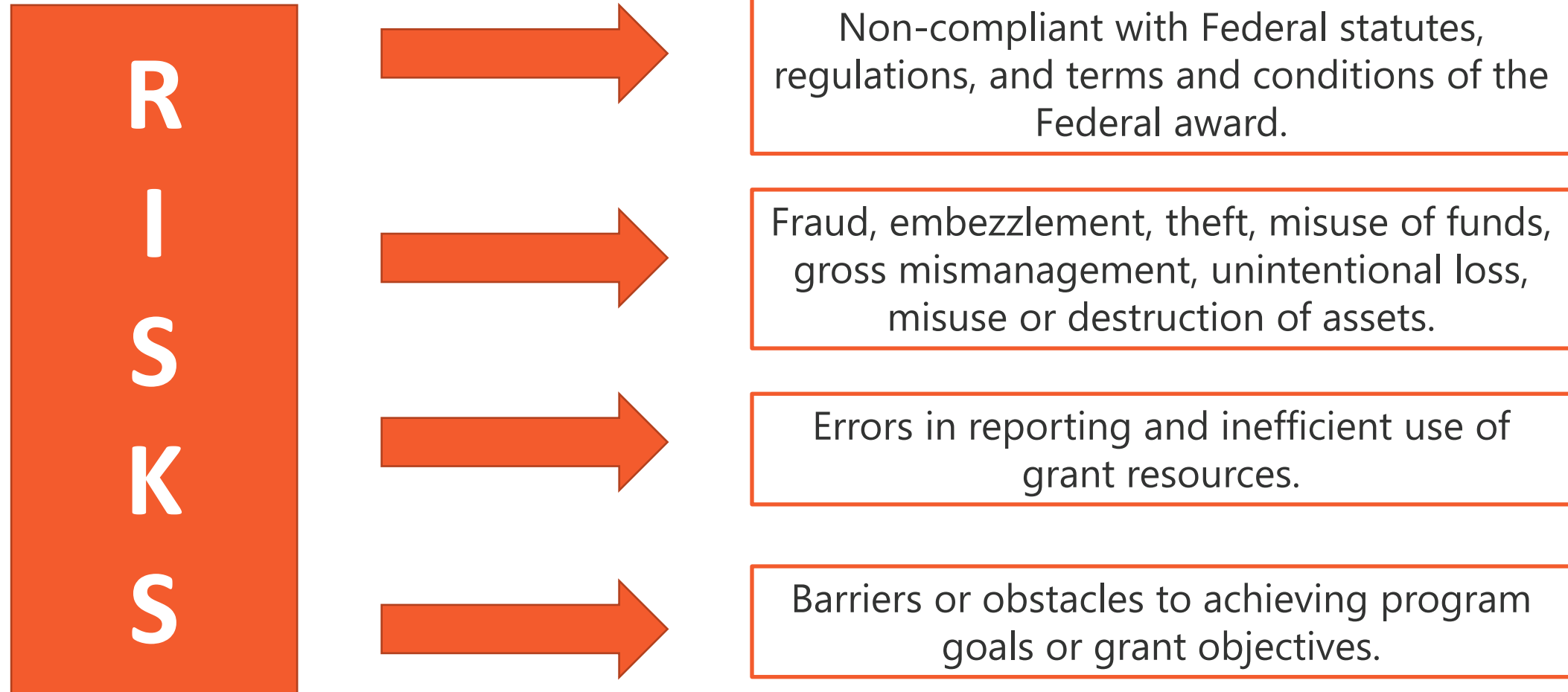


Identifying, Analyzing, and Prioritizing Risks

Definition

- Risks: Potential threats to the accomplishment of organizational objectives that can ultimately impact an organization's ability to meet its objectives and goals.
- Can come from within and outside of the organization.

Unchecked Risks = Weak Internal Controls



Risk Assessment

- Before you can manage your risk through internal controls, you must first:
 - Identify weakness and gaps within your organization and its processes.
 - Analyze those weaknesses and gaps.
 - And prioritize.



