

INTERNAL CONTROLS GUIDANCE HANDBOOK

FOR FISCAL YEAR 2015 AND BEYOND

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Introduction

TEA awards federal education grants to local educational agencies (LEAs) and other eligible organizations. TEA requires that grantees follow the fiscal and programmatic requirements for each of the grants awarded.

One of the ways that a grantee demonstrates compliance with fiscal grant requirements is by establishing a system of accountability for federal grant funds. When internal or external auditors review federal grant programs, they examine and test the internal controls in place and verify that the grantee has provided reasonable assurance that grant objectives have been met.

An effective system of internal control can help grantees stay in compliance with federal grant requirements and increase the likelihood that grant funds are used for the intended beneficiaries.

Purpose of TEA Guidance

The purpose of this handbook is to provide a general overview of internal controls as they relate to the federal grants TEA awards. Grant recipients must have an effective system of internal control in place to prevent, detect, and reduce the risks of fraud, waste, and abuse of federal grant funds. This goal requires the involvement of the organization as a whole.

This handbook will outline the following:

- Why internal controls are important
- Key roles in the internal control system
- General categories, components and principles of internal control
- Audit reviews

This handbook is designed to be viewed in electronic form, with web links taking the form of anchor text (the [TEA home page](#)) rather than URLs (www.tea.texas.gov). To provide feedback on this handbook, including topics that should be included in future versions, please email the Division of Federal Fiscal Compliance and Reporting at compliance@tea.texas.gov.

Intended Audience

The handbook is most useful for staff who require a general understanding of systems of internal control, such as those responsible for administering or overseeing federal grant programs. Internal or external auditors and other staff working in the financial areas of your organization will be familiar with the more technical resources that are available for an internal control system. These resources are listed in the next section.

Resources

The following internal control resources will benefit your organization.

Internal Control—Integrated Framework

The [Internal Control—Integrated Framework](#) guidance document was developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In 1992, COSO began providing guidance for internal control systems in response to growing concern in the business sector over financial fraud. The goal was to help organizations establish

effective systems of internal controls that went beyond checklists and carrying out standard policies and procedures.

COSO developed a framework for the creation of internal control systems that included five key components and 17 guiding principles. COSO updated the [Internal Control—Integrated Framework](#) guidance document in May 2013. More information is available on the [COSO](#) website.

Standards for Internal Control in the Federal Government (Green Book)

The [Standards for Internal Control in the Federal Government \(Green Book\)](#) is published by the Government Accountability Office (GAO).

The GAO sets internal control standards for the federal government. These standards support the framework created by COSO. The *Standards for Internal Control in the Federal Government (Green Book)* can be used by organizations that receive federal grants from TEA to design, implement, and operate internal controls. The most recent version of the [Green Book](#), published September 2014, is available through the [GAO](#) website.

Why Internal Controls Are Important

On December 19, 2014, the Federal Register published a joint interim final rule implementing Title 2 of the Code of Federal Regulations, Part 200 ([2 CFR 200](#)) for all federal agencies that award grants, including the US Department of Education (USDE). These regulations went into effect on December 26, 2014. The new regulations replace the circulars listed in the following table.

Cost Principles	Administrative Rules	Audit Rules
A-87 – LEAs and ESCs	A-102 – LEAs and ESCs	A-133
A-21 – IHEs	A-110 – IHEs/Nonprofits	A-50
A-122 – Nonprofit Organizations	A-89 – CFDA	

In December 2014, new regulations from the Office of Management and Budget were incorporated into general federal regulation. As a result, USDE modified the Education Department General Administrative Regulations (EDGAR), replacing 34 CFR Parts 74 and 80 with [2 CFR 200](#). The update is known as the new EDGAR.

The new [EDGAR](#) applies uniformly to all grantee types, specifically for TEA subgrantees, including LEAs, education service centers (ESCs), institutions of higher education (IHEs), and nonprofit organizations. It provides monitors and auditors with rules so they can determine whether the federal programs being administered by the grantee have sufficient internal controls in place.

