

INTERNAL CONTROL SYSTEMS FOR SMALL SCHOOL CORPORATIONS

IASBO Annual Meeting

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Contact Information

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IC 5-11-1-27

- ▶ Promote government accountability and transparency by having a entity wide system of checks and balances.
- ▶ Ensure that all public officials and employees serve the people with responsibility, integrity, loyalty, and efficiency.
- ▶ To assist governmental units in accomplishing their mission and objectives.

Resources for Reference

- ▶ Internal Control Standards webpage on the SBOA's website
 - ▶ <http://in.gov/sboa/5071.htm>
- ▶ SBOA Internal Control Standards webinar
 - ▶ Available on SBOA website or on YouTube
- ▶ Standards for Internal Control in the Federal Government (the Green Book)
 - ▶ <http://www.gao.gov/assets/670/665712.pdf>

Roles assigned by IC 5-11-1-27

- ▶ State Board of Accounts -
 - ▶ Define and develop the acceptable minimal level of internal control standards.
 - ▶ Develop or designate approved personnel training materials.
- ▶ School's Legislative Body -
 - ▶ Ensure the minimum level of internal control standards are adopted.
 - ▶ Ensure personnel receive training concerning the internal control standards and procedures that were adopted by the by the legislative body.
- ▶ School's Management -
 - ▶ Certify that the minimum level of internal control standards have been adopted by the legislative body.
 - ▶ Certify that personnel have received the required training on the standards and procedures.

Noncompliance with IC 5-11-1-27

- ▶ After June 30, 2016, during an audit if the SBOA finds that a political subdivision has not complied with the requirements of IC 5-11-1-27 they are to do the following:
 - ▶ Issue a comment in the audit report
 - ▶ Second audit period, if the political subdivision has not complied, they have 60 days after notification to correct the violation.
 - ▶ If not corrected within 60 days the SBOA will forward the information to the Department of Local Government Finance.
- ▶ Per IC 6-1.1-17-16.2, DLGF will not approve a budget or supplemental appropriations for political subdivisions that have not complied with IC 5-11-1-27(i).

TIMELINE FOR COMPLIANCE WITH IC 5-11-1-27

▶ By July 1, 2016

- ▶ School Board has passed a resolution adopting the minimum standards for internal controls as detailed in the Uniform Internal Control Standards for Indiana Political Subdivisions manual.
- ▶ School personnel have received training on the minimum standards and procedures adopted by the School Board.

▶ By August 29, 2017

- ▶ Treasurer (fiscal officer) will certify on the Gateway Annual Financial Report that the School Board has adopted the minimum standards and the personnel have received training.

INTERNAL CONTROL SYSTEMS

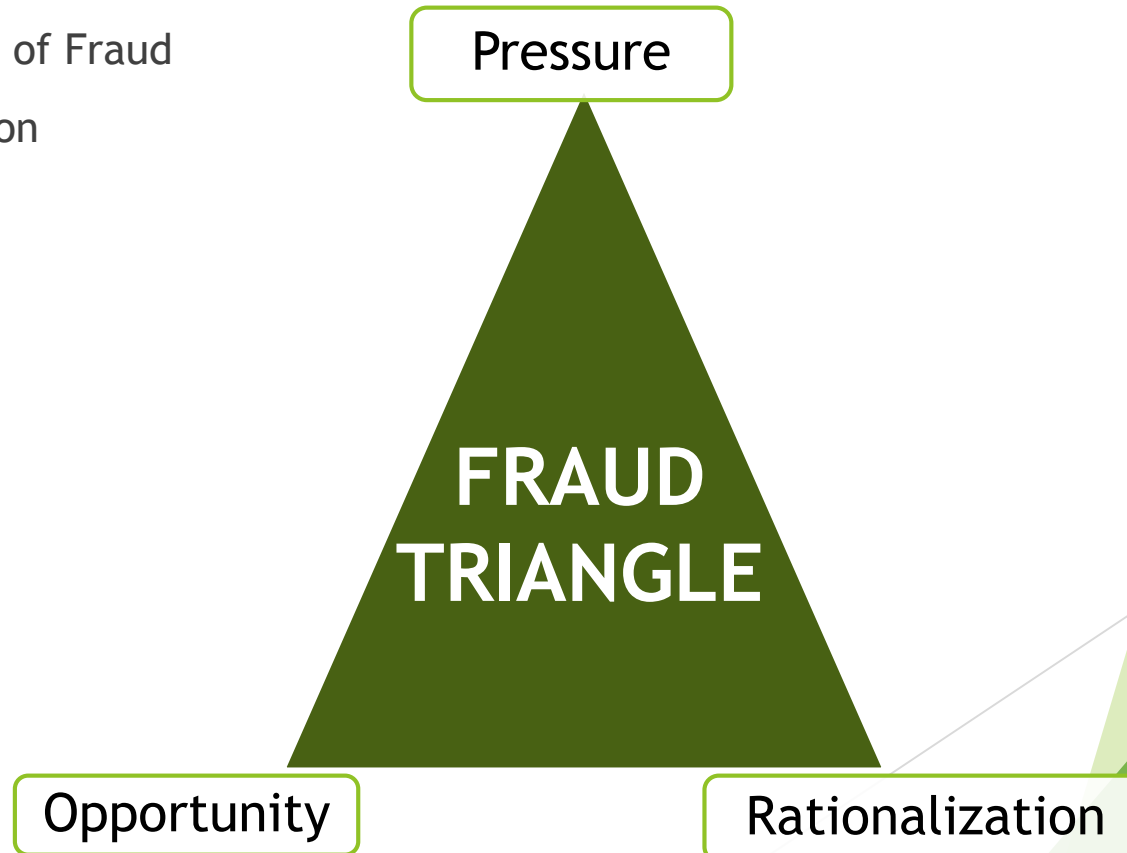
Indiana Code 5-11-1-27 requires each political subdivision to maintain a system of internal control to promote government accountability and transparency.

