



2017 Internal Controls in Relation to Compliance-Related Issues/Findings As Seen by the Office of State Auditor

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Internal Controls-Compliance Objectives



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- ✓ **Reiterate Critical Issues Within the 5 Components of Internal Control Related to Compliance**
 - ✓ **Discuss the 3 Most Consistently Written Findings in the State's Audit of Federal Grants**
 - ✓ **Discuss OSA Approach for Identifying Controls Over Compliance**
 - ✓ **Discuss Examples of How to Use the Approach**

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Internal Controls-Compliance Point of Reference



- ✓ **\$21 B – Federal Grants**
 - ✓ **\$3.3 B Subgranted to Subrecipients**
- ✓ **\$450+ M – State Grants to Recipients**

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Internal Controls-Compliance Point of Reference



- ✓ Medicaid - **\$8.9B + (\$5 B State)**
- ✓ SNAP - **\$2.5B**
- ✓ SFA Cluster- **\$2.3B**
- ✓ Unemployment Insurance - **\$768M**
- ✓ Child Nutrition - **\$512M**
- ✓ Title I LEAs - **\$415M**
- ✓ CHIPS - **\$314M**

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Internal Controls-Compliance Point of Reference



- ✓ **Internal control** is the process, effected by an entity's Board of Trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
- Reliability of financial reporting,
 - Effectiveness and efficiency of operations, and
 - **Compliance with applicable laws and regulations**

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Internal Controls-Compliance Point of Reference



- ✓ **12 Compliance Requirements:**
- | | |
|---|--|
| A. <i>Activities Allowed/Unallowed</i> | L. Reporting |
| B. <i>Allowable Costs/Cost Principles</i> | M. Subrecipient Monitoring |
| C. Cash Management | N. Special Tests & Provisions |
| D. Reserved | |
| E. <i>Eligibility</i> | |
| F. Equipment/Real Property Management | |
| G. Matching, Level of Effort, Earmarking | |
| H. Period of Performance | |
| I. Procurement/Suspension/Debarment | |
| J. Program Income | |
| K. Reserved | |

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Internal Controls-Compliance 5 Components



- ✓ **Control Environment**
- ✓ **Risk Assessment**
- ✓ **Control Activities**
- ✓ **Information & Communication**
- ✓ **Monitoring**

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Internal Controls-Compliance 5 Elements



- ✓ **Control Environment**
 - ✓ **Management's Tone (circumventing/ignore)**
 - ✓ **Hiring/Just Filling Positions**
- ✓ **Risk Assessment**
 - ✓ **How Many Really Practice This?**
- ✓ **Control Activities**
 - ✓ **Create More Bureaucracy?**
 - ✓ **Procedures No Good W/out Follow-up**

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Internal Controls-Compliance 5 Elements (cont'd)



- ✓ **Information & Communication**
 - ✓ Does Staff “Really” Know?
- ✓ **Monitoring**
 - ✓ Controls “Still” Effective?

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Internal Controls-Compliance Point of Reference



- ✓ **12 Compliance Requirements:**

| | |
|---|-------------------------|
| A. Activities Allowed/Unallowed | L. Reporting |
| B. Allowable Costs/Cost Principles | M. Subrecipient |
| C. Cash Management | Monitoring |
| D. Reserved | N. Special Tests |
| E. Eligibility | & Provisions |
| F. Equipment/Real Property Management | |
| G. Matching, Level of Effort, Earmarking | |
| H. Period of Performance | |
| I. Procurement/Suspension/Debarment | |
| J. Program Income | |
| K. Reserved | |

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Internal Controls-Compliance Most Commonly Written Findings



- ✓ **Subrecipient Monitoring**
 - ✓ Annual Audit Reports Not Obtained/Reviewed
 - ✓ Management Decisions Not Delivered
 - ✓ Monitoring Plans Inadequate
- ✓ **Eligibility Determination**
 - ✓ Income Calculations Incorrect/Not Documented
 - ✓ Required Information Not in Case File
 - ✓ Eligibility Not Terminated at Appropriate Time
- ✓ **Reporting**
 - ✓ Reports to Feds Do Not Tie to G/L, NCAS, etc

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Internal Controls-Compliance Approach



- ✓ **Identify Which of the 12 Federal Compliance Requirements are “Applicable” to the Federal Program**
 - ✓ OMB 2017 Compliance Supplement – Part 2
 - ✓ OMB 2017 Compliance Supplement – Part 4
- ✓ **Identify Which Are Material to the Program**
- ✓ **Identify the “Objective” of the Material Compliance Requirements**

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Internal Controls-Compliance Approach



- ✓ The Process(es) to Accomplish Objective
- ✓ Ask “What Can Go Wrong?” How?
- ✓ Assess the Risk and Impact
- ✓ Identify “Procedures/Controls” to Prevent/Detect/Correct the Identified Issues

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Internal Controls-Compliance Example – Commerce CFDA 14.228



The primary objective of the Community Development Block Grants (CDBG)/State’s Program and Non-Entitlement Grants in Hawaii (State CDBG Program) is the development of viable communities by providing decent housing, a suitable living environment, and expanded economic opportunities, principally for persons of low- and moderate-income.

