ESC Region 1: July 23, 2026, 9:00 – 9:50 AM
4th Annual School Finance and Operations Conference

Texas Education Agency

Grant Compliance and Administration

The Trail to Stronger Internal Controls

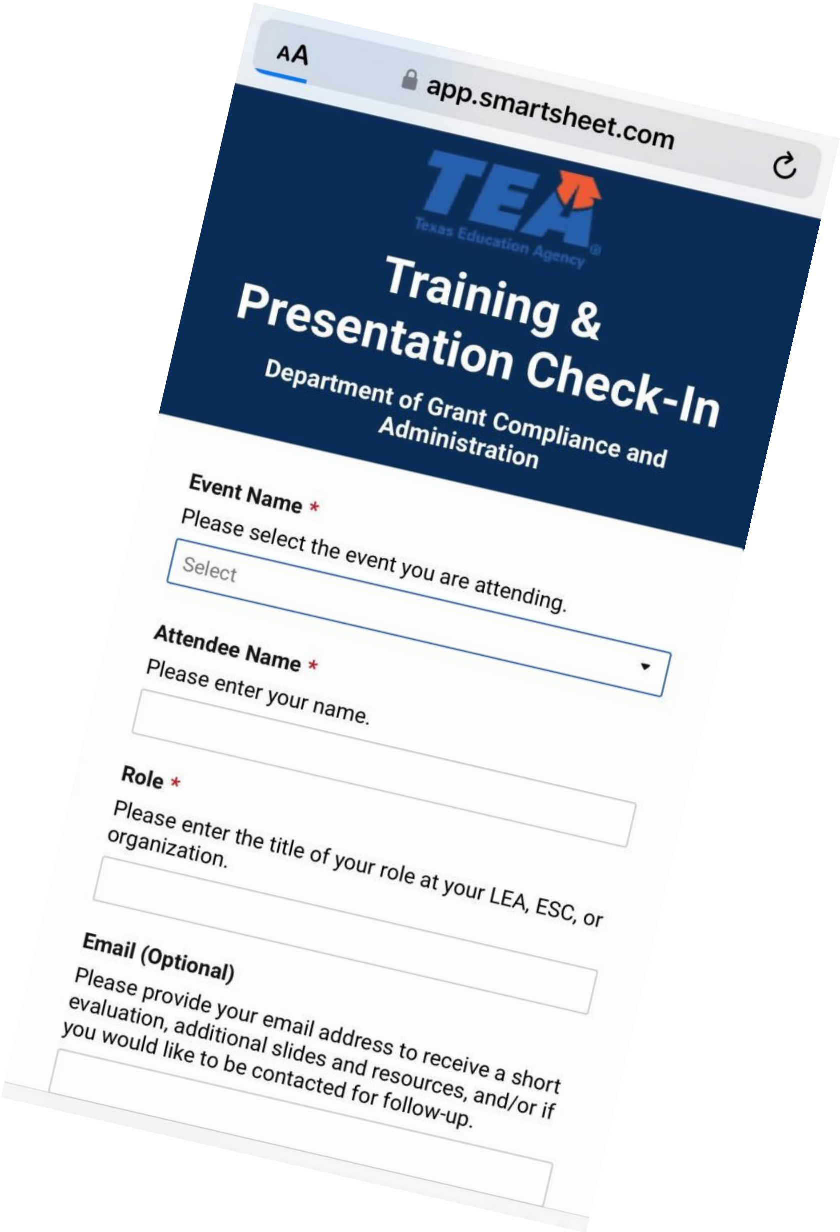
Staying in the Saddle Through Risk and Change

The Longer the Trail, the Stronger the Herd

Cal Lopez, Federal Compliance Officer
Federal Compliance Unit
Department of Grant Compliance and Administration

Check-In

GCA - Check-In



The Trail to Stronger Internal Controls Framework

2 CFR § 200.1 – Definition of Internal Controls

Processes designed and implemented by subrecipients to provide reasonable assurance regarding the achievement of objectives in the following categories:

