

Internal Controls

Why Do We Need Strong Internal Controls?

To protect yourself & your employees

What Do I Need to Do?

- ✓ Assess the Level of Risk
 - Qualitative / Quantitative
 - Political Risk
 - Local Newspapers
- ✓ Identify Reasonable Controls
- ✓ Determine Benefits of Controls
- ✓ Implement Controls
- ✓ Examine the Risk

Ultimate Goal

Protect your Assets

- ✓ From the time assets are received to the time they are booked
- ✓ To the point in which assets are removed from your system / books

Tips

- ✓ There are no Absolutes
- ✓ Keys to Good Systems of Control
 - ⇨ Strong Policies
 - ⇨ Monitoring / Enforcement of Policies
 - ⇨ Documentation of any Deviations from Standard Practice / Policy

Accounts Payable/ Cash Disbursements



Common Risks:

- ✗ Checks Processed by Unauthorized Personnel
- ✗ Payments Made Based on Invalid or Unapproved Invoices
- ✗ Payments to Fictitious or Invalid Vendors
- ✗ Misuse of Hand Drawn Checks

A good control system has these duties segregated:

- ✓ Setting Up Vendors
- ✓ Processing / Approving POs
- ✓ Processing Invoices
- ✓ Processing Operating Checks

Examples of Controls

- ❖ Superintendent or CFO signs checks, keeps sequential Check Log, reviews all documentation
- ❖ Review of Voided Checks
- ❖ Review of Voucher Packages
 - ⇨ Purchase Orders
 - ⇨ Invoices
 - ⇨ Receiving Reports
- ❖ Approvals Prior to Payment
- ❖ Password-ed Check printer
- ❖ Check Stock Locked up
- ❖ Review of New Vendors
- ❖ Setting Up of Vendors handled by someone other than the one who cuts checks

Accounts Receivable/ Cash Receipts

Common Risks:

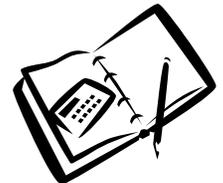
- ✗ Misappropriation of Funds Prior To Posting to the Accounting Records
- ✗ Not Crediting Appropriate Accounts Receivable, Duplication of Revenue
- ✗ Diversion of funds to improper accounts

A good control system has these duties segregated:

- ✓ Establishing Bank Accounts In Entity's Name
- ✓ Receiving Cash,
- ✓ Depositing Cash
- ✓ Recording Cash
- ✓ Reconciling Cash

Examples of Controls

- ❖ Sequential / Pre-Numbered Receipts
- ❖ Separation Between Individuals Receiving Money (Via Mail or In Person) and Individuals Posting to the General Ledger
- ❖ Separation Between Receiving Money and Depositing Money
- ❖ Establish number of days acceptable to hold receipts
- ❖ Establish maximum amount of cash that can be held in vault
- ❖ Require receipt books/spreadsheets for each person (sponsors, bookkeepers, teachers, etc.) receiving cash



School Activity Accounts Cash Receipts/Disbursements

To avoid risk related to inadequate segregation of duties (School Level)

- ❖ Designate someone separate from school bookkeeper to receive cash receipts
- ❖ Designate someone separate from school operations to perform bank reconciliation
- ❖ Deposits made by someone separate from bookkeeping
- ❖ Principal, or designee, review supporting documentation for receipts monthly
- ❖ Principal, or designee, review, initial, date all bank reconciliations
- ❖ Review periodically, preferably monthly, by someone completely independent of process

To avoid risk related to inadequate segregation of duties (Central Office Level)

- ❖ Central office personnel periodically check each school to verify compliance with procedures manual
- ❖ Send copy of monthly reconciliation and statement to central office for system finance director to approve

Cash Disbursements

- ❖ Require prior approval of expenses by appropriate personnel
- ❖ Principal signing check is an acceptable approval of purchase, if it indicates the acceptance of responsibility for the validity of the purchase. When accepting responsibility, Principal should review the voucher package for accuracy prior to signing check.
- ❖ Give club sponsors and others periodic updates of the expenses recorded in the club accounts
- ❖ Do not allow checks payable to cash



Payroll / Benefit Disbursements

Common Risks:

- × Theft Due to Ghost Employee
- × Check to Terminated/Inactive Employee
- × Unauthorized Payroll Changes
- × Undetected Mathematical or Data Entry Errors Due to Lack of Oversight
- × Manipulation of Withholding Balances

A good control system has these duties segregated:

- ✓ Setting up New Employees
- ✓ Making Payroll Changes
- ✓ Processing Payroll Checks

Examples of Controls

- ❖ Thorough Review of Initial Input
- ❖ Sequential Log of Employee Number
- ❖ Review Sample of Monthly Salaries
- ❖ Pay Adjustments Must be Approved/Reviewed By Payroll Director
- ❖ Calculations of employee Salaries Outside of System; Reviewed By Finance Director
- ❖ Payroll Reports Compared to Initial Salary Calculations; Review of New Employees Added
- ❖ Superintendent approval
- ❖ Distribution of Checks By Someone Outside of Payroll
- ❖ Review of Exception Reports

Credit Card/Purchasing Cards

Common Risk:

- × Circumventing Expenditure Controls

Examples of Controls:

- ❖ Strong Policy
 - Allowable Vendors By Dept
 - Thresholds
 - Allowable Items
- ❖ Voucher Packages
 - Matching Receipts to Statement
- ❖ Monitoring
 - Electronic File By Cardholder

Access Controls

Common Risk:

- × Access Point
 - Doors to a System/Data
 - Via Computers, Networks, Applications, Database



Examples of Access Controls

- ❖ Physical - Doors, Locks
- ❖ Logical - Passwords

Disaster Recovery Planning

- ❖ Industry Best Practice
- ❖ Strong Policy Required
 - Consider:
 - ✓ Staffing
 - ✓ Equipment
 - ✓ Processes
- ❖ Review Policy Periodically