The new [EDGAR](#) is intended to increase efficiency, strengthen oversight, and bring consistency to federal grant rules. Although most of the rules in the new [EDGAR](#) are similar to those in prior circulars, the new emphasis is to balance performance and compliance with written policies and procedures. This means that auditors will be expected to examine outcomes in addition to processes. Grantees will have more flexibility to establish local processes; however, these processes will need to be strong enough for outcomes to meet the objectives of the federal grants, including compliance.

Under the new [EDGAR](#), grantees must strengthen accountability for federal funds and improve local policies that prevent, detect, and reduce fraud, waste, or abuse. You will need to develop written policies and procedures that document grant activities, such as how you determine allowable costs and purchases.

The New EDGAR and Internal Controls

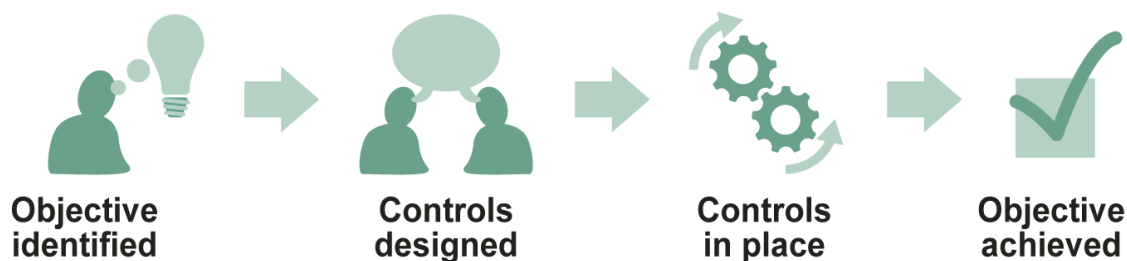
[2 CFR 200.303](#) requires grantees to implement internal controls for the administration of federal grants. Grantees must establish and maintain effective internal control over federal grants and provide reasonable assurance that they comply with all laws, regulations and requirements related to the grants they receive. Additionally, grantees must:

- Evaluate and monitor their own compliance with grant requirements.
- Quickly address any noncompliance identified, including any found in audit or monitoring findings.
- Take reasonable measures to protect sensitive or personally identifiable information (in accordance with laws regarding privacy and confidentiality).

[2 CFR 200.303](#) advises that internal controls *should* be in compliance with GAO standards and COSO's [Internal Control—Integrated Framework](#).

Definitions of Internal Control

In the [Green Book](#), the GAO defines **internal control** as “a process effective by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.” The internal controls are the policies and procedures used to ensure that the organization’s mission, strategic plan, goals, and objectives are achieved. Internal controls are your first defense in safeguarding assets.



Source: GAO. | GAO-14-704G

The objectives and corresponding risks fall into one or more of the following categories:

- **Operations:** Effectiveness and efficiency of operations
- **Reporting:** Reliability of financial reporting both internally and externally
- **Compliance:** Compliance with applicable laws and regulations

An **internal control system** is a system of ongoing processes that are built into the overall operations of your organization. Having a strong internal control system provides *reasonable* (not absolute) assurance that your organization objectives, which include your grant objectives, will be met.

A system of internal controls requires the participation of all levels of an organization. Your daily business processes and organizational structure should reflect the internal control system you have in place for your grant funds. An effective system of internal controls allows you to ascertain that your records are accurate, your operations are efficient, and your policies and procedures are followed by all staff. Organizations should develop and maintain documentation of their internal control system to clarify roles and responsibilities and thus create standards and expectations of performance and conduct.

Effective Grant Management

Any organization that is awarded federal grants must build a system of internal controls to effectively manage the grant funds it receives. An entity with a weak internal control system is vulnerable to the possibility of mismanaging grant funds. Instances of noncompliance can lead to corrective actions, which can include the refund to TEA, in nonfederal funds, of costs that were paid with federal funds and that an auditor identifies as disallowable. Problems with grant management can also result in the placement of specific conditions on future grants. In order to reduce the risk of mismanaging your grant funds, you must have a system that prevents, or identifies and corrects, potential violations of federal requirements.

Policies and procedures are important components of an internal control system. However, policies and procedures alone will not guarantee effective grant management. The following sections of this handbook address the additional steps that you must take to build a strong system of internal controls over federal programs.

