Internal Controls

Title I Technical Assistance Session
School Improvement Grant Programs
October 19, 2012

Massachusetts Department of
ELEMENTARY & SECONDARY
EDUCATION
Presentation topics

★ Internal Control defined
★ Time and effort reporting
★ Auditing
★ Allowable costs
★ Procurement controls
★ Inventory controls & equipment controls
★ Tips for TI Directors & Business Managers
What is Internal Control?

A process designed to provide reasonable assurance that:

1) Transactions are properly recorded and accounted for;
2) Transactions are executed in compliance with laws and regulations; and
3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition
Internal Control principles

- It is a process
- It is established, maintained and monitored by people at levels
- It must be cost effective
- It is the responsibility of all employees
Internal Controls

All recipients of federal funds must have controls that:

- Ensure federal money is spent correctly
  - Transactions properly recorded and accounted for

- Prove federal money is spent correctly
  - Transactions are executed in compliance with laws, regulations, and provisions of contracts or grants

- Safeguard property purchased with federal money
  - Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition
Internal Controls

- Purchase Orders: should indicate that an item or service was authorized prior to purchase

- Information on Invoices: should describe the item or service purchased and its designated purpose

- Payment of Invoices: should ensure that expenditures match agreed upon charges with purchase orders and vendor contracts

- Vendor Contracts – should document the activity or item being purchased
Internal Controls

✓ Equipment records – should indicate up to date equipment lists, inventory lists with accurate location information and physical inventory at least once every two years

✓ Procedures to Draw Down Funds: should have procedures to draw down funds from ESE within the allowed time periods

✓ Title I Set-Asides: should show the allocation and distribution of funds from Title I set-asides
Internal Controls

- **Budget Process** – should have financial information that compares actual expenditures to the amounts budgeted (Business Manager tracks)

- **Carryover of Title I Funds**: should have records to show the amount of carryover and use of Title I funds
Time and effort reporting

- Districts must maintain auditable "time and effort" records that show how each Title I employee spent his or her compensated time.

- Records are written, after-the fact (not estimated or budgeted).

- Time and effort records must be prepared by Title I staff with salary charged directly to:
  1. A federal award,
  2. Multiple federal awards, or
  3. To any combination of a federal award and other federal, state or local fund sources.
Time and effort reporting – semi-annual reports

- Full-time staff

- Each district must maintain copies of signed semi-annual certifications documenting that staff work solely in activities supported by the Title I grant.

- See sample Title I Semi-Annual Certification Form
Time and effort reporting – monthly reports

- Split-time staff – Work on Title I and other activities

- Each district must submit documents that describe time spent on Title I and other activities

- See sample Monthly Time and Effort Report for Split-Funded Staff
Time and effort reporting – stipends and other payments

★ Stipends (and other supplemental contracts) must also be reported.

★ Record stipends on semi-annual certifications or monthly reports, in the margin, whichever is utilized for the particular employee.

★ Alternatively, permitted documentation includes
  ➢ A signed supplemental contract that stipulates Title I work activity,
  ➢ Sign-in attendance logs approved by the supervisor (e.g., pay for professional development activities, after school activities, etc), and
  ➢ Employee time/pay slips that specify "Title I" and are approved by the supervisor.
Title I Semi-Annual Certification

District: 

Semi-Annual Period: 

9/2009 – 1/2010


I certify that I have been working solely in activities supported by the Title I grant for the semi-annual period indicated above.

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<tr>
<th>Name</th>
<th>School</th>
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This report is an after-the-fact determination of actual effort expended for the Title I program for the semi-annual period indicated above.

Title I Director’s Signature     Date

Massachusetts Department of Elementary and Secondary Education
Title I Monthly Time and Effort Record for Split-Funded Staff

District: 

School: 

Payroll Month: 

Indicate the percentage of time you worked for the month charged to Title I and other program areas. The total must equal 100%. Then sign the form. The payroll month coincides with one or more pay periods. The record is an after-the-fact determination of actual effort expended for the payroll month and the signer has full knowledge of and can support 100% of these activities, if requested.

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<tr>
<th>Name</th>
<th>Position</th>
<th>Activities</th>
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This report is an after-the-fact determination of actual effort expended for the programs charged for the payroll period. The employees signing this record have full knowledge of and can support 100% of these activities.

Supervisor's Signature

Supervisor's Title

Date
Title I audits

What does the auditor look for?

- Deficiencies in internal controls
- Noncompliance with laws and regulations
- Questioned costs greater than $10,000
  - Unallowable costs
  - Undocumented costs
  - Unapproved costs
  - Unreasonable costs
What is an audit finding?

