

To: work2future Staff & Subrecipients
From: work2future Director
Effective Date: May 2020
SUBJECT: Internal Controls
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OPERATIONAL DIRECTIVE

work2future Workforce Development Board
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Purpose:

This policy will help to ensure the effectiveness of internal controls within work2future. This policy outlines several critical control points of work2future but are not all inclusive and are subject to change when and if such change will improve the overall system. This policy also requires subrecipients to develop their own internal control policies to both comply with WIOA requirements and to prevent exposure to losses.

Scope:

This policy is applicable to all work2future and subrecipients that receive WIOA-funding.

Effective Date:

This policy is effective upon date of issue.

REFERENCES

- WIOA (Public Law 113-128) Sections 184 (Fiscal controls; sanctions), 134(Use of funds for Adult and Dislocated Worker Employment and Training Activities), and 129 (Use of funds for Youth Workforce Investment Activities)
- Title 2 Code of Federal Regulations (CFR) Part 200 (Uniform Guidance) and 2900 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)
- Training and Employment Guidance Letter (TEGL) 15-14, Implementation of the New Uniform Guidance Regulations (December 19, 2014)
- WSD 16-16, Subject: Allowable Costs and Prior Written Approval
- **§ 683.220 What are the internal controls requirements for recipients and sub recipients of Workforce Innovation and Opportunity Act title I?**

POLICY AND PROCEDURES: The purpose of this policy is to require work2future and its sub recipients of WIOA title I funds to have internal control structures and written policies in place that provide safeguards to protect personally identifiable information, records, contracts, grant funds, equipment, sensitive information, tangible items, and other information that is readily or easily exchanged in the open market. Internal controls also must include reasonable assurance that the entity is:

- **(1)** Managing the WIOA award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award;
- **(2)** Complying with Federal statutes, regulations, and the terms and conditions of the Federal awards;
- **(3)** Evaluating and monitoring the recipient's and subrecipient's compliance with WIOA, regulations and the terms and conditions of Federal awards; and
- **(4)** Taking prompt action when instances of noncompliance are identified.

(b) Internal controls should be in compliance with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). See 2 CFR 200.303.

Internal controls consist of all the measures taken by the organization for the purpose of:

1. Protecting its resources against waste, fraud, and inefficiencies;
2. Ensuring accuracy and reliability in accounting and operating data;
3. Ensuring compliance with the policies of the organization; and
4. Evaluating the level of performance in all organizational units of the organization.

Everyone has some role in internal controls. The roles vary depending upon the level of responsibility and the nature of involvement by the individual. Management has oversight responsibility for internal controls within their organization and is responsible for executing control policies and procedures. Each individual within a unit is to be cognizant of proper internal control procedures associated with their specific job responsibilities.

EVALUATION OF RISKS & CONTROLS

work2future takes multiple actions to ensure it has a strong system of control over its programs and operations.

Internal controls can generally be described as preventive, detective, and corrective, and each type operate at different levels of cost and effectiveness. Internal control can be judged meeting the needs of an organization in each of three categories, respectively, if the board of directors and management have a reasonable assurance that the following objectives of sound internal controls are being satisfied:

- The entity’s operations objectives are being achieved.
- Published financial statements are being prepared reliably.
- Applicable laws and regulations are being complied with.

While internal control is a process, effectiveness is a state or condition of the process at one or more points in time. When developing processes of internal control, agencies need to consider the cost of the control compared to the reduced exposures to loss. And, make entity by entity decisions on what works best.

COMPONENTS OF INTERNAL CONTROL

Control Environment – The control environment sets the tone of an organization, influencing the consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Factors include the integrity, ethical values and competence of employees, and management’s philosophy and operating style.

Risk Assessment – Every entity faces a variety of risks from external and internal sources that must be assessed. A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent. Risk assessment is the process of identifying, evaluating, and deciding how to mitigate risk by assessing the following:

- What is the likelihood of the event occurring?
- What would be the impact if it were to occur?
- What can we do to prevent or reduce the risk?
- What is the vulnerability or likelihood of loss?

Control Activities – Control activities are the policies and procedures that help ensure management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve the entity's objectives and occur throughout the organization, at all levels and in all functions. Control activities usually involve two elements: a policy establishing what should be done and procedures to cost effectively meet the spirit of the policy. All policies must be implemented thoughtfully, conscientiously and consistently.

work2future has established policies and procedures that align with the State and Federal grant requirements and that ensure its directives are carried out. The range of activities include approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties.

Information and Communication – Pertinent information must be identified, captured, and communicated in a form and timeframe that enable people to carry out their responsibilities. Effective information and communication systems enable the organization's people to exchange the information needed to conduct, manage, and control its operations. Records and information systems must be sufficient to provide reliable reporting and demonstrate compliance with the federal award.

work2future holds regularly scheduled staff meetings to facilitate communication and the sharing of information across the organization. Systems such as FMS, Time Card Front End (TCFE), and automated timesheets are used to provide reliable reporting on fiscal transactions, timekeeping, payroll transactions and client-related services.

Monitoring – Internal control systems need to be monitored to assess the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two and more importantly, the assessment of internal control processes influence the degree of oversight that should be overlaid on both sample sizes and the reliability of outcome measures.

Ongoing monitoring occurs in the course of operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties. It also includes the process of monitoring subrecipients for compliance with requirements and taking appropriate actions to correct deficiencies.

wrok2future undergoes monitoring by State auditors, external auditors, and City of San Jose internal auditors to ensure that internal control systems are in place and (functioning). In addition, work2future regularly conducts monitoring of its subrecipients and ensures that any necessary corrective actions are implemented.

COMPONENTS OF THE CONTROL ACTIVITY

Internal controls rely on the principle of checks and balances in the workplace. The following components focus on the control activity:

Personnel need to be competent and trustworthy, with clearly established lines of authority and responsibility documented in written job descriptions and procedures manuals. Organizational charts provide a visual presentation of lines of authority and periodic updates of job descriptions ensures that employees are aware of the duties they are expected to perform.

Authorization Procedures need to include a thorough review of supporting information to verify the propriety and validity of transactions. Approval authority is to be commensurate with the nature and significance of the transactions and in compliance with City of San Jose policy.

Segregation of Duties reduce the likelihood of errors and irregularities. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties. This helps prevent errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications. To the extent possible, separation should be employed for the following responsibilities: custodian, authorization, recording, and reconciliation.

Physical Restrictions are the most important type of protective measures for safeguarding work2future assets, processes and data. Portable equipment is secured in a restricted environment.

Documentation and Record Retention is to provide reasonable assurance that all information and transactions of value are accurately recorded and retained. Records are to be maintained and controlled in accordance with the established retention period and properly disposed of in accordance with established procedures.

Monitoring Operations is essential to verify that controls are operating properly. Reconciliations, confirmations, and exception reports can provide this type of information. Bank reconciliation is done on a monthly basis by City Finance staff and reconciliation between systems is performed by work2future fiscal staff on a regular basis.

work2future has established internal controls and adheres to the City of San Jose policies and procedures in the following key financial and program areas including but not limited to:

- Budgeting
- Cost allocation
- Vendor Disbursement
- Financial reporting
- Information systems
- Travel
- Cash management
- Purchasing & contracting
- Property management
- Personnel & payroll
- Participant related payments

ACTION

Bring this directive to the attention of all appropriate staff and subrecipients.

INQUIRIES

If you require further information regarding this policy, please contact work2future Finance Manager at (408) 794-1146.