Risk Identification (1)

Types of risk:

■ **Internal** risks within an organization can include:

- Changes in personnel,
- Management,
- Rapid expansion, or
- Managing multiple grants.

■ **External** risks come in the form of:

- Regulation changes,
- Technology advances,
- Natural disasters, national pandemics, cyber-threats, or
- Performance failure.

Risk Identification (2)

- Risk of Grant Fraud or Mismanagement.
 - Mismanagement of grant resources and disregard for conflicts of interest.
 - Materially false statements or reports.
 - › When the grant recipient submits misleading information to the Federal awarding agency.
 - Theft, Fraud, Embezzlement.
 - › Most common issue facing grant recipients.

Risk Analysis

- Risk analysis begins:
 - **Determine** the **likelihood** of occurrence and;
 - **Magnitude** of the **impact** on the organization and its grants.
 - › What is the potential damage an incident may cause, and how severely would it affect operations?
 - › What areas of operation will be most affected by different types of risks?
- Identify the Root Cause.
 - Symptoms – surface-level problems/indicators that are obvious at first sight.
 - Use the 5 Whys to reach the Root Cause – the core issue/ problem.

Risk Prioritization

- Prioritized based on their overall effect on the organization.
- The process of determining which risk your organization should act upon first by assessing the likelihood and impact.
 - Consider the level of risk the organization can tolerate.
 - Risks that are likely to happen and have a serious impact on the organization – those are addressed first.
- Use a risk profile: a quantitative analysis of the types of risks that threaten your organization and your grant.

Managing Risk

Risk Assessment vs Risk Management (1)

- Risk assessment is the process of identifying, evaluating and prioritizing risks by consequence.
- Risk management is the process of reducing risks to an acceptable level through the implementation of control activities.
- Although they are correlated, risk assessment is performed prior to risk management.

Risk Assessment vs Risk Management (2)

RISK ASSESSMENT	RISK MANAGEMENT
What might threaten the achievement of our organizational objectives?	What might we do to minimize threats?
How likely are these threats going to occur?	What are the assigned roles and what are the responsibilities?
Which threats might have the worst impact?	What is our timeframe for resolution?

Risk Assessment vs Risk Management (3)

■ Examples

- Risk Assessment:

- › Participants' personal identified information (PII) is kept in the program manager's office and multiple individuals have access to the office.
- › High probability of flooding in the location where all of your IT servers are located.

- Risk Management:

- › PII files are kept in a locked filing cabinet and the program manager is the only individual with the key.
- › All IT servers are backed up at the end of each day to a remote data warehouse.

Risk Management

- Risk management is the process of reducing risks to an acceptable level.
- Devise a plan and take actions.
- Helps detect and prevent future risks.
- It includes the development of a roadmap or plan to minimize future risks.
- The process for implementing internal controls and developing control activities to mitigate losses due to risks.

Risk management is a part of any business, corporation organization regardless of size and scope.

Control Activities

- Any and all actions that your organization takes to **manage** and **reduce** risk while meeting its mission and supporting the goals of the Federal programs or projects.
- Implemented through policies and procedures to address and manage risks.
- **Management** is responsible for designing control activities to achieve objectives and respond to risks and ensuring that adequate policies are put in place throughout the organization.
- **Staff's** roles and responsibilities in the organization is to support the control activities that are designed and implemented by management. Establish adequate **separation of duties**.

Types of Control Activities



Types of Control Activities

- **Directive:** Designed to lead the organization toward desired outcomes.
 - Example: Develop written policies and procedures.
- **Preventive:** Used to deter the occurrence of undesirable events.
 - Example: Training for staff.
- **Detective:** Provide a red flag prior to breakdowns in any of the grant processes.
 - Example: Begin taking physical inventories of equipment.
- **Corrective:** Designed to fix undesirable conditions and include any measures taken to “right a wrong” in retrospect.
 - Example: Establish a property tagging system and ensure all pieces of equipment contain a property tag.

Written Policies and Procedures

Policy

- Guideline that regulates organizational activities; position statement.

Procedure

- Protocol, steps, and/or method for processing an action or completing an activity.