Key Roles in the Internal Control System

Your internal control system needs to involve your local board, senior management, and other personnel in your organization. Written policies and procedures still require effective oversight, training, self-monitoring, and implementation. Further, staff still must make judgments and decisions based on your written policies and procedures. The key roles in your internal control system can be organized into the following categories:

- Oversight body
- Management
- Personnel
- Internal auditors

Oversight Body

Staff responsible for overseeing the entire organization are members of a governing board or senior management. For example, in a school district, the oversight body could include the local school board, superintendent, and other senior members of the administration. These individuals have the responsibility to provide advice, counsel, and direction to management; approve certain transactions and policies; and monitor management activities. The oversight body sets the tone at the top of an organization by clearly communicating the mission, goals, and objectives of the organization. The integrity of any internal control system depends on how the oversight body sets expectations for staff. Without a strong tone at the top to support an internal control system, the organization's risk increases for noncompliance with applicable laws and regulations.

Management

An organization's management staff participate in the design, implementation and operation of the internal control system. Management is responsible for assuring that the internal control activities are carried out and the organization's objectives are met. School district personnel in management can include administration staff, campus leaders, and any other staff charged with supervising the internal control system.

Personnel

The rest of the staff in an organization fall into the "other personnel" category. The oversight body and management cannot implement an effective internal control system without the support and full participation of all other staff. Personnel must understand how their specific duties fit into the overall system. Additionally, personnel should be able to report issues or potential problems in the internal control system to management without the fear of negative consequences. For example, if a staff member who serves as a grant coordinator identifies a purchase using federal funds that does not comply with an applicable federal requirement, the internal control system should have a process for reporting this. It should not be left to the grant coordinator to decide when and how to report these kinds of issues.

Internal Auditors¹

Although neither COSO nor GAO identifies internal auditors as a separate category of responsibility for an internal control system, there are opportunities for internal auditors to strengthen the system through specific actions. Internal auditors in a school district should

¹ This is applicable to those entities that have an internal audit department.

report to the oversight body. Their role with the internal control system is different from the role of any other staff members.

COSO's [Internal Control—Integrated Framework](#) has provided a foundation for internal auditors on how to evaluate, monitor, and assess an internal control system. Internal auditors are tasked with finding ways in which internal controls can be improved and become more cost-effective. With the recent update to the [Internal Control—Integrated Framework](#), COSO has added some opportunities for internal auditors to work more closely with the oversight body and management. Internal auditors can not only evaluate the system, but also communicate the importance of internal controls to personnel within the organization.

Because of the expansion of data and its use, internal auditors need to strengthen the monitoring of sensitive data and determine, with the oversight body and management, the appropriate level and frequency of monitoring that is necessary to keep data safe. COSO further recommends that internal auditors provide active training of internal audit staff to prepare them for their roles in the process and teach them how to communicate effectively with staff at all levels of the organization. Internal auditors should be able to show staff how their daily jobs connect to internal control responsibilities. The auditors should use actual examples and case studies that relate to the organization in order to help staff how internal controls help them meet their objectives.

General Categories, Components, and Principles of Internal Control

The purpose of this section is to provide a general overview of what an internal control system should include. Both GAO and COSO provide resources with much greater detail, including specific guidance on how to design, implement, and operate your system.

Categories of Objectives

Earlier in this handbook, we defined internal control as a process that is created by an organization that provides *reasonable* assurance that the organization's objectives will be reached. We mentioned that all objectives could be classified under one or more of the following categories: operations, reporting, and compliance. The risks identified by an organization and the corresponding controls also can be organized under one or more of these categories.

Operations objectives address your organization's effectiveness and efficiency in meeting your mission, goals, and objectives. Effective operations yield the outcomes expected and efficient operations produce those outcomes at minimal cost. Internal controls related to operations will minimize risks to your federal grants and safeguard grant resources.

Reporting objectives relate to the preparation and reporting of financial and nonfinancial information that is necessary or required in accordance with federal grant laws and regulations. This may include required reports to TEA, the US Department of Education, or the governing body of your organization, such as the local board at the LEA. Additionally, your senior management or federal grant staff may require information in order to make decisions or evaluate the performance of federal grant programs.

