

# INTERNAL CONTROLS

## Overview

OMB Circular A-133 requires recipients of grant funds to maintain internal control over federal programs that provides reasonable assurance that the recipient is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

The objectives of internal control pertaining to the compliance requirements for federal programs are as follows:

1. Transactions are properly recorded and accounted for to:
  - i. Permit the preparation of reliable financial statements and federal reports.
  - ii. Maintain accountability over assets.
  - iii. Demonstrate compliance with laws, regulations, and other compliance requirements.
2. Transactions are executed in compliance with:
  - i. Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program.
  - ii. Any other laws and regulations that are identified in the compliance supplements; and
3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

The information in this section describes general characteristics of internal control relating to each of the five components of internal control that should reasonably assure compliance with the requirements of federal laws, regulations, and program compliance requirements.

**Control Environment** sets the tone of an organization influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- Sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive.
- If there is a governing Board, the Board has established an Audit Committee or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed.
- Management's positive responsiveness to prior questioned costs and control recommendation.
- Management's respect for and adherence to program compliance requirements.
- Key managers' responsibilities clearly defined.
- Key managers have adequate knowledge and experience to discharge their responsibilities.
- Staff knowledgeable about compliance requirements and being given responsibility to communicate all instances of noncompliance to management.
- Management's commitment to competence ensures that staff receive adequate training to perform their duties.
- Management's support of adequate information and reporting system.

**Risk Assessment** is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for

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determining how the risks should be managed.

- Program managers and staff understand and have identified key compliance objectives.
- Organizational structure provides identification of risks of noncompliance:
  - Key managers have been given responsibility to identify and communicate changes.
  - Employees who require close supervision (e.g. inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.
  - Management is aware of results of monitoring, audits, and reviews and considers related risk of noncompliance.
- Process established to implement changes in program objectives and procedures.

**Control Activities** are the policies and procedures that help ensure that management's directives are carried out.

- Operating policies and procedures clearly written and communicated.
- Procedures in place to implement changes in laws, regulations, guidance, and funding agreements affecting federal awards.
- Management prohibition against intervention or overriding established controls.
- Adequate segregation of duties provided between performance, review, and record-keeping of a task.

- Computer and program controls should include:
  - Data entry controls, e.g., edit checks.
  - Exception reporting.
  - Access controls.
  - Reviews of input and output data.
  - Computer general controls and security controls.
- Supervision of employees commensurate with their level of competence.
- Personnel with adequate knowledge and experience to discharge responsibilities.
- Equipment, inventories, cash, and other assets secured physically and periodically counted and compared to recorded amounts.
- If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings.

**Information and Communication** are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- Accounting system provides for separate identification of federal and non-federal transactions and allocation of transactions applicable to both.
- Adequate source documentation exists to support amounts and items reported.
- Record-keeping system is established to ensure that accounting records and documentation retained for the time period required by applicable

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requirements; such as the A-102 Common Rule (§ \_\_\_\_\_.42), OMB Circular A-110 (2 CFR 215.53), and the provisions of laws, regulations, contracts or grant agreements applicable to the program.

- Reports provided timely to managers for review and appropriate action.
- Accurate information is accessible to those who need it.
- Reconciliations and reviews ensure accuracy of reports.
- Established internal and external communication channels.
  - Staff meetings.
  - Bulletin boards.
  - Memos, circulation files, e-mail.
  - Surveys, suggestion box.
- Employees' duties and control responsibilities effectively communicated.
- Channels of communication for people to report suspected improprieties established.
- Actions taken as a result of communications received.
- Established channels of communication between the pass-through entity and subrecipients.

**Monitoring** is assessing the quality of internal control performance over time.

- Ongoing monitoring built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports.
- Periodic site visits performed at decentralized locations (including

subrecipients) and checks performed to determine whether procedures are being followed as intended.

- Follow up on irregularities and deficiencies to determine the cause.
- Internal quality control reviews performed.
- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls.
- Internal audit routinely tests for compliance with federal requirements.
- If there is a governing Board, the Board reviews the results of all monitoring or audit reports and periodically assesses the adequacy of corrective action.