Authority to establish,
approve.

Effective Policies and Procedures

Compliant	Clear	Complete	Current	Communicated
• With rules and regulations.	• Precise, easy to understand, unambiguous.	• Addresses the process flow; appropriate level of detail; does not leave major unanswered questions.	• Regular review, modify if needed.	• To all levels of the organization, offices and staff.

Separation/Segregation of Duties (1)

- Activities that reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular process.
- Policies and procedures can be written to ensure that staff duties and functions are separated so that no one individual has complete control over a multiple-step process or transaction.

Separation/Segregation of Duties (2)

- At a minimum, the following duties or responsibilities should be separated, and there should be at least two sets of eyes on each transaction:
 - Oversight – a separate person that initiate a transaction,
 - Authorization – a person that authorizes or approves the transaction,
 - Record-keeping – a person records a transaction in the official records, and
 - Reconciliation – a person reconciles the transaction.

Compensating Controls

- Whenever it is difficult to establish an effective control activity or internal control due to limited resources and staff, **small organizations** should consider compensating controls.
 - Compensating controls are mechanisms that are put in place to satisfy the requirement for a security measure that is deemed too difficult or impractical to implement at the present time.
- Compensating controls should:
 - Meet the intent of the original control requirement,
 - Provide a similar level of assurance, and risk mitigation.

Effective Communication

Training

- Everyone in the organization should be familiar with all policies and procedures.
- Staff need to receive the depth of training needed to successfully fulfill their roles.
- Not enough training will lead to varying results.
 - To improve success, consider implementing a regular training schedule that coincides with your policies and procedures updates timetable.

Information

- Effective communication is also based on the sharing of necessary information across the organization.
- Ensure that information shared is:
 - Appropriate.
 - Current.
 - Complete.
 - Accurate.
 - Accessible.
 - Timely.

Communications Flow

- Organization-wide communications should address:
 - Objectives.
 - Expectations.
- Management and board members are held to the same communication standards that apply to staff.
- Establish separate lines of communication, such as whistleblower and ethics hotlines for communicating confidential information.



Monitoring and Continuous Improvement

Monitoring

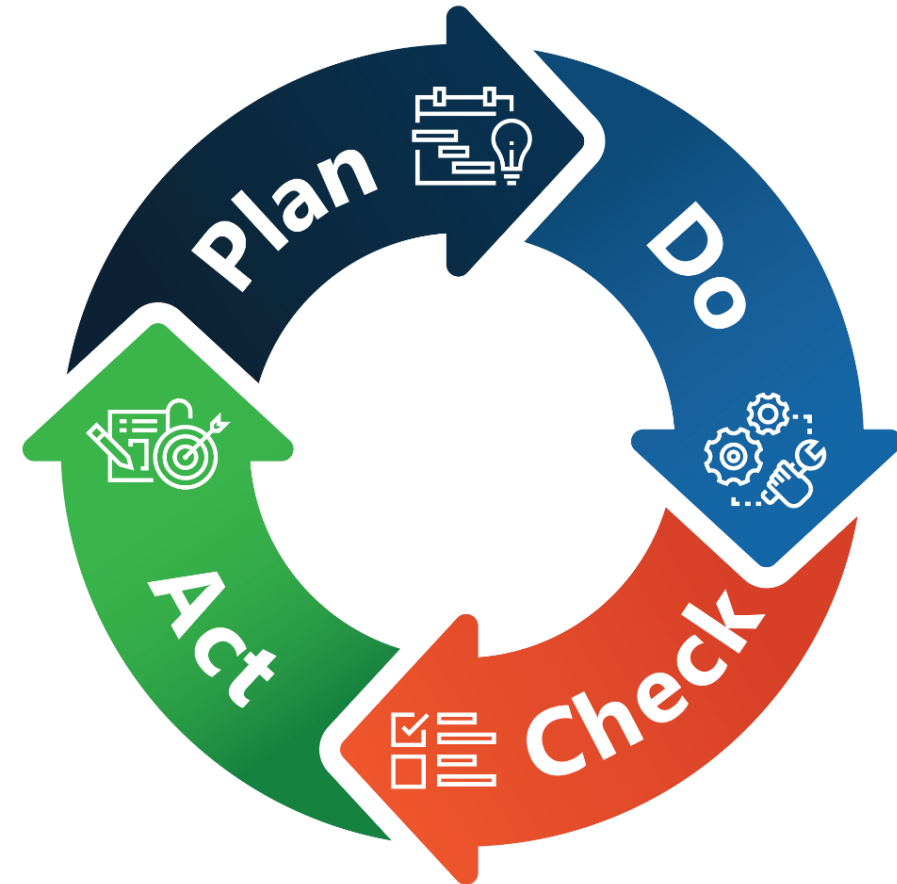
- Assess whether the controls are working as intended.
- **Management** must have an effective monitoring process in place so that it may address issues that can arise on a timely basis.
- **Staff** must keep an open mind and be able to provide feedbacks that can be used to promote improvement of grant management and internal controls.

