INTERNAL CONTROLS: A “BOARD’S EYE VIEW” OF POLICY CONSIDERATIONS

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Kathy Boyd, NCSBA Senior Staff Attorney
What are Internal Controls?

*Internal controls* are operating standards and procedures used to make sure your school system runs well.

Internal controls are designed to address identified areas of risk.
5 Components of an Effective Internal Control System

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring
Why are Internal Controls Important?

Other Peoples’ Money
Consequences of Weak Internal Controls

- **Colorado:** Employees spent $130,000 on jewelry, gift cards, flowers, and party supplies, and $600,000 on pizza and bagels.

- **Toronto:** Board members billed school district for:
  - a $3,765 trip to Israel
  - a $205 aerial tour of the Alberta oil sands
  - a $250 parking ticket
Texas: A superintendent and a central office administrator charged almost $10,000 worth of items to district credit cards without filing expense reports or obtaining purchase orders.

- Many of the products charged were shipped directly to the superintendent’s home.
- Purchases included $700 for iPhone accessories.
Consequences of Weak Internal Controls

- Kentucky: $224,000 in unauthorized benefits and payments to the superintendent.
  - Superintendent also charged $21,464 for gas for a personal vehicle without authorization.
  - Requested reimbursement for another $8,502 for expenses he did not actually incur.
Georgia: Last year a school district was ordered to return $2.1 million in Title I money because district officials failed to show that they allocated the money as required by the federal rules.
Consequences of Weak Internal Controls

- A high school bookkeeper in NC recently was charged with embezzling more than $100,000 in athletic ticket proceeds over a 3-year period.
- Gate receipts from athletic events were often left in an unsecured location, intended to be receipted and deposited the next day, but they never were.
- The bookkeeper is alleged to have taken the money for her own use.
Consequences of Weak Internal Controls

- North Carolina: Superintendent incurred thousands of dollars in questionable charges, including for:
  - Convertible sports car rentals
  - Multiple sets of expensive headphones and earbuds and other technology
  - 12-pack of Heineken beertender tubes
  - Amazon Prime membership

- Auditors noted that the superintendent routinely failed to provide purchase orders or vendor forms for charges appearing on his credit card statement.
Consequences of Weak Internal Controls

- The NC State Auditor’s office determined that more than $94,000 in expenses incurred by a school superintendent and nearly $40,000 incurred by board members and administrative staff for travel, meals, and merchandise over a 33-month period lacked prior written authorization, a documented business purpose, or expenditure receipts.

- The audit also revealed that $15,800 of grant money was misspent on entertainment without federal authorization, including $9,025 for rental of a “bounce house.” The superintendent had ignored an employee’s warning that the expenses were not allowable.
Why are Internal Controls Needed?

- Preserve public confidence in the board’s financial stewardship
- Support achieving objectives
- Support compliance with laws, regulations, and board policies
- Support reliable financial reporting
- Avoid loss of funds or other resources
- Reduce fraud opportunities
Another Reason for Internal Controls

- Federal regulations a/k/a the “Uniform Guidance” require you to have a system of internal controls to effectively manage your grant funds.

- The internal controls must include **written policies and procedures** to address certain aspects of accounting and financial management.
Your internal control system should be able to provide *reasonable* assurance, *not absolute* assurance, that there are sufficient controls in place to achieve effective and efficient operations, reliable reporting, and compliance with laws and regulations.
Who is Responsible for Internal Controls?

- The Board of Education provides important oversight.
- The superintendent and finance officer are responsible for establishing operating processes that form the foundation of the internal control system.
- Central office level administrators and principals execute those district-wide control policies and procedures.
- Central office level administrators and principals design and implement control systems at detailed levels within their specific departments or schools.
- Each employee is responsible for being aware of and using proper internal control procedures associated with their specific job responsibilities.
The Role of Policies and Procedures

- Some policies, such as codes of ethics and conflict of interest policies, help to form the control environment which is the foundation for the internal control system.

- Other policies and procedures act as control activities, which are checks and balances to address identified risks, e.g., by ensuring that everyone is following the rules and no one person is given too much authority or control over fiscal duties or school system assets.
The Role of Policies and Procedures

- Some outline how the school system identifies and communicates the information that employees and board members need to perform their duties.

- Some policies and procedures are aimed at monitoring and evaluating control activities to assess whether the internal control system is working.
The Good News

You already have many policies and procedures that are needed for effective internal controls. For example, you probably have...
“Accounting, financial reporting and management control systems will be designed and maintained to enable the board and school system to have access to accurate, reliable and relevant data, and to permit audits and periodic reports adequate to show that those in charge have handled funds within legal requirements and in accordance with board policy.”
Examples of Control Policies and Procedures

- Policies for adopting a budget
- Policies that establish expected employee behavior
- Policies that establish controls on the use of your facilities and equipment
- Policies that control who can enter into contracts on behalf of the board and within what limits
- Policies that establish purchasing requirements
- Procedures for handling cash receipts and bank reconciliations
- Procedures that incorporate segregation of duties principles for employees who have access to the financial management system
But, You May Need More

- You may not have everything that your auditors (and the federal government) want you to have.
- For example, the new Uniform Guidance for federal grant funding requires...
Requirements for Written Policies and Procedures Under the Uniform Guidance

- **Written** cash management procedures
- **Written** procedures for determining allowable costs
- **Written** travel charges reimbursement policy
- **Written** policies for employee compensation and benefits
- A system of **internal controls** to provide reasonable assurance that personnel expense charges are accurate, allowable, and properly allocated
Requirements for Written Policies and Procedures Under the Uniform Guidance

- **Written** procedures for purchasing that include, among other things:
  - standards of conduct covering conflicts of interest for employees engaged in the selection, award, and administration of contracts
  - procedures that ensure open competition
  - Procedures for methods for evaluation and selection of vendors and contractors
New and Revised NCSBA Policies to Help Strengthen Boards’ Internal Controls
Board’s directive to the superintendent and finance officer to establish an **internal control system sufficient to provide reasonable assurance** that the school system is managing federal awards in compliance with all legal requirements.

