Grantee Internal Controls “Should” Comply With Federal Standards

200.303 of the recently issued Uniform Guidance requires that grantees “establish and maintain effective internal control over their Federal award.” This requirement also states that these controls “should” either be in compliance with the GAO Green Book, or with the Internal Control Integrated Framework, as established by COSO.

The United States Government Accountability Office (GAO) issued revised Standards for Internal Control in the Federal Government (Green Book) in September 2014. The Green Book provides the overall framework for establishing and maintaining an effective internal control system. This framework adapts main principles established by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) for a Government environment. Further guidance is available through the Office of Management and Budget (OMB) Circular No. A-123, Management’s Responsibility for Internal Control. The Circular provides specific requirements for assessing and reporting on these controls in the Federal Government.

In an effort to align with Federal funding, the Green Book, COSO and OMB A-123 may, as a framework for an internal control system, also be adopted by state, local, tribal, and territorial governments, as well as not-for-profits and educational institutions. Ultimately, it will be the decision of an organization’s management to determine how to best adapt to these standards to remain eligible for Federal funding.

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Grantee Internal Controls “Should” Comply With Federal Standards (continued)

Consistent Guidance

This article focuses on the Federal standards that incorporate the commercial sector principles expressed by the COSO framework. Examining these federal standards reveals that they are essentially identical. The Federal guidance has been very consistent. The Federal Managers Financial Integrity Act of 1982 (FMFIA) established the requirement for Federal agencies to develop and maintain controls in accordance with standards set by GAO. The implementing guidance was established by the OMB, when it issued Circular A-123.

Use of the word “should” has somewhat muddied the waters for grantees unfamiliar with Government terminology. The term “should” seems to indicate that compliance is optional, while “must” indicates an absolute requirement. In fact, compliance with these standards and related guidance is not optional. The words “must,” and “should” may raise controversy over the “letter of the law” but the spirit is clear. The American Institute for Certified Public Accountants (AICPA) has already determined that “should” = “must.” Federal officials have made it clear that where Federal programs require effective systems of control the expectation is that these systems must meet the standards set by GAO.

The word is out. Many auditors for large not-for-profit organizations are already announcing that they are adding steps to their established processes to evaluate recipients’ compliance with the new guidance.

That is not a big surprise. It is well-known that Federal auditors look for the next closest benchmark when lacking specific instructions. So, it’s reasonable to expect auditors to support the position that recipients must rise to the standards and implementation practices described in OMB A-123. Auditors have typically in the past reviewed controls to establish a basis for the “nature, timing, and extent” of their substantive tests. The Uniform Guidance will drive auditors to also test for internal controls related to compliance.

Grantee systems of internal controls will comply with these standards and guidelines if they want to reap the many benefits of compliance. For recipients of Federal funding, the future includes grant auditors who are looking for a more in-depth assessment and associated reporting procedures following the OMB A-123 guidance. These infrastructure assets will collectively provide the basis for demonstrating compliance with the Federal guidance to the auditors.

The grantee compliance challenge is heightened by the fact that OMB Circular A-123 is currently under revision and is expected to require an equal focus on controls over financial reporting, as well as the integration of enterprise risk management with the internal programmatic control system. Responsibility for implementation is expected to be elevated above the chief financial officer (CFO) and require separate statements of assurance on the efficacy of program and financial controls. Most relevant to this discussion, is the current draft requirement that any Federal program that requires an effective system of internal controls, “must” comply with the GAO Green Book.

So, you question may be, “Where do I begin?”

Getting Started

Internal controls start with standardizing operations. The development of standard operating procedures (SOPs) makes sense for many reasons. Having a procedure to follow and tools to use minimizes time wasted on routine tasks. What if everyone had to develop and label a spreadsheet every day to record their project hours? Time would be squandered on developing the layout, transferring yesterday’s data, and normalizing everyone’s version to compare apples to apples. Obviously, it’s better to follow a standard procedure and use the same tool, freeing precious time to solve bigger problems.

“Without a standard there is no logical basis for making a decision or taking action.”

