

INTERNAL CONTROLS



2019

Practical Training
Solutions for CACFP
Administration



CORE

CACFP OPERATIONAL
RESOURCES & EDUCATION

LEARNING OUTCOMES



Define and state the purposes of internal controls.



Explain internal control components and principles.



Demonstrate how to document, assess, and monitor internal controls.



Identify common program areas where internal controls are essential.



Share best practices associated with internal controls.

INTERNAL CONTROLS

Benefits of Internal Controls

What are the benefits of having effective internal controls?



Internal Controls Overview

A system of *checks and balances* that *provides assurance* that the policies and procedures *work as designed*.

2 CFR
200.303

2 CFR
200.62

7 CFR
226.6(b)

Achieves intended results

CACFP funds are used for CACFP participants

Protects against fraud and abuse

Funds used only on allowable costs

Used for decision-making

Access to timely and relevant information



THE IMPORTANCE OF INTERNAL CONTROLS

Internal controls are not just “nice to have.” They are **required** by the CACFP performance standards and by regulations that govern all federal programs. They are designed to provide reasonable assurance regarding the achievement of operational objectives, such as the effectiveness and efficiency of operations, accurate and reliable financial reports, and compliance with applicable laws and regulations.



1. They are **critical** for effectively running your organization. They are required for the CACFP and evaluated by State agencies.
2. They assist with Program performance. They satisfy the CACFP compliance requirements.
3. They provide a proactive and strategic approach for managing the CACFP. Having good internal controls help you do things right the first time, which will help you to reduce cited findings.
4. They are also beneficial for your facilities. You can train your staff ahead of time on good internal controls and they will serve as a role model for your sponsored facilities.



Notes

ALIGNMENT WITH ACCOUNTABILITY: PERFORMANCE STANDARD 3

The Accountability standard requires sponsoring organizations to have effective internal controls in key areas of the CACFP operations including the following:



A Governing Board of Directors

Internal controls must be in place to ensure that the board has oversight responsibility and is independent. For nonprofit organizations, or for-profit institutions required to have boards of directors, governing boards must:

- be independent.
- be composed of a majority of members within the community who are not financially interested in the CACFP, related to its program personnel, or related to each other.
- be willing and able to provide adequate Program oversight.
- be able to meet regularly. Board meetings are scheduled in advance, and board minutes are documented to reflect the outcomes of the meetings.
- have the authority to hire and fire the Executive Director.



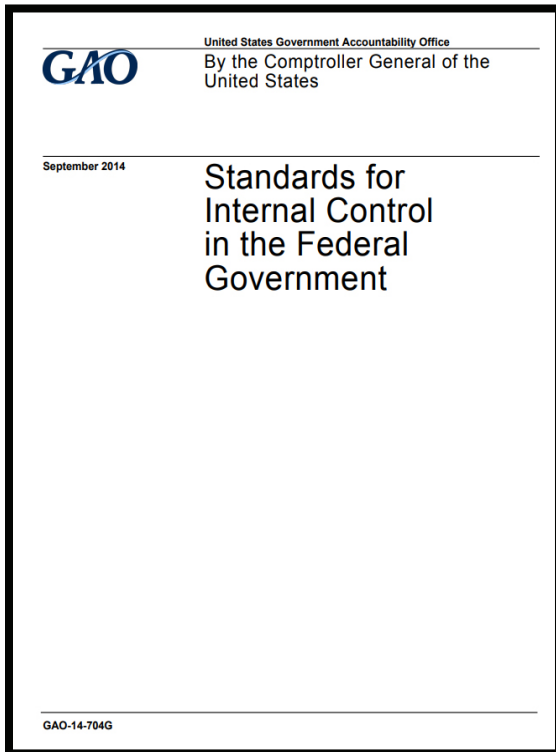
STANDARDS OF INTERNAL CONTROLS: GREEN BOOK

Overview

The *Green Book* establishes internal control standards through five (5) internal control **components** and seventeen (17) **principles**.

<https://www.gao.gov/products/gao-14-704G>

2 CFR
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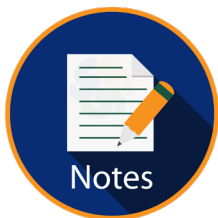


The *Green Book* is:

- standards for internal controls within the federal government.
- recommended as a resource guide by the federal regulations that govern the CACFP.
- a road map to design and evaluate an effective internal control system.