- **Effectiveness and efficiency of operations**

- **Reliability of reporting for internal and external use**

- **Compliance with applicable laws and regulations**

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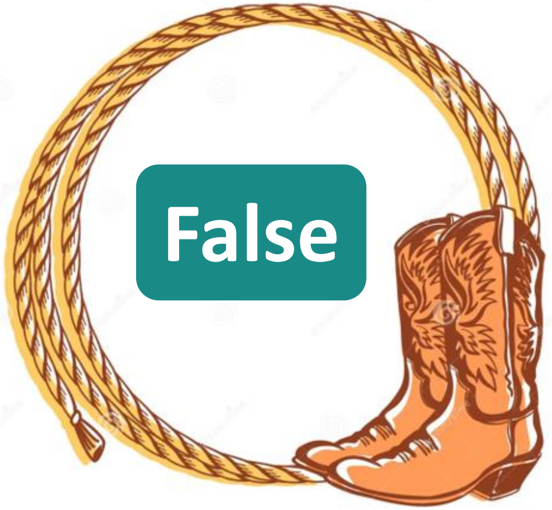
Organizational risk can be managed without internal controls?

True



False

Organizational risk can be managed without internal controls?

False

2CFR § 200.303 Internal Controls

- Establish, document, and maintain effective internal controls over Federal awards that provides reasonable assurance that the subrecipient is managing the Federal awards in compliance with Federal statutes, regulations, and terms and conditions of the Federal award.
- Comply with the U.S. Constitution, Federal statutes, regulation and the terms and conditions of the Federal award.
- Evaluate and monitor compliance with statutes, regulations and the terms and conditions of Federal awards.
- Take prompt actions when instances of non-compliance are identified.
- Take reasonable cybersecurity measures to safeguard information, including protected personally identifiable information (PII) and other types of information.

Internal Control Framework Components

Culture of Compliance

The culture, values, and structure established by leadership that support effective internal control. It sets the tone for the organization by emphasizing integrity, ethical behavior, competence, and accountability. It is considered the foundation for all other internal controls.

Risk Assessment

The process of identifying and analyzing internal and external risks that could affect the organization's ability to achieve its objectives. This process helps determine how risks should be managed and guides the development of appropriate risk mitigation strategies and control responses.

Internal Control Management Activities

The policies, procedures, and actions put in place to ensure objectives are met and risks are addressed. These activities include approvals, verifications, reconciliations, segregation of duties, and controls embedded *in technology* and information systems.

Communication

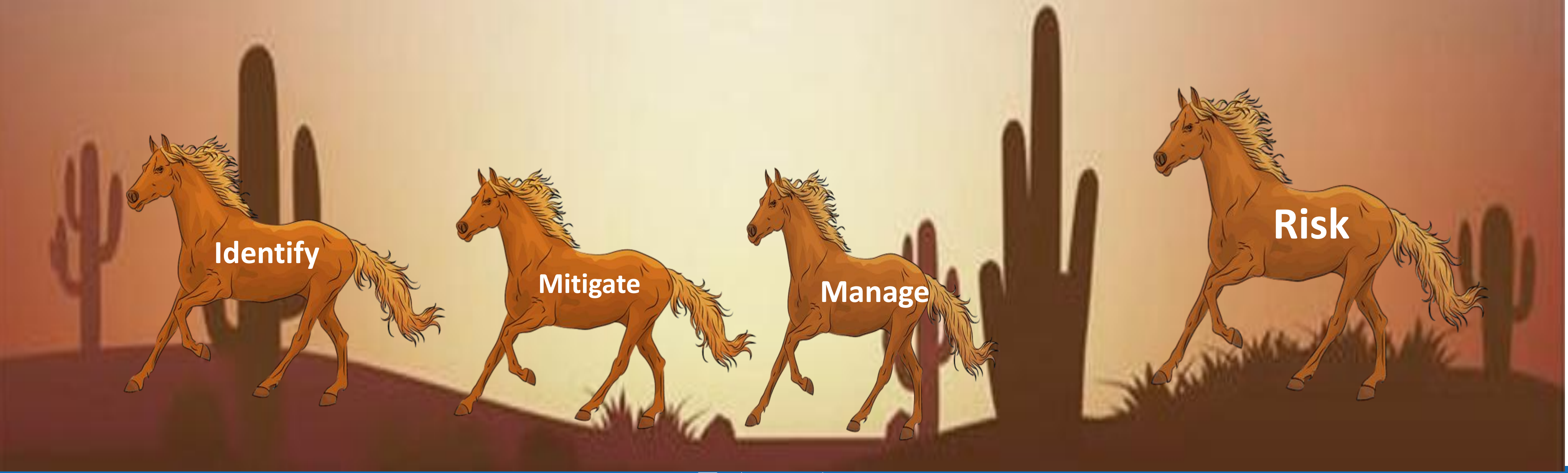
The use of accurate, timely, and relevant information to support internal controls. Effective communication must flow across all levels of the organization so employees understand their responsibilities and can act on internal and external information that affects objectives and risks.

