

Leadership and Governance

Human Resources
Focusing on Workforce Development

Ongoing Monitoring and Continuous Improvement

PMFO

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The GAO Greenbook: Internal Controls

Learning Outcomes

Upon completion of this presentation, participants will be able to:

- List the five components of internal controls with objectives

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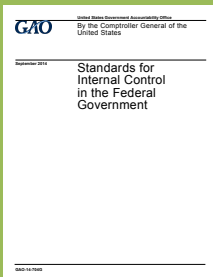
Head Start Fiscal Regulations

- **45 CFR §75:** Uniform Administrative Requirements, Cost Principles and Audit Requirements for HHS awards
- **Head Start Program Performance Standards,** Subparts §1303, §1305, §1302.91, §1302.101, §1302.102
- **The Head Start Act,** especially Sec. 642
- **GAAP (Generally Accepted Accounting Principles)**



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The GAO Green Book



- The GAO (Government Accountability Office) Green Book
- Officially titled "Standards for Internal Control in the Federal Government"
- Framework based on "5 elements of internal control"

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Head Start Performance Standards and the GAO Greenbook

1. GAO Green Book (Standards for Internal Control in the Federal Government):

Outlines principles and standards for an effective internal control system covering control environment, risk assessment, control activities, information and communication, and monitoring activities.

2. 45 CFR §75 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for HHS Awards):

- Applies to recipients of federal funding, including non-profit organizations, state and local governments, and tribal entities
- Consolidates and streamlines requirements from various HHS regulations

§75.303 Internal Controls

The non-federal entity **must**:

- a) **Maintain internal control** over federal award
- b) **Comply** with federal regulations
- c) **Evaluate and monitor** non-federal entity's compliance
- d) **Take action** on noncompliance
- e) **Safeguard protected personally identifiable information**

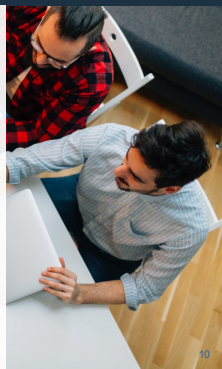
Definition of an Internal Control



- A procedure that an entity's management, oversight body, and other staff members implement to give reasonable confidence that the entity's goals will be achieved
- Key objectives:
 - Operations
 - Reporting
 - Compliance

Definition of Internal Control System

- Ongoing, human-implemented components of operations that offer fair level of assurance that the goals of an entity will be met
- A series of actions recognized as operational practices built into an organizational structure
- People make internal control systems work



Safeguarding Assets



Five Components of Internal Controls



Control Environment



Risk Assessment



- Identifying and analyzing relevant risks to achieving the entity's objectives
- Assessment of both internal and external factors that may affect the organization's ability to meet goals

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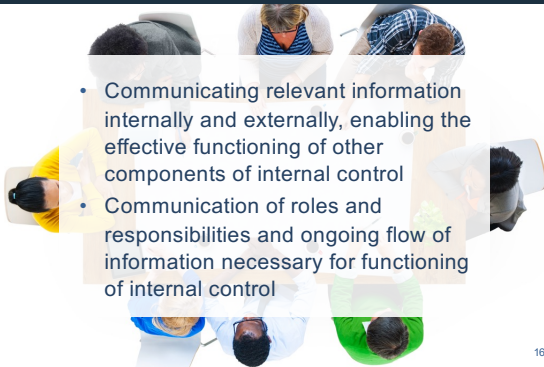
Control Activities



- Policies, procedures, techniques, and mechanisms that help ensure management's directives are carried out
- Designed to address identified risks and minimize the likelihood of errors or fraud

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Information and Communication



- Communicating relevant information internally and externally, enabling the effective functioning of other components of internal control
- Communication of roles and responsibilities and ongoing flow of information necessary for functioning of internal control

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Monitoring

- Assessing the quality of internal control performance over time
- Ongoing monitoring activities conducted as part of ordinary course of operations and separate evaluations



Roles In an Internal Control System

Top Management and Governance Bodies

- Responsible for setting tone at the top
- Establish and demonstrate commitment to integrity, ethical values and competence, fostering a positive control environment

Management

- Responsible for designing, implementing, and maintaining effective system of internal control
- Conduct risk assessments, develop and implement control activities, and regularly monitor the performance of internal controls

