

What Are Internal Controls and Why Are They Important?

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Objectives

- Learn about five components of an effective internal controls framework.
- Gain awareness of connections between internal controls and an effective system of single line of responsibility of fiscal management.
- Engage in peer-to-peer learning about strategies to link internal controls with Part C requirements.

Agenda

- Welcome and review of agenda
- Introduction to the Internal Controls Framework
- Seeing the relationship between internal controls and the Part C requirements
- Large-group discussion
- Resources



What Is the Single Line of Responsibility (SLOR)? 34 CFR 303.120

The state lead agency (LA) is responsible for:

- General administration and supervision of programs and activities
- Monitoring
- Identifying and coordinating all available resources (federal, state, local, and private)
- Assigning financial responsibility
- Developing procedures to ensure services are provided in a timely manner, pending dispute resolution among public agencies or EIS providers
- Resolving intra- and interagency disputes
- Entering into formal interagency agreements or other written methods of establishing financial responsibility to ensure meaningful cooperation and coordination

What Is the Authority for Internal Controls?

Key Internal Controls Requirements in the OMB Uniform Guidance:

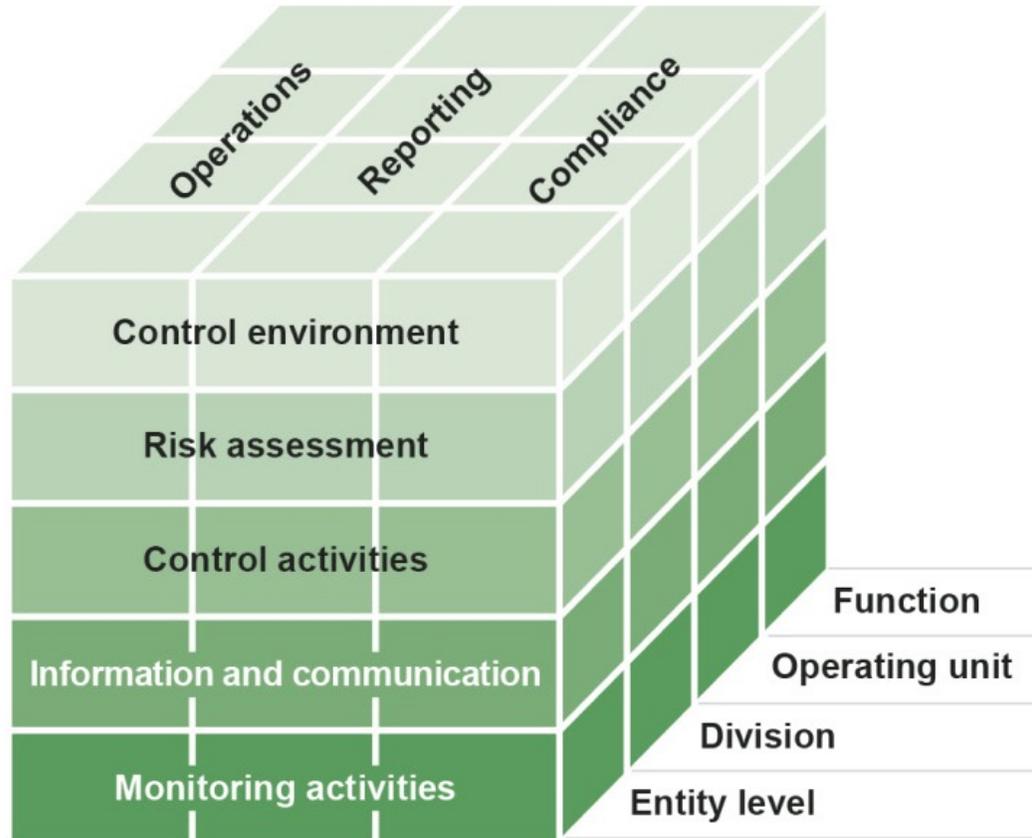
- 2 C.F.R. §200.205 requires federal awarding agencies to perform a review of the risks posed by applicants
- **2 C.F.R. §200.303** requires that grantees have effective Internal Controls
- 2 C.F.R. §200.332(b) requires that pass-through entities evaluate subrecipient risk