Monitoring

Ongoing and periodic monitoring ensures that internal controls continue to operate effectively over time. Through ongoing reviews, audits, and evaluations, organizations can identify weaknesses, implement corrective actions, and adjust controls as objectives, risks, or conditions change.

Internal Control Framework

Moving parts needed to manage and implement your fiscal and programmatic policies and procedures



Internal Control Framework Components

An internal controls framework includes:

- Segregation of Duties
- Reconciliation of Fiscal and Programmatic Records
- System of Checks and Balances, etc.

Three Types of Internal Controls

Preventive

Prevents Mismanagement or Irregularities

- Segregation of duties
- Approval, authorization, and verification process
- Securing assets
- Cyclical review of inventory and records
- Record Retention

Detective

Identifies Mismanagement or irregularities

- Ongoing monitoring of grant budget and activities
- Audits
- Inventory of assets
- Review and reconciliation process

Corrective

Provides Risk Response Strategies

- Monitoring and reconciliation of grant expenditures
- Corrective Action of non-compliant internal controls
- Revised policies and procedures

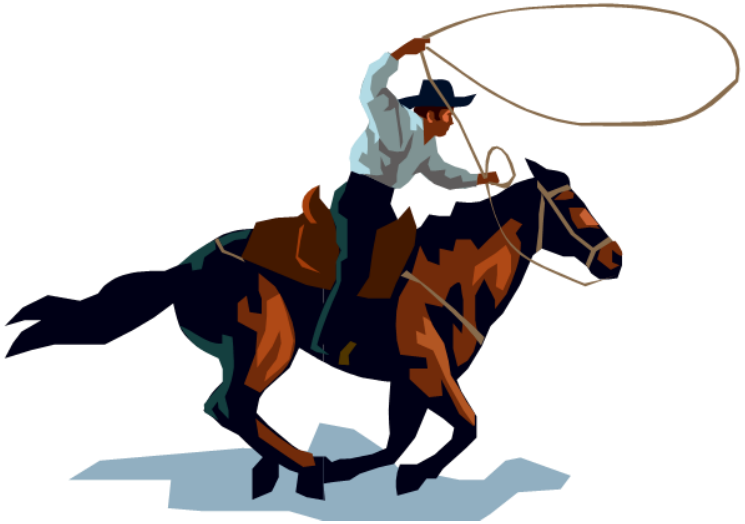
Who is Responsible for Implementing an Organization’s Internal Control Framework?

- Internal controls is more than policies and procedures; it includes the actions and behaviors of subrecipients and their staff.
- Staff at every level of an organization influence the effectiveness of internal controls.
- A subrecipient’s school board, board of directors, or senior leadership sets the tone for the importance of internal controls.
- All staff participate in establishing, documenting, and maintaining internal controls.
- Management is directly responsible for designing, implementing, and ensuring the operating effectiveness of an organizations internal control framework .
- Although a managers’ responsibilities vary by role, staff should help management design, implement, and operate an internal control framework system and reporting any concerns, deficiencies, or non-compliance.

