

What are “internal controls?”

Federal regulations require grantees to have appropriate fiscal management systems to provide for internal controls. Internal controls are formal policies and consistent procedures put into place to safeguard cash and other assets of a grantee. A system of internal control includes a written plan to designate specific roles or individuals who have responsibility for accounting tasks. For example, when possible, someone other than the person posting transactions should reconcile bank accounts. Someone who does not reconcile should always review the reports.

What are effective internal controls practices?

In general, federal grantees are required to have accounting procedures which track receipts and expenditures of program funds separately for each award or grant. Other examples of effective practices include:

- ◆ **Purchases of goods and services**
 - ◆ Checks required to be countersigned
 - ◆ Signing blank checks is prohibited
 - ◆ Purchases (procurements) are guided by written policies
- ◆ **Cash receipts**
 - ◆ Incoming mail, except for bank statements, is opened and all cash receipts are logged
 - ◆ Bank statements are delivered unopened to the person responsible for reconciling them
 - ◆ Cash receipts, including cash, checks, and credit card revenue, are held in a secure place and deposited on a regular basis
- ◆ **Online Banking**
 - ◆ Have more than one staff member responsible for online banking functions
 - ◆ Consider a clearing bank account and make transfers from a separate system
 - ◆ Work with the bank to develop and understand security authentication procedures
 - ◆ Work with an independent auditor to develop effective internal control procedures
- ◆ **Payroll**
 - ◆ Timesheets are authorized by a person other than the person responsible for processing payroll
 - ◆ Employees prepare time and effort reports (timesheets) which include the amount of time they spend in each area or functional unit
 - ◆ Periodic reviews of the payroll classes and pay rate for all employees
 - ◆ Accurate accounting for paid time off (vacation, sick, etc.)

What is “Separation of Duties?”

Separation of duties is a critical element of internal control. To ensure effective internal controls, no individual should perform two consecutive tasks in an accounting procedure. Grantees can plan for a separation of duties by developing a chart with each step of the accounting procedure for a specific area, such as cash receipts or payroll. Each accounting procedure should be developed to ensure no individual is assigned to two consecutive tasks.

For example, the cash receipts procedure shown in the table below includes five steps: open the mail, endorse the check, make the bank deposit, enter receipts into the cash journal, and reconcile the bank statement. A staff of two people could use the separation of duties shown in the table below, using a board member or similar position to reconcile bank statements.

Cash Receipts Accounting Procedure	
Person Responsible	Task
Staff A	Open mail and endorse checks
Staff B	Make the bank deposit
Staff A	Enter cash receipts into the cash journal
Board Treasurer	Reconcile the bank statements and verify deposit amounts to the cash journal

For a larger organization, with a large accounting staff, a separation of duties matrix might look like this table (see key below for staff position descriptions):

INTERNAL CONTROLS – SEPARATION OF DUTIES					
Accounting Procedure	Initiates	Authorizes	Records	Reconciles	Controls (Custody)
Purchase of Goods	Authorizes purchase requisition @PM	Approves purchase order @CON	Enters into accounting system @A/P	Compare to budget @G/C	Receives goods, signs off vendor invoice @STAFF
Purchase of Services	Authorizes contract @PM	Compare costs to budget, approves @G/C	Enters into accounting system @A/P	Approves payment and verifies receipt of services @CON/CFO	Disburses check @A/P

Cash Receipts	Opens mail, lists checks, restrictively endorses @STAFF	Makes bank deposit @A/R	Enters cash receipts journal into accounting system @CFO	Reconciles bank statement; verifies balances to G/L @CON	Signs checks @CFO/TA
Payroll	Completes timesheets @STAFF	Approves time sheets @Supervisors	Enters time into accounting system @P/R	Monitors time and effort to budget @PM	Distributes payroll checks @P/R

KEY:

A/P	Accounts Payable Specialist	G/C	Grants/Contract Accountant
A/R	Accounts Receivable Accountant	PM	Program Manager
CFO	Chief Financial Officer	P/R	Payroll Specialist
CON	Controller	P/R	Payroll Specialist
STAFF		TA	Tribal Administrator

Resources

- ◆ [DOJ Grants Financial Guide](#)
- ◆ [Federal Financial Institutions Examination Council \(FFIEC\), Ebanking – Internal Controls](#)
- ◆ [Online Banking, Cyber-theft and Internal Controls written by David T. Schwindt, CPA RS PRA, Schwindt & Company Certified Public Accountants](#)



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Feedback Requested

OVC TFMC will continually work to provide resources to support grantees as they successfully manage their OVC financial awards. Your feedback assists us in creating these resources to meet your needs. To help us provide the most useful resources, we would appreciate your feedback on this guide sheet. Please send any comments or suggestions to Evaluation@OVCTFMC.org.

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