- Provides a **framework** for the systems and controls needed to address key compliance areas.

- **Not sufficient**, alone, to meet the Uniform Guidance requirements
Draft Update to NCSBA Policy 1760/7280: Prohibition Against Retaliation

- Encourages employees to report possible financial improprieties, ethical violations, and other illegal practices

- Adds process for direct reports to the board for alleged violation by the superintendent or a board member
Travel and Other Expenses

- Policy 7650, Employee Travel and Other Expense Reimbursement
- Update to policy 2130, Board Member Compensation and Expenses
Travel and Expense Reimbursement

- Standard = prudent person spending personal funds
- Approval requirements for travel
- Reimbursement rates
- Travel advances
- Mileage reimbursement for employees who use personal vehicle for job
- Reimbursement of other business expenses
- Monitoring requirements
Documentation Required for Reimbursement

- Request must be in writing, itemized, and supported with original receipts
- Include copy of approved travel form
- Document the school system business purpose
  - (if paid with federal funds, include why claimant’s travel is necessary to the federal program)
- Include a copy of the agenda, if applicable
- Signed by employee
- Approved by designated authority
Policies and procedures help no one just sitting on a shelf...

To be effective internal controls, they must be followed and enforced!
NOTE: Footnotes are for reference only. They should be eliminated from an individual board’s policy.

PROHIBITION AGAINST RETALIATION  

Policy Code: 1760/7280

1 Board members and employees are expected to be honest and ethical in the performance of their duties and to comply with applicable federal, state, and local laws, policies, and regulations. The board encourages employees to report possible financial improprieties, ethical violations, and other illegal practices and intends that employees who report such matters in good faith will not be subject to retaliation or other adverse employment consequences.

If an employee reasonably believes that (1) there has been a violation of federal, state, or local law, policy, or regulation, public policy, or an individual’s ethical duties and (2) the violation is due to a practice, policy, act, or omission of the board of education, an individual board member, a school system employee, or an entity/person with whom the school system has a business relationship, the employee should report that matter in accordance with policy 1750/7220, Grievance Procedure for Employees, or policy 1720/4015/7225, Discrimination, Harassment, and Bullying Complaint Procedure. Any complaint alleging a violation by the superintendent or the board should be filed with the board chair for investigation. The board chair will report the complaint to the board, and the board will authorize a prompt and thorough investigation or other action as necessary.

The board prohibits and will not tolerate any form of reprisal, retaliation, or discrimination against any employee who (1) in good faith, has made or intends to make a report of wrongdoing described in this policy; or (2) has refused to carry out a directive which may constitute a violation of federal, state, or local law, policy, or regulation, or poses a substantial or specific danger to public health and safety.

To be protected by this policy, employees who report violations or suspected violations must be acting in good faith based on a reasonable belief that the reported information represents an unlawful activity, policy, or practice. The protection extends to those whose allegations are made in good faith but prove to be mistaken. The board reserves the right to discipline employees who know or have reason to believe that the report is inaccurate. The provisions of this policy apply only to those situations in which

1 This policy addresses legal requirements.
2 Other complaint procedures may be used.
3 This statement is optional. G.S. 126-85 protects reports of a broad range of wrongdoing unless the employee “knows or has reason to believe that the report is inaccurate.” The whistleblower provision of Sarbanes-Oxley, 18 U.S.C. 1513(e) protects “good faith” reports of wrongdoing made to law enforcement concerning violations of federal law.
4 The whistleblower protections in the Sarbanes-Oxley Act, 18 U.S.C. 1513(e), protect good faith reports of wrongdoing made to law enforcement concerning violations of federal law. The protection exists whether or not an employee first makes an internal report of the alleged violation. Similarly, G.S. 126-85 encourages employees to report wrongdoing to a supervisor, department head, “or other appropriate authority,” which presumably could include reports to law enforcement or to other external agencies. In addition, employees who comment publicly on matters of public concern may be protected from retaliation by the First Amendment. Therefore, we recommend consultation with the board attorney before imposing consequences on an employee who does not first make an internal report of an alleged violation. Alternately, the board may delete the sentence from its policy.
an employee brings the alleged unlawful activity, policy, or practice to the attention of school officials or the board and provides school officials or the board with a reasonable opportunity to investigate and correct the alleged unlawful activity. If necessary, school officials or the board may specify reasonable steps to protect the complaining employee from retaliation.

Each employee will receive a copy of this policy and will sign a statement verifying his or her receipt and understanding of this policy.

Legal References: Sarbanes-Oxley Act, 18 U.S.C. 1513(e); G.S. 115C-335.5; 126-5(c5), -84, -85, -86, -87, -88

Cross References: Discrimination, Harassment, and Bullying Complaint Procedure (policy 1720/4015/7225), Grievance Procedure for Employees (policy 1750/7220), Code of Ethics for School Board Members (policy 2120), Board Member Conflict of Interest (policy 2121), Ethics and the Purchasing Function (policy 6401), Staff Responsibilities (policy 7300), Employee Conflict of Interest (policy 7730)

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NOTE: Footnotes are for reference only. They should be eliminated from an individual board’s policy.

BOARD MEMBER
COMPENSATION AND EXPENSES

A. Compensations

Board members will be compensated for the performance of official school system business. The amount of compensation will be established according to applicable laws.1

B. Expenses for Conferences, Conventions, and Other Board Development Activities2

Subject to budgetary limitations, the board will defray reasonable out-of-pocket expenses incurred by board members for professional and board development. In accordance with policy 2123, Board Member Opportunities for Development, funds for board member participation in development activities will be budgeted annually.3 The board chair will monitor expenditures to ensure that expenditures do not exceed the amount of funds allocated in the budget.

1. Authorization to Attend Professional and Board Development

All professional and board development expenses to be paid with school system funds must support school system objectives and be reasonable in cost.

Board members who wish to use school system funds to attend a development opportunity within the state must have the prior written approval of the board chair.4 In order for a board member to use school system funds to attend a development opportunity located out-of-state, the board member must receive the written approval of the board in advance at an official board meeting.5

Board members who attend a conference, convention, or other professional development activity will provide a report of the event to other board members.

