North Carolina Pandemic Recovery Office (NCPRO)

Technical Assistance Training

September 04, 2025

05

Internal Controls

Agenda

1. Requirements and Guidelines
2. Control Types
3. Components of Internal Controls
4. Common Observations
5. Knowledge Check
6. Q&A Session


LET'S HAVE A LITTLE PREMEETING TO PREPARE FOR THE MEETING TOMORROW.
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WHOA! DO YOU THINK IT'S SAFE TO JUMP RIGHT INTO THE PREMEETING WITHOUT PLANNING IT?
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OKAY, LET'S GET THIS PRELIMINARY PREMEETING MEETING GOING.
YOU THINK YOU'RE FUNNY, BUT YOU'RE NOT.

Introduction to Internal Controls

1. What are Internal Controls?

Internal controls are **adaptable**, iterative **processes and actions** carried out by people across an organization. They are designed to provide **reasonable assurance** that **objectives and goals will be achieved**. These controls are designed to **increase the likelihood of success** in the following categories:

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

2. Why are they important?

Internal controls are critical for **strengthening accountability** and **protecting the organization**. They help:

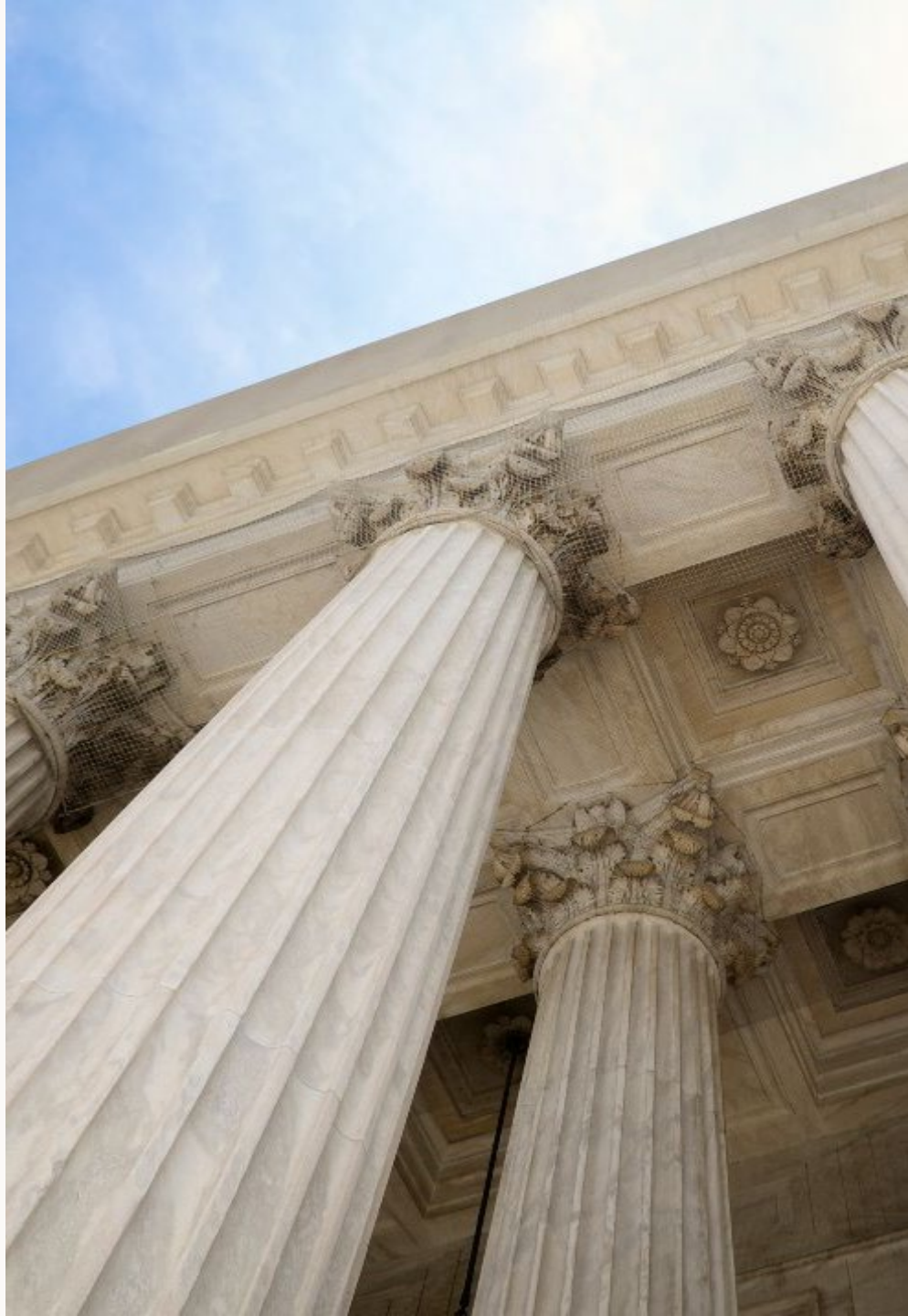
Identify and prevent potential fraud, waste and abuse