Source: Government Standard of Internal Controls

<https://www.gao.gov>



FIVE COMPONENTS OF THE GREEN BOOK



In order for your internal control system to be considered effective, the five (5) components must operate effectively together: control environment, risk assessment, control activities, information and communication, and monitoring.



Source: Government Standard of Internal Controls <https://www.gao.gov>



CONTROL ENVIRONMENT

This is the **tone at the top**, or the organization's culture. It's important because it is the foundation of the internal control system. As the sponsoring organization, it is important that you take the lead to foster a favorable control environment. Your internal staff and facilities are paying attention to what you do and will respond accordingly. An effective control environment starts with your board of directors and trickles down to your management, staff, and sponsored facilities.

The control environment answers these questions:

- What is being said at the top about the CACFP requirements?
- Is there a safe environment for internal or external stakeholders to share information?



FIVE COMPONENTS OF THE GREEN BOOK



It's important to assess where the **vulnerabilities** are within your organization. This is where you: (1) identify the CACFP requirement that will be impacted by the control you've created, and (2) assess the risks for complying with the CACFP requirement. Once you've identified these risks, you should then create responses in case these risks present themselves.

The risk assessment answers these questions:

- What are the associated risks?
- What are the risks associated with reporting?





These are activities that are put in place to ensure goals are met—for example: (1) written policy (what you do), and (2) procedures (how you do it). They are intended to limit the potential effects of the risks identified. Control activities also verify that you have the correct controls in place to ensure compliance with the CACFP requirements. Your control activities should be in writing and clearly communicated to all staff.

Control activities answer these questions:

- What activities can be put in place to address the risk?
- What systems can be put into place to ensure processes are followed?
- Who/what is responsible for it?



FIVE COMPONENTS OF THE GREEN BOOK



This component ensures that the data you are using is reliable and that you provide the information to (and receive from) your facilities. It also ensures that your messages are communicated as intended (to the right parties, clearly, accurately, and in a timely manner). This component helps you to ensure that the systems that you use to produce reports, related to your CACFP performance, are effective and efficient.

The information and communication component answers these questions:

- Does the financial and program management system adequately process, record, track, and report financial and program information?
- How are the processes and procedures communicated?
- How are the changes communicated?





Monitoring ensures that all of the controls you have in place are working. This component includes the monitoring of all the components of your internal control system. It ties directly into your management plan. You should monitor your controls periodically to make sure they are still working as documented. As things change within your operations or the CACFP regulations, you must update your documentation and management plan.

Monitoring answers these questions:

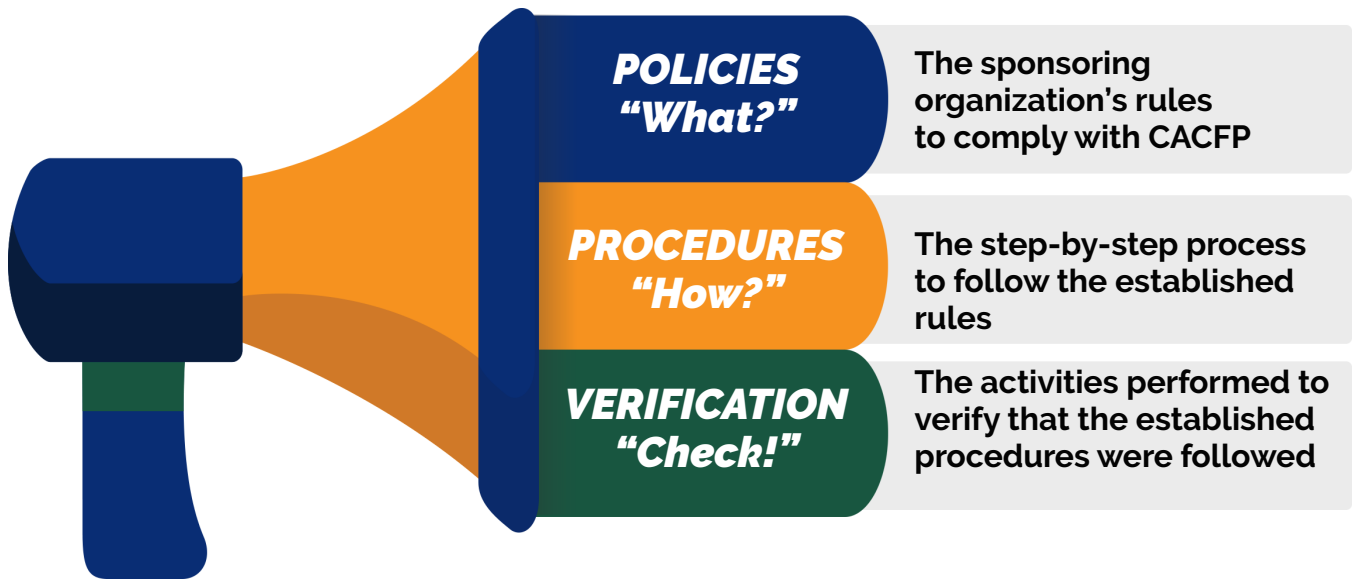
- Who is responsible for monitoring the effectiveness?
- What continuous monitoring process will be put in place?