Compliance objectives concern your organization's ability to identify and follow all laws, regulations, and requirements related to the federal grants awarded. The oversight body and management of your organization must ensure through these objectives and the related internal controls that federal grant activities comply with federal requirements.

Many federal requirements apply to all federal grants. Management must be knowledgeable about which requirements apply to each of the federal grants received and develop internal controls that are integrated within all levels of the organization. For example, policies and procedures for keeping time and effort for federal funds must be implemented for all federal grants, even though the various grants may be housed in different parts of the organization.

Components of Internal Control

Once your organization has identified the objectives that need to be met in the areas of operations, reporting, and compliance, the next step is to identify the potential risks and related internal controls that should be developed in order to detect problems that may prevent you from meeting your objectives.

COSO's [Internal Control—Integrated Framework](#) identifies five components of internal control that encompass the different steps you must take in order to establish a system of internal controls for your entire organization. The GAO [Green Book](#) supports these five components and considers them to be the standards for internal control in the federal government. As a recipient of federal grant funds, you are required to establish internal controls. Although you are not required to use the framework developed by COSO and supported by GAO, the federal government considers the framework to be a "best practice" for internal controls.

COSO's Five Components of Internal Control



For an internal control system to be effective, all of the components must be effectively designed and operating together in an integrated manner. Although each component includes different requirements for your system, they will overlap. For example, well-written policies and procedures specified under the Control Environment will affect how well other activities are carried out under all of the other components. In order for your internal control system to work effectively and efficiently, everyone in your organization must be knowledgeable about the entire system, not just those components that affect the individual directly. Staff must know their responsibilities and limits of authority.

Control Environment

This component is the foundation for all of the other components. Oversight staff, such as senior management and governing bodies, are responsible for establishing expectations and making certain that the internal control system is operated ethically and with integrity.

Your organization's management and employees should have a positive attitude toward compliance, an attitude that is modeled from the top of the organization. All staff should understand the big picture of the organization—the goals, objectives, and how every part of the organization is connected to the other parts. Whenever you are visited by auditors or monitors, everyone participating in the visit should know what everyone else does. For example, the entrance conference for the visit should not be the first time that the grant manager is meeting the business manager. This may demonstrate to the auditor or monitor that coordination on the management of your federal grant funds is limited or nonexistent in your organization.

At a minimum, your organization should have a clearly defined organizational structure that everyone understands. Additionally, all staff should have access to detailed job descriptions, so that they are clear on the role that they play in the organization and they are able to accurately communicate their job duties to auditors and monitors.

Risk Assessment

This component involves assessing the risks involved in your organization as they relate to the operation of federal grant programs, financial reporting, and federal program compliance. These activities develop the appropriate responses to risks identified.

It is critical to develop risk assessment policies and practices because instances of noncompliance will occur. The federal rules only require that you demonstrate “*reasonable assurance*” rather than *absolute* assurance that you are managing your federal grant funds in compliance with all federal grant requirements. Auditors and monitors will look for evidence that you have a system in place that not only identifies areas of risk or weakness, but also addresses and fixes them at the time they occur. If you can produce documentation that provides evidence of your risk assessment processes, you may be able to reasonably assure an auditor or monitor that you are able to catch and resolve noncompliance issues quickly.

Some examples of areas of high risk are:

- New personnel who are not familiar with policies and procedures
- Organizational changes
- Changes in laws or regulations, such as the new [EDGAR](#) (effective December 26, 2014)
- New technology
- New grants

Generally, when changes occur in your organization, the potential increases for policies and procedures to fall through the cracks. Ongoing staff training, self-monitoring, and close evaluation of performance can help to mitigate some of this risk.

How to Identify Risks

To help you identify risks during the risk assessment process, here are some questions your department or division should ask.

- What could go wrong?
- How could we fail?
- What decisions require the most judgment?
- What activities or functions are the most complex?
- What activities are regulated?
- On what do we spend the most money?
- On what information do we rely the most?
- What assets do we need to protect?
- How could someone or something disrupt our operations?
- Is our IT system vulnerable to cyber-attacks?

Control Activities

These are actions that your organization takes in order to respond to risks in the internal control system, such as establishing policies and procedures and carrying out control activities that mitigate risk. Control activities are carried out throughout the organization, especially with financial and technology processes.

