

Federal Grant Internal Control Guidance

The OMB Circular A-133 Compliance Supplement, Part 6, provides auditees and auditors with guidance to obtain an understanding of and evaluate the adequacy of internal control.

The Supplement provides in part:

“This Part 6 is intended to assist non-federal entities and their auditors in complying with these [testing requirements of OMB Circular A-133] by describing, for each type of compliance requirement, the objectives of internal control, and certain characteristics of internal controls that, when present and operating effectively, may ensure compliance with program requirements. However, the categorizations reflected in this Part 6 may not necessarily reflect how an entity considers and implements internal control [i.e., depending on the organization’s structure, functions, etc.]. Also, this part is not a checklist of required internal control characteristics. Non-federal entities could have adequate internal control even though some or all of the characteristics included in Part 6 are not present. Further, non-federal entities could have other appropriate internal controls operating effectively that have not been included in this Part 6. Non-federal entities and their auditors will need to exercise judgment in determining the most cost effective internal control in a given environment or circumstance to provide reasonable assurance for compliance with federal [or state] program requirements.”

The compliance types contained in Part 6 of the OMB Circular A-133 Compliance Supplement are briefly presented here to provide guidelines for evaluating internal control. The internal control objectives for each compliance type are presented as well.

Agencies need to review their internal controls regarding their preparation of the Schedule of Federal Financial Assistance. These controls extend to those items common for all grants and include:

Period of Availability— Control Objectives – To provide reasonable assurance that federal funds are used only during the authorized period of availability.

Sub-recipient monitoring— Control Objectives – To provide reasonable assurance that federal award information and compliance requirements are identified to sub-recipients, sub-recipient activities are monitored, sub-recipient audit findings are resolved, and the impact of any sub-recipient noncompliance on the pass-through entity is evaluated. Also, the pass-through entity should perform procedures to provide reasonable assurance that the sub-recipient obtained required audits and takes appropriate corrective action on audit findings.

Eligibility— Control Objectives – To provide reasonable assurance that only eligible individuals and organizations receive assistance under federal award programs, that sub-awards are made only to eligible sub-recipients, and that

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amounts provided to or on behalf of eligibles were calculated in accordance with program requirements.

Equipment and Real Property Management—Control Objectives – To provide reasonable assurance that proper records are maintained for equipment acquired with federal awards, equipment is adequately safeguarded and maintained, disposition or encumbrance of any equipment or real property is in accordance with federal requirements, and the federal awarding agency is appropriately compensated for its share of any property sold or converted to non-federal use.

Allowable costs/cost principles— Control Objectives – To provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

Cash Management— Control Objectives – To provide reasonable assurance that the drawdown of federal cash is only for immediate needs and recipients limit payments to sub-recipients to immediate cash needs.

Procurement and Suspension Debarment— Control Objectives – To provide reasonable assurance that procurement of goods and services is made in compliance with the provisions of the A-102 Common Rule or OMB Circular A-110, as applicable, and that covered transactions (as defined in the suspension and debarment common rule) are not made with a debarred or suspended party.

Matching, Level of Effort or Earmarking— Control Objectives – To provide reasonable assurance that matching, level of effort, or earmarking requirements are met using only allowable funds or costs which are properly calculated and valued.

Reporting—Control Objectives – To provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.