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OFFICE OF INSPECTOR GENERAL

# ANTI-FRAUD ADVISORY




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VOL. 8: WHY DO YOU NEED INTERNAL CONTROLS?



## WHAT ARE INTERNAL CONTROLS?

Internal controls are policies, procedures, or practices at an organization that protect against errors or fraud. Typically, internal controls fall into three categories:

-  • Prevent - like segregation of duties or controlling access to certain information
-  • Detect - like reconciling timesheets or bank statements
-  • Correct - like training or disciplinary action or documenting adjustments to records

## WHAT SHOULD I FOCUS ON FIRST?

Based on the OIG's experience conducting oversight of grantees, some overarching themes grantees should consider include:

- Ensure there is segregation of duties. No one person should control all aspects of a transaction.
- Cash and bank accounts are the most vulnerable assets. Ensure controls over cash and disbursements are working effectively - conduct monthly reconciliations and independent reviews.
- Document approvals and authorizations in writing (e.g. signature and date).
- Clearly define who is responsible for what functions/ activities.

## WHY ARE THEY IMPORTANT?

In addition to being required by AmeriCorps, internal controls protect you, your organization, and your community from the potential loss of AmeriCorps programming should something go wrong.

In short, internal controls are the processes employed by an entity to provide reasonable assurance that the entity will meet its objective as it relates to Operations, Reporting and Compliance. Internal controls comprise the plans, methods, policies and procedures used to achieve these objectives, and serve as the first line of defense in safeguarding assets.

Internal Controls:

- ✓ Help ensure employees can be held accountable if something goes wrong;
- ✓ Help the organization and the government in the recovery of funds if they are misspent;
- ✓ Help with onboarding of new employees;
- ✓ Help ensure consistent treatment of staff, volunteers, and the community;
- ✓ Reduce the risk of non-compliance; and
- ✓ Help establish the tone at the top for acceptable conduct.

# WHERE CAN I FIND EXAMPLES OF “GOOD” POLICIES AND PROCEDURES?

Investing some time into developing policies and procedures can pay off in many ways, including more efficient operations, reduced risks of noncompliance, and detection and deterrence of fraud.

Although every organization is unique, you don’t have to start from scratch. There are many resources available to nonprofit organizations to help develop policies and procedures. Although the OIG does not endorse any particular organization, below are a few resources from national organizations to help the nonprofit sector. Please do your own research!

- List of Examples:
- [Internal Controls for Nonprofits, by the National Council of Nonprofits](#)
  - [Recommended Board Practices, BoardSource](#)

## Internal Controls Protect Against Fraud

Policies, procedures, and practices play a crucial role in preventing and detecting fraud by establishing clear guidelines and steps for people to follow. Here are some of the ways they contribute to fraud prevention and detection:

- **Anti-Fraud Policy Statement:** Publishing a policy provides a strategy to address fraud and abuse, making it available to employees, members, providers, and subcontractors. This sets a clear tone from the top about the organization's commitment to combating fraud.
- **Written Policies and Procedures:** Establishing these ensures that all people have a clear understanding of the steps to follow for the deterrence and detection of fraud. This consistency helps in maintaining a unified approach towards fraud management.
- **Training and Education:** Conducting training on fraud awareness and educating people about fraudulent and abusive practices helps in creating a culture of integrity and compliance. This increases awareness among employees and stakeholders about potential fraud schemes and how to handle them.
- **Implementation of Risk Assessments:** Designing and implementing strategies to identify, assess, and fix fraud risks and weaknesses in program internal controls are essential. This includes establishing dedicated groups to lead fraud-risk management activities.
- **Use of Technology:** Utilizing fraud protection software to analyze claims data, both prospectively and retrospectively, helps in detecting potential fraud. Advanced IT tools and data analytics capabilities are crucial in managing and scaling up emergency relief programs effectively.

By having these policies, procedures, and practices in place, organizations can systematically address and reduce the risk of fraud, ensuring that resources are used appropriately and that fraudulent activities are minimized.

## TERM SEARCH

### Can you find all the Terms?

Hidden in the grid below are 14 key terms that play an important role in Policies and Procedures.

U	W	C	K	D	H	U	A	Z	N	N	H	T	B	T	W	P	A	B	G
W	E	Q	U	O	I	N	N	A	N	I	X	Z	L	T	E	K	G	J	L
E	U	O	N	P	O	Z	E	F	C	E	I	A	P	N	U	N	G	G	M
R	C	A	Z	T	F	M	G	A	J	C	N	Z	F	Z	E	K	H	O	B
J	S	X	U	A	T	W	D	L	M	R	O	B	E	Q	A	R	O	Y	G
P	A	E	V	C	D	E	E	P	E	E	H	U	X	O	T	C	H	F	A
Z	P	H	C	D	E	D	A	T	W	F	R	J	N	C	S	O	K	C	J
G	Z	M	Z	Y	T	K	N	B	P	S	M	I	D	T	J	S	V	S	A
T	R	W	N	Z	E	I	Y	R	L	N	L	O	C	D	A	M	Z	U	C
N	Y	A	K	I	C	Z	O	X	H	G	C	B	C	O	Y	B	A	P	Q
R	C	T	A	I	T	C	T	E	A	U	O	T	Q	E	R	L	L	A	B
A	L	W	V	W	E	Q	F	E	M	C	R	D	C	H	T	P	E	E	M
B	D	B	V	D	Q	V	Z	E	P	X	B	M	U	E	O	T	S	R	E
Z	W	H	U	L	H	X	N	U	X	R	T	F	Q	A	R	P	B	I	C
F	K	R	W	T	D	T	H	B	L	O	I	U	I	S	R	R	D	S	U
M	E	K	U	J	M	N	A	H	Q	R	F	F	Y	N	H	F	O	K	S
C	E	C	N	A	I	L	P	M	O	C	Y	C	I	L	O	P	O	C	W
T	S	V	E	Z	N	A	H	G	T	N	E	V	E	R	P	H	Q	L	H
C	O	N	T	R	O	L	P	R	O	T	E	C	T	O	R	O	G	F	W
U	K	Q	H	A	G	G	U	V	F	F	Y	Y	S	C	R	U	N	O	F

