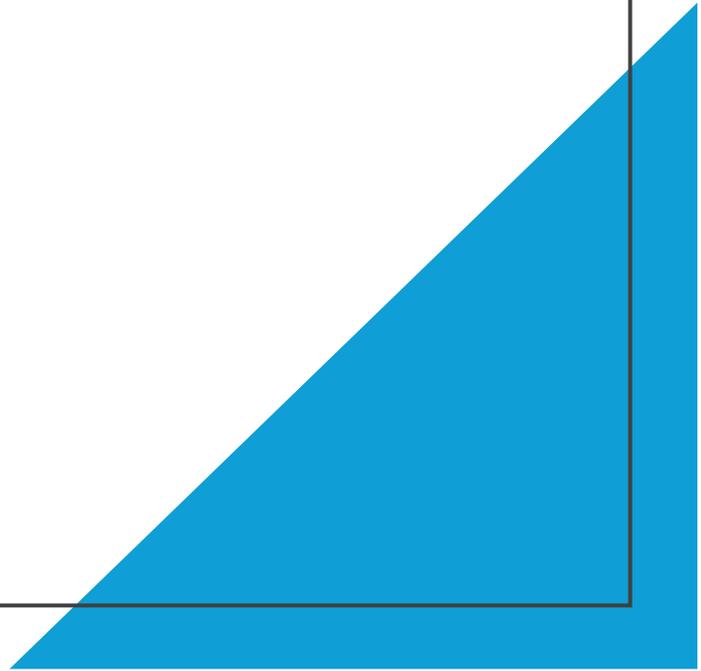# Assessing the Adequacy and Efficiency of Your Institution's Internal Controls

Society of Research Administrators International
Annual Meeting, Chicago
October 29, 2024

Gillian Silver, MPH, CPH, CRA, CFRA, CPRA
Director, Office of Research Administration
Morgan State University
gillian.silver@morgan.edu

Outline

- What are internal controls?
- What principles guide them?
- How do non-federal entities implement them?
- What are the challenges?

Objectives

By the end of this session/workshop, participants will be able to:

1. Define internal controls and describe their purpose.

2. Name the five pillars of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control—Integrated Framework.

3. Discuss challenges associated with internal controls that may decrease efficiency and impede progress.
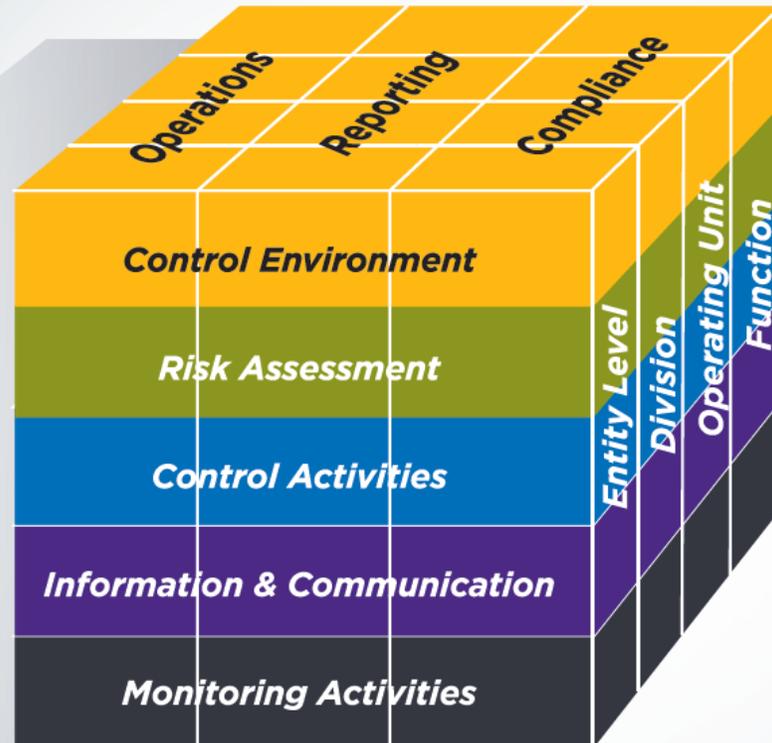
Internal Controls: What Are They?

Internal controls are a process implemented by a non-federal entity that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

(a) effectiveness and efficiency of operations

(b) reliability of reporting for internal and external use

(c) compliance with applicable laws and regulations

- 29 CFR § 99.105

COSO Internal Control — Integrated Framework Principles

COSO's 17 principles of internal control – summarized

Control environment

1. Demonstrates commitment to integrity and ethical values
2. Exercises oversight responsibilities
3. Establishes structure, authority, and responsibility
4. Demonstrates commitment to competence
5. Enforces accountability

Risk assessment

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Assesses fraud risk
9. Identifies and analyzes significant change

Control activities

10. Selects and develops control activities
11. Selects and develops general controls over technology
12. Deploys through policies and procedures

