

§200.303 Internal controls.

The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (b) Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
- (d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
- (e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

The Five Components of the COSO Internal Control Framework

Any effective internal control system works best with certain components that reflect the overall mission, strategies and related business objectives. The COSO Framework features five components that support the achievement of those goals in any company.

1. **Control Environment** – Built by setting the basic tone of the organization, particularly regarding internal controls, the control environment features policies, procedures and an overarching discipline, structure and integrity. The control environment is so ingrained that variances easily illuminate internal control issues. (set the tone at the top, create an environment of policies and procedures to be followed)
2. **Risk Assessment** – Every company around the world faces some degree of risk. This component focuses on identifying specific industry risks, as well as risks specific to the company itself before trying to analyze and outline potential management of risk. (cash, checks, inventory)
3. **Control Activities** – Setting and following solid policies and procedures–based on risk factors, rules, regulations and experience–help ensure that there are appropriate preventive actions and responses in place for any variation from the norm. (segregation of duties, dual check signing, changing passwords)

4. **Information and Communication** – The flow of information, when it comes to internal controls, must flow in every direction, ensuring everyone related to a particular sector, or the entire system, stays up-to-date. (weekly reminders and monthly bulletins)
5. **Monitoring** – In addition to regularly scheduled audits and auditor’s reports, it is important to continually monitor internal controls to root out and correct inconsistencies and issues right away. (don’t assume control is in place check it to ensure)