2. Reimbursable Expenses

1 County commissioners may fix compensation and expense allowances following the procedures of G.S. 153A-92.
2 This section provides internal controls for travel expenses based on best practices. The processes identified here may be modified to be consistent with local board practices including, for example, the use of school system-issued credit cards. The board’s internal controls should be sufficient to ensure that expenses incurred by board members are authorized, documented, reasonable in cost, and support school system objectives.
3 This sentence should be modified if the board has adopted a different process for providing funds for board member development. For example, some boards allocate a set amount of budgeted funds for use by each individual board member during the calendar or fiscal year, with a prorated amount for board members whose terms expire or begin during the year.
4 For a higher level of internal control, the board could require approval from both the chair and vice-chair, or approval by a majority of the full board.
5 Approval by the full board is recommended because out-of-state trips are more likely to incur significant expenses.
The board intends that its members exercise good judgment in incurring travel expenses when pursuing professional and board development opportunities. Members are expected to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. School system funds are not to be used to pay excess costs or additional expenses that are for the convenience or personal preference of a board member or to pay for expenses incurred by family members or other guests of a board member.6

School system funds may be used to pay the following expenses incurred by a board member for attendance at an approved conference, convention, or other professional development activity.

a. Conference Registration Fees

The board will pay registration fees for approved conferences and other events. Ordinarily, registration is arranged through the superintendent’s office and prepaid. If not prepaid, registration fees will be reimbursed in accordance with the requirements of subsection D.1.

b. Lodging Expense

Hotel reservations will be scheduled through the superintendent’s office. Hotel expenses not prepaid will be reimbursed in accordance with the requirement of subsection D.1. The allowance for lodging will be limited to reasonable actual and necessary expenses. A board member sharing a room with a family member or guest will be limited to the single occupancy rate. Tips for room service, valet, and other hotel services are not reimbursable. Personal services available at the hotel, such as spa services, laundry, child care, and other personal services, are not reimbursable.

c. Meals

The total daily allowance for meals while traveling overnight on official school system business will be limited to the current state allowances.7 No reimbursement will be provided for meals for family members or other guests of the board member. Alcoholic beverages are not reimbursable.

In extenuating circumstances, the board chair may authorize reasonable meal costs in excess of the state-approved rates. The vice-chair may

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6 This paragraph expresses the board’s commitment to act as good stewards of the public’s money.

7 The state allowances can be found in Section 5 of the North Carolina Budget Manual, available at https://www.osbm.nc.gov/library. There are separate meal allowances for in-state and out-of-state travel.
authorize excess meal costs incurred by the board chair.

d. Travel by Private Vehicle

Mileage for approved travel will be reimbursed at the current state rate, using the board member’s home as the origination point. Parking fees and tolls are also reimbursable.

e. Air Travel

If air travel is necessary, airline reservations will be scheduled through the superintendent’s office and paid by the school system in advance. Reservations will be for coach fare only. Airline reservations for traveling companions may be booked at the same time if the board member provides a personal credit card or makes other advance arrangements with the finance officer for personal payment. Taxi or other reasonable and necessary transportation fees for travel to and from airports are reimbursable. Rental car fees will be reimbursed when it is more reasonable to rent a car than to use a taxi or other transportation option.

3. Personal Expenses

All other travel and related expenses not covered in these guidelines, including, but not limited to, expenses for laundry, entertainment, between meal snacks, pet boarding, and toiletries or other personal items, are considered personal expenses and are not reimbursable.

4. Cancelled Trips and Missed Events

If a board member cancels a trip or otherwise fails to attend an event for which the school system has prepaid or incurred other expense, the board member is responsible for reimbursing the school system for all funds advanced or expended on the member’s behalf, including any cancellation fees.

A board member will not be required to reimburse the school system for expenses paid on the member’s behalf if the member is not able to travel because of a medical emergency or death in the immediate family or an emergency work situation; however, the board member must reimburse the school system any funds advanced for the travel.

C. OTHER BUSINESS EXPENSES

8 The current state rate for mileage reimbursement can be found in Section 5 of the North Carolina Budget Manual, available at https://www.osbm.nc.gov/library.

9 This section provides internal controls for other board member expenses based on best practices. The processes identified here may be modified to be consistent with local board practices including, for example, the use of school
1. **Purchase of Merchandise or Products**

   Board members should not ordinarily find it necessary to purchase merchandise or other products to carry out official school business. In circumstances when it is reasonable for a board member to make such a purchase, the member should notify the board chair and superintendent in advance of any purchase in an amount greater than $50. Requests for reimbursement for the expenditure of personal funds for merchandise or other products must follow the procedures established in subsection D.1 below, and any additional procedures requested by the finance officer.

2. **Other Expenses Incurred in the Conduct of Official Board Business**

   The board chair may approve reimbursement of other reasonable and necessary business expenses incurred by board members. The vice-chair may approve reimbursement of other reasonable and necessary business expenses incurred by the board chair. Expenses associated with overnight travel require prior written approval from the board chair (or vice-chair for overnight travel by the board chair). All reimbursements will be made in accordance with subsection D.1, below.

### D. PROCESS FOR REIMBURSEMENT AND TRAVEL ADVANCES

1. **Reimbursements**

   Board members will be reimbursed for out-of-pocket expenses incurred in the performance of their duties as provided in Sections B and C. All reimbursements are contingent upon funds available.

   Board members should submit requests for reimbursement, along with supporting documentation of the expenses, within 30 days of incurring the expenses.

   All claims for reimbursement of expenses must (1) be in writing, itemized, and supported with original detailed receipts, except that no receipt is required for meals that will be reimbursed at the state-approved flat rates; (2) document the official school business purpose for which the expenses were incurred; (3) be signed by the board member; and (4) be approved by the board chair (or vice-chair for requests submitted by the board chair). Claims for reimbursement of system-issued credit cards. The board’s internal controls should be sufficient to ensure that expenses incurred by board members are authorized, documented, reasonable in cost, and support school system objectives.