Information and communication

13. Uses relevant information
14. Communicates internally
15. Communicates externally

Monitoring activities

16. Conducts ongoing and/or separate evaluations
17. Evaluates and communicates deficiencies

Underlying Principles & Regulations

Uniform Guidance: federal code of regulations as they apply to research administration (2 CFR 200)

CAS: Cost accounting standards

FAR: Federal acquisition requirements

GAAP: Generally accepted accounting principles

Cost Accounting Standards (CAS)

- Consistency in estimating, accumulating, and reporting costs (9905.501)

- Consistency in allocating costs incurred in like circumstances for the same purposes (9905.502)

- Identification and exclusion of specifically identifiable unallowable costs (9905.505)

- Consistency in the selection and use of a cost accounting period (9905.506)

- 48 CFR 9905

Federal Acquisition Requirements

- **17.703 Policy**. (b) A nondefense agency is compliant with applicable procurement requirements if the procurement policies, procedures, and internal controls … are adequate to ensure the compliance of the nondefense department or agency with property management.

- **52.245-1 Government Property**. (1) The Contractor shall have a system of internal controls to manage (control, use, preserve, protect, repair, and maintain) Government property in its possession.

Generally accepted accounting principles (GAAP)

10 US GAAP Accounting Principles Demystified!

1. Principle of Regularity
2. Principle of Consistency
3. Principle of Sincerity
4. Principle of Permanence of Methods
5. Principle of Non-Compensation
6. Principle of Prudence
7. Principle of Continuity
8. Principle of Periodicity
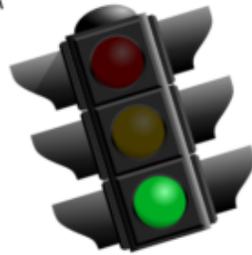9. Principle of Full Disclosure
10. Principle of Utmost Good Faith

LEDGER LABS

Components of Internal Financial Control

- Segregation of Duties
- Authorization and Approval
- Physical Controls
- Documentation and Recordkeeping
- Reconciliation and Review

