

# Oklahoma State Auditor and Inspector's Federal Awards Guidance for Counties for Fiscal Recovery Funds

## Effective Internal Controls for Fiscal Recovery Funds

The *Uniform Guidance* at [2 CFR section 200.303](#) requires that counties receiving federal awards establish and maintain a system of internal control that provides reasonable assurance that the County is managing their federal awards in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. Part 6 of [OMB's Compliance Supplement](#) provides additional guidance for how counties might establish and maintain internal control over federal awards.

This document summarizes the County's responsibility for internal control over federal awards but does not represent authoritative guidance. Users are encouraged to check the information below against the [Interim Final Rule](#), [Uniform Guidance](#), [Compliance Supplement](#) (for the applicable year), [Standards for Internal Control in the Federal Government](#) (the Green Book), or other authoritative guidance.

## Understanding Internal Controls

Internal control is generally defined as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

With respect to federal awards, a system of internal control is expected to provide the County with reasonable assurance that the County's objectives relating to compliance with federal statutes, regulations, and the terms and conditions of federal awards will be achieved. In other words, effective internal controls ensure compliance with federal program requirements.

Internal control is not one event or circumstance, but a dynamic and iterative process—actions that permeate the County's activities and that are an integral part of the way management runs the County. Embedded within this process are controls consisting of policies and procedures.

### ***Understanding a Process vs. Controls***

A control is designed to prevent or timely detect noncompliance with federal program requirements. A process is a series of actions that lead to a particular result—for example, charging costs to a federal award. The process is where noncompliance with allowable costs or other requirements could occur. Often the potential noncompliance is referred to as a "what-could-go-wrong" (WCGW).

Controls may be viewed as part of a process and the flow of transactions, but controls need to be separately identified. When it is difficult to identify the difference between the process and controls, there is often a missing control. Several important related considerations follow:

- Process owners are often referred to as the doers/preparers and the control owner is often referred to as the reviewer
- A well-designed system of internal control assigns a control to each WCGW.
- The County could have one control that addresses one WCGW, a suite of controls that address one WCGW, or one control that addresses multiple WCGWs.
- Controls are often described in terms of a control category, such as authorization, management review, segregation of duties, or system access.

Internal control provides many benefits to the County. It provides management with added confidence regarding the achievement of objectives, provides feedback on how effectively the County is operating, and helps reduce risks of noncompliance.

### ***Five Components of Internal Control***

Internal controls are organized into five components:

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

The first component—control activities—operate at the level of the federal program that apply to individual types of compliance requirements that may be specific for each federal program. **These internal controls are described in the “Internal Controls for Control Activities” section below.**

The final four components of internal controls operate at a County-wide level and are considered governance controls that apply to most, if not all, types of compliance requirements for one or more federal programs. **These internal controls are described in the “County-Wide Internal Controls” section below.**

All five components of internal control have to be present and functioning for internal control to be designed effectively—that is, control activities on their own are not an effective system of internal controls. Even within control activities, controls rely on the effective design and operation of other controls.

The examples given below are not intended to be all-inclusive or a checklist of required internal control characteristics. That is, counties could have adequate internal control even though some of the illustrative controls are not present. Further, counties could have other appropriate internal controls operating effectively that have not been included among the illustrations. Counties need to exercise judgment in determining the most appropriate and cost-effective internal control in a given environment or circumstance, to provide reasonable assurance of compliance with federal program requirements.

# Internal Controls for Control Activities

**Caution – The following information and examples of Control Activities are given as they relate specifically to the *Fiscal Recovery Funds* (provided under ARPA). The County may have additional funding from other federal programs that may require additional controls to address the specific compliance requirements of those federal programs that are not addressed in this document.**

Unlike the last four County-wide components of internal controls (Control Environment, Risk Assessment, Information and Communication, and Monitoring) Control Activities are specifically designed for the compliance requirements of each individual federal program.

Control activities may be preventative or detective. A preventive control is designed to avoid an unintended event or result at the time of the transaction while a detective control is designed to discover an unintended event or result after the initial processing has occurred but before the ultimate objective has concluded. Counties usually employ a mix of both. Controls need to be designed such that they *would* prevent or detect a WCGW—not just that they *could* prevent or detect a WCGW.

The Office of Management and Budget (OMB) organizes all federal program requirements into twelve separate categories called Compliance Requirements. Each of the twelve Compliance Requirements are noted below and include specific internal control suggestions.

## Activities Allowed or Unallowed and Allowable Costs

The first two Compliance Requirements (Activities Allowed or Unallowed and Allowable Costs) are typically combined as they are closely related, and they cover the types of activities and allowable costs of the federal program.

