

# INTERNAL CONTROLS



The 2 CFR 200 Internal Controls Guide is intended to be a helpful tool for Board of Directors, Executive Directors and program staff to better understand common processes, terms and phrases used by the Department of Housing and Urban Development (HUD).

[CFR Part 200](#) “Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards.” This is a cross-cutting Federal Regulation that applies to the funds you receive.

## COMMON SUBRECIPIENT PROBLEMS

The majority of difficulties experienced by subrecipients occur in the area of financial management, administrative systems, documentation, and record keeping. Many of these problems are attributed to:

- Limited experience in dealing with Federally-funded programs.
- Lack of adequate staffing or financial resources available on a consistent basis.
- Limited understanding about how to meet the complex administrative requirements that must be satisfied in using Federal funds.
- Limited oversight, communication, or management support from grantees.

## SUBRECIPIENT RESPONSIBILITIES

You share joint responsibility for carrying out permitted activities in conformance with applicable Federal requirements. Grantees and subrecipients are partners. Both partners must accept there is no such thing as a “free lunch.” In return for Federal funding, grantees and subrecipients agree to comply with the laws and regulations governing the use of those funds. A central principle is that most of the Federal requirements imposed on the grantee (The City of Boise) are passed along to you, the Subrecipient. As more experienced subrecipients can attest, the more you know about the rules, the more efficient you can be in designing and conducting your activities. We recommend you read the full version of, [“Playing by the Rules: A Handbook for CDBG Subrecipients on Administrative Systems.”](#) Playing by the rules does not detract from your performance; it enhances it and enables you to continue receiving funds.

Regulatory compliance and performance go hand-in-hand. Performance measurement is an effective management technique that enables grantees to analyze the benefits of their investments. It is a mechanism that tracks the progression of projects and evaluates their overall program effectiveness. The CDBG and HOME program requires that each grantee submit a performance and evaluation report concerning the use of CDBG and HOME funds together with an assessment of the relationship of the use of funds to the objectives identified in the grantee’s Consolidated Plan. Subrecipients should also establish goals and measure their performance in a manner consistent with the grantee’s performance measurement system.

**In using Federal funds, the cardinal rule is: DOCUMENT EVERYTHING.** The achievement of program goals and the completion of activities must be supported by adequate documentation of the facts. If your activities, personnel, procedures, expenditures, and results are not documented properly, from the Federal Government’s perspective, you have not done your job, regardless of your accomplishments. Appropriate records are the lifeblood of all successful CDBG and HOME projects/programs.

*NOTE: Pact 84 and 85 have been replaced by 2 CFR 200.*

Finally, successful CDBG and HOME programs depend upon the commitment of grantees and subrecipients to effective management practices. These include: (1) supporting cooperative, problem-solving relationships among HUD, grantees, and subrecipients; (2) working toward continuous improvement in regulatory compliance and timely program performance; (3) maintaining open and frequent communications among all participants; and (4) focusing on preventing problems first, rather than curing them later. Such a commitment to effective management will assure that the “minimum requirements” specified in the handbook and the training do not become “maximums” for either grantees or subrecipients.

This guide to internal controls is designed to help you understand the administrative requirements that apply to the use of Federal funds for the delivery of programs and activities. Not surprisingly, you will find the bulk of these requirements reflect common sense and good business practices, like balancing your checkbook or shopping for the lowest price. We hope that what you learn from this guide about meeting administrative requirements will save you from major headaches later on.

# INTERNAL CONTROLS



## CONTROL ENVIRONMENT

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### PRINCIPLE 1

*The oversight body and management should demonstrate a commitment to integrity and ethical values.*

- What are the organizations strategic objectives?
- What are the organizations ethical values?
- How are those communicated to the board?
- What is the level of tolerance for deviations from ethical standards?

### PRINCIPLE 2

*The oversight body should oversee the entity's internal control system.*

- How are board members selected?
- What are the board's responsibilities?
- How does management communicate those responsibilities to board members?

### PRINCIPLE 3

*Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.*

- What does the organizational structure look like?
- Who delegates responsibility within the organization?
- How is the internal control system – the who, what, where, when, and why – documented?

### PRINCIPLE 4

*Management should demonstrate a commitment to recruit, develop, and retain competent individuals.*

- How are board members selected?
- Does the executive director sit on the board?
- How are the various roles in the organization defined?
- How does the organization recruit new staff?

### PRINCIPLE 5

*Management should evaluate performance and hold individuals accountable for their internal control responsibilities.*

- Who evaluates whom within the organization?
- How are personnel evaluated with respect to their role?
- If corrective action is necessary, who determined what those actions are and how they are implemented?

## RISK ASSESSMENT

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### PRINCIPLE 6

*Management should define objectives clearly to enable the identification of risks and define risk tolerances.*

- Who submits reports to the Board? The Grantee?
- Who oversees compliance?
- Who oversees operations?
- How are objectives measured?

### PRINCIPLE 7

*Management should identify, analyze, and respond to risks related to achieving the defined objectives.*

- What factors would keep the organization from meeting its objectives?
- Are these factors internal? External?
- Does the organization have a contingency plan?