Provide a clear audit trail for all transactions

Support compliance with regulatory and legal requirements

Protect assets, including the organization's reputation

Requirements and Guidelines



Applicable Internal Controls Guidance

Key provisions for internal controls based on 2 CFR, 09 NCAC 03M .0401, North Carolina General Statutes, and State Policies include:

Guidance Area	Reference	Description
Definition	**2 CFR § 200.1**	**Internal controls are processes designed and implemented by recipients to provide reasonable assurance of achieving objectives** in three categories: operational effectiveness and efficiency, reliability of internal and external reporting, and compliance with applicable laws and regulations.
Internal Controls for federal Awards	**2 CFR § 200.303**	**Recipients and subrecipients must establish and maintain effective internal controls** to maintain compliance with federal statutes, regulations, and award terms, following recognized standards like those by the Comptroller General or the Committee of Sponsoring Organizations of the Treadway Commission (COSO). They must adhere to the U.S. Constitution and relevant laws, regularly monitor compliance, promptly address any non-compliance, and implement cybersecurity measures to protect sensitive information, including personally identifiable information, in line with applicable privacy laws.
Oversight Responsibilities	**N.C.G.S. § 143C-6-23** **N.C.G.S. § 14-113.20** **09 NCAC 03M .0401**	**State agencies and institutions must establish and maintain internal control systems** in compliance with state laws, regulations, and grant agreements. This **includes safeguarding personally identifiable information, proper budgeting, appropriations, financial reporting, and conducting regular audits**. Grantees must file a conflict-of-interest policy and declare no overdue tax debts before receiving funds with the state agency disbursing grant funds. The Office of State Budget and Management can suspend, prevent use, and recover funds for non-compliance. This includes unexpended funds which must be returned if not used by the deadline or if the grantee/subgrantee dissolves. The State Auditor will oversee the grant funds, requiring grantees to provide all necessary records. These measures maintain transparency, accountability, and proper internal controls.
Documenting Internal Controls	**N.C.G.S. § 143D**	**State agencies are responsible for establishing and maintaining a proper internal control system**. Each principal executive and fiscal officer must annually certify compliance as prescribed by the State Controller. Agencies must document their internal control systems, including business processes and procedures, and maintain records of annual evaluations in line with the State Controller's guidance. Documentation should align with agency needs and circumstances, balancing consistency and cost-effectiveness. Agency management will use tools and templates from the State Controller for documenting annual internal control evaluations.
State Policies	**900.01-11**	**All state agencies are required to utilize the Internal Control – Integrated Framework (COSO Framework),** along with COSO guidance and Control Objectives for Information and Related Technology (COBIT), in their **annual assessment and evaluation of internal controls**, as interpreted and applied according to guidance from the State Controller.
Local Government Commission (LGC) Requirements	**N.C.G.S. § 159-25(c)**	Entities governed by the LGC must implement internal control procedures to prevent embezzlement or mishandling of public funds and set minimum qualifications for finance officers to maintain proper oversight of these funds.