- “Findings” are significant issues noted by the auditor that are disclosed in your audit report, which is a public record.

- Your district must prepare a corrective action plan to resolve the issue.

- Your district may be asked to repay questioned costs to the grantor agency.
Statistics on MA Single Audit findings

FY12 Commonwealth of Massachusetts Common Single Audit findings:

4% Use of funds
4% Unallowable costs
4% Procurement
11% Cash management
29% Time and effort
50% Reporting/recordkeeping
Allowable costs

To be allowable, a cost must:

Be reasonable for the performance of the award and be allowable in accordance with OMB Circular A-87.

http://www.whitehouse.gov/omb/circulars_a087_2004/

All costs must be necessary and reasonable

- Must be necessary for the performance or administration of the grant
- Must follow sound business practice
- Fair market prices
- Act with prudence under the circumstances
- Do I really need this?
- Do I have the capacity to use what I am purchasing?
- Did I pay a fair rate? Can I prove it?
Procurement
(the acquisition of goods & services)

Written policies and procedures

Common problems

• No documentation
• Invoice predates purchase order
• Lack of description in contracts/invoices
• Lack of approval over payment process
• Inadequate segregation of duties
• Conflicts of interest
Period of availability of federal funds

Controls should be in place to ensure grant funds are:

**Encumbered/expended in accordance with the timelines of the respective grant agreement.**
Inventory controls

★ LEA Title I Office & Title I school will maintain a current and accurate inventory record of equipment purchased with Title I funds (including purchases for private school services).

★ Inventory Listing should include equipment that is non-consumable with a life of more than one year.
Sample inventory control form

**Title I Equipment Inventory Control Procedure (for equipment purchased with Title I fund code only)**

**Physical Inventory Listing**

<table>
<thead>
<tr>
<th>Organization (such as Office or School Location)</th>
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<table>
<thead>
<tr>
<th>Inventory Control Number</th>
<th>Fixed Asset Number</th>
<th>Item Description</th>
<th>Purchase Cost</th>
<th>Serial Number</th>
<th>Purchase Date</th>
<th>Person of Custody</th>
<th>Room Number</th>
<th>Location</th>
<th>Condition of Item</th>
<th>Date of Reconciliation</th>
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</table>

**Sample Inventory Control Form**
### LEA or School Fixed Asset Listing

<table>
<thead>
<tr>
<th>Fixed Asset Number</th>
<th>Item Description</th>
<th>Purchase Cost</th>
<th>Serial Number</th>
<th>Purchase Date</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>XYZ008</td>
<td>Desk</td>
<td>$1,174.50</td>
<td>ABC130</td>
<td>7/22/05</td>
<td>512-A</td>
</tr>
<tr>
<td>XYZ010</td>
<td>Computer</td>
<td>$1,453.82</td>
<td>ABC132</td>
<td>4/1/05</td>
<td>512-A</td>
</tr>
<tr>
<td>XYZ012</td>
<td>LapTop Computer</td>
<td>$1,610.22</td>
<td>ABC134</td>
<td>9/21/05</td>
<td>512-A</td>
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<tr>
<td>XYZ013</td>
<td>Computer</td>
<td>$1,475.00</td>
<td>ABC135</td>
<td>9/22/05</td>
<td>700-A</td>
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<tr>
<td>XYZ014</td>
<td>Computer</td>
<td>$1,500.00</td>
<td>ABC136</td>
<td>9/22/05</td>
<td>512-A</td>
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<tr>
<td>XYZ015</td>
<td>Computer</td>
<td>$1,400.00</td>
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<tr>
<td>XYZ016</td>
<td>Computer</td>
<td>$1,400.00</td>
<td>ABC138</td>
<td>9/22/05</td>
<td>512-A</td>
</tr>
</tbody>
</table>
Equipment controls

Must have adequate controls to account for:

- Location of equipment
- Custody of equipment
- Security of equipment
- Property records
  - Description, serial number, acquisition date, cost
- Physical inventory
  - Must be performed at least every two years
- Control systems to prevent loss, damage, and theft
Travel expense issues

- Documentation
- Purpose of travel
- Receipts
- Reasonable and necessary
Tips for T1 Directors & Business Managers

- Gather and summarize grant information
  - Clean and organized records to give to auditors
- Document your policies and procedures
  - Documentation drives quality and compliance
- Know where to find the OMB Circular A-133. This supplement lists 14 areas of compliance that auditors are expected to review when performing an audit
  - http://www.whitehouse.gov/omb/circulars/a133_compliance_supplement_2012
- Make sure the employees assigned to Title I understand the grant requirements to ensure compliance.
Contact information

Website:  http://www.doe.mass.edu/apa/titlei
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Phone:  781-338-6230