- Joseph M. Juran

Programmatic controls center on the development of policies, procedures, and measurement to define and govern normal operational tasks. They extend to cover more complex processes like setting up project plan for a new grant award or performing quality control. Organizations that already have a standard set of procedural documents that are formatted alike, disseminated to employees, used frequently, and routinely reviewed for improvement have already taken major steps towards establishing internal controls.

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1 C.F.R. 200, “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).”
2 COSO was organized in 1985 to sponsor the National Commission on Fraudulent Financial Reporting, an independent private-sector initiative that studied the causal factors that can lead to fraudulent financial reporting. It also developed recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions. Regarding internal control, in 1992, COSO published “Internal Control—Integrated Framework.” This framework was revised and reissued in May 2013. (http://coso.org/aboutus.htm June 15, 2015)
3 The COSO cube represents the 17 principles an effective system of internal controls.
Like the development of standard procedures, long-established project management best practices can be leveraged to provide the basis for risk assessment, measurement, and mitigation. The Project Management Institute (PMI) is the International Standards Organization’s (ISO’s) pick for industry best practices in this discipline. PMI provides customizable tools for measuring, logging, and tracking risk; analyzing stakeholders; planning projects; and reporting progress, as well as multiple processes occurring during the lifecycle of a grants project.

Project management principles will produce evidence of the planning needed to establish internal controls. However, performance measurement gives organizations the data they need to prove that they have met established goals and earned value with the Federal funding. They also point to another area emphasized in the new Federal guidance.

The Government will enforce greater controls on situations of Fraud, Waste, and Abuse. Auditors will be looking for decisive records detailing the use of Government dollars. They will also look for proof that the funding has yielded useful outcomes that meet documented goals rather than a variety of activities that show outputs for the funding. Again, industry can provide recognized financial principles to support financial performance measurement. Organizations like the National Grants Management Association (NGMA), American Institute of Certified Public Accountants (AICPA), Association of Government Accountants (AGA), American Society of Military Comptrollers (ASMC), Institute of Internal Auditors (IIA), The Association of Certified Fraud Examiners (ACFE), The Grants Professional Association (GPA), and others provide a wealth of information, best practices, and training for implementing effective internal controls.

Although rising to the level of Federal internal standards may initially look like a daunting task, lots of help is available from industry in the form of tools, templates, benchmarks, and standards. Many benefits will be derived from compliance. Those who meet the standards first, are likely to reap large benefits, which may include sustaining Federal funding while improving their own organizational maturity. Tomorrow’s high performance organizations will have the best chance of growth in a difficult economy.

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Ok, you’re sold!

Look for a follow-up next time to learn about the hallmarks of an effective internal control system.
Maximizing the Return from Transportation Grants

The safe and efficient movement of people, goods, and information is vital to our Nation’s economic growth, global partnerships, and quality of life. The U.S. Department of Transportation provides more than $70 billion each year—the vast majority through grants—to promote safety, protect and manage U.S. transportation systems, and prepare for increasing travel demands. To maximize the return from this investment, it is critical the Department carry out this mission within a framework of diligent stewardship of taxpayer funds. Prior audit work by our office—the Department’s Office of Inspector General—points to characteristics that have made for successful grant programs and opportunities for improvement. These lessons may also be applicable to grant programs outside the transportation sphere.

Building a Framework for Grants Management

Legislation enacted in 2008 gave the Federal Rail Administration (FRA) critical new responsibilities—including awarding and overseeing the funding of high-speed rail projects—as well as a significant challenge: building a program to manage the new grants while meeting the Recovery Act’s tight deadlines for getting the funding out the door. Our 2012 audit report assessing FRA’s progress in meeting this challenge provided a synopsis of key practices we identified for building a grant management framework. (See table below)

Our more recent audit work at FRA has tracked the agency’s progress in implementing this framework. In 2015, we reported² FRA had disbursed $2.8 billion of the $10 billion authorized for high speed rail grants and had established and updated its grants management handbook. However, we also noted the agency needed to refine its grant oversight controls by improving its guidance on fraud reporting and on preventing funding violations during the grant amendment process. This illustrates the need to revise and fine tune controls once a framework is established.

