

## Developing Internal Controls for Grant Programs

Session 6  
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## Previous Sessions

- Basics of Federal Grants Management
- Basics of Cost Allowability
- Risk Assessment for Federal Grant Programs

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## Reminder Roadmap to Policies

- OMB Circulars
  - A-102 ---Regulations (e.g., DHHS: 45 CFR 92; USDA: 7 CFR 3016)
  - A-110 ---Regulations (e.g., DHHS: 45 CFR 74; USDA: 7 CFR 3019)
  - A-87 ---45 CFR 92.22 45 CFR 74.27
  - A-122 ---45 CFR 92.22 45 CFR 74.27
  - A-133 ---45 CFR 92.26 45 CFR 74.26

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## Internal Controls for Federal Grant Programs

- Why Worry?
- OMB Circular A-133 Audits
  - "Internal Controls over Federal Programs"
- Current Federal Fund Accountability Atmosphere

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## What are the Requirements

- OMB Circular A-110 (45 CFR 74.21(b)(3))
- OMB Circular A-133
  - Section \_\_\_\_ .105
  - Section \_\_\_\_ .300 (b)

**BUT THE SPECIFIC DETAILS AND  
FEATURES ARE UP TO YOU!!**

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## Useful Resources

- Standards for Internal Control in the Federal Government (US GAO)
- Compliance Supplement for Circular A-133 Audits (US OMB)

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## Level of Assurance

- “Reasonable Assurance” versus “Absolute Assurance”
- Balancing Risk, Cost, and Benefit
- Reviewing:
  - What’s Required
  - What Makes Sense to Have
  - “The Way We’ve Always Done It”

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## Internal Control Objectives

- Transactions are properly recorded and accounted for to:
  - Permit the preparation of reliable financial statements and Federal reports
  - Maintain accountability over assets
  - Demonstrate compliance with laws, regulations and other requirements

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## Internal Control Objectives

- Transactions are executed in compliance with:
  - Laws, regulations and the provisions of contracts and grant agreements that could have a direct and material effect on a Federal program;
  - Any other laws and regulations that are identified in the “compliance supplement”

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## Internal Control Objectives

- Funds, property and other assets are safeguarded against loss from unauthorized use or disposition
- KEY QUESTIONS
  - Will your policies, procedures, and practices prevent or detect material misstatements and noncompliance with federal laws, regulations and award terms and conditions and safeguard grant-related assets?
  - How will you demonstrate the elements of internal control through your policies, procedures, and practices?

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## Internal Control Components

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

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## Control Environment

- Positive and supportive attitude toward internal control and conscientious management
- Integrity and ethical values demonstrated by management and staff
- Demonstrated commitment to competence
- Managerial philosophy and operating style
- Organizational structure (lines of authority, responsibility, and reporting)
- Human capital policies and practices
- "Apple pie and motherhood"
- Codes of conduct

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## Risk Assessment

- Clear, consistent organizational objectives
- Risk identification (external and internal interactions)
- Inherent Risk
- Control Risk
- Detection Risk
- Risk analysis for possible effect

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## Control Activities

- Top level reviews of actual performance
- Reviews by management at the functional and activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishment and review of performance measures and indicators
- Segregation of duties

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## Control Activities

- Proper execution of transactions and events
- Accurate and timely recording of transactions and events
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions
- Routine reconciliations

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## Information and Communication

- Coordination between program managers and financial staff
- Exposure to and familiarization with related functions
- Pertinent information identified, captured, and distributed in a timely manner
- Formalized vertical and lateral communication methods
- External communications with grantors and other stakeholders

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## Monitoring

- Ongoing and ingrained
- Management and supervision
- Comparisons and reconciliations
- Separate evaluations
- Follow-up on findings from audits and other reviews

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### Federal Grant Controls (per the A-133 Compliance Supplement)

- Permitted activities
- Allowable costs
- Cash management
- Davis-Bacon Act
- Eligibility
- Property management
- Matching, level of effort, and earmarking
- Period for availability of funds

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### Federal Grant Controls (per the A-133 Compliance Supplement)

- Procurement
- Suspension and debarment
- Program income
- Real property acquisition and relocation assistance
- Reporting
- Subrecipient monitoring
- Special tests and provisions

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### Possible Template for Internal Control Policies and Procedures

- Accounting Controls
  - Cash Receipts
  - Cash Disbursements
  - Donated services
  - Donated materials and supplies
  - Donated equipment and facilities
  - Plant and equipment
  - Obligations/expenditures

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### Possible Template for Internal Control Policies and Procedures

- Trained and reliable personnel
- Bonding and insurance
- Proper authorizations
- Separation of duties
- Rotation of duties
- Internal audit
- External audit
- Alert system
- Budgetary planning and control
- Cash management and reserves

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### Possible Template for Grant Specific Policies

- System Standards (A-110)
  - Financial management
  - Procurement
  - Property management
- Compliance Supplement Categories
- Specific Grant and Subgrant Agreement Review

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