

2009 National PIRC Project Directors' Conference
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**Risk Based Monitoring of
Fiscal Components in
U.S. Department of Education Programs**

**Parent Information Resource Center
Finance Directors and Business Managers**

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Financial and Program Management Standards for Financial Management Systems

34 CFR 74.21

- Relate financial data to performance data
- Accurate current and complete disclosure of financial results
- Records identify source and application of funds for Federally – sponsored activities
- Control over accountability for all funds, property, and other assets
- Comparison of outlays with budget for each award
- Written procedures
- Accounting records supported by source documentation

Monitoring Objectives

- Review the Adequacy of Internal Controls
- Review Program Fiscal Compliance
- Evaluate the Risk of Erroneous Payments
- Detection of Fraud

Purpose of Internal Controls Review

- Time limitations for site reviews
- Limited scope of monitoring reviews
- Control environment insight
- Supports focus on risk based monitoring

Improper Payments Defined

Any payment:

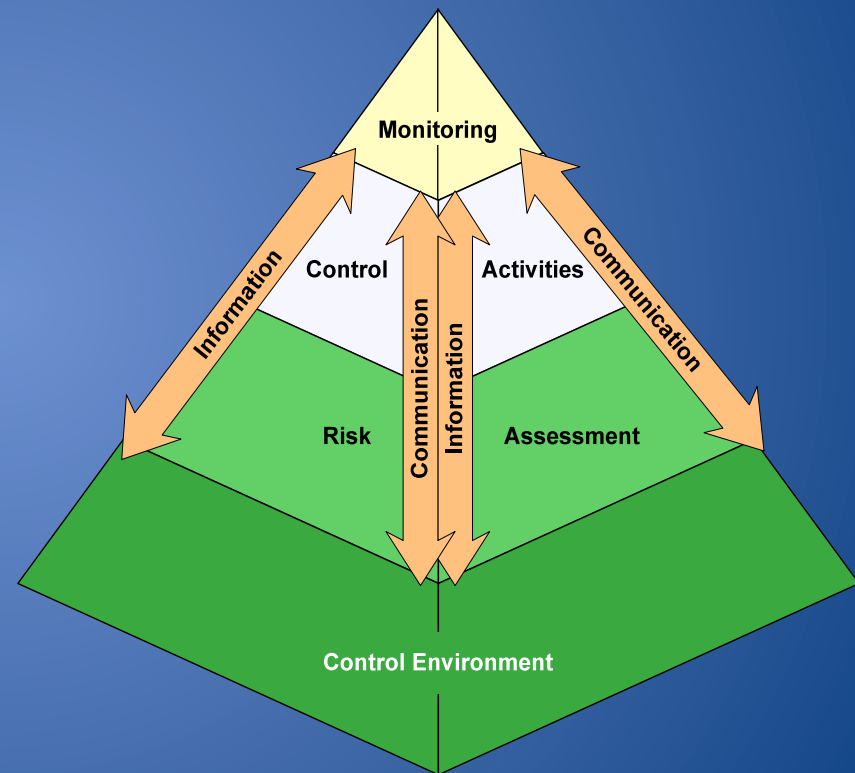
- Made in the wrong amount
- Paid to an ineligible recipient
- Improperly used by the recipient

Internal Controls Overview

- **What are internal controls?**
- **The three objectives of internal control**
 - Effectiveness and Efficiency of operations
 - Reliability of reporting
 - Compliance with applicable laws and regulations
- **Management's responsibility of internal control**
 - Developing and maintaining internal control activities

Five Standards of Effective Internal Control

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring



The Control Environment

- **Comprises the foundation for the other internal control components**
- **Establishes how the organization functions**
- **Emphasizes integrity and ethical values**
- **Determines how trustworthy the people and the records are**
- **Demonstrates a commitment to competence**

Risk Assessment Process

- Determine the program objectives
- Decide what could go wrong (the risks)
- Determine the likelihood and the impact of each risk
- Assess level of risks
- Develop a plan to address the risks

Control Activities

- Plans, policies, procedures, techniques, and mechanisms used to ensure management directives are carried out and objectives are achieved
- An integral part of an organization's accountability for stewardship of government resources and achieving effective results
- Occur at all levels and functions of the organization

Types of Control Activities

- **Preventative Controls – Deter risks from being realized**
- **Detective Controls – Identify risks that are realized**
- **Corrective Controls – Detect if risk is realized and reacts**

Information and Communication

- **Information Management**
- **Data Protection**
- **Information Security**

Monitoring

Internal control monitoring should:

- **Assess the quality of performance over time**
- **Ensure that control activities are having the desired impact**

Reviews Completed April 2005 to June 2007

Title I 24 State Reviews

Title III 6 State Reviews

BIA Locations in 3 States

287 Findings

Summary of Findings

- **Procurement and Disbursement Controls**
(137 Findings, 48%)
- **Controls Over Equipment**
(106 Findings, 37%)
- **Audits**
(26 Findings, 9%)
- **Distribution and Control of Program Funds**
(18 Findings, 6%)

Procurement and Disbursement Controls

- Inadequate controls over purchase orders
- Inadequate controls over processing and payment of vendor invoices
- Inadequate controls over contracts with vendors and service providers

Controls Over Equipment and Supplies

- **Accurate equipment records not maintained on a current basis**
- **Lack of adequate controls to account for location and custody of equipment**
- **Inadequate process for conducting regular physical inventory of equipment**

Audits and Resolution of Findings

- **Corrective action plans to address audit findings in the A-133 single audit reports were either unavailable for review, inadequately prepared, or not timely**
- **Management and internal control letters addressing A-133 and financial statement audit reports were unavailable for review**
- **Inadequate guidance provided to LEAs on form and content of corrective action plans**

Elements of Corrective Action Plans

- **Audit or Monitoring Report Finding**
- **Specific Corrective Action Steps**
- **Target Date of Completion of Each Action Step**
- **Name of Individual Responsible**
- **Current Status**

Distribution and Control of Program Funds

- SEA did not ensure timely drawdown and application of Federal program funds to the grant year that resources were intended to support
- Inadequate monitoring of LEAs application of Federal program funds
- Lack of accountability for the allocation and distribution of set asides and school improvement funds.

FY-2009/2010 Monitoring Plan

Criteria for review:

- Analysis of risk based factors
- Recent audit findings
- Findings from recent monitoring reports
- Random selection
- Program Office review schedule

Suggestions

- **Be in compliance with grant requirements and applicable EDGAR guidelines**
- **All recipient entities should review and maintain an effective system of Internal Controls**
- **Recipients should conduct continuous monitoring at internal and sub-entity levels**
- **Ensure timely completion of corrective actions**

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