



**pennsylvania**  
DEPARTMENT OF EDUCATION

# Internal Controls

# What Are Internal Controls And Why Are They Important?

Internal controls are the processes designed and implemented by non-Federal entities to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (i) Effectiveness and efficiency of operations
- (ii) Reliability of reporting for internal and external use
- (iii) Compliance with applicable laws and regulations

## Examples:

Segregation of Duties

Regular Audits

Maintaining Accurate and Complete Financial Records

Confirming Proper Authorization and Approval of Transactions

These controls help to prevent errors, detect fraud, and provide a clear audit trail of financial activities.

# Control Types

Manage Risks and Exposure with Detective, Preventing, and Corrective Controls.

## Corrective

Staff members involved in financial operations should receive training on the organization's policies and procedures and understand their roles and responsibilities in maintaining effective internal controls

## Proactive

Thinking in terms of detecting, preventing, and correcting risks of errors, fraud and theft to the LEA. Risk Management reduces risk of loss and risk of claw back provisions for noncompliance with uniform guidance.

## Preventative

Prevent errors or fraud through documentation and authorization. For example, segregation of duties makes sure that no one person is in a position to authorize, record, and maintain a financial transaction and its corresponding asset. Confirming expenses and authorizing invoices are preventive internal controls, as is limiting physical access to equipment, inventory, cash, and other assets

## Detective

Monitoring procedures that uncover events or items that preventive controls might have missed. Detective controls provide evidence that a loss has occurred, but they don't prevent a loss from happening. Reviews, analyses, and inventory are detective controls.

# 2 Code of Federal Regulations (CFR) 200 and Internal Controls

Non-Federal entities are required to maintain effective internal control over Federal award as per **2 CFR 200.303**

<b>REQUIREMENTS</b>	
<p><b>Establish and maintain effective internal control</b> over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.</p>	<p><b>Take prompt action</b> when instances of noncompliance are identified including noncompliance identified in audit findings.</p>
2 CFR 200.303(a)	2 CFR 200.303(d)
<p><b>Evaluate and monitor</b> the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.</p>	<p><b>Take reasonable measures to safeguard protected personally identifiable information</b> and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over confidentiality.</p>
2 CFR 200.303(c)	2 CFR 200.303(e)

## Recommendation

Internal controls should follow guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “**Internal Control Integrated Framework**”, issued by the **Committee of Sponsoring Organizations of the Treadway Commission (COSO)**.

# COSO's 5 Components of Internal Controls

**To properly design and execute financial internal controls, Learning Educational Agencies (LEAs) should take a complete approach that includes the following steps:**

## **Risk Assessment**

LEAs should identify the risks associated with their financial operations and determine which controls are necessary to mitigate those risks. This assessment should be conducted regularly to make sure that controls are effective and up to date.

## **Control Activities**

LEAs should develop clear policies and procedures that outline the processes for financial transactions, including authorization and approval processes, reconciliations, **segregation of duties**, and record-keeping requirements. See General/Entity Level Standards Section for additional information.

## **Information and Communication**

Internal communication system by which information is properly communicated to enable personnel to effectively execute control responsibilities.

## **Monitor and Evaluate**

LEAs should regularly monitor and evaluate their internal controls to make sure that they are effective in mitigating risk and achieving their intended goals. This includes conducting regular audits and reviews of financial processes and procedures.

## **Control Environment**

LEAs should maintain an effective internal control environment commensurate with the size and complexity of the federal award and level of transactions.

# Question 1

Which is **not** an example of an internal control?

- a) Segregation of Duties
- b) Promoting Personnel \*
- c) Regular Audits
- d) Maintaining Accurate and Complete Financial Records

# Question 2

What are the four control types?

- a) Corrective, Preventative, Proactive, and Detective \*
- b) Preventative, Corrective, Proactive, and Detriment
- c) Proactive, Active, Inactive, and Corrective
- d) Directive, Detective, Elective, and Corrective

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