KEY ELEMENTS OF COMPONENT 3 (CONTROL ACTIVITIES)

The three (3) key elements of Control Activities are:

- 1. Policies:** These are the rules that help govern your organization. An example might be written policies in your employee handbook. This is the “What?”—meaning, what you do to comply with the specific CACFP requirements.
- 2. Procedures:** These are the step-by-step processes, the road map that your staff follows that helps you bring your policies to life. This is the “How?” When developing your procedures, they should detail every step that should be followed to accomplish the task. A good test is to give the written procedure to a staff member who does not typically perform the function and see if he or she can effectively perform it simply by following your written procedure.
- 3. Verification:** This is the investigative element that helps you know that the procedures were actually followed. This can be written as part of your procedures, but it must be included to ensure that your internal controls are effective.



EXAMPLES OF INTERNAL CONTROLS

Internal Controls Example: Policies and Procedures for Income Eligibility Classification

Scenario 1

- Participants must be accurately classified based on IES Forms.
- Mark Jones calculated the information from the IES form.
- He then checked his calculation again (check and double-check).



Scenario 2

- Participants must be accurately classified based on IES Forms.
- Mark Jones calculated and compared the income reported on the IES forms to the income guidelines to determine if the participant should be classified as free, reduced, or paid.
- Molly Walker reviewed the selection from Mark and determined whether she reached the same conclusion.
- Once they have agreed, the participant will be classified accordingly.



ACTIVITY: “WHAT? HOW? CHECK!”