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### Practice | Key Objectives of Each Practice
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Establish policies and procedures to support the grants management lifecycle. | ▶ To develop a grants management process guided by standardized and transparent policies and procedures.
▶ To establish communication channels and knowledge libraries, such as FAQs, to assist grantees.
Establish a grants management workforce and organizational structure. | ▶ To establish a workforce adequately sized, trained, and familiar with statutory and regulatory requirements as well as departmental processes.
Establish performance measurements to encourage performance improvement, effectiveness, and efficiency. | ▶ To establish programmatic goals to provide a guide for the grant management lifecycle.
▶ To establish performance measures to track progress toward achievement of programmatic goals.
Establish oversight programs to manage grantee performance. | ▶ To ensure grant program meets programmatic goals.
▶ To ensure adherence to grant terms, as well as applicable statutory and regulatory requirements.
▶ To develop a centralized grants management information and recordkeeping system for agency and grantee use.
▶ To rate project risk based on based on adequacy of grantee systems such as internal controls and financial management.
Develop plan for grant program assessment and adjustment. | ▶ To identify opportunities to improve grant program performance and effectiveness;
▶ To design and implement programmatic changes as needed to the future grants management process.

*Source: OIG analysis*

³ FTA Has Not Fully Implemented Key Internal Controls for Hurricane Sandy Oversight and Future Emergency Relief Efforts, (OIG Report Number ST-2015-046), June 12, 2015.
Maintaining Strong Internal Controls

The challenge of maintaining strong internal controls in the face of competing demands is demonstrated by our recent audit on the Federal Transit Administration’s (FTA) oversight of grants provided to address infrastructure damages caused by Hurricane Sandy and to support its overall emergency relief program.3 FTA faced time and resource constraints in developing its emergency relief program while also immediately addressing the allocation and obligation of relief funds following the devastating storm. Our report recognized FTA had developed processes and specific tools to ensure Hurricane Sandy grant applications and awards were complete but also pointed to areas for improvement. Specifically:

• FTA had waived certain controls in the months following the storm in recognition of the realities of an emergency situation, but reimbursed some expenses after the waiver deadline due to inadequate criteria.

• FTA had informally coordinated with the Federal Emergency Management Agency to identify instances of duplicate funding, but it had not formalized this process, which we concluded would be necessary to ensure effective coordination in the event of future emergencies.

• FTA’s risk-based oversight, a key element of adequate internal controls, was not adequately documented or consistently applied.

A critical feature for successful internal controls, as detailed by the Government Accountability Office, is to make the controls a continuous built-in component of operations. The need to target checks and oversight reviews on high-risk areas is another important element we often address in our audits. The process also does not end when grantee weaknesses are identified.

Following Up on Grantee Corrective Actions

DOT’s National Highway Traffic Safety Administration (NHTSA) promotes vehicle safety through administration and oversight of highway safety grants to States and sub-recipients. These grants exceeded $500 million in 2014. Our August 2014 audit4—which focused on one NHTSA region—found NHTSA grantees generally met key Federal grant requirements such as charging to appropriate funding codes and managing indirect costs. However, NHTSA lacked tracking mechanisms for following up on grantee deficiencies and tools to identify and mitigate systemic nationwide issues. For example:

• Over a two year period, reviews were conducted by NHTSA of its grantees. Two deficiencies identified were improper use of funds and lack of monitoring plans. In addition, there were some findings and recommendations closed out without sufficient documentation provided. In our view, improved documentation provides greater assurance the grantees—States in these cases—were correcting identified issues.

• The agency also lacked a standardized mechanism for tracking the disposition of grantee deficiencies across all regional offices. Such a feature would allow NHTSA to identify and mitigate systemic issues on a national level. Implementing this tool would require the agency to uniformly classify and compare recurrent grantee deficiencies, an attribute which was missing when we did our audit.

NHTSA agreed to address these issues, which are not unique to this agency. While tracking and following up on prior monitoring efforts may receive a low priority in comparison to other issues, we continue to believe it is well worth the investment.

Conclusion

The Federal Government provides billions of dollars in grants each year to support the Nation’s transportation infrastructure and help ensure the safety of the traveling public. By building a solid framework for oversight of these grants, maintaining strong internal controls, and following up on grantee promises to take corrective actions, we can help make sure the money is effectively spent. This can help save taxpayer dollars as well as produce a safer and more reliable transportation system.