Control activities are the checks and balances that are necessary to ensure that everyone is following the rules and no one person is given too much authority or control over federal grant funds. The following are some of the key ways that you can establish controls:

- Segregating responsibilities so that one employee does not have full control or carry out all fiscal duties
- Ensuring that proper security is in place for systems and records, such as requiring passwords and restricted authorizations
- Keeping equipment and other assets secured
- Maintaining clear documentation of all procedures, including approvals and record retention
- Protecting and securing personally identifiable information

Types of Controls Activities

The goal of any internal control system is to reduce the risk of fraud, waste, or abuse. In order to do this, different types of controls must be in place. Three general types of internal controls are preventative, detective, and corrective.

Types of Controls	What It Does	Examples
Preventative	Prevents errors or irregularities from occurring	<ul style="list-style-type: none"> • Segregating staff duties • Requiring approvals, authorizations, and verifications • Securing assets, such as cash or equipment • Maintaining and regularly reviewing inventories and records
Detective	Identifies errors or irregularities after they have occurred	<ul style="list-style-type: none"> • Reviewing performance objectives, forecasts, or other benchmarks to identify unexpected or unusual results • Reconciling different sets of data to investigate irregularities • Conducting physical inventories of assets • Audits
Corrective	Identifies ways to react to the risk after the error has occurred	<ul style="list-style-type: none"> • Monitoring active grant programs to identify noncompliance or weakness in controls • Using automated systems with built-in checks that reject nonconforming or unallowable processes

Information and Communication

In order for an internal control system to be successful throughout an organization, the oversight body and management need to ensure that information is communicated effectively to all staff. Communication must go both ways. Staff must share information with management and leadership about the potential risks identified and the control activities conducted; management must communicate information to enable staff to understand the organization’s objectives and the importance of their control responsibilities. Effective and clear communication with outside parties, such as external auditors, is necessary to show how your internal control system helps you meet your objectives and comply with federal requirements.

Written procedures should outline how your organization identifies and distributes the information that employees and other partners need in order to perform their duties. Leadership

staff should model effective and consistent communication so that staff knows it is important. In order to begin designing or improving your information and communication system, you should determine all of the internal and external groups that need information from you, how you should communicate with these groups, and how often communication will be needed.

Monitoring Activities

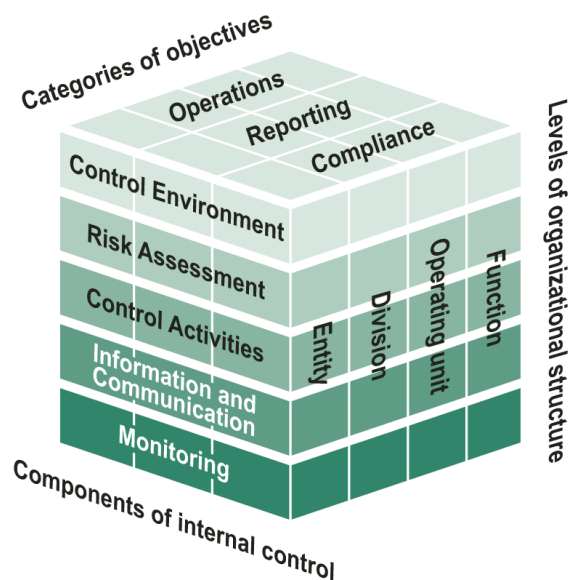
Management establishes and operates an ongoing self-monitoring and evaluation of control activities that assess whether the internal control system is working. This ensures compliance with federal program requirements. Monitoring also involves resolving any issues that result from audits, other kinds of program reviews, and self-assessment reviews and take prompt action when instances of noncompliance are identified.

The most effective way to find problems is to test your own system regularly. For example, have someone from another area of your organization who is not familiar with your procurement process randomly select a contract, review the policies and procedures, and verify that they were followed. Another test could involve periodically reviewing your inventory list and verifying that items are located where they are supposed to be and items are labeled accurately. The goal is to evaluate whether your internal controls are functioning as intended and correct any problems in a timely manner.

In summary, all of the five components must work together *across* your objective areas of operations, reporting, and compliance, to ensure your organization objectives are reached.