   - This section provides internal controls for reimbursement practices and may be modified to reflect local practices. At a minimum, however, sufficient documentation of expenses should be required to demonstrate that the expenses were (1) authorized, (2) actually incurred by the board member claiming reimbursement, (3) necessary for a bona fide school system purpose, and (4) reasonable in cost.

   - The time frame may be modified.
expenses that required prior approval must also include a copy of the prior written approval. Claims related to attendance at a conference, convention, or other board development activity must also include a copy of the event agenda. Claims involving an event hosted by a board member must also include a list of the individuals in attendance.

2. **Travel Advances**

Board members may request an advance of funds for estimated out-of-pocket travel and related reimbursable expenses. The board member is responsible for returning any funds advanced in excess of the board member’s documented reimbursable expenses.

Legal References: G.S. 115C-38; 138-6; 153A-92

Cross References: Board Member Opportunities for Development (policy 2123)


Issued:

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12 This paragraph should be omitted if the board does not advance travel expenses. Alternately, this section could address local practices related to credit cards issued to board members, if applicable.
EMPLOYEE TRAVEL AND OTHER EXPENSE REIMBURSEMENT

Policy Code: 7650

1The board may reimburse employees for reasonable and necessary travel and other expenses incurred while performing school system business. All employee requests for reimbursement for travel or other expenses are subject to this policy. The superintendent and finance officer are responsible for developing and disseminating forms for requesting travel and other expense reimbursement, for maintaining and disseminating current information concerning applicable reimbursement rates, and for establishing any procedures or regulations necessary to implement this policy.

A. EMPLOYEE RESPONSIBILITY FOR CONTROLLING TRAVEL EXPENSES

The board intends that its employees who are required to travel do so in reasonable comfort. All employees traveling on school system business are expected to exercise good judgment in distinguishing between reasonable comfort and extravagance and to exercise the same care in incurring expenses that a prudent person would exercise if traveling on personal business and expending personal funds. Reimbursement will not be approved for excess costs or additional expenses that are for the convenience or personal preference of the employee. Unless specifically approved by the board in advance, unauthorized expenses include, but are not limited to, alcohol or tobacco, entertainment activities (e.g., sporting events, pay TV, movies), personal services (e.g., spa, laundry), personal items (e.g., toiletries, magazines, souvenirs), supplemental insurance on rental cars, fines for traffic violations, and meals, lodging, or other expenses for spouses, children, guests, or pets. Employees are responsible for being aware of applicable reimbursement rates and any other limitations established by the superintendent or finance officer prior to travel.

B. APPROVAL FOR TRAVEL

Out-of-county travel by any employee except the superintendent must receive prior written approval of the employee’s supervisor on the designated travel authorization form. Out-of-state travel also requires the superintendent’s prior written approval. The superintendent’s travel, whether out-of-county or out-of-state, must receive prior

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1 A policy on travel and other expense reimbursement is recommended for compliance with federal requirements for the expenditure of grant funds. See 2 C.F.R. 200.474. The content may be modified.
2 This policy applies to all employees, including the superintendent. Board member travel expenses are addressed in policy 2130, Board Member Compensation and Expenses.
3 Regulations are recommended to address best practices for travel and other expenses. For example, regulations could address in detail (1) allowable expenses, (2) travel arrangements, and (3) procedures and deadlines for claiming reimbursement.
4 This phrase is intended to allow the board to comply with any contract with the superintendent or other administrator in which the board agrees to reimburse for any of these expenses.
5 This section should be modified as necessary to reflect the board’s requirements.
approval from the board chair on the designated travel authorization form. The request for approval must include an estimate of the anticipated cost of the travel and related expenses. Travel requests that exceed the amount budgeted for such purposes will be denied.

C. Reimbursement for Travel Expenses

Employees may request reimbursement of actual expenses for mileage, meals, lodging, and other business-related expenses, such as conference registration fees and parking fees, incurred on approved trips for official school system business. Travel that does not directly benefit the school system is not reimbursable.

The reimbursement rates for mileage, meals, lodging, and other travel expenses will be in accordance with those established for state employees. Reimbursements will not exceed the annual budget allocated to the respective employee or department. All reimbursements are contingent upon funds available.

All claims for reimbursement of travel expenses must (1) include a copy of the approved travel request form; (2) be in writing, itemized, and supported with original receipts, except that no receipt is required for meals that will be reimbursed at the state-approved flat rates; (3) document the official school business purpose for which the expenses were incurred; (4) include a copy of the agenda if the travel was to a conference, meeting, or similar event; (5) be signed by the employee; and (6) be approved by the employee’s supervisor, or in the case of the superintendent, by the board chair. If reimbursement is to be paid from federal funds, documentation of the business purpose must include the reason the claimant’s travel is necessary to the federal program. All claims must be submitted in accordance with any additional requirements, procedures, or deadlines established by the superintendent or finance officer.

In extenuating circumstances, such as when lodging is not reasonably available at the state-approved rate, authorization for reasonable costs in excess of the state-approved rates may be approved by the employee’s supervisor and the superintendent or designee, or in the case of the superintendent, by the board chair.

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6 This sentence should be modified to reflect the board’s requirements for prior approval of the superintendent’s travel, if different from other employees. In lieu of prior approval for all travel outside the county, the board could establish a geographic limit. For example, the board could require prior approval only when the superintendent travels more than 50 miles from the central office.

7 Alternately, such requests could be denied unless approval is secured from the finance officer.

8 An alternate standard for reimbursement could be established, such as a custom schedule established through administrative regulation.

9 The criteria in this paragraph are recommended to maintain good internal accounting controls and to conform to IRS regulations.

10 This sentence should be modified if the school system has established an alternate standard for reimbursement.

11 Regulations applicable to federal awards specify that travel costs charged directly to a federal award must have documentation justifying that participation of the individual is necessary to the federal award and that the costs are reasonable and consistent with the school system’s established travel policy. See 2 C.F.R. 200.474.
D. **ADVANCEMENT OF TRAVEL EXPENSES**  

The board discourages providing an advance travel allowance to employees. In extraordinary circumstances, an advancement of funds not to exceed the estimated travel expense with a limit of $500 for an approved trip may be made to an employee provided the employee makes a written request no later than one month prior to the departure date. The request must be approved by the employee’s supervisor and the superintendent or designee except that advances for the superintendent must be approved by the board chair. The advance will be forwarded to the employee no sooner than five working days before the scheduled departure date.

