

Tip Sheet – Internal Controls

Adequate and effective internal controls are necessary to ensure accurate and timely expenditures of grant dollars and reporting of grant outcomes. Agencies need to ensure that potential grantees have sufficient internal controls to manage state taxpayer dollars when performing the preaward risk assessment per [OGM Policy 08-06: Preaward Risk Assessment of Potential Grantees](#). Below are some of the major aspects of internal controls that agencies should verify that each grantee has in place, with consideration of the specific requirements of administering the grant.

Formal Written Policies and Procedures. Documented policies and procedures are a key aspect of governance in a business. While agencies can verify these are being followed during monitoring visits and through review of reimbursement requests or financial reconciliations, they should confirm that the grantee has policies and procedures for the following, as applicable to the grant requirements:

- Accounting
- Purchasing
- Payroll
- Contracting
- Asset management
- Conflict of interest

Financial Controls. It is important that a grantee have some system in place to track the expenditures that are being charged to the grant. Grantees that have multiple funding sources should have a system that is capable of tracking which expenditures are charged to each source. Time studies or a payroll system that tracks funding sources might also be necessary to appropriately charge payroll to multiple sources.

Ideally, controls are in place with segregation of duties between recording transactions, authorizing transactions, and issuance of payments. Supervisory review and approval over purchases and timecards is a typical control to ensure accuracy and compliance with requirements. Grantees with a limited number of staff will have an executive officer or board review purchases and payroll monthly. Reconciliations, performed by someone outside of the purchasing process, between systems compared to the bank statements and invoices/receipts performed is another way to ensure segregation of duties.

Security controls are also important to consider regarding a system. An example of this is requiring a username and login for access, which provides an important layer of control over records.

Adequate Documentation and Retention. Agencies may request receipts and invoices, bank statements, timecards, or other records, as needed, to perform financial reconciliations or audits. Grantees must understand the state requirements for documentation and retention and be able to meet them.

Reporting. Grantees must report on the outcomes of the grant. In addition to ensuring that grantees have adequate financial controls to report accurate expenditures, agencies should ensure they have controls in place to report on the outcome of the grant. This will be specific to the requirements of the grant. For example, if the grant is for providing services, then the grantee should have tracking in place to report on the number of people served.