

## Internal Controls Guide Sheet

### What Are Internal Controls?

Internal controls are processes designed and implemented 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

### Grant Financial Management Requirement

As a Department of Justice (DOJ) grantee, you are required to comply with [2 CFR 200.303—Internal Controls](#). Along with other requirements, 2 CFR 200.303 specifies an organization must follow the guidance set forth in the [Standards for Internal Control in the Federal Government](#), issued by the Comptroller General of the United States, or the *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is a joint initiative of five professional organizations and is dedicated to helping organizations improve performance by developing thought leadership, which enhances internal control, risk management, governance, and fraud deterrence.

### Important Information to Know

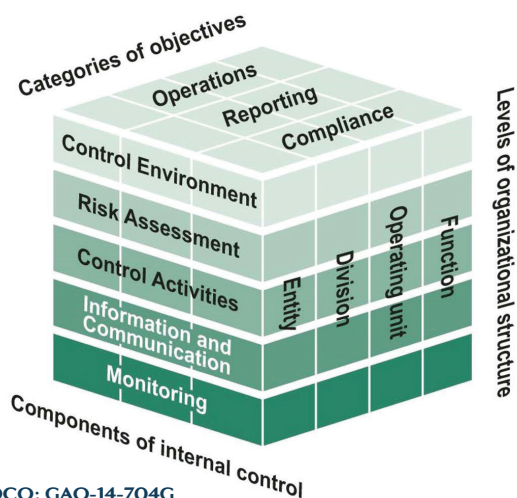
Both the *Standards for Internal Control in the Federal Government*—commonly known as the Green Book—and the *Internal Control Integrated Framework* are organized into five components, each with its own 17 principles. In this guide sheet, we will summarize the framework and utilize the federal government guidance stipulated in the Green Book.

### Components and Principles

The standards in the Green Book are organized by the five components of internal control, shown in figure 1. The five components and 17 principles apply to staff at all organizational levels and to all categories of objectives. The components, objectives, and organizational structure of internal control are explained below.

- ▶ Control environment—Considered the foundation of the internal control system that provides the structure and sets forth the discipline needed to achieve objectives.
  - ◆ The oversight body and management should demonstrate a **commitment to integrity and ethical values**.
  - ◆ The oversight body should **oversee the entity's internal control system**.
  - ◆ Management should **establish an organizational structure, assign responsibility, and delegate authority** to achieve the entity's objective.
  - ◆ Management should demonstrate a commitment to **recruit, develop, and retain competent individuals**.
  - ◆ Management should **evaluate performance and hold individuals accountable** for their internal control responsibilities.
- ▶ Risk assessment—Assessment of the risk the organization faces when trying to achieve its objectives, which provides the basis for providing appropriate risk responses.
  - ◆ Management should **define objectives clearly** to enable the identification of risks and define risk tolerances.
  - ◆ Management should **identify, analyze, and respond to risks** related to achieving the defined objectives.

- ◆ Management should **consider the potential for fraud** when identifying, analyzing, and responding to risks.
- ◆ Management should **identify, analyze, and respond to significant changes** that could impact the internal control system.
- ▶ Control activities—Actions that management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
  - ◆ Management should **design control activities** to achieve objectives and respond to risks.
  - ◆ Management should **design the entity's information system and related control activities** to achieve objectives and respond to risks.
  - ◆ Management should **implement control activities through policies**.
- ▶ Information and communication—Quality information that management and personnel communicate and use to support the internal control system.
  - ◆ Management should **use quality information** to achieve the entity's objectives.
  - ◆ Management should **internally communicate** the necessary quality information to achieve the entity's objectives.
  - ◆ Management should **externally communicate** the necessary quality information to achieve the entity's objectives.
- ▶ Monitoring—Activities that management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.
  - ◆ Management should **establish and operate monitoring activities** to monitor the internal control system and **evaluate the results**.
  - ◆ Management should **remediate** identified internal



## How This Applies to Your Grant

All recipients of federal funds have a responsibility to maintain effective internal controls. Emphasizing effective internal controls in your organization could prevent and detect fraud, waste, abuse, and mismanagement of federal funds.

## Best Practices

The following best practices are great examples of ways to safeguard your organization from fraud, waste, abuse, and mismanagement and ensure effective operations, reliable reporting, and compliance with grant terms.

- ▶ Separation of duties—Establishes a breakdown of duties so that no one person can single-handedly conduct the entire procedure in a transaction. This separation ensures a check and balance system. Assigned responsibilities should be properly documented and be reviewed periodically. An example for time and effort recording would be:



- ▶ Policies and procedures—Written policies and procedures should be made available to personnel and must describe processes for planning, organizing, directing, controlling, and reporting on organizational operations.
- ▶ Documentation—Ensures detailed, accurate, and sufficient information is recorded and retained to support and corroborate program transactions.
- ▶ Authorization—Establishes transactions that should be reviewed and authorized prior to execution. An example from procurement:
  - ◆ Capital expenditures and other purchases—\$5,000 can only be carried out with written authorization from the executive director of the program.
- ▶ Asset safeguarding—Physical assets susceptible to misappropriation or misuse, such as cash and fixed assets, are properly secured and accessible only to authorized personnel. An example using cash receipts:
  - ◆ Cash receipts, including cash, checks, and credit card revenue, are held in a lockbox and deposited on a regular basis.

- ▶ Reconciliations—Accounting reconciliations corroborate that recorded transactions are accurate and provide the most current information for reporting. Physical reconciliations ensure assets purchased with program funds are being properly utilized. An example from accounting:
  - ◆ Reconcile bank statement amounts to current cash balances for any unexplained discrepancies.

## Resources

[2 CFR 200.303—Internal Controls](#)

United States Department of Justice. (2017). *DOJ Financial Guide*. <https://www.ojp.gov/DOJFinancialGuide>

United States Government Accountability Office. (2014). *Standards for Internal Control in the Federal Government*. <https://www.gao.gov/assets/gao-14-704g.pdf>

OJP TFSC offers resources on a variety of grants financial management topics, which can be found on our website at <https://www.ojp.gov/tfsc/resources>

## About the OJP Territories Financial Support Center

**The Office of Justice Programs Territories Financial Support Center** (OJP TFSC) offers free resources, training, and technical assistance for grantees in the U.S. territories. OJP TFSC services focus on building financial management capacity and can be accessed by emailing [OJPTFSC@usdoj.gov](mailto:OJPTFSC@usdoj.gov) via our Virtual Support Center.



*This product was prepared under contract/call order number GS-00F-010CA/15PCFD20F00000200 awarded by the Office of Justice Programs, U.S. Department of Justice and does not constitute financial or other professional advice. The opinions, findings, and conclusions expressed in this product are those of OJP TFSC and do not represent the official position or policies of the U.S. Department of Justice.*