Funds advanced may be used only for expenses that are otherwise reimbursable and documented in accordance with this policy. Upon return from the trip, the employee must provide a reconciliation of the actual expenses incurred as compared to the amount advanced in accordance with procedures and any applicable deadline established by the finance officer. The employee shall be responsible for returning any funds advanced in excess of the employee’s documented reimbursable trip expenses.

An employee who fails to file a complete reconciliation by the applicable deadline or who does not return travel funds owed to the school system may be subject to disciplinary action and/or to recovery actions for the amount owed.

E. **CANCELLED TRIPS**

If an employee cancels a trip for which (1) a travel advance has been extended, (2) trip-related expenses have been prepaid by the school system, or (3) a penalty or charge resulting from the cancellation is incurred, the employee is responsible for reimbursing the school system for all funds advanced or expended by the school system as a result of the cancellation unless otherwise approved by the superintendent or designee. Failure to reimburse the school system as required may result in disciplinary action and/or actions to recover the amounts owed.

F. **MILEAGE REIMBURSEMENT FOR USE OF PERSONAL VEHICLE**

Employees who use their personal vehicle to travel in the performance of their official job duties will be reimbursed at the rate for state employees for mileage incurred when traveling for job-related activities, subject to budgetary limitations. The superintendent may establish criteria for determining which employees are eligible for this mileage.

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12 This paragraph should be omitted if the board does not advance travel expenses. Alternately, this section could address local practices related to pre-payment of travel expenses, if applicable.

13 This sentence is optional.

14 The monetary limit and time period in this sentence should be modified as necessary to reflect local practices.

15 This limitation is recommended to help ensure that the advance is used for its intended purposes only.

16 Alternately, the board could specify that mileage will be reimbursed per the IRS limits.
reimbursement. Reimbursement will not be authorized for travel between the employees’ residence and the first or last scheduled stop of the day.

Mileage reimbursement requests for all employees except the superintendent must be approved by the employee’s immediate supervisor and submitted as directed by the finance officer or superintendent. The superintendent’s mileage reimbursement requests must be approved by the board chair and submitted to the finance officer at least quarterly.\(^{17}\)

G. **REIMBURSEMENT OF OTHER BUSINESS EXPENSES**

Employees purchasing merchandise or other items on behalf of the school system with personal funds must have prior approval of their supervisor and may be reimbursed for reasonable costs, up to a limit of $50.\(^{18}\) Expenses of greater than $50 must be approved in advance by the superintendent or designee, or in the case of the superintendent, by the board chair. Requests for reimbursement must follow the procedures established by the finance officer. All requests for reimbursement must be accompanied by a statement of the business purpose for the expense and a detailed receipt. Employees who are authorized to use school system procurement cards will not be reimbursed for purchases made using personal funds without prior approval of the superintendent or designee.\(^{19}\)

H. **RESPONSIBILITY FOR MONITORING COMPLIANCE WITH THIS POLICY**

The superintendent is responsible for monitoring employee compliance with this policy. The superintendent’s expenditures for travel and other expenses will be reviewed at least quarterly by the board chair.\(^{20}\)


Cross References: Board Member Compensation and Expenses (policy 2130)


Issued: March 31, 2016

\(^{17}\) A different time period may be specified.

\(^{18}\) A different amount may be specified.

\(^{19}\) Omit this sentence if the board does not make credit cards or other procurement cards available to any employee, including the superintendent.

\(^{20}\) Oversight of the superintendent’s expenditures is an important responsibility of the board. Reviews could be conducted by the full board instead of only by the board chair. A different interval for review could be specified.
The board intends to administer federal grant awards efficiently, effectively, and in compliance with all requirements imposed by law, the awarding agency, and the North Carolina Department of Public Instruction or other applicable pass-through entity.

A. FINANCIAL MANAGEMENT SYSTEMS AND INTERNAL CONTROLS

1The finance officer shall be responsible to the superintendent to develop, monitor, and enforce effective financial management systems and other internal controls over federal awards that provide reasonable assurance that the school system is managing the awards in compliance with all requirements for federal grants and awards. Systems and controls must meet all requirements of federal law and regulation, including the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”) issued by the U.S. Office of Budget and Management and any applicable state requirements, and shall be based on best practices.3

4The financial management and internal controls must provide for (1) identification of all federal funds received and expended and their program source; (2) accurate, current, and complete disclosure of financial data in accordance with federal requirements; (3) records

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1 This policy addresses the requirements of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), issued by the U.S. Office of Budget and Management in 2013 and adopted by the U.S. Department of Education as an administrative rule. See 2 C.F.R. 3474.1. The Uniform Guidance establishes standards for financial and program management for recipients of federal grant awards, replacing requirements found in eight previous OMB circulars. The administrative rules place new emphasis on the need for strong financial management systems and other internal controls aimed at controlling fraud, waste, and abuse. Many of the internal controls that were formerly recommended for federal grant administration are now required to be in writing. Specifically, the board must have written policies and procedures to address the following: (1) payments (2 C.F.R. 200.302(b)(6) and .305); (2) procurement (2 C.F.R. 200.318); competition (2 C.F.R. 200.319); method for evaluation and selection (2 C.F.R. 200.320); allowable costs (2 C.F.R. 200.302(b)(7); compensation (2 C.F.R. 200.430); fringe benefits (2 C.F.R. 200.431); employee relocation costs (2 C.F.R. 200.464); and travel costs (2 C.F.R. 200.474). This policy is intended to establish the board’s expectations and standards for financial management and other internal controls necessary to meet its obligations when receiving federal grant awards. This policy is not sufficient, alone, to serve as the written controls required by the Uniform Guidance. It must be supplemented with written procedures as described in the policy.

