

INTERNAL CONTROLS POLICY

for

The Gulf Consortium

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Contents

DEFINITIONS.....	3
IC-1. Background.....	5
IC-2. Internal Control System.....	5
IC-3. Control Environment	6
IC-4. Risk Assessment	7
IC-5. Communication and information.....	8
IC-6. Monitoring	8
IC-7. Financial Reporting	9
IC-8. Segregation of Duties	10
IC-9. Independent Financial Auditing	10
IC - 9.2 Federal Single Audit Act	10
IC-9.3 Florida Single Audit Act.....	11
IC-9.4 Audit Deficiencies	11

DEFINITIONS

The following terms defined in this section shall have the meanings set forth below whenever they appear in the Gulf Consortium Policies:

1. “Board” means the Board of Directors of the Gulf Consortium.
2. “Business” means any corporation, partnership, individual, sole proprietorship, joint stock company, joint venture, or any other private legal entity.
3. “Consortium” shall mean the Gulf Consortium, created under the Florida Interlocal Cooperation Act (Part I of Chapter 163, Florida Statutes) and the Interlocal Agreement entered into by its members on September 12, 2012.
4. “Data” means recorded information, regardless of form or characteristic.
5. “Fiscal Agent” shall refer to the part designated and contractually retained to perform cash receipt and disbursement activities related to Treasury funds.
6. “General Counsel” shall refer to the person or persons retained to provide legal counsel to the Consortium.
7. “General Manager” shall refer to the staff so designated by the entity contracted to provide General Manager services for the Consortium.
8. “Member County” shall mean a county which is a member of the Gulf Consortium, created under the Florida Interlocal Cooperation Act (Part I of Chapter 163, Florida Statutes) and the Interlocal Agreement entered into by its members on September 12, 2012.
9. “Procurement” means buying, procuring, leasing, or otherwise acquiring any materials, supplies, services, or equipment. It also includes all functions that pertain to the obtaining of any material, supplies, services, construction, and equipment, including description of specifications and requirements, selection and solicitation of resources, preparation, and award of contract.
10. “Services” means the furnishing of labor, time, or effort by a contractor, not involving the delivery of a specific end product other than those which is not defined as supplies and which are merely incidental to the required performance.
11. “Specification” means any description of the physical or functional characteristics of

the nature of a material, supply, service, construction, or equipment item. It may include a description of any requirement for inspection, testing, recycled, or degradable materials content, or preparing a material, supply, service, construction, or equipment item for delivery.

IC-1. BACKGROUND

The Gulf Consortium has established internal controls in order to maintain accuracy and transparency concerning financial disclosures and to achieve fiduciary accountability. The Consortium is responsible for:

- a. Fiscally managing and safeguarding SEP funds as well as any funds received from other sources;
- b. Disbursing funds to sub-recipients in a timely manner for reimbursement of eligible project expenditures;
- c. Keeping accurate and up-to-date records of all financial transactions related to project activities;
- d. Assisting member county staff with monitoring and evaluation of their sub-awards; and
- e. Aiding county staff in understanding and complying with financial controls and procedures necessary to ensure effective stewardship of the Florida SEP funds.

IC-2. INTERNAL CONTROL SYSTEM

The Consortium's internal control system has been modeled in accordance with the Committee of Sponsoring Organizations (COSO) internal control framework and the five inter-related components including:

- a. Risk assessment
- b. Control environment
- c. Control activities
- d. Information and communication
- e. Monitoring

IC-2.1 The Consortium will evaluate each of the above categories on a regular basis to adjust or change policies and procedures to enhance the internal control policy. **Figure IC-1** illustrates the process.

Figure IC-1. Gulf Consortium Internal Framework



IC-3. CONTROL ENVIRONMENT

The internal control environment for the Consortium begins with the Board and extends to all Consortium vendors and consultants as well as member county staff. The Consortium follows the five principles requisite to a sufficient control environment;

IC-3.1 The Consortium demonstrates a commitment to integrity and ethical values, as evidenced by its Code of Conduct.

IC-3.2 The governing board demonstrates independence from management in exercising oversight of the development and performance of internal control over financial reporting. An example is a meeting at least annually between the audit committee and external auditors without management present.

IC-3.3 With oversight from the governing board, management establishes structures, reporting lines, and appropriate authorities and responsibilities to achieve financial reporting objectives. For example, processes are established in the Procurement Policy and Grants Manual to ensure related-party transactions are identified and disclosed.