Code of federal Regulations (CFR) and Internal Controls

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

Establish and maintain effective internal control 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.

2 CFR 200.303(a)

Take prompt action when instances of noncompliance are identified, including noncompliance identified in audit findings.

2 CFR 200.303(d)

Evaluate and monitor the non-federal entity's compliance with statutes, regulations, and the terms and conditions of the federal awards.

2 CFR 200.303(c)

Take reasonable measures to safeguard protected personally identifiable information 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.

2 CFR 200.303(e)

In North Carolina, internal controls should follow the **Internal Control Integrated Framework**, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). State agencies must apply this framework in their annual assessment and evaluation of their internal controls to enhance their ability to manage grant funds effectively, efficiently, and reduce the risk of non-compliance.

Enhancing Accountability in Government through Leadership and Education (EAGLE)

Legislative Intent

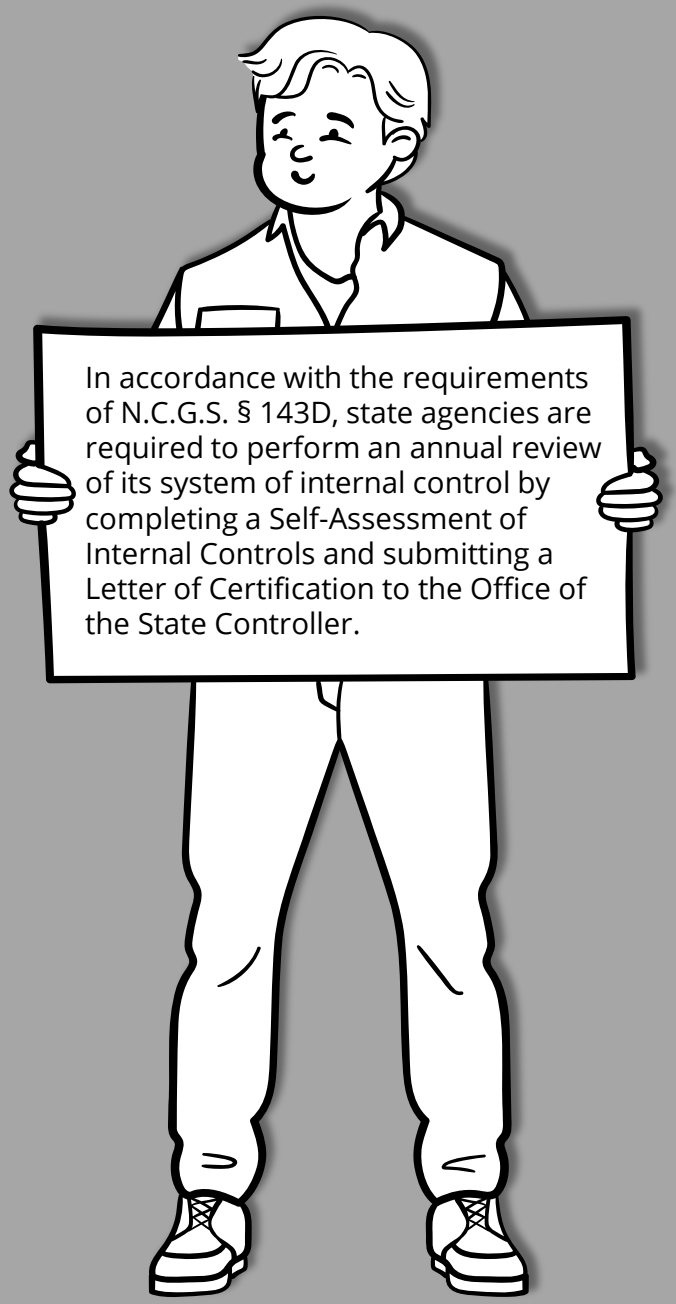
The EAGLE Program aims to enhance internal controls and increase fiscal accountability within state government. Each agency is required to conduct an annual assessment of its internal controls over financial reporting and compliance. Through this process, agencies can identify risks and implement safeguards to reduce the likelihood of financial misstatements, asset misuse, and noncompliance with regulations.