The Green Book

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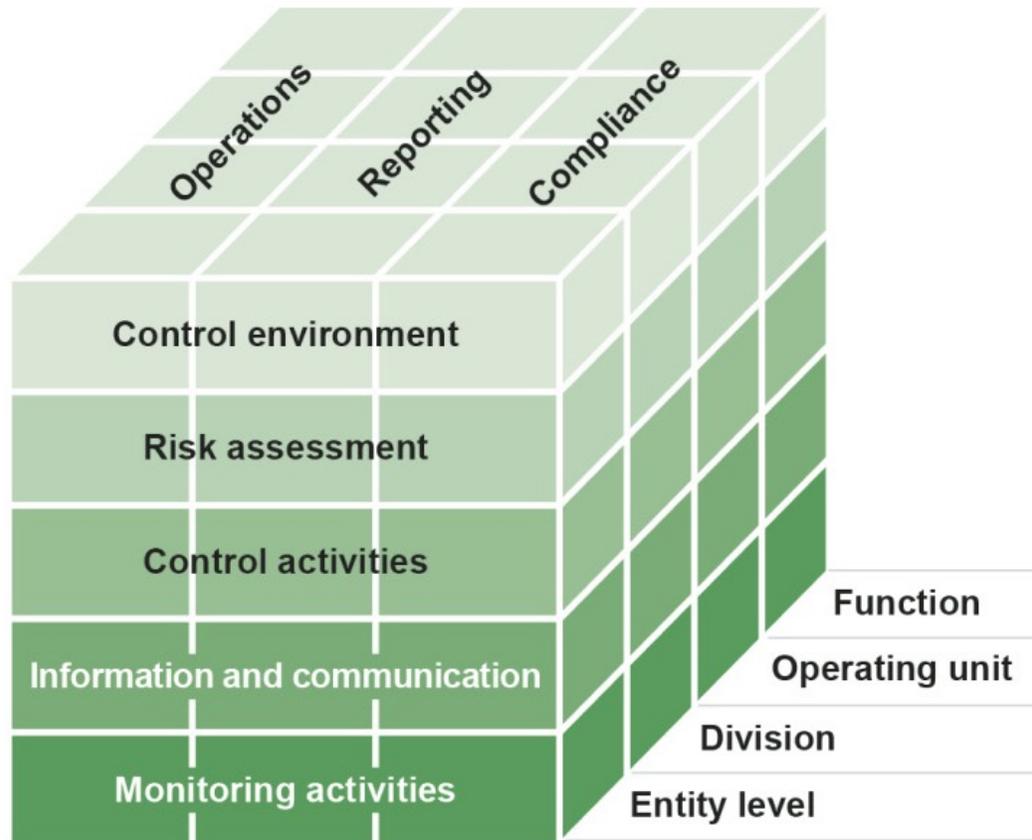
- The **GAO Standards for Internal Control in the Federal Government (the Green Book)** provides a framework for establishing and maintaining an effective internal control system
- Internal controls cover all aspects of an entity's objectives, including **operations, reporting, and compliance with applicable laws and regulations**

The Five Components of Internal Controls



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

Levels of Organizational Structure



Each of the five components of internal controls may be applied to the:

- Entity level
- Division
- Operating unit
- Function

1. Control Environment

Internal Controls

- Tone at the Top
- Oversight
- Commitment to Competence
- Accountability

SLOR Connections

- Are staff at all levels of your LA committed to a culture of communication, transparency, and belief in the importance of accountability?
- How does leadership set this tone and encourage effective oversight of EIS programs and providers?