2 The Uniform Guidance generally consolidates and streamlines grants administration regulatory language from eight previous OMB circulars into one consolidated set of guidance in the Code of Federal Regulations. The new rules are in effect for new or non-competing continuation grants (both formula and discretionary) awarded by the Department on or after December 26, 2014.

3 Source documents for best practices include the Comptroller General’s “Green Book” and the “Internal Control Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). See 2 C.F.R. 200.303. The Uniform Guidance does not require adherence to these best practice sources. School officials should exercise judgment in determining the most appropriate and cost effective internal control in a given environment or circumstance to provide reasonable assurance of compliance with federal program requirements.

4 These requirements for financial management are found at 2 C.F.R. 200.302.
sufficient to track the receipt and use of funds;\(^5\) (4) effective control and accountability over assets to assure they are used only for authorized purposes; and (5) comparison of expenditures against budget. In addition, written procedures must be established for cash management and for determining the allowability of costs, as required by the Uniform Guidance.\(^6\)

At a minimum, the systems and controls shall address the following areas.\(^7\)

1. **Allowability**

Costs charged by the school system to a federal grant must be allowed under the individual program and be in accordance with the cost principles established in the Uniform Guidance,\(^8\) including how charges made to the grant for personnel are to be determined.\(^9\) Costs will be charged to a federal grant only when the cost is (1) reasonable\(^{10}\) and necessary\(^{11}\) for the program; (2) in compliance with applicable laws, regulations, and grant terms;\(^{12}\) (3) allocable to the grant;\(^{13}\) (4) adequately documented;\(^{14}\) and (5) consistent with school system policies and administrative regulations that apply to both federally-funded and non-federally

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\(^5\) Records must adequately identify the source and application of funds provided for federally-funded activities and must contain information pertaining to awards, authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, income, and interest. See 2 C.F.R. 200.302(b)(3). For federal purposes, records generally must be retained for three years (but the state record retention schedule may require a longer retention period). See 2 C.F.R. 200.333 for the complete federal records retention requirements.

\(^6\) The requirement to have these written procedures is found in 2 C.F.R. 200.302.

\(^7\) This policy does not address every aspect of federal requirements. Refer to the Uniform Guidance at 2 C.F.R. Part 200 for complete information on the requirements.

\(^8\) The cost principles are found in the Uniform Guidance, Subpart E, 2 C.F.R. 200.403 et seq.

\(^9\) Allowable charges for personnel compensation and benefits are addressed at 2 C.F.R. 200.430-431.

\(^10\) Costs charged to the federal grant must be reasonable in light of the goals of the federal program, the cost of the item, and the needs of the school or school system. See 2 C.F.R. 200.404. If the reasonableness of a charge is uncertain, school officials may seek prior written approval from the awarding agency to avoid having the charge disallowed. See 2 C.F.R. 200.407.

\(^11\) “Necessary” is not defined in the regulations, but is generally considered to mean that the costs are essential to the performance or administration of the grant.

\(^12\) Generally, federal funds cannot be used for advertising, including school promotional materials (2 C.F.R. 200.421); alcohol (2 C.F.R. 200.423); bad debts and related collection costs (2 C.F.R. 200.426); contributions and donations (2 C.F.R. 200.434); entertainment (2 C.F.R. 200.438); fundraising (2 C.F.R. 200.442); goods or service for personal use by employees (2 C.F.R. 200.445), or lobbying (2 C.F.R. 200.450). This is not an exhaustive list of unallowable costs. Refer to the Uniform Guidance cost provisions at 2 C.F.R. 200.420-475 for additional information.

\(^13\) “Allocable” means the cost benefits the grant in proportion to the amount charged. The requirements for meeting this standard are set out at 2 C.F.R. 200.405(a). If the allowability of a charge is uncertain, school officials may seek prior written approval from the awarding agency in order to avoid having the charge disallowed. See 2 C.F.R. 200.407.

\(^14\) With a few exceptions, records must be retained for at least 3 years. The records retention requirements are found at 2 C.F.R. 200.333. State records retention requirements may require a longer period of retention. When practicable, records in electronic format are preferred. See 2 C.F.R. 200.335.
2. Cash Management and Fund Control

Payment methods must be established in writing that minimize the time elapsed between the draw of federal funds and the disbursement of those funds. Standards for funds control and accountability must be met as required by the Uniform Guidance for advance payments.

3. Procurement

All purchases for property and services made using federal funds must be conducted in accordance with all applicable federal, state and local laws and regulations, the Uniform Guidance, and the school system’s written policies and procedures.

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15 For example, if the board has established a per diem amount for employees whose salary and travel are paid from state or local funds, there cannot be a separate, higher amount for employees paid from federal funds. The rules must be applied uniformly to both. See 2 C.F.R. 200.403(c). See also, e.g., 2 C.F.R. 200.430 and 200.474.

16 Documentation requirements for personnel expenses are found at 2 C.F.R. 200.430(i)(1). Documentation records must be supported by a system of internal controls that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. Internal controls must include a process for making any adjustments necessary so that the final amount charged to the federal award is accurate, allowable, and properly allocated. The documentation of personnel expenses must be incorporated into the official records of the school system. In lieu of the documentation requirements established in 2 C.F.R. 200.430(i)(1), the school system may request approval from the awarding agency to substitute other processes or systems for allocating personnel expenses to the federal award such as random moment sampling, “rolling” time studies, case counts, or other quantifiable measures of work performed. See 2 C.F.R. 200.430(i)(5).

17 See 2 C.F.R. 200.407 for a list of the regulatory sections in the Uniform Guidance that contain prior approval requirements.

18 2 C.F.R. 200.302(b)(6) requires the school system to have written procedures to implement the cash management requirements of 2 C.F.R. 305(b).

19 Advances must be maintained in insured accounts. With some limited exceptions, the accounts must be interest bearing if the aggregate federal award exceeds $120,000. Interest earned above $500 annually must be remitted to the federal government. Amounts up to $500 per year may be retained for administrative expense. See 2 C.F.R. 200.305(b).