How Does EAGLE Apply to Federal Grant Awards?

The Self-Assessment of Internal Controls allows state agencies to evaluate their administration and financial management of contracts and grants received through federal programs, specifically within the Major Financial Assistance Cycle section. When completing this section, agencies must conduct a separate assessment for each major grant or award with federal program expenditures of $750,000 or more. The Major Financial Assistance Cycle section is organized into ten subsections, including:

- Allowable Costs/ Cost Principles
- Period of Performance
- Procurement/ Suspension and Debarment
- Program Income
- Cash Management
- Reporting
- Activities Allowed or Unallowed
- Matching, Level of Effort, or Earmarking
- Eligibility
- Subrecipient Monitoring

Completed self-assessments should be maintained for review and audit.



Control Types

Internal Control Types

Manage Risks and Exposure with Preventive, Detective, Proactive, and Corrective Controls.

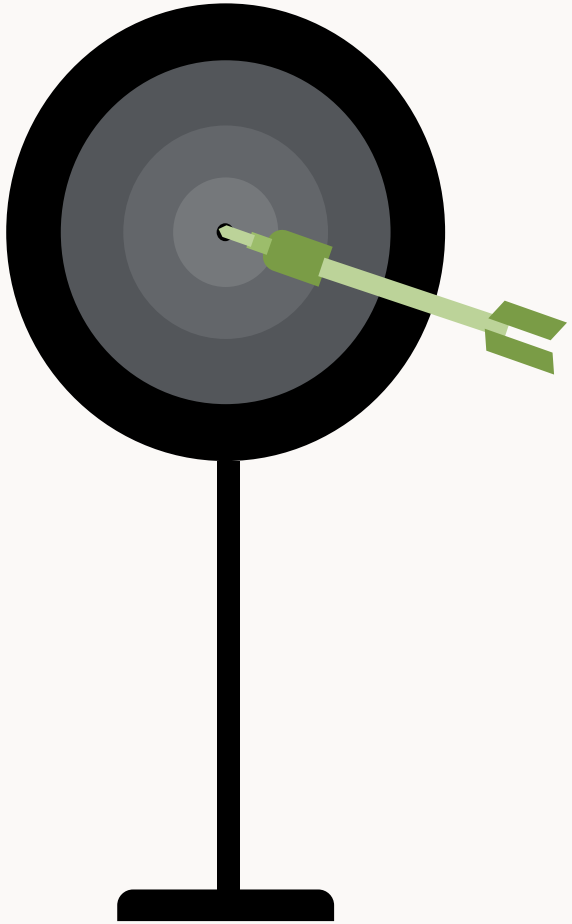
I had no idea there was so much to know about Internal Control standards. Are there different control types or levels that I need to be aware of?

Preventive

Prevent errors or potential fraud through documentation and authorization. For example, separation 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.