IC-3.4 The Consortium demonstrates a commitment to attract, develop, and retain competent individuals in alignment with financial reporting objectives. The Consortium has hired vendors through a competitive bidding process which are required to carry out their part of the internal controls and to report any areas they view as deficiencies. Vendors of

the Consortium are governed by respective policies depending on their working relationship with the Consortium and are required to familiarize themselves with pertinent policies, including policies relating to subrecipients, procurement, and conduct. Vendors are required to report any control deficiencies to the Consortium's General Manager and/or General Counsel.

IC-3.5 The Consortium holds individuals accountable for their internal control responsibilities. Vendors are retained through contracts which allow for termination for non-performance.

IC-3.6 The Consortium's internal control activities include written policies, procedures, techniques, and mechanisms that help ensure the Board's directives are carried out in compliance with the RESTORE Act criteria as well as other applicable State and Federal law. Control activities are intended to identify, prevent, or reduce risks. Control activities occur throughout the Consortium's financial department, at all levels and in all functions. Control activities include things such as:

- a. Approvals
- b. Authorizations
- c. Verifications
- d. Reconciliations
- e. Documentation
- f. Separation of duties
- g. Safeguarding of assets

IC-3.7 For each transaction cycle, the flow of information through the process and the internal control activities taken is documented and analyzed. Depending on the transaction at hand, documentation may include organizational charts, standard operation procedures, manuals, flowcharts, decision tables, questionnaires, and/or review checklists.

IC-4. RISK ASSESSMENT

The initial task in risk assessment involves identifying, analyzing, and categorizing the various risks facing the Consortium. The identification process examines both internal and external events or circumstances that could adversely affect the Consortium's ability to carry out its fiduciary responsibilities. Several risks have been identified, along with accordant mitigating factors. The risks to the Consortium include:

- a. The lack of traditional infrastructure consisting of staff and administrative support is an inherent risk for the Consortium. This risk is being mitigated with the careful selection of vendor support with cooperation from members of the Board and potential use of member county's staff and other resources. Key personnel have clearly defined duties and possess adequate knowledge and expertise to perform their duties.

- b. Due to the lack of traditional infrastructure, the Consortium has undertaken to stand up formal processes to logistically manage numerous grants concurrently. The Consortium has requisitioned grant management software and financial accounting software in order to reduce risk of misreporting and enhance transparency in financial disclosures. The Consortium will own and operate these systems with the support of a General Manager and other vendors and consultants.
- c. The size of the control environment involves multiple counties and is considered an inherent risk for the Consortium. To mitigate this risk, the grant management policies and procedures established by the Consortium require uniformity among member counties and a high level of transparency and adherence to such policies. Training and ongoing compliance monitoring will be required with respect to sub-recipient grant milestone completion and disbursement requests.

IC-4.1 The Consortium will continue to monitor, develop, and combat risks as they are identified in the control environment.

IC-5. COMMUNICATION AND INFORMATION

IC-5.1 The Consortium is committed to transparency with the public, RESTORE Council, its member counties, and other stakeholders with respect to financial reporting on SEP related projects, programs, and activities. The Consortium's website provides detailed information regarding the status of Consortium funding and activities, including the status of projects included in the SEP.

IC-5.2 The Consortium's financial system provides procedures to ensure that each member county and sub-recipient receives relevant, valid, reliable, and timely communications.

IC-5.3 The Consortium's grant management system is designed to allow member counties to obtain reliable and timely information so that they can make informed decisions, analyze any risks, and communicate actions and other important information to the Consortium.

IC-5.4 The Consortium shall provide monthly financial reports for review by the Board at each Board meeting.

IC-5.5 All reported potential improprieties are reviewed, investigated, and resolved in a timely manner. Management has developed communication approaches through policy adoption that specify individual responsibilities in dealing with inappropriate behavior.

IC-6. MONITORING

Monitoring of the internal control system will continually be performed to assess whether controls are effective and operating as intended. The Consortium's monitoring structure is built into normal, recurring intervals and is designed to provide feedback on a timely basis. Such monitoring will be carried out by the General Manager, the Audit Committee, and the Procedures Review Board at least annually. Ongoing monitoring occurs through routine

managerial activities such as supervision, reconciliations, checklists, comparisons, performance evaluations, and status reports.

IC-6.1 Any deficiencies found during monitoring will be reported to the Audit Committee. General Manager and/or General Counsel. The monitoring process will also include analysis of whether exceptions are being reported and resolved quickly.

IC-7. FINANCIAL REPORTING

Financial reporting within the Consortium is a critical component in evaluating the progress financially and programmatically within the sub-recipient grants. It is imperative that the Consortium Board and the public receive timely, accurate and complete financial reporting information. Financial reports will provide the General Manager and the Board with critical data to measure the goals and objectives of the grants overseen by the Consortium.

