

What are internal controls?

Federal regulations require grantees to have appropriate fiscal management systems and internal controls. Internal controls are formal policies and consistent procedures to protect cash and other grantee assets. An internal control system includes a written plan assigning specific roles or individuals responsible for different accounting tasks. For example, someone other than the person posting transactions should reconcile bank accounts, and someone who does not reconcile should review the reports.

What are effective internal control practices?

In general, federal grantees must have accounting procedures that track program fund receipts and expenditures separately for each award or grant. Other effective internal control practices include:

- ▶ Purchases of goods and services
 - ▶ Countersign checks—this is required.
 - ▶ Do not sign blank checks.
 - ▶ Have written policies that guide purchases (procurements).
- ▶ Cash receipts
 - ▶ Open incoming mail (except bank statements) and log cash receipts.
 - ▶ Deliver bank statements unopened to the person responsible for reconciling them.
 - ▶ Hold cash receipts, including cash, checks, and credit card revenue, securely and deposit them regularly.
- ▶ 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
 - ▶ Have a different person approve time sheets than the person responsible for processing payroll.
 - ▶ Have employees prepare time-and-effort reports (time sheets) that include the time spent in each area or functional unit.
 - ▶ Periodically review the payroll classes and pay rates for all employees.
 - ▶ Accurately account for paid time off (e.g., vacation, sick).



What is separation of duties?

Separation of duties is a critical element of internal control, meaning no individual should perform two consecutive tasks in an accounting procedure. Grantees can separate duties by developing a chart with each step of the accounting procedure for a specific area, such as cash receipts or payroll. For example, the cash receipts procedure example in Table 1, below, divides four accounting tasks among four staff members.

Table 1: Sample Separation of Duties

Cash Receipts Accounting Procedure	
Person Responsible	Task
Staff A	Opens mail and endorse checks
Staff B	Makes bank deposit
Staff A	Enters cash receipts into cash journal
Board Treasurer	Reconciles bank statements and verify deposit amounts in cash journal

Table 2, below, shows an example of a matrix for separating duties for a larger organization with a large accounting staff.

Table 2: Sample Separation of Duties—Larger Organization

Internal Controls—Separation of Duties					
Accounting Procedure	Initiates	Approves	Records	Reconciles	Controls (Custody)
Purchase of Goods	Approves purchase requisitions: program manager	Approves purchase orders: controller	Enters purchases into the accounting system: accounts payable specialist	Compares purchases to budget: grants/contract accountant	Receives goods and signs vendor invoices: staff member
Purchase of Services	Approves contracts: program manager	Compares costs to the budget and approves them: grants/contract accountant	Enters costs into the accounting system: accounts payable specialist	Approves payments and verifies receipt of services: controller and chief financial officer	Disburses checks: accounts payable specialist



Internal Controls—Separation of Duties					
Accounting Procedure	Initiates	Approves	Records	Reconciles	Controls (Custody)
Cash Receipts	Opens mail and lists and restrictively endorses checks: staff member	Makes bank deposits: accounts receivable accountant	Enters cash receipts into the accounting system: chief financial officer	Reconciles bank statements and verifies balances to the general ledger: controller	Signs checks: chief financial officer or organization administrator
Payroll	Completes time sheets: staff member	Approves time sheets: supervisors	Enters time into the accounting system: payroll specialist	Monitors time and effort to budget: program manager	Distributes payroll checks: payroll specialist

Resources

- ▶ [DOJ Grants Financial Guide](#)

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