Roles In an Internal Control System

Risk Management and Internal Control Personnel

- Specific personnel or departments dedicated to risk management and internal control
- Play crucial role in identifying and assessing risks, implementing control activities, and monitoring effectiveness of internal controls

Individual Employees

- All employees have role in internal control
- Includes understanding and adhering to internal control policies and procedures, reporting potential issues or deficiencies, and actively participating in control activities relative to their roles

Roles In an Internal Control System

Information Technology (IT) Personnel

- Implement and maintain information system controls
- Ensure the security, integrity, and availability of information systems that support financial reporting and other key processes

External Auditors

- Typically independent audit firms
- Assess financial statements and effectiveness of internal control over financial reporting
- Provide an external perspective on the reliability of financial reporting

Objectives of Internal Controls

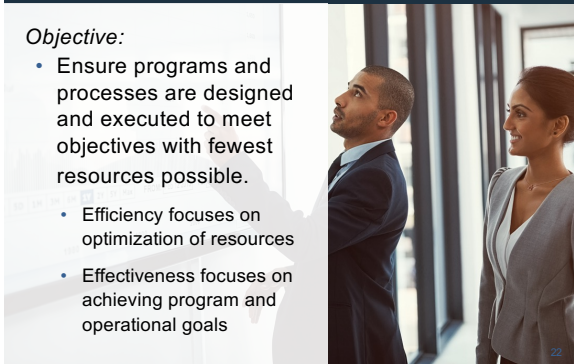
1. Effectiveness and Efficiency of Operations
2. Reliability of Financial Reporting
3. Compliance with Applicable Laws and Regulations



Effectiveness and Efficiency of Operations

Objective:

- Ensure programs and processes are designed and executed to meet objectives with fewest resources possible.
- Efficiency focuses on optimization of resources
- Effectiveness focuses on achieving program and operational goals



Reliability of Financial Reporting

Objectives

- **External financial:** Ensures financial information is accurate, complete, and presented on time
- **External nonfinancial:** Release of nonfinancial information to comply with appropriate standards, regulations, and laws
- **Internal financial:** Communicate information needed by management and governance to support evaluation and performance

Compliance with Laws and Regulations

Objective

- Ensure that the entity's operations adhere to legal requirements and regulatory frameworks
- Understand the relevant laws and regulations, establish controls to ensure compliance, and monitor activities to identify and address non-compliance

Working with Service Organizations

Management may consider the following when determining the extent of oversight for the operational processes assigned to the service organization:

- Nature of services outsourced
- Service organization's standards of conduct
- Complexity of entity's operations and organizational structure
- Extent to which entity's internal controls are sufficient to achieve objectives and address risks related to assigned operational process

Large versus Small Organizations



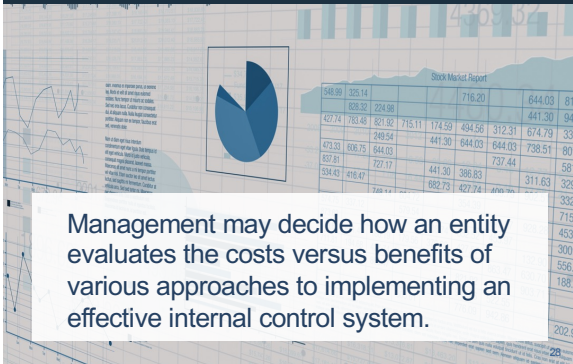
- Can be approached and implemented differently in small and large organizations
- Smaller organizations face greater challenges in the segregation of duties

Benefits of Internal Controls



- Adds confidence regarding achievement of financial objectives
- Provides feedback on how an organization is working

Cost Benefit Analysis



Management may decide how an entity evaluates the costs versus benefits of various approaches to implementing an effective internal control system.