Segregation of Duties
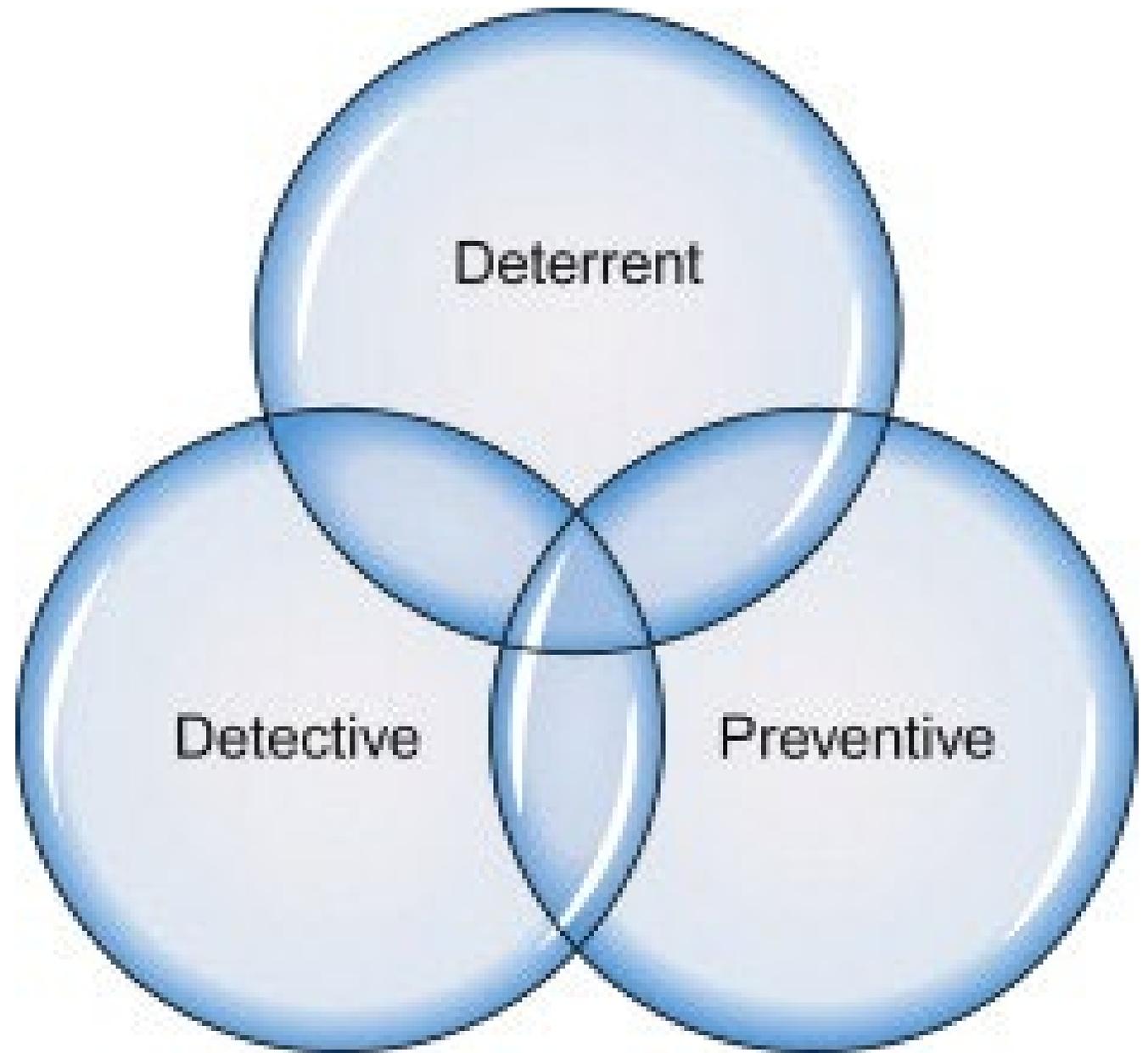
Record keeping

Authorization

Custody

Reconciliation

Authorization and Approval

► What is authorization?
  ► Define activities an employee can perform
  ► Define transaction parameters
  ► Define transactions that require approval
► What is approval?
  ► Verification and validation
  ► Review of supporting documentation
  ► **Evidence of approval**

Physical Controls

Document and Record Keeping

Retention:
- Paper files
- Excel files
- Computer folders (local or cloud)
- Email
- DocuSign (or similar)
- ERP/Financial System
- Grant Management System

Disposal?

Reconciliation and Review

- A high level of inspection is expected for every cost allocated to every award.

- Research administrators need to be proactive in monitoring spending by frequently reviewing cost allocation at the department and central offices.

- Routine self-auditing catches errors before they have negative consequences.

# Institutional Policies & Procedures

Your institution has to have documented spending policies and procedures

Spending must be done in a consistent manner, whether the spending is using institutional, grant, or other funds

Assessing Internal Controls

- Issue or risk being addressed
- Current internal control
- Is the process documented?
- Is there training on the process?
- Is the process followed?
- How long does the process take?
- Concerns raised by PIs or grant staff
- Concerns raised by research administration staff
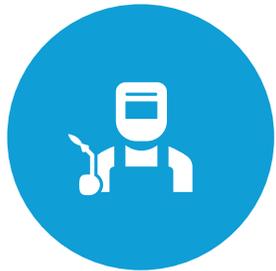
Components to be considered
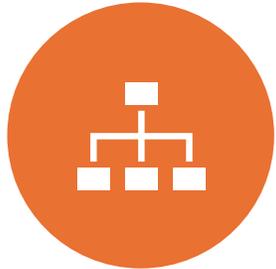
<u>Organization</u>: Central, shared services, departmental

<u>Personnel</u>: Research Administrators, Research Accountants

<u>Training</u>: Onboarding, e-modules, shadowing, rotations

<u>Systems</u>: Financial, Procurement, Grant management

Processes: keeping documentation

- Funding Opportunity Announcement (FOA or NOFO)
- Notice of Award
- Request from Principal Investigator
- Multiple bids
- Invoices/receipts
- Contracts
- etc.

Training

Office of Research Administration

e-Training

The Office of Research Administration (ORA) is pleased to provide a gamut of training modules touching on all aspects of administrative functions here at Morgan State University. Check back regularly for future training opportunities on functions such as purchasing card usage, budget queries, contract entry for employees, and much more!

Post Award Quick Guide	+
P-Card Trainings	+
Understanding Grant Funds in Banner	+
Contractual Salaries	+
Contractual Services	+
Time and Effort Reporting Training	+

Internal Audit

- Financial Audits
- Operational Audits
- Compliance Audits
- Investigative Audits
- Follow-up Audits
- Information System Audits
- Internal Control Reviews
- Consultation and Collaboration with appropriate University officials

Challenges for Internal Controls

Lack of documentation of procedures

Lack of training for staff doing approvals

Not able to confirm in budget justification if the funds are there given rebudgeting

Variability of different grants' periods of performance, therefore, potential for excessive/inappropiate end-of-award spending

Examples of Challenges

- Travel: authorization requirement of signatures
- Purchase cards: Requiring credit card statements for receipts
- Procurement: Unclear procedures
- Training: Lack of documentation, no onboarding
- Communication: Lack of communication between units

Red Flags

- Inappropriate application of F & A charges
- Purchasing equipment near the end of a project period
- Late cost transfers

Facilitators

- Transparency
- Set up ERPs to not permit inappropriate spending (e.g., no international travel, administrative salaries)
- Encumbering salaries
- Keeping proposal award documents in a document management system accessible to those who need them

Facilitators (continued)

- Multiple layers of approvals. For example: departmental, accounts payable, central grant accountants/state administrators (could be a challenge, too)
- Hiring people with the necessary skills (e.g., accountants)
- Developing and implementing process documentation and training
- Post-award briefings
- Documenting reasons for disapproving spending, but also try to suggest other options

Conclusions

- Internal controls are necessary and required
- Documentation of processes also necessary and required
- Training for all relevant parties (Principal Investigators, all levels of staff) is critical
- Electronic/automated systems make the process much easier
- Reviewing internal control policies can improve your efficiency