

# INTERNAL CONTROLS POLICY EXAMPLE

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**Instructions:** This document is intended as an aid to assist non-State entities in establishing an internal controls policy. It is not intended to be used verbatim, but rather to serve as a template for nongovernmental organizations as they craft their individual internal controls policy. Each organization that chooses to use this template should take care to make changes that reflect the individual organization. Those controls should be relevant and material to the proper administration of all financial activities. Controls should be established and maintained in two areas: (a) administrative controls, including those used in the administration of assistance programs, and (b) accounting controls. You may find that you need to establish different controls than those listed in this template.

## **Organization's Intent:**

It is the policy of this organization that we will maintain a system of internal controls that include both administrative controls and accounting controls. The objective of this organization's internal control system is to provide management with reasonable, but not absolute, assurance that resources are being used and accounted for appropriately.

## **Administrative Controls:**

Administrative controls will include, but are not limited to, the plan of organization and the procedures and records concerned with the decision process leading to management's authorization of transactions. Specifically, these controls will work to assure management that

- resource use is consistent with laws, regulations, and policies;
- resources are safeguarded against waste, loss, and misuse; and
- reliable data are obtained, maintained, and fairly disclosed in reports.

## **Employee's Responsibilities:**

To achieve these objectives, employees are directed to study each grant agreement and grantor guidelines to determine what administrative controls are appropriate for the grant. Questions should be directed to the employee's immediate supervisor or the organization's chief financial officer. The organization will establish and maintain the following administrative controls that relate to grant accountability:

- procedures to deter or detect expenses related to political activity;
- independent review of participant eligibility determinations;
- monitoring cash flow to ensure that recipients and sub-recipients draw down funds on a timely basis and avoid excessive balances or deficits of grant funds;
- monitoring subrecipients to ensure that weaknesses and noncompliance are promptly corrected; and
- ensuring that only allowable expenses are charged to grants.

## **Accounting Controls:**

Accounting control is concerned with the plan of organization and the procedures and records that relate to the safeguarding of assets and the reliability of financial records. This organization will establish and maintain controls that will provide reasonable assurance that:

- transactions are executed in accordance with management's general or specific authorization;
- transactions are recorded to permit preparation of financial statements in conformity with GAAP or any other criteria, such as instructions for IRS Form 990 and to maintain accountability for assets;
- access to assets is permitted only in accordance with management's authorization; and
- the recorded accountability for assets is compared with the existing assets at reasonable intervals, and appropriate action is taken with respect to any differences.

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**Employee's Responsibilities:**

Employees are expected to determine and implement the appropriate internal control procedures relating to their areas. Questions should be directed to the employee's immediate supervisor or the organization's chief financial officer. If an employee finds that internal controls are lacking or are not effective, then he is expected to notify the organization's chief financial officer who will be responsible for establishing the necessary controls.

**Sanctions for Non-Compliance:**

Any employee who deliberately circumvents an internal control will be dismissed. Legal action will be brought against any employee who violates any state or federal laws while in the employee of this organization. Additionally, the organization will pursue appropriate legal actions against an employee who violates established laws and/or circumvents internal controls for his own gain.