COSO utilizes the following graphic to illustrate an effective internal control system that addresses all aspects of your objectives and components throughout all levels of your organization.

The Components, Objectives, and Organizational Structure of Internal Control



Sources: COSO and GAO. | GAO-14-704G

The 17 Principles

In addition to the five components that provide the structure for your internal control system, there also are 17 principles that support the five components. The principles provide additional guidance and clarification for evaluating the development and implementation of each component. The following table lists the components and the principles that support them.

Components	Principles
Control Environment	<ol style="list-style-type: none"> 1. The oversight body and management should demonstrate a commitment to integrity and ethical values. 2. The oversight body should oversee the entity's internal control system. 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives. 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals. 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
Risk Assessment	<ol style="list-style-type: none"> 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances. 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives. 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks. 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.
Control Activities	<ol style="list-style-type: none"> 10. Management should design control activities to achieve objectives and respond to risks. 11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks. 12. Management should implement control activities through policies.
Information and Communication	<ol style="list-style-type: none"> 13. Management should use quality information to achieve the entity's objectives. 14. Management should internally communicate the necessary quality information to achieve the entity's objectives. 15. Management should externally communicate the necessary quality information to achieve the entity's objectives.
Monitoring	<ol style="list-style-type: none"> 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. 17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO | GAO-14-704G

There is more detailed information, including guidance and specific examples, available for the components and principles. COSO's [Internal Control—Integrated Framework](#) and GAO's [Green Book](#) are resources that can be utilized by your staff responsible for internal controls.

Audit Reviews

Your internal control system should be able to provide *reasonable* assurance, not *absolute* assurance, that there are sufficient controls in place to achieve successful operations, reliable reporting, and compliance with laws and regulations related to your federal grant programs. LEAs have an independent annual financial audit performed that checks for areas of noncompliance with federal grant programs.

Grant compliance requirements under Section 76.702 of Title 34 of the Code of Federal Regulations; section 200.302 of Part 2 of the Code of Federal Regulations, Part 200; and the [Financial Accountability System Resource Guide \(FASRG\)](#) stipulate that an LEA's financial management system must maintain fiscal control and accounting procedures to ensure an appropriate level of internal control for effective control and accountability over LEA resources.

The Five COSO Components and What Auditors Review

During a federal audit review, monitors or auditors look within each of the five components of internal control at the written policies and procedures that provide evidence of the controls in place. The following are some examples of the types of documentation or activities monitors or auditors may review.

Components	Examples of Controls Reviewed by Auditors
Control Environment	<ul style="list-style-type: none"> • Human Resource Policies and Procedures – including fraud policy and conflict of interest • Tone at the Top – Management's style, values, and philosophy/attitude towards compliance with established policies and procedures • Organizational Structure – Identify reporting/supervisory responsibilities as well as assignment of authority and responsibilities
Risk Assessment	<ul style="list-style-type: none"> • Assessing organizational risk based on the environment and culture, including but not limited to: <ul style="list-style-type: none"> ○ Changes to personnel/reorganization ○ New technology/information system – conversions and/or updates ○ New rules and regulations
Control Activities	<ul style="list-style-type: none"> • Segregation of Duties – separating authorization, custody, and record keeping roles to prevent fraud or error by one person. Example: Input and review of purchase/payment records. Dual control for handling of cash/cash equivalents. • Authorization of transactions – review of particular transactions by an appropriate person. Example: Spending Authorities – Requiring board approval for purchases over \$25,000. • Requiring the use of purchase orders/requisitions • Retention of records – maintaining documentation to substantiate transactions • Safeguarding of Assets – physical safeguards – usage of cameras, locks, physical barriers, etc. to protect property. Examples: lock and key procedures; checkout procedures, including logs, for equipment or supplies, including cash equivalents (i.e. credit cards; check stock; petty cash); restricting use for appropriate/official business. • Asset Accountability – tagging equipment/assets; use of asset tracking forms; periodic inventories. • IT general controls – controls related to: <ul style="list-style-type: none"> ○ Security, to ensure access to systems and data is restricted to authorized personnel, such as usage of passwords and review of access logs; and