Building An Internal Control Framework

Round Up Your Policies and Procedures

Local
Policies and Procedures



State and Federal
Policies and Procedures

Financial
Policies and Procedures

Required Written Policies and Procedures

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Required Written Policies and Procedures Activity

Policy and Procedure	Documented	Not Documented	Incomplete	In Progress	Review Needed	Date Revised	Staff Member
1. Conflict of Interest Policy: 2 CFR § 200.112, 200.318(c)(1)	☐	☐	☐	☐	☐		
2. Accounting Policy: 2 CFR § 200.306(h)(2)(i) , 200.400, 200.430(g)	☐	☐	☐	☐	☐		
3. Compensation Policy: 2 CFR § 200.430(a)	☐	☐	☐	☐	☐		
4. Fringe Benefits Policy: 2 CFR § 200.431	☐	☐	☐	☐	☐		
5. Employee Health and Welfare Policy: 2 CFR § 200.437	☐	☐	☐	☐	☐		
6. Travel Policy: 2 CFR § 200.475(a)	☐	☐	☐	☐	☐		
7. Participant Support Cost Policy: 2 CFR § 200.456	☐	☐	☐	☐	☐		
8. Real Property Procedures: 2 CFR § 200.311	☐	☐	☐	☐	☐		
9. Time and Effort Procedures: 2 CFR § 200.430(g)	☐	☐	☐	☐	☐		
10. Allowability of Costs Procedures: 2 CFR § 200.302(b)(7), 200.403, 200.404, 200.405	☐	☐	☐	☐	☐		
11. Cash Management Procedures: 2 CFR § 200.302(b)(6), 200.305	☐	☐	☐	☐	☐		
12. Procurement Procedures: 2 CFR § 200.318, 200.319, 200.320 , 200.324, 200.327	☐	☐	☐	☐	☐		
13. Equipment Management Procedures: 2 CFR § 200.313(d)	☐	☐	☐	☐	☐		
14. Participant Support Cost Procedures: 2 CFR § 200.456	☐	☐	☐	☐	☐		

Starting Point – Policies and Procedures

Are your organizations policies and procedures:

- Current?
- How often are they reviewed and revised?
- Who in your organization last reviewed them?
- Who is part of this process?
- Who should be part of this process?
- How are they documented and communicated to staff?
- Does your organization provide ongoing training on the policies and procedures that are the framework for your internal controls?

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Internal Control Monitoring and Testing

How does your organization identify any internal control framework

- Deficiencies
- Gaps
- Deviations
- Lack of implementation

What testing and monitoring processes and procedures do you have in place?

Internal Controls and Staff Training

Internal Controls are most effective when supported by a Culture of Compliance

Don’t assume people know what to do when they have received little or no guidance

Effective training equip staff to support risk mitigation and maintain compliance

Training is an opportunity for two-way communication between staff and their leadership

Staff need to understand what it means to support and strengthen internal controls

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Internal Controls and Staff Training

Does your organization provide ongoing staff training that discusses internal controls testing due to identified deficiencies or areas of non-compliance?

Ongoing staff training should include your organization's internal controls for:

- Implementation of written internal controls, policies, and procedures
- Mitigating human error
- Fraud awareness and reporting mechanisms,
- Managing and correcting non-compliance

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Training Components that Strength Internal Controls

Purpose of the Internal Controls	Design processes to protect assets, ensure compliance, accurate reporting, prevent/detect errors, and improve efficiency.
Assess Risk	List key processes and identify vulnerabilities.
Internal Control Triad	Stop human error before it happens by establishing preventative, detective, and corrective internal controls (i.e., segregation of duties, required authorizations).
Document Policies and Procedures	Include the purpose, responsible individuals, frequency, and steps to implement internal controls.
Tools and Resources	Use job aids, flowcharts, and checklists.
Implement Monitoring	Establish monthly checklists, quarterly internal reviews, and spot checks.
Maintain Evidence	Did you document it?

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Internal Control Monitoring
Strengthening the Herd

Incident Detection

Response Protocol

Response Timelines

Incident Disclosure

Mitigation of Human Error

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Internal Controls Evaluation and Monitoring Activity

Internal Controls and Evaluation and Monitoring Activity

July 22-23, 2026

Purpose

This activity helps your organization consistently evaluate, test, and monitor internal controls by documenting review details, responsible staff, and any follow-up actions needed.

Activity Instructions:

1. Review Internal Control Action Steps

- Review the action steps outlined below for evaluating and monitoring your organization's internal controls for organization
- Use this is a sample document to track review date, responsible staff, required revisions, and testing recommendations that support the ongoing evaluation and monitoring of your organization's internal controls.