Payor of Last Resort (POLR) Example: Control Environment

Fiscal policies and procedures cover:

- Use of public and private insurance in SOPs
- Process for collecting family's information and consent to use public and/or private insurance
- Hierarchy of fund sources that must be accessed before using federal Part C funds
- EIS providers' responsibilities for billing public and private insurance
- Process for EIS providers to invoice state for services not covered by insurance
- State internal control procedures for reviewing, approving, and paying invoices from EIS providers for services not covered by public or private insurance

2. Risk Assessment

Internal Controls

General Risk Considerations:

- Complexity
- Manual intervention
- Management by a third party
- Changes in laws and regulations
- Changes in leadership
- Risk of funds being misused

SLOR Connections

- How is your state system structured?
- Do you use a risk assessment?
- If not, what factors drive your fiscal monitoring, and how do you choose which programs to monitor?
- What are the biggest vulnerabilities in your system?

POLR Example: Risk Assessment

Factors triggering investigation/monitoring of EIS provider's billing:

- Percent of children enrolled with EIS provider whose services are invoiced for payment using state and federal Part C funds
- Number of inaccurate invoices submitted by EIS provider for payment
- Number of invoices missing documentation of public and private insurance denials, etc.

3. Control Activities

Internal Controls

- **Preventative Controls**
 - Policies, TA/PD, review and approval processes, segregation of duties...
- **Detective Controls**
 - Monitoring, audits, sampling/testing, reporting, inventory...

SLOR Connections

- What preventative controls does your system have in place to ensure checks and balances?
- What detective controls do you use to provide general supervision and fiscal oversight of third parties that carry out Part C services on behalf of your State?

POLR Example: Control Activities

- Training on POLR requirements conducted annually statewide
- Part C staff do initial review/approval of invoices for services from EI providers, including:
 - Comparison of services billed to services listed on IFSP
 - Verification of documentation showing no other fund source available (e.g., family financial form, EOB denials from insurance companies)
- Fiscal staff do second review/approval of invoices and pay using state funds first and Part C federal funds last

4. Information and Communication

Internal Controls

- Quality information in a timely manner
- Internal communication
 - Including appropriate methods of communication
- External communication
 - Including how the information will remain confidential

SLOR Connections

- How do you ensure the LA has high-quality information about the implementation of internal controls?
- How do you communicate internal controls across all levels at the LA?
- How are concerns about internal control issues communicated to LA?
- How do you ensure LA staff and EIS providers feel comfortable expressing concerns?

POLR Example: Information and Communication

- Quarterly newsletter issued before launch of the annual fiscal monitoring cycle
- POLR monitoring results shared with EIS provider and in aggregate with ICC annually
- Annual report to leadership within the LA includes trend data on POLR monitoring findings and data on test invoices submitted through the state internal control process

5. Monitoring Activities

Internal Controls *to monitor the system and evaluate the results:*

- Ongoing monitoring
- Separate evaluations
- Identify control deficiencies
 - Evaluate issues
- Corrective Action
 - Remediate deficiencies

SLOR Connections

- How do you test your internal controls?
- How do you know if your internal controls are working?
- What does your review and approval process look like?
- What remedies do you have in place when an internal control is not functioning as intended?

POLR Example: Monitoring

- Conduct annual fiscal monitoring of EIS programs for POLR using selection of records for whom services were paid using Part C funds through invoices to:
 - Review financial form to determine if family had private insurance or Medicaid and if consent was provided to bill private insurance
 - Review billing information to determine if insurance denied payment
- Monitor EI programs on POLR as needed based on risk assessment criteria
- Process test invoices through state approval process to determine if internal controls are working or not