Proactive

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



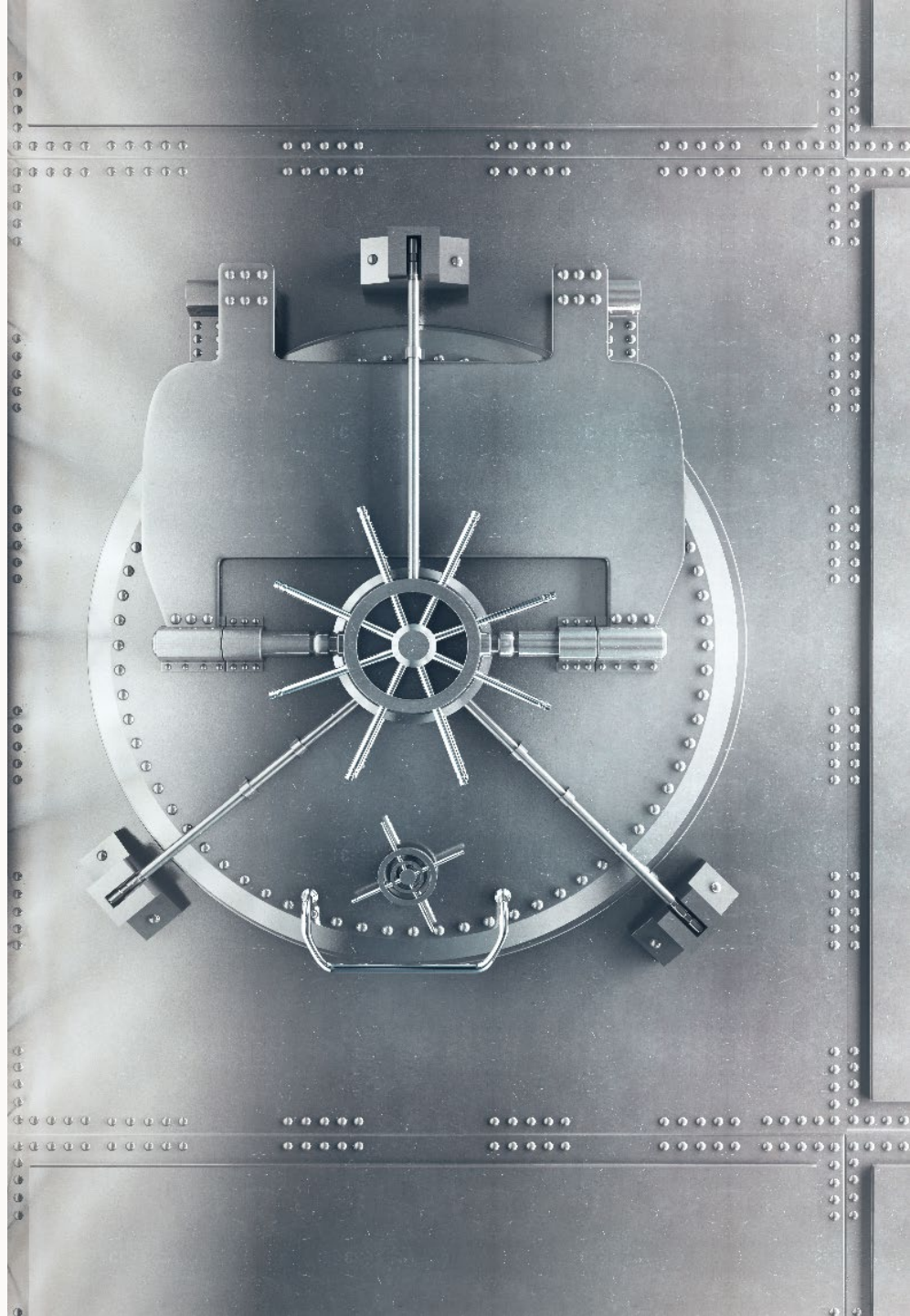
Detective

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.