20 The Uniform Guidance procurement requirements and standards are found at 2 C.F.R. 200.317-326. They describe five methods of procurement: micro-purchase (current threshold of $3,000) small purchase (price is below the simplified acquisition threshold, currently $150,000), sealed bids purchase, competitive proposal purchase, and noncompetitive purchases (allowed only in limited circumstances). All five procurement types must comply with the procurement standards in 2 C.F.R. 200.318, which can be summarized generally as: (1) purchases comply with the school system’s documented procedures in place; (2) purchases are necessary; (3) purchases provide for open competition to the extent required by each purchasing method; (4) the school system must have and follow a conflict of interest policy as prescribed by 2 C.F.R. 200.318(c)(1); and (5) the school system must maintain proper documentation for the purchases. The school system must perform a cost or price analysis with every procurement over the small purchase threshold, including contract modifications. See 2 C.F.R. 200.323 for details on contracts cost and price requirements.
The district shall avoid situations that unnecessarily restrict competition, as defined in 2 C.F.R. 200.319.\textsuperscript{22} and shall avoid acquisition of unnecessary or duplicative items.\textsuperscript{23} Noncompetitive procurement will be used only in the circumstances allowed by 2 C.F.R. 200.320. Individuals or organizations that develop or draft specifications, requirements, statements of work, and/or invitations for bids, requests for proposals, or invitations to negotiate, must be excluded from competing for such purchases.\textsuperscript{24}

Contracts are to be awarded only to responsible contractors possessing the ability to perform successfully under the terms and conditions of a proposed procurement. Consideration will be given to such matters as contractor integrity, compliance with public policy, record of past performance, and financial and technical resources.\textsuperscript{25} No contract shall be awarded to a contractor who is suspended or debarred from eligibility for participation in federal assistance programs or activities.\textsuperscript{26}

Purchasing records must be sufficiently maintained to detail the history of all procurements and must include at least the rationale for the method of procurement, selection of contract type, and contractor selection or rejection; the basis for the contract price; and verification that the contractor is not suspended or debarred.\textsuperscript{27}

The requirements for conflicts of interest established below in subsection A.4 are applicable to all procurements.

4. Conflict of Interest\textsuperscript{28}

\textsuperscript{21} Written procedures are required for procurement transactions. The procedures must ensure that all solicitations (1) incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured and (2) identify all requirements that the vendor must fulfill and all other factors to be used in evaluating bids or proposals. Lists of prequalified vendors must be current and include enough qualified sources to ensure maximum open and free competition. See 2 C.F.R. 200.319. The school system must have a written method for conducting technical evaluations of proposals received and for selecting recipients. See 2 C.F.R. 200.320(d)(3).

\textsuperscript{22} Competition would be unnecessarily restricted by (1) unreasonable qualification requirements for receiving school system business; (2) unnecessary experience or excessive bonding requirements; (3) noncompetitive pricing practices between firms or affiliated companies; (4) noncompetitive contracts to consultants that are on retainer contracts; (5) “brand name” specifications in lieu of allowing equivalent products that meet performance or other relevant requirements; and (6) any arbitrary procurement actions. This list is not exhaustive. See 2 C.F.R. 200.319.

\textsuperscript{23} This requirement is found at 2 C.F.R. 200.318(d).

\textsuperscript{24} This exclusion is required by 2 C.F.R. 200.319(a).

\textsuperscript{25} This risk assessment requirement is found at 2 C.F.R. 200.318(h).

\textsuperscript{26} See 2 C.F.R. 200.12, which subjects the school system to the non-procurement debarment and suspension regulations of 2 C.F.R. Part 180.

\textsuperscript{27} Procurement record requirements are found at 2 C.F.R. 200.318(i).

\textsuperscript{28} The school system must maintain written standards of conduct covering conflicts of interest and governing the performance of its employees engaged in the selection, award, and administration of contracts. See 2 C.F.R. 200.318(c)(1).
Each employee, board member, or agent of the school system who is engaged in the selection, award, or administration of a contract supported by a federal grant or award (“covered individual”) and who has a potential conflict of interest shall disclose that conflict in writing to the superintendent. The superintendent shall disclose in writing any potential conflict of interest to the federal awarding agency in accordance with 2 C.F.R. 200.112. \(^{29}\)

For purposes of this paragraph, a conflict of interest would arise when (1) the covered individual, (2) any member of his or her immediate family, (3) his or her partner, or (4) an organization which employs or is about to employ any of those parties has a financial or other interest \(^{30}\) in or receives a tangible personal benefit from a firm considered for a contract. \(^{31}\) A covered individual who is required to disclose a conflict in accordance with this paragraph shall not participate in the selection, award, or administration of a contract supported by a federal grant or award. \(^{32}\)

Covered individuals shall not solicit or accept any gratuities, favors, or items from a contractor or a party to a subcontract for a federal grant or award; however, covered individuals may accept (1) a single unsolicited item with a value of $50 or less or (2) multiple unsolicited items from a single contractor or subcontractor having an aggregate monetary value of $100 or less in a 12-month period. \(^{33}\) Violations of this rule are subject to disciplinary action. \(^{34}\)

5. **Mandatory Disclosures**

The superintendent shall disclose in writing to the federal awarding agency in a timely manner all violations of federal criminal law involving fraud, bribery, or gratuities potentially affecting any federal award. \(^{35}\) The superintendent shall fully

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\(^{29}\) The disclosure requirement of 2 C.F.R. 200.112 also applies to conflicts of interest as established by the applicable awarding agency’s policy.

\(^{30}\) 2 C.F.R. 200.318(c)(1) permits the school system to set standards for situations in which the financial interest is not substantial. The board may add such optional standards to this paragraph.

\(^{31}\) This definition of a conflict of interest is established in 2 C.F.R. 200.318(c)(1). It is significantly broader than the definition under North Carolina law which is applicable to board members and school employees in other contexts. G.S. 14-234 prohibits board members and employees from deriving a direct benefit from a contract that they are involved in making or administering. A direct benefit arises when the board member or employee, or his or her spouse, (1) own more than 10% of a firm that is a party to the contract, (2) derive income or commission directly from the contract, or (3) acquire property under the contract. Financial interest and/or benefits to other members of the board member or employee’s family, to his or her partner, or to their employers are not addressed in state law. See policies 2121, Board Member Conflict of Interest, and 7730, Employee Conflict of Interest.

