Communities Connected *for* Kids

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Series	1000: Funding and Fiscal Management
Policy Name	**Internal Control and Review**
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Regulation

SAS 104-111

Attachments:

Internal Control Questionnaire

Policy

It is the policy of Communities Connected for Kids to establish sufficient internal accounting controls that ensure the safeguarding of assets and the reliability of financial records and reporting.

Scope

The controls are designed to provide reasonable assurance that:

1. Transactions are executed in accordance with generally accepting accounting practices and management's general or specific authorization.
2. Transactions are recorded as necessary:
   a. to permit preparation of financial statements in conformity with generally accepted accounting principles or other criteria applicable to such statements, and other records and reports for internal management purposes.
   b. to maintain accountability for assets.
3. Access to assets is permitted only in accordance with management's authorization provided in controlling laws, rules and regulations.
4. The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Contents

Definitions

a. Reasonable Assurance - The definition of accounting control contemplates reasonable, but not absolute, assurance that the objectives expressed in it will be accomplished by the system. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived. The benefits consist of reductions in the risk of failing to achieve objectives implicit in the definition of accounting control.

b. Internal Control Environment - Those factors which contribute to an appropriate atmosphere of control consciousness including organizational structure, personnel, delegation of authority, explicit and implicit communication of policies and responsibilities, budgets and financial reports, internal auditing, and organizational checks and balances. An effective internal control environment should include procedures and policies designed to preclude fraud, minimize errors, promote efficient operations, and achieve compliance with established policies and procedures.

c. Organizational Structure - The organizational structure provides an overall framework for planning, coordinating and controlling operations as the lead community-based agency. In general, it involves reporting relationships, functions to be performed by organizational units, and authority, responsibilities, and constraints of key positions.

d. Personnel - Personnel should be segregated in such a manner to ensure an adequate separation of duties.

e. Delegation of Authority and Communication of Responsibility - At each level in the organization, there is a need for a clear understanding of the authority delegated and the relationships individuals have with respect to others in the organization.

f. Budgets and Financial Reports - Budgets recognize an overall allocation of anticipated revenue and use of planned expenses through programs and operations. Budgets need to be updated in a timely manner to reflect management's decisions relative to changed conditions and circumstances. The analysis of financial reports which compare budgeted and actual results enables management to identify areas where controls may need to be strengthened; provides a means for evaluating performance; helps provide reasonable assurance that transactions are being executed in accordance with management's authorization, and helps develop an attitude of accountability.

g. Organizational Checks and Balances - The concept of checks and balances is to establish procedures in which the duties of one employee serve as a proof of the accuracy of the work of another. This segregation of duties should not only add to the efficiency of operations, but also produce a warning signal when errors, whether accidental or intentional, occur. This prevention and prompt detection of errors is essential if management is to be provided with reliable information for decision-making purposes.

Basic Concepts of Internal Accounting Control

a. **RESPONSIBILITY OF MANAGEMENT** - It is management's responsibility to establish and maintain an effective system of internal control. The Chief Executive Officer must delegate this responsibility to the appropriate management level to carry out this function. This responsibility entails implementing accounting control measures and then monitoring compliance with established control procedures to obtain reasonable assurance that the controls in place continue to be appropriate and remain in effect. Monitoring takes place through such actions as management supervision, audits, spending plans, financial statement presentation and approval and control of changes in budget allocations and procedures.

b. **INHERENT LIMITATIONS** - There are inherent limitations in any system of internal accounting control. Limitations of control procedures include, for example, management override of established controls and a hesitation by individuals to challenge such override, the possibility of circumvention by employee collusion, and changes in the degree of compliance due to changing conditions within the organization or simply deterioration in compliance. Also, in the performance of most accounting control procedures, there are possibilities for errors arising from such causes as misunderstanding of instructions or mistakes of judgment.

c. **SEGREGATION OF DUTIES** - Segregation of duties involves the assignment of duties in such a way that different employees handle different parts of the same transaction. Therefore, duties of one employee automatically provide a cross check on the work of one or more other employees. Anyone who records transactions and has access to the related assets ordinarily is in a position to perpetrate errors or irregularities. Appropriate segregation of duties helps to detect errors in a timely manner and deter fraud, waste and abuse. Internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset (i.e., the employee who prepares the deposit or maintains the checkbook should not be authorized to sign checks).

d. **ENFORCEMENT OF VACATION POLICIES** - Periodic vacations for staff should be enforced with another employee performing the vacationing employee's duties. This allows an unencumbered review of that particular function which should assist in detecting any irregularities which might be occurring. Failure to have someone perform the vacationing employee's duties negates the internal control function of requiring periodic vacations.

e. **DOCUMENTATION** - Proper documentation of transactions helps to ensure proper review and checking responsibility, permits proper accounting, aids in the control of transactions, and reduces the chance of errors. The complete documentation of transactions is essential to sound internal accounting control.

1. Important aspects of documentation include:

   a. description of the transaction,

   b. written approval authorizing the transaction,

   c. written evidence that any necessary subsequent steps, such as comparison to other prior documents and,

   d. confirmation of clerical accuracy and coding, were performed.

2. Accounting control procedures and techniques should provide reasonable assurance that all transactions are accounted for and that proper documentation is kept on file.

f. **SUPERVISION AND REVIEW** - Systematic and thoughtful supervision, as well as review of employees' work, helps to ensure that accounting control procedures are, in fact, understood and followed. The frequency and extent of supervision and review will depend on many factors, such as the sensitivity and risk of transactions and the ability and experience of the employee. Systematic and well-conceived supervision by all levels of management helps to detect and correct misunderstandings, errors, and improper practices in a timely manner and, at the same time, improve employee performance. Management should ensure that control accounts are properly reconciled to supporting details, transactions are being accounted for, errors are appropriately investigated and corrected, and established policies and procedures are being followed. It is desirable to document specific acts of supervision and review.

g. **TIMELINESS** - It is important that reports, reconciliations, document reviews, and other procedures and techniques that are intended to meet specific internal accounting control objectives be prepared or performed on a timely basis. The importance of the degree of timeliness will vary with each circumstance, and management should take this into consideration when evaluating its control procedures and techniques. For example, exception reports should be reviewed and investigated promptly, and general ledger control and bank reconciliations need to be prepared and differences resolved expeditiously, so any necessary corrective actions can be taken without unnecessary exposure to loss.

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The following policies and procedures within this series identify specific internal accounting controls for various functions. These controls are designed to achieve the following objectives: an adequate segregation of duties, restricted access to assets, asset accountability and periodic comparison of recorded assets to physical assets, and proper documentation to evidence authorization and designate responsibility. These controls should be reviewed periodically for continued existence in all districts, where applicable and feasible. The listing is not all inclusive, and a compensating control not addressed here may be used to offset a potential weakness if a control listed below is not feasible. These conditions are indicative of strong internal controls which will reduce the risk that errors and/or irregularities will occur and, if they do occur, that they will not go undetected.

Attachment I to this policy is a detailed internal control questionnaire to assist in evaluating the internal controls that are currently in place.

Internal Control Questionnaire – Attachment I

Approved: Carol Deloach

Carol Deloach, CEO