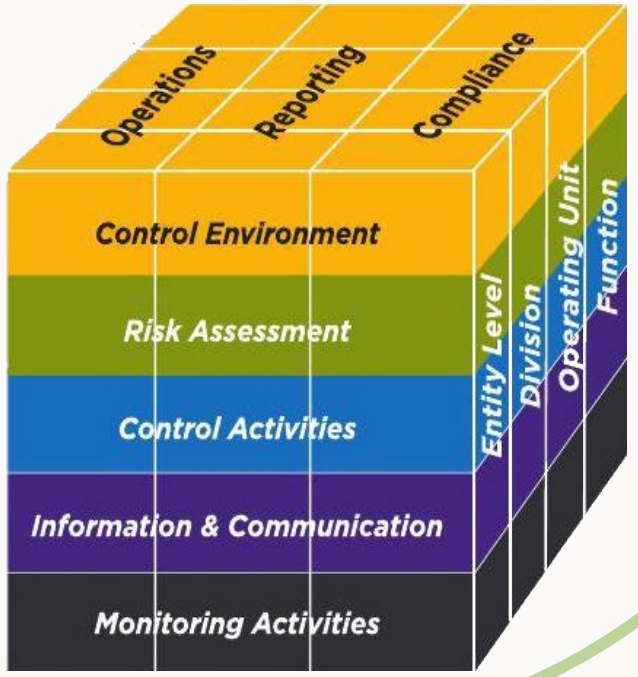
Corrective

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.

Components of Internal Controls



COSO Internal Control Integrated Framework Principles



Control Environment

The foundation for all other components, encompassing integrity, ethical values, management's philosophy, organizational structure, and assignment of authority and responsibility.

Risk Assessment

The process of identifying and analyzing risks to achieving the organization's objectives, forming a basis for how risks should be managed.

Control Activites

The policies and procedures that help carry out management directives (e.g., approvals, authorizations, verifications, reconciliations).

Information & Communication

The systems and processes that support the identification, capture, and exchange of information in a form and timeframe that enables people to carry out their responsibilities.

Monitoring Activities

Ongoing or separate evaluations to ascertain whether each component of internal control is present and functioning.

Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing structure.

KEY ELEMENTS OF CONTROL ENVIRONMENT

Integrity and Ethical Values

Why? To promote that the organization operates in a manner consistent with its mission, values, and ethical standards, while also complying with federal and state regulations and maintaining public trust.

Leading Practice: Conducting regular assessments of the organization's ethical climate and making improvements as needed.

Enablers:
Code of Conduct
Ethics Training Programs

Commitment to Competence

Why? To promote that employees possess the necessary skills, knowledge, and abilities to perform their job responsibilities effectively, and to promote continuous improvement and professional development within the organization.

Leading Practice: Providing ongoing training and professional development opportunities to enhance personnel competency. This includes setting clear performance expectations and policies.

Enablers:
Performance Evaluations
Professional Development Plans

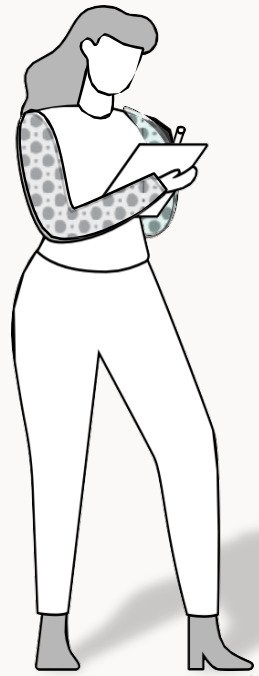
Organizational Structure

Why? To define the framework within which the entity's activities for achieving its objectives are planned, executed, controlled, and monitored.

Leading Practices: Establishing clear policies and procedures that define the responsibilities of each position.

Regularly reviewing and updating the organizational structure to reflect changes in the organization’s operations and environment. This includes clearly assigning authority and responsibility to reflect management’s philosophy and operating style.

Enablers:
Policies and Procedures
Organizational Chart



Risk Assessment

Risk assessment involves identifying and analyzing risks that may prevent the organization from achieving its objectives. It forms the basis for determining how risks should be managed.

KEY ELEMENTS OF RISK ASSESSMENT

Risk Identification

Why? To proactively identify and address potential risks, manage uncertainties, and minimize adverse effects.