\(^{32}\) This exclusion is required by 2 C.F.R. 200.318(c)(1).

\(^{33}\) Unsolicited gifts of nominal value are permitted by 2 C.F.R. 200.318(c)(1). The school system must set its own standard for “nominal value” and may use a different amount than specified here.

\(^{34}\) The board’s standard of conduct must provide for disciplinary actions to be applied for violations. The board could provide additional detail here.

\(^{35}\) This disclosure is required by 2 C.F.R. 200.113.
address any such violations promptly and shall notify the board accordingly. The board may request the superintendent to develop a plan of correction for board approval in appropriate situations as determined by the board.

6. Equipment and Supplies Purchased with Federal Funds

Equipment and supplies acquired with federal funds will be used, managed, and disposed of in accordance with applicable state and federal requirements.\(^{36}\) Property records and inventory systems shall be sufficiently maintained to account for and track equipment that has been acquired with federal funds.\(^{37}\)

7. Accountability and Certifications

All fiscal transactions must be approved by the finance officer and by the program manager or other person who can attest that the expenditure is allowable and approved under the federal program.\(^{38}\)

The finance officer shall submit all required certifications and is authorized to sign them on behalf of the board.\(^{39}\)

8. Monitoring and Reporting Performance

The superintendent shall establish sufficient oversight of the operations of federally supported activities to assure compliance with applicable federal requirements and to ensure that program objectives established by the awarding agency are being achieved.\(^{40}\) Performance reports, including reports of

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\(^{36}\) Regulations pertaining to equipment purchased with federal funds can be found at 2 C.F.R. 200.313. See also 2 C.F.R. 200.310, pertaining to insurance requirements. Supplies are addressed in 2 C.F.R. 200.314. Equipment is defined as tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. All other tangible property is considered to be supplies, including computing devices that cost less than $5,000. These definitions are found at 2 C.F.R. 200.33 and 2 C.F.R. 200.94.

\(^{37}\) Adequate controls should be in place to account for the location, custody, and security of equipment purchased with federal funds. Specific equipment management requirements are set out at 2 C.F.R. 200.313(d).

\(^{38}\) Approval by the grant program manager is recommended to help ensure costs are allowable under the applicable grant.

\(^{39}\) Certification is required for fiscal reports, payment requests, and indirect cost proposals. An official who is legally authorized to bind the school system must certify to the best of his or her knowledge that the information is true, accurate, and complete. A different school official may be designated to provide the certification. The designee should have a thorough understanding of school system operations and the internal controls in place to ensure costs are allowable under the applicable grant. The language required to be used in the certification is set out at 2 C.F.R. 200.415 and includes the following: “I am aware that any false, fictitious or fraudulent information, or the omission of any material fact, may subject me to criminal, civil, or administrative penalties for fraud, false statements, false claims or otherwise.” The board may want to consult the board attorney regarding the possible legal implications of the certification.

\(^{40}\) See 2 C.F.R. 200.328.
significant developments\textsuperscript{41} that arise between scheduled performance reporting
dates, must be submitted as required by federal or state authorities.\textsuperscript{42}

B. Audits and Corrective Action

1. An annual independent audit will be conducted as provided in policy 8310, Annual Independent Audit.\textsuperscript{43} The finance officer will prepare all financial statements, schedules of expenditures, and other documents required for the audit.\textsuperscript{44}

2. At the completion of the audit, the superintendent or designee shall prepare a corrective action plan to address any audit findings. The plan must identify the responsible party and the anticipated completion date for each corrective action to be taken. The superintendent shall present the plan to the board for approval.

3. Compliance deficiencies discovered internally through administrative supervision must be addressed promptly with the goal of improving processes to encourage future compliance and reduce audit findings.

C. Training

All individuals responsible for the administration of a federal grant or award shall be provided sufficient training to carry out their duties in accordance with all applicable requirements for the federal grant or award.

D. Other Applicable Board Policies

Other board policies provide additional controls over the administration of federal grants. These include, but are not necessarily limited to:\textsuperscript{45}

1. Educational programs policies (policies in the 3000 series)

2. School nutrition services policies (policies in the 6200 series)

3. Purchasing policies (policies in the 6400 series)

\textsuperscript{41} The significant developments that must be reported are listed in 2 C.F.R. 200.328, and include (1) problems, delays, or adverse conditions which will materially impair the ability to meet the award objective; and (2) favorable developments which enable meeting time schedules and objectives sooner or at less cost than planned.

\textsuperscript{42} See 2 C.F.R. 200.327-328 for reporting requirements.

\textsuperscript{43} In addition to the audit requirements of G.S. 115C-447 that are addressed in policy 8310, when aggregate federal grant monies expended are $750,000 or more, a single audit of all activities supported by the federal funds must be performed in accordance with Subpart F of the Uniform Guidance.

\textsuperscript{44} The requirements for financial statements are found at 2 C.F.R. 200.510.

\textsuperscript{45} In lieu of this general listing, the board could list specific policies.
4. Equipment, materials, and supplies policies (policies in the 6500 series)

5. Personnel policies (policies in the 7000 series)

6. Fiscal management policies (policies in the 8000 series)

The board intends to comply with all requirements applicable to the use of federal funds. To the extent that any provision of a board policy is contrary to a federal law, regulation, term, or condition applicable to a federal award, employees must follow the applicable federal requirement.

E. REPORTING MISMANAGEMENT OF FEDERAL FUNDS

Any employee who reasonably believes that federal funds have been misused or that the school system is otherwise in violation of any requirement applicable to the receipt and use of federal funds should report the matter as provided in policy 1760/7280, Prohibition Against Retaliation.

Legal References: 2. C.F.R. Part 200

Cross References: Prohibition Against Retaliation (Policy 1760/7280), Fiscal Management Standards (policy 8300)


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