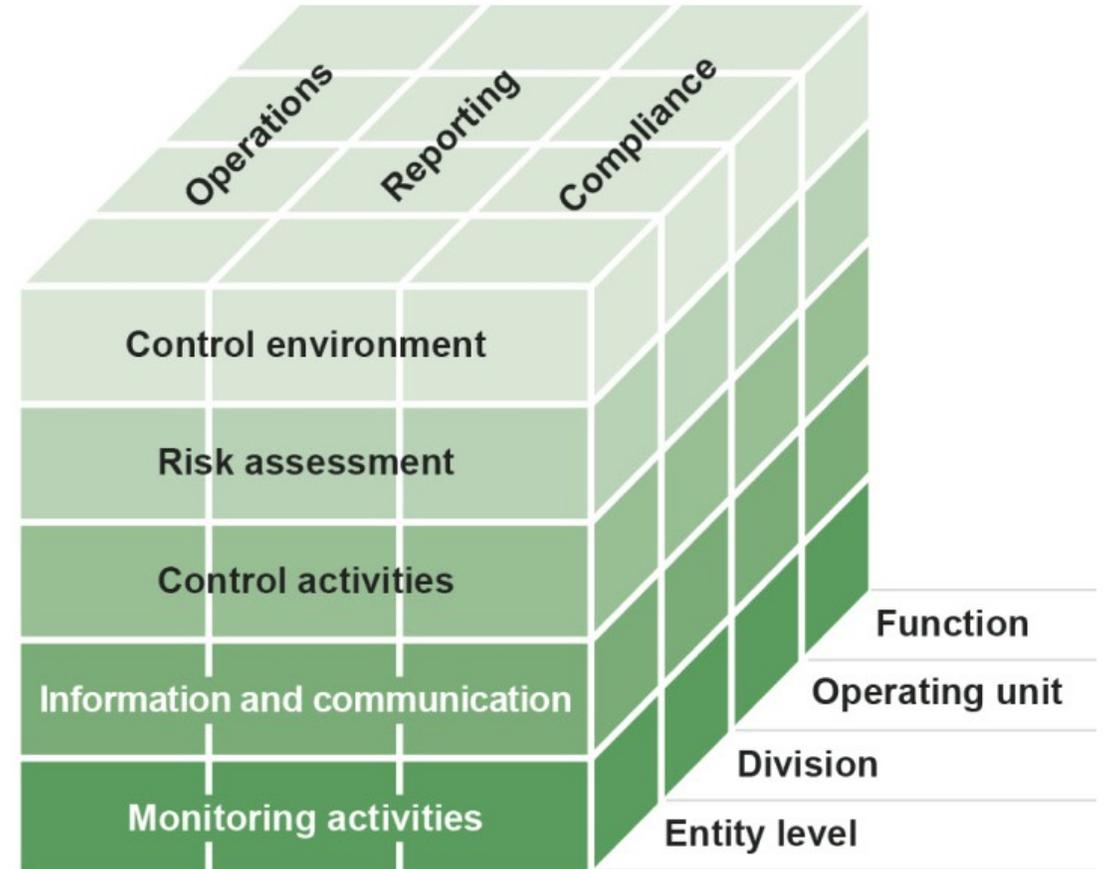
POLR Example: Summary

- **Control Environment:** Has the LA established an environment that emphasizes the importance of POLR and encourages consistent implementation?
- **Risk Assessment:** What are the barriers (risk factors) that impact consistent implementation of POLR in local EIS providers?
- **Control Activities:** What preventative and detective activities does the LA/EIS provider have in place to ensure that POLR is being implemented consistent with policy?
- **Information and Communication:** What data is collected, and how is information related to POLR implementation communicated to local EIS providers, LA leadership, etc.?
- **Monitoring:** How do you know that your internal controls related to POLR are effective?

Discussion

What are your reflections about the five components of the internal controls?

How do these align with your accountability and oversight activities for ensuring POLR requirements are met?



Resources

- SLOR Protocol Introduction
- SLOR Protocol Protocol
- Green Book
- Uniform Guidance: 2 CFR Part 200
- IDEA Part C Regulations
- Part C Fiscal Monitoring Indicators for State Lead Agencies
- DaSy Data Culture Toolkit



Find out more at ectacenter.org
dasycenter.org and cifr.wested.org

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