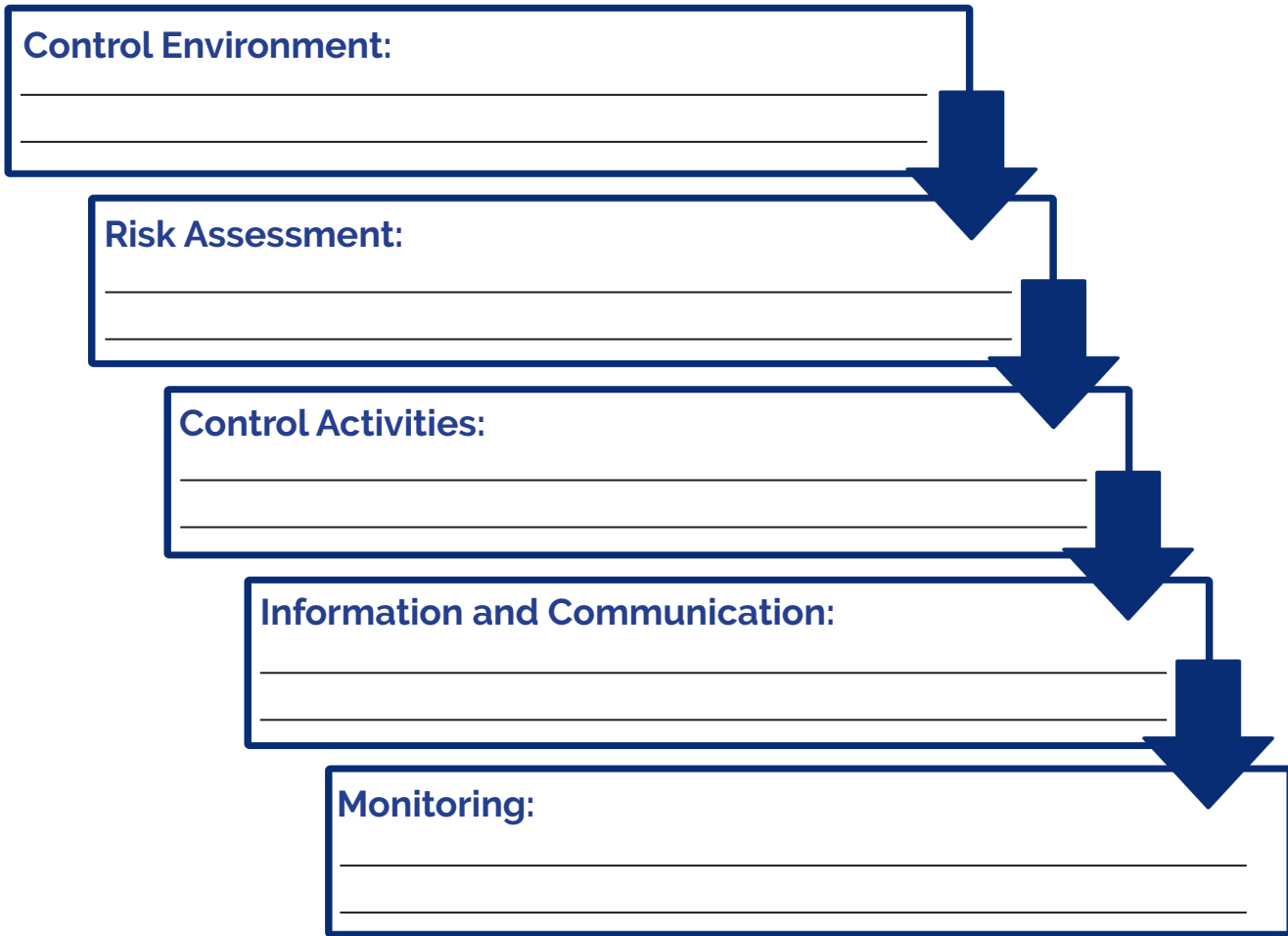


Activity: What? How? Check!

Turn to page 19 to complete this activity!

LET'S TIE THE ACTIVITY BACK TO THE GREEN BOOK

Let's tie our "What? How? Check!" activity back to the five components of internal controls. Complete the chart below based on the policy example in the activity.



THE IMPACT OF INTERNAL CONTROLS

Internal controls play a key role in many aspects of your CACFP! Maintaining adequate internal controls helps you ensure that you are in compliance with Program requirements.

Management Plan: This is where you can communicate your internal controls to the State agency and tie it back to your vision.

Monitoring and Oversight: This is where you can see your internal controls in action (i.e., monitoring frequency, monitoring types, and FTE requirements are met and maintained).

Budgets: Your internal controls will aid in reliable budgetary projections and support the proper use of the CACFP funds. They help ensure that that the funds are spent correctly.

Financial Management: Your internal controls support reliable and accurate financial reporting.

Corrective Action: You must communicate your internal control processes in your corrective action plan to prevent recurring issues.

Training: Internal controls support training on required and relevant topics and ensure that you meet the number of required training sessions.

Recordkeeping: Your internal controls help to ensure that you've followed the correct steps to complete forms and retain them properly.

Claims: Internal controls for evaluating claim data (e.g., edit check, policies, and procedures) will support the validation of accurate claims for reimbursement.



INADEQUATE OR NONEXISTENT INTERNAL CONTROLS

There are consequences associated with being out of compliance and for not having adequate internal controls. These include:

Financial Consequences

- Loss of reimbursement
- Repayment to your State agency for lack of program oversight arising from:
 - fraud,
 - spending that is not aligned with budget, or unauthorized spending, or
 - inadequate claiming procedures/practices.

Programmatic Consequences

- Findings and corrective action
- Serious deficiencies
- Termination and disqualification due to organizational inefficiencies such as
 - inadequate records,
 - no segregation of duties, or
 - lack of safeguards.



Notes

BEST PRACTICES FOR INTERNAL CONTROLS AND RECAP

Best Practices

Let's consider a few best practices regarding **internal controls**.

These are not requirements, just recommendations for you to consider and share with your facilities.



- ✓ Document internal controls and communicate them to your staff.
- ✓ Make sure the three elements are present: policies, procedures, and verification.
- ✓ Evaluate them to see if they are still relevant with Program requirements and daily business practices. Update them as necessary.
- ✓ Frequently test them to see if they are working (scheduled and unscheduled tests).
- ✓ Consult the *Green Book* and the Resource Guide to develop and evaluate your internal controls.

List other best practices identified by the class:

Recap



Let's recap what we've covered in the **Internal Controls** module

- Internal controls are **required** for the CACFP, not just a "good idea."
- Internal controls are the "glue" to make sure you achieve your policies and procedures.
- You should implement your policies and then test them to see if you need to reevaluate.
- A sound internal control system will help you achieve compliance and reduce findings.