2. Utilize the Tracking Document

Use the sample document to record key information during your review, including:

- Review date
- Policy or Procedure
- Staff member responsible
- Revisions or updates needed
- Testing recommendations
- Follow-up actions and deadlines

This document serves as a centralized record to support ongoing evaluation, testing, and monitoring of internal controls.

Internal Controls Evaluation and Monitoring Activity

This activity will help your organization evaluate, test, and monitor internal controls by documenting review details, responsible staff, and any follow-up actions needed.

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	Action Steps	Date	Policy or Procedure	Reviewed by Staff Position and Name	Revisions Needed Yes/No	Add to Testing Plan
1.	Review					
2.	Assess					
3.	Develop					
4.	Act					
5.	Repeat					

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Internal Control Evaluation Process

Review

Written Policies, Procedures, Processes, and Trainings

Assess

Effectiveness of Your Organization's Internal Controls

Develop

Internal Control Framework to Identity, Mitigate, and Manage Risk

Act

Implement Your Testing Plan to Mitigate Obsolete Internal Controls

Repeat

Cyclical Evaluation Policies, Procedures, Processes, and Trainings

Internal Control Testing

Monitoring and testing of internal controls is crucial to maintaining compliance.

- Develop a testing plan that outlines the scope and objectives of your internal control testing.
- Identify the internal controls to be tested based on their significance to mitigating and managing organizational risk.
- Testing results should include any identified internal control deficiencies or areas of non-compliance.
- Develop, implement, and monitor corrective action plans.

Internal Control Framework Testing Process

Testing Process

Ensure internal controls are evaluated, tested, and monitored using a Consistent review and documentation process.

1 Identification

- Identify controls to be tested
- Gather relevant policies, procedures, and supporting documentation
- Confirm control owner and responsible staff

2 Design Effectiveness

- Assess whether the internal control is designed effectively
- Determine if the internal control addresses the intended risk
- Review documentation for completeness and accuracy

Internal Control Framework Testing Process Cont.

3 Testing

- Perform testing to confirm **operating effectiveness**
- Document testing steps and results
- Identify any exceptions or breakdowns

4 Documentation

Record the following in your tracking template:

- Review date
- Reviewer
- Documents reviewed
- Issues or revisions needed
- Testing recommendations
- Follow-up actions and deadlines

5 Monitor

- Staff assignments
- Track corrective actions
- Update policies, procedures, and documentation
- Schedule 30-day, 60-day, 90-day review dates

Internal Control Framework Checklist

- Identify internal controls to be evaluated
- Reviewed relevant policies, procedures, and documentation
- Confirm the internal control owner and responsible staff
- Assess whether the internal control is designed effectively
- Test the internal control for operating effectiveness
- Document the testing findings in your tracking document
- Document the revisions or updates needed
- Document and assign follow-up corrective actions and deadlines

Kep Tips: Internal Control Framework

- All risks are not equal.
- Develop written financial and programmatic policies and procedures.
- Written policies and procedures serve as both a training tools and compliance documents.
- An internal risk assessment is critical to identify, mitigate, and manage organizational risk.
- Establish a risk-based internal control framework.
- Effective internal controls ensure the integrity of your organizations fiscal and programmatic day-to-day operations and reporting.

Key Tips: Internal Control Framework

- Implement an internal risk assessment process to identify your organization's most critical vulnerabilities such as financial reconciliation, fraud, cybersecurity, and compliance with local, state, and federal laws, rules, and regulations.
- Define clear staff roles and responsibilities in your policies and procedures for segregation of duties and ownership of processes and procedures.
- Ensure your internal control activities, timelines, escalation steps, and corrective action processes are clearly written and accessible to all staff.
- Provide ongoing training on internal control policies and procedures.

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Questions, Comments, or Wonderings

Federal Compliance Unit Contact Information

- Cal Lopez, Federal Compliance Officer
  - Email: Cal.Lopez@tea.texas.gov
  - Phone: (512) 463-9017
- Susan Hicks, Grant Compliance Lead Analyst
  - Email: Susan.Hicks@tea.texas.gov
  - Phone: (512) 463-1658
- Djuna Newby, Grant Compliance Analyst
  - Email: Djuna.Newby@tea.texas.gov
  - Phone: (512) 936-6361

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Thank you!