Documentation - Management



- Develop and maintain documentation of its internal control system
- Document in policies the internal control responsibilities of the organization
- Evaluate and document results of ongoing monitoring and separate evaluations to identify internal control issues

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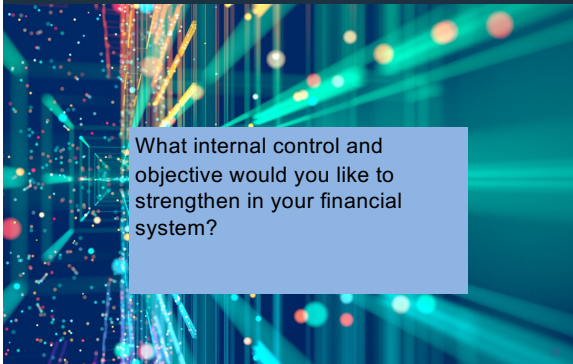
Documentation - Management (Cont'd)



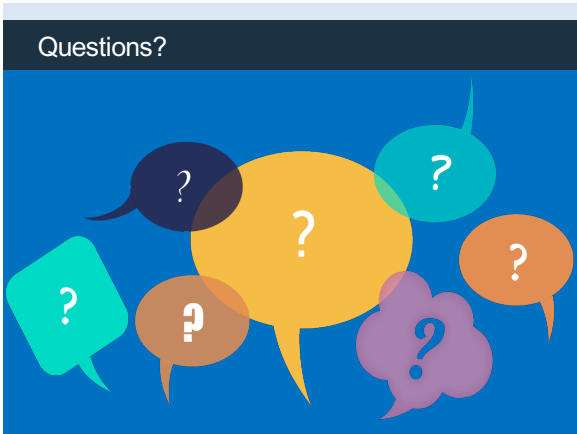
- Evaluate and document internal control issues and determine appropriate corrective actions for internal control deficiencies on a timely basis
- Complete and document corrective actions to remediate internal control deficiencies on a timely basis

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Summary



What internal control and objective would you like to strengthen in your financial system?







Contact PMFO



pmfo@ecetta.info



<https://eclkc.ohs.acf.hhs.gov/ncpmfo>



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ADMINISTRATION FOR
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National Center on
Program Management and Fiscal Operations



Internal Control Quest Challenge

Five Scenarios

Encourage participants to think critically about the scenarios and apply relevant principles from the GAO handbook. Each group should discuss and present their solutions during the Control Quest Game to promote active engagement and enhance their understanding of internal controls in different Head Start contexts. The five scenarios for the Internal Control Quest Challenge are based on internal controls principles from the GAO handbook:

- **Reporting Challenge: (can we add reporting and documentation)**

Scenario:

Your Head Start budget and program year ended on March 31. Several financial and program reports are due at this time.

- Identify three internal controls that should be in place to ensure the accuracy and reliability of reporting.
- List three reports that your program needs to complete.

- **Procurement Control Challenge:**

Scenario:

Your Head Start frequently engages in procurement activities. This year, your agency must purchase a new vehicle for your family engagement staff. Propose internal controls that can prevent fraud and ensure transparency in the procurement process. List two actions your agency needs to take before purchasing the vehicle.

- List one measure your agency can take related to vendor selection to support
- Identify two internal controls that can prevent fraud and ensure transparency in the procurement process. Sole source
- Identify two specific measures related to vendor selection, approval processes, and invoice verification.

- **Access Control Dilemma:**

Scenario:

Your Finance Director has submitted their resignation letter with a two-week notice. As part of the position, the individual is responsible for requesting cash in the Payment Management system, reviewing payroll, and approving accounts payable and journal entries.

- Identify the internal controls that should be in place to manage employee access effectively.
- List three items your office should plan for in the next two weeks.



- **Supply and Equipment Management:**

Scenario:

Your Head Start holds significant supplies in classrooms and centers. Equipment such as cars and buses are also stored at different locations. Your program is closing its 5-year grant. Staff are reviewing 45 CFR Part 75.320.

- Name one or more regulations they should consider related to this topic.
- Identify key inventory-related reports to file at the end of your 5-year grant.
- List differences between supplies and equipment.
- Identify one procedure you can implement to support supply and equipment management.

- **IT System Implementation Challenge:**

Scenario:

Your Head Start is implementing a new IT system to handle critical business processes. Staff are reviewing 45 CFR 75.2 “Personally Identifiable Information (PII)”. Your program needs to continue to enroll children into its program while maintaining confidentiality and assurance of eligibility.

- Propose one or more internal controls to mitigate risks associated with system implementation.
- Name one or more department staff members needing PII access.
- Identify one or more ways to limit access to PII and remain compliant with federal guidance.