Leading Practice: Utilizing a variety of risk identification techniques, such as brainstorming sessions, risk surveys, and SWOT analysis (Strengths, Weaknesses, Opportunities, Threats).

Enablers:
Risk Register
Risk Workshops
SWOT Analysis

Risk Analysis

Why? To evaluate the significance of identified risks and understand their potential impact on the organization's objectives. Additionally, to develop effective risk mitigation strategies and controls.

Leading Practice: Utilizing a structured approach to risk analysis, such as qualitative and quantitative methods.

Assessing the likelihood of each identified risk occurring and its potential impact on the organization.

Enablers:
Risk Assessment Matrix
Scenario Analysis

Risk Response

Why? To develop and implement strategies to address identified risks, validating they are managed effectively, potentially reducing the likelihood and impact of risks on the organization's objectives. It is important to note that not all risks can avoided, mitigated or resolved. Some risks may be accepted if the cost of mitigation outweighs the benefit or return on investment.

Leading Practices: Developing a risk response plan that outlines the actions to be taken for each identified risk.

Monitoring the effectiveness of risk response actions and adjusting as needed.

Enablers:
Risk Response Plan
Monitoring and Reporting

Control Activities

Control activities are the actions established through policies and procedures that help promote management directives are carried out. They verify that necessary actions are taken to address the risks to achieve the entity's objectives.

KEY ELEMENTS OF CONTROL ACTIVITIES

Approvals and Authorizations

Why? To align transactions with policies, providing oversight and accountability. This control helps prevent unauthorized transactions, reducing errors and fraud.

Leading Practice: Establishing clear policies and procedures that define the approval and authorization process for various transactions and activities.

Utilizing electronic approval systems to streamline the process and maintain an audit trail.

Enablers:
Approval Matrices
Electronic Approval Systems

Reconciliations

Why? To prevent and detect errors, fraud, and irregularities. Reconciliations maintain financial integrity, support decision-making, and validates regulatory compliance.

Leading Practice: Using standardized reconciliation templates and procedures to ensure consistency and completeness.

Utilizing automated reconciliation tools to increase efficiency and reduce the risk of errors.

Enablers:
Reconciliation Templates
Automated Reconciliation Tools
SWOT Analysis

Separation of Duties

Why? To reduce errors and potential fraud by dividing responsibilities. This control helps prevent unauthorized actions and helps detect mistakes.

Leading Practice: Implementing a system of checks and balances by assigning different individuals to authorize transactions, record transactions, and maintain asset custody.

Utilizing technology and automated systems to support the separation of duties and reduce the risk of errors.

Enablers:
Role-Based Access Controls
Approval Workflows

Information and Communication

Information and communication systems support the identification, capture, and exchange of information in a form and timeframe that enable people to carry out their responsibilities.

KEY ELEMENTS OF INFORMATION AND COMMUNICATION

Quality of Information

Why? To promote data for decision-making, reporting, and compliance that is accurate, complete, timely, and relevant.

Leading Practice: Establishing data quality standards and metrics to measure and monitor the quality of information.

Implementing robust data classification and encryption protocols to confirm that Personally Identifiable Information (PII) is accurately identified, securely stored, and transmitted.

Enablers:
Data Governance Frameworks
Automated Data Quality Tools

Internal Communication

Why? To promote the flow of relevant information, enabling employees to understand their roles, make informed decisions, and perform efficiently. It fosters transparency, collaboration, and accountability, essential for achieving objectives and maintaining compliance.

Leading Practice: Establishing clear communication channels and protocols to facilitate the flow of information within the organization.

Utilizing technology and communication tools to enhance the efficiency and reach of internal communication.

Enablers:
Collaboration Tools
Internal Newsletters

External Communication

Why? To promote effective information exchange with stakeholders, including regulatory bodies, partners, and the public. It is critical for maintaining transparency, building trust, and ensuring regulatory compliance.

Leading Practice: Regularly reviewing and updating external communication strategies to reflect changes in the organization's operations and external environment.

