

## American Recovery and Reinvestment Act (ARRA) Compliance

### **Internal Controls:**

The Office of the Tennessee Recovery Act Management's (TRAM) Directive No. 6 states, "All local agencies, including city and county governments and non-profit organizations receiving ARRA funds must follow internal control guidance prescribed by the State of Tennessee Comptroller of the Treasury, Division of Municipal Audit and Division of County Audit." (TRAM) Directive No. 12 states, "All state agencies receiving and subsequently distributing ARRA funds to subrecipients are responsible for formally communicating these directives to all subrecipients, ensuring their complete understanding of ARRA fund accountability and transparency requirements." Thus, the requirements apply to all entities receiving subrecipient funds through the State of Tennessee.

**Management is responsible for establishing and maintaining a system of internal controls.** The following internal control procedures will meet the requirements of TRAM Directives No. 6 and 12 from the perspective of the Division of Municipal Audit. The directives and related procedures, where they exceed the requirements of the Internal Control and Compliance Manual for Tennessee Municipalities – April 1995 and any subsequent release, as well as any other manuals published by the Division of Municipal Audit, only apply to offices/funds that receive ARRA grants:

- A. Any agency reporting to the Division of Municipal Audit (agency/agencies) that had an internal control finding related to **receipting funds**, as published in the June 30, 2008, audit report, must correct the deficiency. If the June 30, 2008, audit report has not yet been published, the agency should correct any significant deficiency or material weakness in internal controls related to the **receipting of funds** that is known by the agency (for example, through the latest exit conference).
- B. Any agency that had an internal control finding related to **disbursing/expending funds**, as published in the June 30, 2008, audit report, must correct the deficiency. If the June 30, 2008, audit report has not yet been published, the agency should correct any significant deficiency or material weakness in internal controls related to the **disbursing/expending of funds** that is known by the agency (for example, through the latest exit conference).
- C. Any agency that had an internal control finding related to a **federal grant**, as published in the June 30, 2008, audit report, must correct the deficiency. If the June 30, 2008, audit report has not yet been published, the agency should correct any significant deficiency or material weakness in internal controls related to a **federal grant** that is known by the agency (for example, through the latest exit conference or federal monitoring report).
- D. Agencies that had a segregation of duties finding generally have a **receipting** and/or **disbursing** deficiency in internal controls (refer to **A.** & **B.** above). In this situation, the agency should take steps to provide at least a minimum level of segregation of duties. In most circumstances, a minimal

level of segregation of duties can be achieved with as few as two employees with management involvement. Call the Division of Municipal Audit (615-532-4460) if you need help making a determination about the minimal required level of segregation of duties.

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### **Risk Assessment Procedures:**

Recipients of ARRA funding are required by state directive to perform risk assessments. The risk assessment should relate directly to the purposes for which the ARRA funding was received. The Office of the Tennessee Recovery Act Management's (TRAM), Directive No. 8 states, "All recipients and sub-recipients of ARRA funds are required to adopt a risk assessment process for all ARRA programs to include risk identification, risk evaluation and mitigation plans. The risk assessments must also include items that address meeting program requirements and objectives."

**Management is responsible for performing risk assessment procedures and for establishing and maintaining a system of internal controls based on the risk assessment.** The following risk assessment procedures will meet the requirements of TRAM Directive No. 8 from the perspective of the Division of Municipal Audit. Upon release of the newest version of the Internal Control and Compliance Manual for Tennessee Municipalities (anticipated release date is no later than June 30, 2009) all offices/funds of a municipality must comply with the risk assessment provisions in that manual as well as any additional requirements addressed in this document. All other agencies must comply with the provisions addressed in this document and any other requirements applicable to them. The risk assessment process should be documented in writing. The directive and related procedures below apply to offices/funds that receive ARRA grants:

The first step in any risk assessment process involves defining the agency's goals and objectives. After defining those objectives, management should identify the risks that could affect their ability to meet those goals and objectives. Once that is done, management should design and implement internal controls to mitigate those risks.

As stated in the joint memo dated April 30, 2009, once the agency has determined that they have the knowledge, staff and capability to administer ARRA funding and that they are willing and able to comply with program requirements and objectives, the risk assessment process should be documented.

- A. The first step is to define the program requirements and objectives.
- B. The second step is for recipients to ask, what risks exist that would prevent the agency from achieving the program requirements and objectives? For example:

***Note: These are only examples of some of the questions that might be relevant. The list is not intended to be all-inclusive or applicable to every grant.***

- Does the agency have weakness in internal controls related to day to day operations that must be corrected to administer ARRA funding? (See the Section on Internal Controls above).
- Is there a senior level official in the agency that has sufficient expertise who can be designated for ARRA accountability?
- Does the agency have adequate staff capable of complying with the grant?
- Does the agency fully understand its responsibilities under the grant and does it have a means of communicating those responsibilities to the staff?
- Is the agency's accounting system capable of tracking ARRA funds (receipts and disbursements) separately from other funds?
- Can the agency expend the grant within the allotted time frames?
- Can the agency meet the reporting requirements? (e.g. can the agency close its books within 10 days after each quarter?)
- How will the agency determine and track new jobs created or jobs retained?
- How will the agency be affected once ARRA funding is no longer available?

In asking these and other questions, please keep in mind that all ARRA programs are subject to an unprecedented level of scrutiny and must be administered under strict accountability and transparency guidelines. Therefore, grant recipients should ensure they are willing and able to comply with program requirements and objectives.

- C. The final step involves mitigating any risks identified at step two.