Evaluation and Continuous Improvement Cycle (1)

- Involves repeatedly looking for ways to enhance upon the processes and methods by which the organization fulfills its goals and objectives.
 - Operating efficiently and effectively.
 - Achieve better outcomes through ongoing processes of collecting, analyzing, and acting upon information.
- The evaluation and improvement cycle is broken into 4 steps:
 - **Plan.**
 - **Do.**
 - **Check.**
 - **Act (or Adjust).**

Evaluation and Continuous Improvement Cycle (2)

- **Plan** - Evaluate the internal controls and written policies and procedures in place.
- **Do** - Put the plan into action.
- **Check** - Continually review and evaluate your internal control systems.
- **Act** (also referred as **Adjust**) - Monitoring and evaluation is only effective if your organization learns from it and take action.



Small Organizations

- Less resources and staff to have separate monitoring team/ internal audit function.
 - Leverage already established monitoring-type activities that are routinely being performed.
 - Bring management aboard in the process routinely.
 - If resources allow, employ small audit firms or outside individual auditors/ reviewers to perform an evaluation of its internal control and risk management process.



Risks and SMART Practices

Common Risks

- Risks happens to everyone, not just big organizations.
- Small organizations need to be creative on how to implement internal controls.
- Lack of training to implement the control activities.
- Implementing internal controls is a guarantee that an organization will meet its objectives and goals.

SMART Practices

- Develop and test internal control activities that meets your needs.
- Consider implementing compensating controls on temporary basis when resources and staff are low.
- Be realistic about the cost and benefits of internal controls.

Testing For Compliance - Core Monitoring Guide

The purpose of ETA monitoring is to assess for compliance using the Core Monitoring Guide (CMG). Here is a list of indicators that were discussed during the module's topic.

- Objective 3.a: Internal Controls.
 - Effective control, integrity, and accountability are maintained for achievement of the grant's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies.
 - › Indicator 3.a.1: Effectiveness with Efficiency Operations.
 - › Indicator 3.a.2: Reliability of Reporting for Internal and External Use.
 - › Indicator 3.a.3: Compliance with applicable Laws and Regulations.
 - › Indicator 3.a.4: Safeguard on Assets.
- Also, consider utilizing the entire **Core Monitoring Guide** as a resource.

Any Questions?



Internal Controls Resources

- **Core Monitoring Guide**
- Improper Payments Information Act of 2002
Public Law 107-300
- 2 CFR Parts:
 - 2 CFR part 25
 - 2 CFR part 170
- Standards for Internal Control in the Federal Government, also known as the "Green Book," issued by the Controller General of the United States.
<http://www.gao.gov/assets/670/665712.pdf>
- "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)
<http://www.coso.org/ic.htm>
- **Department of Labor Exceptions** [2 CFR Part 2900](#)
- **Department of Labor Provisions**
- **WIOA Provisions**
- **A SMART Approach to Risk Management Handbook.**
- **Uniform Guidance Crosswalk**
- **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** [2 CFR Part 200](#)
 - 2 CFR 200.100
 - 2 CFR 200.303
 - 2 CFR 200.400

Thank You!