As the State agency, how you might help your sponsoring organizations implement effective internal controls?

ACTIVITY PART 1: WHAT? HOW? CHECK!**INSTRUCTIONS****1.**

Each table will form a team and create a team name.

2.

Each team receives a policy. Each team will be responsible for developing procedures and developing verification steps for these procedures.

3.

Develop procedures that list step-by-step instructions to support the policy. Write the procedures on a flipchart.

4.

Develop verification steps that act as “checks” for the procedures developed to support the policy. Write the verification steps on a flipchart. Congratulations! You’ve created your policy-procedures-verification (PPV) masterpiece!

Provided for this activity:

- Policy example
- Flipchart

ACTIVITY PART 1: “WHAT? HOW? CHECK!”

REGULATION

[7 CFR 226.16(g) & (h)]

“Each sponsor shall disburse any reimbursement payments for food service due to each day care home within five working days of receipt from the State agency...”

“Sponsoring organizations shall make payments of program funds to child care centers, adult day care centers, emergency shelters, at-risk afterschool care centers, or outside-school-hours care centers within five working days of receipt from the State agency, on the basis of the management plan approved by the State agency.”

POLICY	PROCEDURE	VERIFICATION
WHAT TO DO “WHAT?”	HOW TO DO IT “HOW?”	HOW TO ENSURE/ EVALUATE IT IS DONE WITH ESTABLISHED PROCEDURE “CHECK!”
<p>Sponsored facility claims for reimbursement payments must be disbursed within three business or working days of receipt from the State agency.</p>		

ACTIVITY PART 2: PPV GALLERY WALK

INSTRUCTIONS

1.

Imagine you're in an art gallery walking from painting to painting.

2.

Review each team's policy-procedures-verification (PPV) masterpiece for 2 minutes.

3.

Consider the items you've read, and make a note of items that stand out to your team.

4.

Move clockwise until you return to your original PPV masterpiece.

Provided for this activity:

- Policy-procedures-verification (PPV) masterpiece (flipchart)



ACTIVITY PART 1: POSSIBLE SOLUTIONS FOR “WHAT? HOW? CHECK!”

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POLICY	PROCEDURE	VERIFICATION
WHAT TO DO “WHAT?”	HOW TO DO IT “HOW?”	HOW TO ENSURE/ EVALUATE IT IS DONE WITH ESTABLISHED PROCEDURE “CHECK!”
<p>Sponsored facility claims for reimbursement payments must be disbursed within three business or working days of receipt from the State agency.</p>	<p>Sponsoring organization staff 1 monitors the sponsoring organization’s accounts daily to determine if State agency payment has been received. Once received, payment information is inputted and reviewed and approved, or reviewed and adjusted, by sponsoring organization staff 2 prior to disbursement. Sponsoring organization staff 2 generates a log of the following information for each disbursement:</p> <ul style="list-style-type: none"> • Name of the sponsored facility • Facility identification number or unique identifier • Meal counts and date received • The claim month • The date the facilities’ meal counts were claimed for reimbursement (with the amount and date for the original and each amended claim identified separately, and an explanation of any differences between the amount claimed and the meal count submitted by the sponsored facility for each original and amended claim) 	<p>At least once a month, sponsoring organization management staff conducts oversight activities that include a review of the disbursement process to ensure payments are disbursed timely and accurately, and all required documentation is adequately maintained.</p>

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POLICY	PROCEDURE	VERIFICATION
WHAT TO DO “WHAT?”	HOW TO DO IT “HOW?” (continued)	HOW TO ENSURE/ EVALUATE IT IS DONE WITH ESTABLISHED PROCEDURE “CHECK!”
	<ul style="list-style-type: none"> • The amount and date of each facility reimbursement payment received from the SA (with separate identification of the amount and date by original and amended claims and an explanation of any adjustments between the amount claimed and amount received) • The amount and date of each facility payment issued for the original and each amended payment • The check number/identification number of other disbursement methods used to issue payment to the facility • Check date or other disbursement method used by the bank and the bank statement date verifying disbursement 	



CORE

CACFP OPERATIONAL
RESOURCES & EDUCATION

MH Miles Company CPA PC
1945 Mason Mill Road
Suite 200
Decatur, GA 30033

404-633-4555
info@core-cacfp.com
www.core-cacfp.com

CORE PARTICIPANT GUIDE