The following internal controls are recommended for ***Activities Allowed or Unallowed and Allowable Costs***:

- Management establishes responsibility and accountability for control activities with management (or other designated personnel) in which the relevant risks reside
- Individuals who review and approve invoices and purchase orders are trained to recognize allowable costs of Fiscal Recovery Funds
- Individuals who initiate transactions are different from those approving the transactions and those recording the transactions in the general ledger.

## Cash Management

Cash Management covers requirements over the timing of expenditures and where and how federal funds are deposited. This would also include requirements over whether funds must be deposited in interest-bearing accounts and how to account for interest earnings. However, this Compliance Requirement is not applicable to the Fiscal Recovery Funds (see the [USTD's FAQ question 10.3](#))

## Eligibility

Eligibility covers requirements over whether participants (individuals, entities, or programs) are eligible to receive Fiscal Recovery Fund payments. Counties are responsible for ensuring funds are used for eligible participants only.

The [Interim Final Rule](#) provides additional guidance over eligibility considerations for certain categories of costs. For example, Fiscal Recovery Funds may be used for premium pay for workers performing essential work during the COVID-19 public health emergency. Therefore, counties must determine which workers are eligible for premium pay and such determinations must be documented. This Compliance Requirement is not applicable if the County does not use Fiscal Recovery Funds for purposes that have eligibility restrictions noted in the [Interim Final Rule](#).

The following internal controls are recommended for **Eligibility**:

- Management reviews applicable USTD guidance and identifies specific eligibility requirements
- Management develops and implements policies and procedures, and record retention, to determine and monitor implementation of criteria for determining the eligibility of beneficiaries and/or subrecipients
- The County, and if applicable, the subrecipient(s) administering a program on behalf of the County, maintain procedures for obtaining information evidencing a given beneficiary, subrecipient, or contractor's eligibility
- Written policies/procedures exist outlining processes and control activities for determining eligibility of participants and amounts awarded, as applicable
- Individuals who review and approve invoices and purchase orders are trained to recognize whether participants are eligible for payments from Fiscal Recovery Funds
- Accuracy and completeness of data used to determine eligibility requirements are reviewed and agreed to support as necessary by staff and reviewed by knowledgeable supervisor
- Calculations or other determinations to verify eligibility are reviewed timely to identify potential ineligible participants/payments
- Segregation of duties exists between those determining eligibility and those reviewing/approving eligibility

## Equipment and Real Property Management

Equipment and Real Property Management covers purchases of tangible, non-expendable property (such as HVAC systems) and real property purchased with Fiscal Recovery Funds.

Any purchase of equipment or real property with Fiscal Recovery Funds must be consistent with the *Uniform Guidance* at [2 CFR Part 200, Subpart D](#). Equipment and real property acquired under this program must be used for the originally authorized purpose. Consistent with [2 CFR 200.311](#) and [2 CFR 200.313](#), any equipment or real property acquired using Fiscal Recovery Funds shall remain with the County.

The following internal controls are recommended for **Equipment and Real Property Management**:

- Management identifies and puts into effect actions needed to carry out specific responses to risks identified in the risk assessment process for equipment and real property, such as inaccurate or incomplete recordkeeping, inappropriate use, unidentified dispositions, segregation of duties concerns, fraud, loss, damage, theft, etc.
- Management establishes controls necessary to identify equipment purchased with federal awards
- Annual inventory of equipment is performed and differences between the physical inventory and equipment records are resolved in a timely manner
- Annual analysis of property and equipment dispositions is documented and reviewed for adherence to federal regulations by knowledgeable supervisors

- A segregation of duties exists between those accounting for property and those responsible for safeguarding the property

## Matching, Level of Effort, and Earmarking

Some federal programs contain certain requirements for matching of funding, minimum/maximum levels of effort for projects or activities, or minimum/maximum earmarking requirements for how funds may be used. However, there are no matching, level of effort, or earmarking compliance responsibilities associated with the Fiscal Recovery Funds and no requirement for counties to establish internal controls for this Compliance Requirement.

## Period of Performance

The Period of Performance Compliance Requirement covers the period of time counties have to obligate and expend Fiscal Recovery Funds. The [Interim Final Rule](#) requires that payments from the Fiscal Recovery Funds be used only for costs incurred between March 3, 2021 and December 31, 2024. The USTD further clarified that, for a cost to be considered to have been incurred, the County must have obligated (typically encumbered) the Fiscal Recovery Funds by December 31, 2024. Certain infrastructure projects may have longer period of performance requirements and counties should review the [Interim Final Rule](#) for additional timeliness considerations. Any funds not used by the period of performance date must be returned to the USTD.

