



# U.S. Department of Health & Human Services Office of Inspector General



## INTERNAL CONTROLS – CASE STUDIES

Patrick Cogley – Regional Inspector General for Audit Services, Kansas City  
Debra Keasling – Assistant Regional Inspector General for Audit Services, Denver  
April 27, 2017



U.S. Department of Health & Human Services  
**Office of Inspector General**



# Objectives

- Why Have a Good Internal Control Structure
- Case Studies of Poor Internal Controls
- Best Practices to Help Prevent Errors, Fraud and Abuse
- Internal Control Resources



U.S. Department of Health & Human Services  
**Office of Inspector General**



# OMB Uniform Grant Guidance

- 2 CFR § 200.62 Internal control over compliance requirements for Federal awards: A process implemented by a non-Federal entity designed to provide reasonable assurance that
  - Transactions are properly recorded and accounted for,
  - Transactions are executed in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award, and
  - Funds, property, and other assets are safeguarded against loss from unauthorized use.



U.S. Department of Health & Human Services  
**Office of Inspector General**



# Internal Control Requirements

- Required by 2 CFR § 200.303 “The non-Federal entity must establish and maintain effective internal controls 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.
- Should be in compliance with GAO Standards and COSO standards.





U.S. Department of Health & Human Services  
**Office of Inspector General**



# GAO Internal Control Standards “Green Book”

What is internal control?

Framework that includes;

- 5 components of internal control (includes Control Activities)
- 17 principles of Internal Control



U.S. Department of Health & Human Services  
**Office of Inspector General**



# Internal Control Standards Control Activities

Management should design control activities to achieve objectives and respond to risks.

Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

Management should implement control activities through policies.



U.S. Department of Health & Human Services  
**Office of Inspector General**



# Uniform Guidance Automated Systems

Uniform Guidance encourages efficient use of information technology and shared services:

- Updated provisions account for the efficient use of electronic information, as well as the acquisition and use of the information technology systems and shared services that permeate an effective and modern operating environment.
- Technology should be leveraged to improve control activities and reduce risk when cost-beneficial to do so.



# Payroll Issues

- ▶ Salary payments - paper checks or direct deposit 2-days prior to the end of the pay period
  - Allowed employees salary advance
  - Duplicate Salary payments totaling \$82,175 over a 2-year period to seven employees
  
- ▶ Excessive Retirement Benefits - Employees received a percentage of their gross wages as a retirement benefit
  - Allowed advances on retirement benefits
  - Allowed to request advance for several consecutive pay periods
  - Eight employees – excessive retirement benefits of \$65,696 for 1-year





U.S. Department of Health & Human Services  
**Office of Inspector General**



# Payroll Issues

## ▶ Overtime Payments

- Two exempt employees received overtime payments - \$31,800
- Non-exempt employees received overtime even though employee did not work a 40 hour work week (took annual or sick leave) - \$12,360

## ▶ Excessive Annual Leave Benefits

- Employees received and used 548 hours of excessive annual leave totaling about \$11,300



U.S. Department of Health & Human Services  
**Office of Inspector General**



## Best Practices/Control Activities

- All salary and retirement advances, earned and used leave, etc. should be tracked in payroll system in automated environment instead of tracking outside of payroll system
- Establish a policy that requires employees to complete a “Request for Payroll Advance” form with written justification (should be based on hardship situation) and have form approved by manager and a payroll supervisor
- Install computer edits to stop an employee from receiving more in salary and benefits than they are entitled
- Managers should have access to payroll exception reports (Overtime, Payments in Excess of Specified Thresholds, etc....)
- Policies should be established to (1) authorize compensatory time in lieu of overtime, and (2) require supervisors to approve all overtime requests in advance.



U.S. Department of Health & Human Services  
**Office of Inspector General**



# Potential False Propane Delivery Tickets

Low-Income Home Energy Assistance Program - assist low-income households in meeting their immediate home energy needs

- Client complaints that they did not receive amount of propane ordered
- Invoices for propane did not support amount paid by Tribe



U.S. Department of Health & Human Services  
**Office of Inspector General**



## Best Practices/Control Activities

- Install meter on propane trucks to show digitally the amount of propane poured per client
- Consider a GPS location system to digitally show the location of the pour





U.S. Department of Health & Human Services  
**Office of Inspector General**



# Incorrectly Completing Federal Reports

## Low-Income Home Energy Assistance

### ▶ Federal Reports Unsupported or Completed Incorrectly

- Did not use financial information, such as general ledgers, to support reports
- Did not compare budgeted grant funds to expended grant funds to ensure unobligated grant funds were returned to Federal Government
- Because the tribe did not use general ledgers to complete Federal Financial reports, they need to refund to the Federal Government about \$720,000



U.S. Department of Health & Human Services  
**Office of Inspector General**



## Best Practices/Control Activities

- Track money spent or pre-paid by grant year
- Use general ledgers to complete financial information (i.e. expended grant funds and unobligated grant funds) for Federal reports
- Establish a policy that requires a comparison of budgeted amounts to actual expenditures periodically throughout the year. Increase LIHEAP benefits if funds are available.



U.S. Department of Health & Human Services  
**Office of Inspector General**



## LIHEAP – Eligibility

- Administration for Children and Families (ACF) allows Tribes to define income for program eligibility
- Tribe included income types on LIHEAP application (wages, Social Security income, unemployment, leases etc.)
- Application not clear whether royalty income was considered income
- 10 Clients received \$21,147 over 3 years in unallowable benefits
- 1 client had unreported income of \$800,000 and received unallowable benefits totaling \$4,425



U.S. Department of Health & Human Services  
**Office of Inspector General**



## Best Practices/Control Activities

- Tribe should formally define what it considers income
- Ensure that the applicants fully understand what is considered income by defining income in application instructions
- Contact BIA to determine who received royalty income





U.S. Department of Health & Human Services  
**Office of Inspector General**



# Internal Control Resources

- 2 CFR § 200.303 and 2 CFR § 200.62 (Code of Federal Regulations)
- *Standards for Internal Control in the Federal Government* – by the Comptroller General of the United States dated September 2014  
website: <http://www.gao.gov/assets/670/665712.pdf>
- *Internal Control Management and Evaluation Tool* – by the General Accounting Office dated August 2001  
website: <http://www.gao.gov/assets/80/76615.pdf>
- Committee of Sponsoring Organizations of the Treadway Commission (COSO) - *Internal Control – Integrated Framework*  
website:  
[https://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/CorporateGovernanceRiskManagementInternalControl/Pages/COSO\\_Integrated\\_Framework\\_Project.aspx](https://www.aicpa.org/InterestAreas/BusinessIndustryAndGovernment/Resources/CorporateGovernanceRiskManagementInternalControl/Pages/COSO_Integrated_Framework_Project.aspx)



U.S. Department of Health & Human Services  
**Office of Inspector General**



**QUESTIONS**