Enablers:
Public Meetings and Forums
External Communication Policies

Monitoring and Evaluate

Monitoring involves assessing the quality of internal control performance over time. It validates that internal controls are functioning as intended and are modified as needed to reflect changes in conditions.

KEY ELEMENTS FOR MONITORING AND EVALUATE

Ongoing Monitoring

Why? To assess the effectiveness of an organization's internal control systems. This proactive approach identifies and addresses potential issues early, promoting proper functioning of controls and regulatory compliance.

Leading Practice: Utilizing automated tools and technology to continuously monitor key processes and transactions.

Enablers:
Key Performance Indicators (KPIs)
Automated Monitoring Tools
Monitoring Dashboards

Evaluations

Why? To assess the effectiveness and efficiency of an organization's internal controls, processes, and performance. These periodic assessments identify strengths, weaknesses, and areas for improvement, ensuring regulatory compliance and achievement of strategic objectives.

Leading Practice: Establishing a structured evaluation framework that outlines the scope, methodology, and frequency of evaluations.

Utilizing both internal and external evaluators to provide an objective assessment of internal controls and processes.

Enablers:
Evaluation Frameworks
Internal and External Audits

Reporting Deficiencies

Why? To facilitate the prompt communication of weaknesses in internal controls or processes to the responsible parties. This process is critical for maintaining the integrity and effectiveness of the internal control system, enabling timely corrective actions and mitigating potential risks.

Leading Practice: Utilizing automated tools and technology to detect and report deficiencies in real-time.

Establishing clear policies and procedures for identifying, documenting, and reporting deficiencies in internal controls.

Enablers:
Deficiency Reporting Systems
Incident Management Systems

Common Observations

Common Observations and How to Address Them

OBSERVATION	**Policies Not Updated Regularly**	**No Separation of Duties**
REGULATORY GUIDANCE	**2 CFR 200.303(a)** **2 CFR 200.400(c)** **N.C.G.S. § 143C-6-23**	**2 CFR 200.303(a)** **09 NCAC 03M .0401** **NC Dept. of State Treasurer, Memo #2015-15**
RISK	Failure to regularly update policies may result in instances of non-compliance, poor succession planning, errors, and inadequate management of federal funds.	Failure to maintain adequate separation of duties could result in misuse of federal grant funding.
RECOMMENDED ACTION	The entity should strive to establish policies and procedures sufficient to adequately manage federal awards and periodically review and revise such policies.	The entity should implement a robust separation of duties within their financial management workflow to maintain integrity and accountability. This entails assigning distinct personnel to handle requisition, approval, and payment activities, thereby mitigating the risk of potential errors, misappropriation, and fraud.
NEXT STEPS	The entity should update their adopted policies and procedures to demonstrate internal controls and compliance with the federal and state requirements associated with the award. Staff should be notified of updates to the policies and procedures.	Staff should be thoroughly trained to conduct comprehensive reviews of allowable and reasonable costs claimed under federal awards before any funds are disbursed or reimbursed. At a minimum, three separate staff members should be designated to different roles to maintain compliance with regulatory requirements and promote transparency in financial operations.

It’s time for a Knowledge Check!

Internal Controls

Question 1

What is a primary purpose of internal controls?

a) To increase the number of federal awards received

b) To eliminate all risks in an organization

c) To prevent and detect errors, fraud, and noncompliance

d) To replace management oversight

Question 2

Internal Control Types include:

a) Systematic, Strategic, Investigative and Reactive

b) Preventive, Corrective, Proactive and Detective

c) Mitigative, Retrospective, Proactive and Analytical

d) Technical, Administrative, Operational and Financial

Question 3

What is the function of the Control Environment?

a) To support the identification, capture, and exchange of information

b) To form the basis for determining how risks should be managed

c) To validate that internal controls are functioning as intended

d) To set the tone of an organization

Q+A Session