IC-7.1. The basic principles of sound financial management include, but are not limited to, tight internal controls, financial transparency, segregation of duties, and independent external auditing. By integrating these processes into the administrative and fiduciary functions of the organization, the Consortium can ensure timely, accurate, and complete reporting throughout the SEPs lifecycle.

The Consortium's financial control system consists of both preemptive controls (created to prevent errors or fraud) and detective controls (designed to identify an error or fraud after it has occurred). The processes created by the Consortium are designed to provide reasonable assurance in the reliability of project financial reporting.

IC-7.1.1 The financial control system includes multiple protections of public funds including:

- a. Procedures that provide for appropriate segregation of duties to reduce the risk of asset loss or fraud.
- b. Defined roles for the proper consultants and employees to authorize and record financial transactions.
- c. Subrecipient training for member county staff performing their duties and functions as they relate to sub-award grant funds. The Consortium will require sub-recipients to operate and use Consortium resources with minimal potential for waste, fraud, and mismanagement.

IC-7.2. The principles of sound financial management are designed so the Consortium will be able to:

- a. Ensure that funds are spent in accordance with the respective grant awards and State and Federal law.
- b. Prevent fraud and reduce or eliminate fiduciary risk and financial loss.

- c. Maintain compliance with the financial documentation and reporting requirements contained in the RESTORE Act.
- d. Create a uniform financial standard for member counties.
- e. Ensure that financial reports and disclosures are accurate, complete, and reliable.

IC-8. SEGREGATION OF DUTIES

IC-8.1 To maintain effective internal controls, the Consortium has created a system of internal checks and balances among the entities performing contract administration and financial duties for SEP related projects, programs, and activities.

IC-8.2 Duties and tasks related to financial reporting and analysis are segregated to ensure dual controls and proper oversight. Two individuals are required for oversight of all administrative activities that involve confidential or valuable assets, such as opening of bids or handling deposits. For cash management, a designated fiscal agent manages any grant funds received from the RESTORE Council, allowing for an additional layer of protection for the Consortium's assets. The Consortium has instituted firewalls between the approval of disbursements and access to funding.

IC-9. INDEPENDENT FINANCIAL AUDITING

The Consortium is subject to annual audits conducted by independent auditors which evaluate the presentation of financial statements as well as the effectiveness of internal controls based upon widely held government standards including, but not limited to, 2 CFR Part 200 and the Single Audit Act of 1996.

IC - 9.1 Effective financial controls depend on clear policies and procedures for different areas of activity, such as cash management procedures (e.g., requests for funds, project budgets, and disbursement of funds); procurement policies which follow appropriate laws, regulations, and policies; and administrative policies, such as procedures review policies.

IC - 9.2 Federal Single Audit Act

Federal audit and annual reporting requirements are contained in 2 CFR 200 Subpart F. Non-federal entities expending \$750,000 or more in a year in federal awards are required to have a single or program-specific audit conducted for that year, performed by an outside auditor. It is important that all grant activity and any changes to the grant are well documented to facilitate any audit. Audit findings made during the audit are provided to the grantor, which could prompt an audit by the grantor.

The following list contains the fourteen types of compliance requirements considered in every audit conducted under 2 CFR Part 200, Subpart F, which help to form the basis for the system of internal controls developed by the Consortium:

- a. Activities: Allowed or Unallowable

- b. Allowable Costs/Cost Principles
- c. Cash Management
- d. Eligibility
- e. Equipment and Real Property Management
- f. Matching, Level of Effort, Earmarking
- g. Period of Availability of Federal Funds
- h. Procurement, Suspension and Debarment
- i. Program Income
- j. Reporting
- k. Subrecipient Monitoring
- l. Special Tests and Provisions

IC-9.3 Florida Single Audit Act

The Consortium will also adhere to the Florida Single Audit Act, which establishes uniform audit requirements for state financial assistance, and follows the same cost principles and requirements established in the Federal Single Audit Act.

IC-9.4 Audit Deficiencies

If any internal or external audit should identify deficiencies, the Consortium shall develop responses to the observations identified in the audit and develop corrective actions to remediate the identified deficiencies.

The Audit Committee and/or General Manager will annually confirm the status of corrective actions taken in response to identified deficiencies and shall inform the Board when all such deficiencies have been satisfactorily remediated.

The Audit Committee and/or Procedures Review Committee will annually review the Consortium's grant processes and procedures and recommend improvements to reduce risk to the Consortium. Such reviews are designed to provide the opportunity to make amendments to existing policies in order to address new federal, state, and local regulations as well as improve efficiency in operations. Areas reviewed include, but are not limited to: internal controls, risk, grant compliance, distribution of grant related information and grant related training.