New DATA Act Standards Emphasize Need for a Data-Driven Grant Management Strategy

When it comes to federal grant management and administration, data is largely fragmented. Grant data is siloed across agencies, with no ability to standardize, aggregate or reconcile spending information. And recipients lack the systems to sync spending and performance data across departments and sub-recipients.

This results in inefficiencies, unnecessary expenses, a lack of transparency and a greater chance for error, waste, fraud and abuse. The Digital Accountability and Transparency Act, or DATA Act, seeks to remedy this, and will lead to significant changes in grant reporting nationwide.

The DATA Act

The DATA Act, enacted in May 2014, puts The U.S. Department of the Treasury and Office of Management and Budget (OMB) jointly in charge of creating standard data requirements for reporting federal dollars. Key steps along the way include:

• The law required the release of data standards within one year of passing, to guide the development of universal data elements and reporting format.

• A two-year pilot program launched in May 2015 by the U.S. Department of Health and Human Services (HHS) to test the ability to standardize spending data. Within 90 days of the pilot’s closing in 2017, a report will be filed on key findings.

• In 2016, inspectors general will publish reports that document the completeness, timeliness, quality and accuracy of each piloting agency’s spending data.

• By 2017, agencies will be required to report based on standardized regulations. Spending data will be published on USASpending.gov by 2018.

Once fully realized, the act will create a standard for financial reporting that would allow spending data to be aggregated, analyzed and published online. Waste, fraud and abuse, which is currently obscured by irreconcilable data elements and reporting requirements, will be far easier to uncover and rectify.

Standard Data Elements Announced

On May 8, 2015, the DATA Act reached its first major milestone: The Treasury Department and OMB announced 57 standard data elements to be used in grant reporting, and a schema, or format, that outlines how the data elements relate to one another. Elements are broken down into six lists:

• Awardee and Recipient Entity Information
• Award Characteristic Information
• Awarding Entity Information
• Account Level Information
• Award Amount Information
• Funding Entity Information

While these initial standards set a framework for agencies, the elements are not yet finalized. They will continue to be developed based on public input, and agencies are encouraged to leave feedback during the open discussion periods.

Next, HHS will begin recruiting volunteer agencies and grantees to pilot the system. The pilot program will test the feasibility of the data elements and schema. Based on the results, OMB will determine if grant data can be reported to multiple agencies in a standardized format.

The law instructs federal agencies to adopt the standards within two years.

What the DATA Act Makes Possible

The trickle-down effect of the DATA Act on grant recipients will come in the form of streamlined compliance requirements, greater spending accountability and performance-based fund distribution. Some examples of what’s possible:

• Federal spending is accessible online in checkbook detail to all government officials and taxpayers at USASpending.gov.

• Neighboring communities and nonprofits with similar missions have a window into each other’s pocketbooks, helping them to better coordinate and share resources in pursuit of common goals.

• Machine-readable data allows information to be pulled directly from recipients’ grant management systems, which simplifies compliance, automates reporting, and reduces administrative time for awarding agencies and recipients.

• Big data visualizations of financial data provide insights to drive better resource allocation.

• Federal grant compliance and performance can be tracked using data analytics to connect dollars to outcomes, allowing government resources to be funneled toward more effective programs and grantees.

Grantees will also face challenges, primarily in the early stages of implementation. They must follow and seek to interpret the new standards as they are being defined, and adapt their data infrastructure and grant management processes for compliance. This may mean changes to the way grant information is collected, stored, communicated
across departments and compiled for reporting. Ultimately, recipients must make their grant management programs data-driven, and aligned with the federal government’s taxonomy.

**The Move Toward Data-Driven Grant Management**

While the DATA Act does not directly require grantees and government contractors to adopt the data standards, the recent announcement is another step toward a data-centric grant reporting system.

The move to structured data elements emphasizes the need for fund recipients to implement data-driven grant management strategies, through which information is more effectively consolidated, leveraged and managed. To begin to do so, recipients should consider the following steps:

- Evaluate existing processes, and devise a plan to capture all spending and performance information as data.
- Review the central data repository, and determine how existing processes will map to the standard data elements.
- Maintain consistent naming conventions and filing structures organization-wide, and between lead and sub-recipients.
- Present data in a machine-readable way using extensible markup language (commonly referred to as “XML”).