Components	Examples of Controls Reviewed by Auditors
	<ul style="list-style-type: none"> ○ Change management, to ensure program code is properly controlled, such as separation of production and test environments, system and user testing of changes prior to acceptance, and controls over migration of code into production. ● IT application controls – controls over information processing enforced by IT applications, such as edit checks, to validate data entry, accounting for transactions in numerical sequences, and comparing file totals with control accounts.
Information and Communication	<ul style="list-style-type: none"> ● Access Rights – see IT general controls and IT application controls above. ● Periodic Reporting – timely, accurate, current and reliable information for making informed decisions. ● Reporting deficiencies or violations and corrective actions taken
Monitoring	<ul style="list-style-type: none"> ● Supervision or monitoring of operations – observation or review of ongoing operational activity. Examples: Budget vs. Actual; Trends Analysis-Comparison of Prior Period Data; Benchmarking ● Top-level reviews and analysis of actual results versus organizational goals or plans, periodic and regular operational reviews, metrics, and other key performance indicators. Examples: Program Reviews, Internal Audits; Variance Reports for Expense/Cash Accounts; Account Reconciliations.

Management must impose discipline throughout the organization so that an appropriate level of internal control will be maintained to assure that organizational goals are met and written policies and procedures set the foundation for internal controls of any organization. Written policies and procedures should be designed to help ensure that management directives are carried out in accordance with the expectations set by the oversight body or recognized practices.

TEA Federal Fiscal Monitoring

TEA's [Division of Federal Fiscal Monitoring](#) monitors the expenditures of federal grant subrecipients for compliance with various fiscal requirements. It also conducts reviews of federal grant subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements.

During their reviews of selected federal grants awarded to grantees, TEA monitors have identified the following instances of noncompliance and/or weaknesses in internal controls.

Category	Findings
Period of Availability	The grantee expended federal grant funds for payroll that were outside the approved grant period. Specifically, the organization expended payroll charges prior to the grant's period of availability.
Allowable Costs	The grantee expended federal grant funds that did not constitute allowable expenditures per applicable grant requirements. Specifically, the grantee did not provide signed and dated job descriptions for employees paid with grant funds, and did not demonstrate that the employees worked on activities supported by applicable laws, rules, and regulations.
Cash Management	The grantee issued paychecks to employees paid with federal grant funds in the middle of the month, which was prior to services for the entire month being performed.

Category	Findings
Source Documentation	The grantee expended federal grant funds that were not adequately supported. Specifically, monitors noted that in several instances the grantee did not provide any documentation, such as a purchase order, invoice, or billing statement, to support the expenditure charged to the grant.
Source Documentation	The grantee expended federal grant funds that were not adequately allocated or assignable to the grant. Specifically, in several instances the grantee inaccurately allocated computer usage charges to federal grant funds.
Source Documentation	The grantee did not maintain documentation demonstrating that it created and maintained agreements for shared services arrangements (SSAs) with other entities, as required by the grant application, as amended. The agreements would clarify various issues, including the refund liability that could result from monitoring or external audits; and the final disposition of equipment, facilities, and materials purchased for a grant project.
Source Documentation	The grantee did not ensure that reimbursements of payments for expenditures incurred by SSA members were adequately supported, allocable, allowable, reasonable, and necessary to carry out the intent and purpose of the federal grant program.
Source Documentation	The grantee expended federal grant funds that were not adequately supported. Specifically, the grantee issued purchase orders after receiving invoices. In several instances, the amounts on the purchase order differed from the amounts paid.
Category	Observations
Budget Control	The grantee did not demonstrate that it adequately maintained effective budgetary control of federal grant expenditures. Specifically, appropriations of federal grant funds recorded in the grantee's general ledger were less than the final amount approved in the grant application as amended.
Administrative Procedures	In several instances, the grantee did not maintain specific administrative procedures to maintain effective control and accountability for all federal grant and subgrant cash, real and personal property, and other assets.

These actual TEA monitoring findings and observations are examples of the kinds of noncompliance issues that your organization may experience in the absence of strong internal controls.

Visit TEA's [FFM website](#) for more information about federal fiscal monitoring, including resources available to prepare you for monitoring or other kinds of reviews of your federal grant programs. For detailed information on setting up or strengthening your internal control system, visit the [COSO](#) and [GAO](#) websites.

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