The following internal controls are recommended for **Period of Performance**:

- Management reviews contractual agreements and projects to ensure they will not obligate the County beyond the period of performance
- Supervisors review and approve invoices to ensure they were incurred during the period of performance

## Procurement and Suspension and Debarment

The Procurement and Suspension and Debarment Compliance Requirement covers laws and regulations when obtaining goods or services from a vendor or contractor and the County's requirement to ensure the vendor or contractor is not suspended or debarred from the Federal government.

Counties are responsible for ensuring that any procurement using Fiscal Recovery Funds, or payments under procurement contracts using such funds, are consistent with the procurement standards set forth in the *Uniform Guidance* at [2 CFR 200.317 through 2 CFR 200.327](#), as applicable.

The *Uniform Guidance* establishes in [2 CFR 200.319](#) that all procurement transactions for property or services must be conducted in a manner providing full and open competition, consistent with standards outlined in [2 CFR 200.320](#), which allows for non-competitive procurements only in circumstances where at least one of the conditions below is true:

- The item is below the micro-purchase threshold (see [2 CFR 200.320](#))
- The item is only available from a single source
- The public exigency or emergency will not permit a delay from publicizing a competitive solicitation
- After solicitation of a number of sources, competition is determined inadequate

Counties must have and use documented procurement procedures that are consistent with the standards outlined in [2 CFR 200.317 through 2 CFR 200.327](#). The *Uniform Guidance* requires an infrastructure for competitive bidding and contractor oversight, including maintaining written

standards of conduct and prohibitions on dealing with suspended or debarred parties. The County must ensure adherence to all applicable local, State, and federal procurement laws and regulations.

The following internal controls are recommended for **Procurement and Suspension and Debarment**:

- Management creates and requires the use of standard forms and templates for purchase orders, contracts, requests for proposals/bids, cost/price analyses, bid evaluation, etc. Standard documentation protocol for the history of procurements exists including rationale for the method of procurement (micro-purchase, small purchase, sealed bid, competitive proposal, or noncompetitive proposal), cost/price analysis, basis for contractor selection/rejection, etc.
- Supervisors review and approve procurement and contracting decisions for compliance with federal and County policies
- Individuals who initiate procurements are different from those recording the resulting transactions in the general ledger or making disbursements
- Written policies/procedures exist to address *Uniform Guidance* requirements such as conflict of interests, free and open competition regulations, and solicitation procedures
- Standard forms or templates are used to document verification that parties are not suspended or debarred
- With respect to suspension and debarment, written policies exist outlining processes and control activities to verify the County is not contracting or sub-awarding under covered transactions with parties who are suspended or debarred. Policies outline the frequency with which verification takes places, how that verification is documented and the acceptable methods of verification (checking the [EPLS system](#), collecting a certification from the party or adding a clause/condition to the covered transaction with the party)

## Program Income

The Program Income Compliance Requirement covers income earnings with federal awards such as income from fees for services performed, the use or rental of property acquired with program funds, the sale of items fabricated under the program, and payments of principal and interest on loans made by the County to others with program funds. However, it does not include interest on program funds (which is covered under Cash Management); nor does it cover rebates, credits, discounts, and refunds (covered under Allowable Costs); nor proceeds from the sale of equipment or real property (covered under Equipment and Real Property Management).

This Compliance Requirement would only be applicable if the County engages in programs, projects, or activities with Fiscal Recovery Funds that generate program income as defined above.

The County should implement procedures include written policies that explicitly identify appropriate allocation methods, accounting standards and principles, compliance monitoring checks for program income calculations, and records. The USTD intends to provide additional guidance regarding program income and the application of [2 CFR 200.307\(e\)\(1\)](#), including with respect to lending programs.

The following internal controls are recommended for **Program Income**:

- Management reviews the [Interim Final Rule](#) for provisions specific to program income, including identifying likely program income based on award purpose and use and documents such features into an approval form which is submitted to accounting personnel for review and approval

- On a monthly basis, recorded program income is reconciled with supporting documentation such as invoices, registration logs, loan ledgers, rent rolls, etc. by a supervisor
- Program income is segregated from other income accounts to ensure it is captured completely and accurately
- Individuals who collect cash or other receipts are different from those who deposit receipts, generate invoices, record general ledger activity, and reconcile the bank statement

## Reporting

The Reporting Compliance Requirement covers all reports the County must prepare and submit to the federal awarding agency for the federal program.

Counties must complete financial, performance, and compliance reporting as required and outlined in the USTD's [Compliance and Reporting Guidance](#). Counties should appropriately maintain accounting records for compiling and reporting accurate, compliant financial data in accordance with appropriate accounting standards and principles. In addition, where appropriate, the County should establish controls to ensure completion and timely submission of all required reporting. See the [Compliance and Reporting Guidance](#) for a full overview of reporting responsibilities.