Policy  
Procedure  
Control  
AmeriCorps  
Fraud  
Protect  
Prevent

Detect  
Correct  
Compliance  
Internal  
Accountable  
Risk  
Document



## SELF CHECK

### HOW MANY OF THE POLICIES LISTED BELOW DOES YOUR ORGANIZATION HAVE?

Give your organization a self-check and see if you have all the policies listed below.

Please note that this list is not comprehensive of all required policies and procedures. Refer to your grant Terms and Conditions for more information.

#### Organization Policies

- Whistleblower Retaliation
- Document Retention and Destruction

#### Program Policies

- Member Management and Timekeeping policies
- NSCHC policies
- Prohibited Activities

#### Financial Policies

- Employee Timekeeping Policies
- Allowable costs policies
- Program income policies
- FFR Reporting and reconciliation procedures
- Procurement policies
- Cash Disbursement Procedures including Purchase Card Use
- Bank Reconciliation Procedures

#### IT/Cybersecurity Policies

- Protection of PII (personally identifiable information) and PHI (protected health information)
- Identity theft prevention and response

## CASE STUDIES

### FAILURE TO FOLLOW POLICIES AND PROCEDURES RESULTS IN \$100,000 FALSE CLAIMS ACT SETTLEMENT

Between 2019 and 2021, AmeriCorps OIG uncovered evidence that a grantee failed to follow its own policies and procedures for implementing effective internal controls that could have prevented the embezzlement of over \$250,000 by its former Executive Director. The Executive Director admitted to creating false invoices and purchase requests for services and items for his company and those of two of his acquaintances—services never provided to the grantee. The Director also admitted to the organization not conducting the reviews of invoices required in its policies and procedures.

AmeriCorps OIG referred the investigation to the U.S. Attorney's Office, which pursued the matter under the Civil False Claims Act. The organization agreed to settle the allegations and pay \$100,000, enter into a five-year compliance agreement with AmeriCorps, and assume financial liability for the remaining balance of falsely certified education awards. Subsequent to the Executive Director's removal, the organization also made notable changes to its fiscal internal control policies and procedures such as: requiring checks to have two signatures (one of which must be a board member); and, requiring that all vendors provide a completed W9, a copy of their business license, and a completed vendor information sheet.

### STATE COMMISSION AND ITS SUBGRANTEES SETTLE FOR \$842,000 AFTER FAILING TO FOLLOW THEIR OWN POLICIES

AmeriCorps OIG uncovered evidence that a State Commission failed to follow their own policies and procedures for performing effective internal controls that could have prevented the Commission from defrauding the federal government. For example, the Commission did not follow its own timekeeping requirements nor did it provide sufficient oversight of two of its subgrantees' inadequate timekeeping practices. Supervisors at the subgrantees approved false timesheets in violation of grant requirements and their own policies, and falsely certified education awards based on those timesheets.

AmeriCorps OIG pursued the investigation jointly with the U.S. Attorney's Office and considered the matter under the Civil False Claims Act. The Commission and its subgrantees each agreed to settle the allegations and paid a combined total of \$842,500.

# INTERNAL CONTROLS IN ACTION

Can you match the icon to the example of a policy, procedure, or practice in action?

Some examples may fit into more than one category.

*\*answers are provided at the bottom of this page*



## A. Prevent

A policy or procedure that helps prevent errors or fraud



## B. Detect

A policy or procedure that helps to detect errors or fraud that has already happened.



## C. Correct

A policy or procedure that corrects errors or instances of fraud or mitigates their impact

1. A written standard of conduct that includes organizational conflicts of interest.
2. A written process that ensures member hours are tracked and fundraising time does not exceed maximum allowable limits.
3. Grievance procedures that include remedies or corrective actions.
4. A NSCHC policy that includes a description of the checks required and the timeline for completion.
5. A written procedure that outlines the steps for cash drawdowns, including who is responsible for each step.
6. A policy that describes how the grantee will follow up with and resolve any issues discovered at a site/subgrantee/station.
7. Rules that describe suspension and termination of staff or members.
8. A policy that ensures that staff do not adjudicate their own NSCHC results.
9. A process to segregate revenue and expenses by project or grant.
10. A policy that requires two signatures to review staff and member timesheets.

## WANT TO LEARN MORE?

For additional resources on this topic including LITMOS training courses, sample statements, and links to guidance documents, and to access the electronic version of this document use the QR code below:



## KEEP IN TOUCH

Check out the library of Anti-Fraud Advisories on our website.

Report suspected instances of fraud, waste, and abuse to the Office of Inspector General's hotline by using this QR code:



Did you know whistleblowers are protected under federal law? To find out more about your rights as a whistleblower, [click here](#).

Answers:  
A: 1, 2, 4, 5, 8, 9, 10. B: 5, 9, 10. C: 3, 6, 7.