The road to a data-driven grant landscape is rocky, but the potential rewards are huge. Data transparency would greatly reduce waste, fraud and abuse of federal funds. Data-centric reporting would reduce the amount of human effort required, automating much of the process. And analytics will allow agencies to award funds to the most deserving applicants, based on past grants, spending information and performance history.

Don’t wait to make the transition to data-driven grant management. The path to open and transparent federal spending begins now.

For more on the open data movement and how it affects your organization, download our free fact sheet.

*Adam Roth is the president and CEO of StreamLink Software.*

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**Using Grant Funding to Provide Quality Comprehensive Coordination of Services**

Obtaining funding, whether in the public or private sector, is becoming more difficult as competition rises and funding allocations drop. Whether you work with private foundations, state, local or federal funding, trying to find ways to get the best bang for your buck is important. Learning to streamline and coordinate services will help an organization to work together to provide a more comprehensive set of services and to use federal dollars or grant funding more efficiently. When competition for funding is at all-time high, building partnerships within your programs will create a seamless transition from one service to another, helping you to address gaps and provide services where none were previously available.

A good starting point is to evaluate the services or programs that you offer. Two questions you should ask are:

- What are the gaps that these programs are addressing and how could they be better managed?
- What service does each program offer and how can it work with another program to better serve the public?

Creating Project Teams that put these thoughts onto paper and work with program leaders can help identify needs and gaps. Having a strategic plan in place will guide efforts and help identify ways of working together to reach common goals. Bringing programmatic directors together will help assess capabilities and skill sets while allowing the programs to interrelate and have an understanding of what each program offers and how it can assist with other programs. For instance, within one tribal organization there is an Injury Prevention Program that partner with multiple other programs. The Injury Prevention Program works with the childcare program to identify low income children in need of car seats, they work with the tribal police department in multiple ways including seat belt saturations, anti-bullying initiatives, and other youth related programs such as D.A.R.E. and anti-texting service announcements. Injury Prevention also works with the Title VI Elder Program to provide fall prevention equipment to the elderly. Independently these programs would have gaps in services (like the child care program does not provide car seats), but because they work together they are better able to serve the native community within their jurisdiction and meet the needs of more citizens.

Interoperability is when programs work together to address gaps and weaknesses
and combine services whenever possible to provide more comprehensive services. Once programs start working towards interoperability, then coordination of services can be written into the program design more easily. As a result, an organization will start to see other improvements including overall performance, key processes that are better defined, competitive advantage through coordination and community involvement, efficiency and organized processes. This means being able to do more with less through the coordination of work efforts. Through team meetings, information can be centralized. Crafting collaborative methods and coordination, help to build the best project design tailored to your organizational needs.

An area that often creates an issue is not properly matching the funder to the organization. Organizations need to be vigilant when applying for funding by ensuring that the funding opportunity matches the needs of the organization. Just because an organization is eligible for funding doesn’t mean that it is beneficial. If it feels like a stretch, it probably is. The best thing to do is keep researching for the right funding opportunity. Forcing a proposal on a funder that isn’t beneficial to the funder or to the organization is a waste of everyone’s time, and can make the organization look bad in the long run or even affect future funding possibilities. Instead look for the ‘right’ fit. Find one that is a good match to the program you are attempting to execute and one that will work well with other programs currently in operation. As you build the program identify the stakeholders within the community and the organization. Seek out ways that everyone can work together to create the most desired outcome. The more community buy-in and interoperalional involvement, the more likely the project is to be successful because the numbers of stakeholders have increased. Increased stakeholders and internal departments working together increase the likelihood of success for the application because of strong community investment. An organization also builds capacity through involvement by identifying alternative resources and how they can better be utilized.

Many funders look for the types of proposals that build partnerships and involve the community. With the securing of funding, it is important to remember that your entire community is considered a stakeholder and attempting to meet their needs in the most holistic way will improve your chances at receiving funding.

Bernadette Hicks, MBA, CGW
Grants & Contracts Director, Kaw Nation

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Regional Networking Groups coming soon!

Are you interested in having NGMA hold a meet-n-greet/training session near you? Contact NGMA’s Executive Director, Shelly Slebrch at shelly@ngma.org.