The following internal controls are recommended for **Reporting**:

- Management reviews specific reporting requirements for Fiscal Recovery Funds and establishes a reporting calendar for review and approval
- Knowledgeable supervisors review and approve reports for completeness and accuracy, including comparing to source documentation (general ledger, third party evidence or other reliable records) and any reconciliations between source data to final reporting
- Segregation of duties exists between those preparing and those reviewing/submitted required reports
- Written policies/procedures exist outlining processes and control activities for ensuring reporting to the USTD is complete, accurate, and timely

## Subrecipient Monitoring

The Subrecipient Monitoring Compliance Requirement covers the County's responsibility for monitoring the activities and compliance of their subrecipients. When a County transfers Fiscal Recovery Funds to another entity for the purpose of carrying out a portion of the federal program objectives, that entity becomes the County's "subrecipient".

For this reason, this Compliance Requirement would only be applicable if the County has transferred Fiscal Recovery Funds to a subrecipient as defined under [2 CFR 200.1](#).

While transferring federal awards to a subrecipient may reduce the County's administrative burden, the County is still responsible for monitoring the activities of their subrecipients, including:

- The County must clearly identify to the subrecipient:
  1. That the award is a subaward of Fiscal Recovery Funds
  2. Any and all compliance requirements for use of Fiscal Recovery Funds
  3. Any and all reporting requirements for expenditures of Fiscal Recovery Funds
- The County will need to evaluate each subrecipient's risk of noncompliance based on a set of common factors. These risk assessments may include factors such as prior experience in managing Federal funds, previous audits, personnel, and policies or procedures for award execution and oversight. Ongoing monitoring of any given subrecipient should reflect its

assessed risk and include monitoring, identification of deficiencies, and follow-up to ensure appropriate remediation.

- The County should develop written policies and procedures for subrecipient monitoring and risk assessment and maintain records of all award agreements identifying or otherwise documenting subrecipients' compliance obligations.

The following internal controls are recommended for **Subrecipient Monitoring**:

- Subrecipient agreements are reviewed and approved by knowledgeable supervisors to ensure all compliance requirements are captured, that information is consistent between pass-through entity records and the subaward, and that all required elements are included
- Management tracks subaward notifications and maintains an inventory of executed subrecipient agreements
- Knowledgeable supervisor reviews subrecipient risk assessments to ensure they address compliance risks and *Uniform Guidance* requirements and approves individual subrecipient monitoring plans
- Management requires the use of a standard template for use for all subrecipient agreements inclusive of all required elements outlined in *Uniform Guidance*
- Documentation and conclusions of results of subrecipient oversight activities including the items below are reviewed by supervisory personnel:
  - Award authorization
  - Site visits
  - Financial performance, monitoring, and/or audit reports
  - Grant budgets and advance or reimbursement requests
  - Technical assistance provided
  - Assessment of findings, corrective action, and management's decision as applicable
- Supervisors periodically reconcile subrecipient monitoring calendar and planned monitoring activities to actual monitoring activities to ensure monitoring is taking place as planned
- Segregation of duties exist between those performing the monitoring and those approving the conclusions made about the subrecipient' s compliance
- Written policies/procedures exist outlining processes and control activities for oversight of subrecipients

## Special Tests and Provisions

The Special Tests and Provisions Compliance Requirement is unique to each federal program. The USTD may add clarifications to the implementing guidance. However, as of July 2021, the USTD has not specified any unique requirements that would fall under this Compliance Requirement.



## County-Wide Internal Controls

Four of the five components of internal control take place at the County-wide level: 1) control environment, 2) risk assessment, 3) information and communication, and 4) monitoring. Below are some examples of an effective system of internal control for each of these four components.

**In many instances, counties can establish effective internal controls in these four components by implementing the [County-Wide Internal Control Checklist](#) provided by OSAI on the State Auditor's website under *Publication & Forms*. Completion of this checklist requires that the County hold quarterly meetings among officers/County elected officials to discuss various aspects of the four components of County-wide internal control. Completion of the checklist and quarterly meetings are insufficient to demonstrate effective internal controls if key elements of the checklist are not addressed in a thorough and timely manner.**

Part 6 of [OMB's Compliance Supplement](#) contained suggested internal controls that may be implemented instead of or in addition to quarterly meetings using the checklist noted in the previous paragraph. OSAI considers either implementation (the checklist, the suggested controls in the Compliance Supplement, or both) to be capable of producing an effective system of County-wide internal controls providing they are designed and implemented thoroughly and timely.