### PRINCIPLE 8

*Management should consider the potential for fraud when identifying, analyzing, and responding to risks.*

- What is the potential for:
  - Fraudulent financial reporting?
  - Misappropriation of funds?
  - Corruption?
- How are duties segregated?

### PRINCIPLE 9

*Management should identify, analyze, and respond to significant changes that could impact the internal control system.*

- What is the organization's plan for:
  - Staff Changes?
  - Rule changes?
  - Other issues?

## CONTROL ACTIVITIES

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### PRINCIPLE 10

*Management should design control activities to achieve objectives and respond to risks.*

- Human capital: What is the organization's approach to training? To staff (and volunteer) retention?
- How does the organization manage proper execution of transactions?
- Who is accountable for resources and records?

### PRINCIPLE 11

*Management should design the entity's information system and related control activities to achieve objectives and respond to risk.*

*See 2 CFR 200.303(e) - "... reasonable measures to safeguard..."*

- How secure is the organization's IT system?
- Who has access to the IT system?
- Has the organization implemented application controls to achieve validity, completeness, accuracy, and confidentiality?

## **PRINCIPLE 12**

*Management should implement control activities through policies.*

*Policies state the organization's standards of conduct.*

*Procedures outline how policies are implemented.*

- How often are policies and procedures reviewed?
- Who initiates policy and procedure review?

## **INFORMATION AND COMMUNICATION**

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### **PRINCIPLE 13**

*Management should use quality information to achieve the entity's objectives.*

- How does the organization insure the reliability of its data?
- How does the organization use its data to drive policies, procedures, and decision-making?

### **PRINCIPLE 14**

*Management should internally communicate the necessary quality information to achieve the entity's objectives.*

- What data is shared internally with staff?
- What data is shared with the board?
- Has the organization established separate reporting lines to go around normal upward reporting lines if those lines have been compromised?

### **PRINCIPLE 15**

*Management should externally communicate the necessary quality information to achieve the entity's objectives.*

- Is data required by the grantee reported accurately and on time?
- How does the organization communicate with community stakeholders? With the community at large?

## **MONITORING**

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### **PRINCIPLE 16**

*Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.*

*Not an option – Per 2 CFR 200.328 (a), the non-federal entity must monitor its own activities.*

- Does the organization have a monitoring plan in place?
- Has the organization established an internal controls baseline on which to base its monitoring?

### **PRINCIPLE 17**

*Management should remediate identified internal control deficiencies on a timely basis.*

*Again, not an option – Per 2 CFR 200.328 (d)(1), the non-federal entity is required to report any material problems, delays or adverse conditions which will impair delivery of the activity.*

- In the event of such a report, what actions has the organization undertaken to address the issue(s)?

## INTERNAL CONTROLS CHECKLIST – LAWS, RULES AND TERMS

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- Articles of Incorporation
- Bylaws
- Mission Statement
- Board Roster
- Board Handbook
- Job Evaluation Tool
- Organizational Chart
- Job Descriptions
- Policies & Procedures Manual
  - Code of Ethics
- Conflict of Interest Policy (*see §200.318 and §570.611 for guidance*)
- Subrecipient Agreement and any amendments
- IRS 501(c)3 Letter
- Policies and Procedures Manual
  - Non-Discrimination Policy
- If organization does housing
  - Fair Housing Policy
  - Lead-Based Paint Policy

## INTERNAL CONTROLS CHECKLIST – MONITORING

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- Monitoring Schedule
- Performance Reports
- Any Correspondence Related to (*§200.328(d)(1)*)
- Reports Including Remediation Activities
- Required Certifications (*see §200.415*)
- Certificates of Compliance for each of the policies – signed by person who executed Subrecipient Agreement on behalf of the organization
- Policy and Procedures Manual
  - Monitoring Policy/Procedures

## INTERNAL CONTROLS CHECKLIST – DOCUMENTS

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- Subrecipient Agreement
- IRS 501(c)3 Letter
- Articles of Incorporation
- Bylaws
- Mission Statement
- Board Roster
- Board Handbook
- Job Evaluation Tool
- Organization Chart
- Job Descriptions
- Monitoring Reports
- Contingency Plan
- Succession Plan
- Authorization to Request Funds
- Procedures Flow Charts
- Reports to Grantee
- Newsletters
- Social Media Printouts
- Monitoring Schedule
- Performance Reports

## INTERNAL CONTROLS CHECKLIST – POLICIES AND PROCEDURES MANUAL

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- Related Correspondence (*§200.328(d)(1)*)
- Required Certifications (*§200.415 & §200.324(c)*)
- Certificates of Policy Compliance
- Non-Discrimination (*§570.602 & 618*)
- Code of Ethics (*Principle 1*)
- Conflict of Interest (*§200.318 & §570.611*)
- Procurement (*§200.318(a)*)
- Grievance (Staff and Clients) (*§570.607(a)*)
- Termination (Staff and Clients) (*§570.607(a)*)
- Confidentiality (*§200.303(e)*)
- Record Retention (*§570.506*)
- Information Technology (*Principle 11*)
- Whistleblower (*Principle 14*)
- Monitoring (*§200.328*)
- If Housing Activities Involved:
  - Fair Housing (*§570.611*)
  - Lead-Based Paint (*§570.608*)