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Internal Controls-Compliance Commerce - CDBG CFDA # 14.228



✓ 12 Compliance Requirements:

- | | |
|--|------------------------------------|
| A. Activities Allowed/Unallowed-Y | L. Reporting-Y |
| B. Allowable Costs/Cost Principles-Y | M. Subrecipient Monitoring-Y |
| C. Cash Management-Y | N. Special Tests & Provisions-Y |
| D. Reserved | |
| E. Eligibility-N | |
| F. Equipment/Real Property Management-Y | |
| G. Matching, Level of Effort, Earmarking-Y | |
| H. Period of Performance-Y | |
| I. Procurement/Suspension/Debarment-Y | |
| J. Program Income-Y | |
| K. Reserved | |

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Internal Controls-Compliance Example – Commerce CFDA 14.228



- ✓ Requirement – G. Matching, Level of Effort, Earmarking
- ✓ Federal Law Requires NOT Less Than 70% of Funds Received by State, Over a Period Not to Exceed 3 Years, Must be Used to Benefit Low- and Moderate-Income Persons
- ✓ Objective – **Make sure the State is spending at least 70%, of moneys expended, to benefit Low- and Moderate-Income Persons.**

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Internal Controls-Compliance Example – Commerce CFDA 14.228



- ✓ **Process:**
- ✓ **Most grant money spent on local projects**
- ✓ **Obtain from local entities reports of money spent on all projects/projects by category**
- ✓ **Expenditures keyed into Commerce data base into appropriate project “buckets”**

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Internal Controls-Compliance Commerce CFDA 14.228



- ✓ **What Could Go Wrong? How?.**
- ✓ **The information reported from the Local Entities may not be accurate and reliable.**
- ✓ **No One is “Constantly” Checking and Monitoring the Percentage over the Designated Period.**
- ✓ **Data classification/per “bucket” could be manipulated.**

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Internal Controls-Compliance Commerce CFDA 14.228



- ✓ **Assess the Risk**
- ✓ **What Procedures/Controls Would Prevent These Issues?**

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Internal Controls-Compliance Subgrant Requirement/Money/Administration



- ✓ **Pass to a subrecipient/recipient all/portion of the Administration of a program**
- ✓ **Requirement E. Eligibility - Medicaid**
- ✓ **Eligibility Determination for a Program is Done at the County Level but Program is Administered by the State.**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **Objectives:**
- ✓ **That individual program participants...were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.**
- ✓ **Determine whether amounts provided to or on behalf of participants...were calculated in accordance with program requirements.**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **Objectives:**
- ✓ **That individual program participants...were determined to be eligible, and that only eligible individuals or groups of individuals participated in the program.**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **Process:**
- ✓ **Applicants must apply at County DSS**
- ✓ **Must provide personal/financial/medical information**
- ✓ **Information taken by caseworker**
- ✓ **Some information must be accompanied by documentation that information is valid**
- ✓ **Some Information must be run against databases to verify**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **Process (cont'd):**
- ✓ **Some calculations, regarding income, done manually, by caseworker**
- ✓ **Information is keyed into software application that then determines eligibility**
- ✓ **Caseworker can override eligibility determination**
- ✓ **Person is notified eligible/not eligible**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **What Could Go Wrong? How? – High Level**
- ✓ **Ineligible people allowed in program**
- ✓ **Eligible people rejected from program**

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Internal Controls-Compliance Compliance Requirement – E. Eligibility



- ✓ **What Could Go Wrong? How? – More Detailed**
- ✓ **Information keyed – no supporting documentation**
- ✓ **Verifications of information not run against external databases**
- ✓ **Manual Income calculations done incorrectly**
- ✓ **Computer System does not determine eligibility accurately**
- ✓ **Caseworker override**

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Internal Controls-Compliance

Compliance Requirement – E. Eligibility



- ✓ Procedures/Controls to Prevent/Detect/Correct
- ✓ Caseworkers well trained
- ✓ Suggested procedures/controls by Oversight Agency
- ✓ Review of all casefiles by experienced caseworker/supervisor
- ✓ Review of Sample casefiles
- ✓ Oversight agency reperforming eligibility determinations at counties (county external audits)

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Internal Controls-Compliance

Compliance Requirement – M. Subrecipient Monitoring



- ✓ Procedures/Controls to Prevent/Detect/Correct
- ✓ Caseworkers well trained
- ✓ Suggested procedures/controls by Oversight Agency
- ✓ Review of all casefiles by experienced caseworker/supervisor - county
- ✓ Review of Sample casefiles - county
- ✓ Oversight agency reperforming eligibility determinations at counties (county external audits)

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Internal Controls-Compliance

Compliance Requirement – M. Subrecipient Monitoring



- ✓ **Objective:**
- ✓ **Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals**
- ✓ **Must assess risk of noncompliance to determine monitoring activities**

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Internal Controls-Compliance

Compliance Requirement – M. Subrecipient Monitoring



- ✓ **Issues to Consider:**
- ✓ **The “Effectiveness” of a plan is just as important as having a plan.**
 - ✓ **Rotation of participating entities**
 - ✓ **Risk Assessment of entities/plan**
 - ✓ **Percentage of dollars covered**
 - ✓ **Sample sizes/methodology**
 - ✓ **Plan accomplished or not**
- ✓ **Follow-up**

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Internal Controls-Compliance

Compliance Requirement – M. Subrecipient Monitoring



- ✓ Agency Monitoring Plans Not Followed
- ✓ Monitoring Visits Not Documented
- ✓ No Procedures to Ensure Monitoring Reports Reviewed/Results Communicated
- ✓ Monitoring Reports Not Viewed Timely
- ✓ Not All Monitoring Procedures Completed
- ✓ Corrective Actions Not Required

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Internal Controls - Compliance



Questions?



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Internal Controls - Compliance



Federal Compliance Supplement

www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars

State's Compliance Supplement