What is Internal Control?

- ▶ A conceptual process that is applied to a wide range of situations in a wide range of environments
- ▶ **A process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;**
- ▶ Includes the reduction of risk associated with fraud as well as a safeguard of resources against loss due to waste, abuse, mismanagement, or errors;
- ▶ It is a basic element fundamental to the organization, rather than a list of added on tasks;
- ▶ It is a check and balance system over operations, promoting operational effectiveness and efficiency;
- ▶ It is focused on the achievement of objectives; and
- ▶ It is dependent on officials and employees for effective implementation
- ▶ **A system that produces reliable financial and management data; ensures accuracy and timeliness in reporting; and promotes compliance with laws.**

Benefits of Internal Controls

- ▶ Protects assets (i.e. cash) from misuse, theft, etc.
 - ▶ Eliminates the “Opportunity” of Fraud
 - ▶ Does not work against collusion
- ▶ Lack of Findings
- ▶ Save your school money



Components

- ▶ 5 Components
 - ▶ Control Environment
 - ▶ Risk Assessment
 - ▶ Control Activities
 - ▶ Information and Communication
 - ▶ Monitoring

Control Environment “Tone at the Top”

- ▶ Sets the tone of the organization, influencing the control consciousness of its people.
- ▶ It is the foundation of all other components, providing discipline and structure.
- ▶ Control Environment Factors:
 - ▶ Integrity and Ethical Values
 - ▶ Commitment to Competence
 - ▶ School Board (or Audit Committee)
 - ▶ Management Philosophy and Operating Style
 - ▶ Organization Structure
 - ▶ Assignment of Authority and Responsibility
 - ▶ Human Resource Policies and Procedures

Risk Assessment

- ▶ Risk is the possibility that an event will occur and adversely affect the achievement of objectives
 - ▶ Objectives must be established prior to risk assessment
- ▶ Risk Assessment is the identification and analysis of those risks and forming a basis for determining how the risks should be managed
 - ▶ Both internal risks and external risks
 - ▶ Typically includes:
 - ▶ Estimating the significance of a risk
 - ▶ Assessing the likelihood of occurrence
 - ▶ Consideration of how the risk should be managed

Risk Assessment (continued)

- ▶ Responses to Risk Assessment
 - ▶ Acceptance
 - ▶ Avoidance
 - ▶ Reduction
 - ▶ Sharing

Control Activities

- ▶ Policies and procedures that help ensure management directives are carried out
 - ▶ For the most part, you already have these policies and procedures in place
- ▶ Help ensure that necessary actions are taken to address risks to achieve the schools objectives
- ▶ Occur throughout the school, at all levels and in all functions

Control Activities (continued)

- ▶ Segregation of Duties
 - ▶ Integral part of a proper set of controls
 - ▶ 4 General Categories
 - ▶ Authorization
 - ▶ Custody
 - ▶ Recordkeeping
 - ▶ Reconciliation
 - ▶ Ideally, no one person should have control of 2 or more of the above categories
 - ▶ If one person does control 2 or more of the above categories, then some type of mitigating control should be implemented (i.e. a detailed review process)

Objectives

- ▶ The purpose of an internal control system is the achievement of objectives
- ▶ Objectives must be defined
 - ▶ Accurate financial reporting
 - ▶ Compliance with laws and regulations
 - ▶ ??? [fill in the blank with your schools objectives]
- ▶ Objectives are set at the corporation level, but also departmental (ECA, business office, etc.) level
 - ▶ Must be viewed from a holistic, interrelationship standpoint

Categories of Objectives

- Operations - analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets
- Reporting - considers both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability and transparency
- Compliance - assure adherence to laws and regulations

Common Key Objectives

- ▶ Asset Protection

- ▶ Cash
- ▶ Buses
- ▶ Equipment
- ▶ Textbooks
- ▶ Supplies
- ▶ Etc.

Control Activities for Asset Protection

- ▶ Physical Safeguards
 - ▶ Safe
 - ▶ Locked Garage
- ▶ Inventory
 - ▶ Capital Assets ledger kept
 - ▶ Physical Inventory taken once a year

▶ **THESE ARE NOT REQUIREMENT CONTROLS NOR ARE WE SUGGESTING SPECIFIC CONTROLS...THESE ARE MERELY EXAMPLES!**

Common Key Objectives (continued)

- ▶ Compliance
 - ▶ Federal Laws
 - ▶ State Laws
 - ▶ Uniform Compliance Guidelines (SBOA)
 - ▶ Grants

Control Activities over Federal Grants

- ▶ Person X prepares application for Grant
- ▶ Person Y reviews application
- ▶ Person X, Y, Z, and School Board review Grant agreement
- ▶ Person Z (with knowledge of the grant) authorizes a purchase for grant funds
- ▶ Person X prepares the claim
- ▶ School Board approves the expenditure
- ▶ Person Y writes and sends the check
- ▶ Person X prepares the reimbursement claim
- ▶ Person Z reviews the reimbursement claim
- ▶ Person Y sends reimbursement claim to pass-through entity

▶ **THESE ARE NOT REQUIREMENT CONTROLS NOR ARE WE SUGGESTING SPECIFIC CONTROLS...THESE ARE MERELY EXAMPLES!**

Control Activities over Federal Grants (continued)

- ▶ Person X receives notice that money has been deposited via EFT
- ▶ Person Y checks the bank to verify
- ▶ Person X post the receipt to the ledger
- ▶ Person X receives the Bank Statement monthly and reviews for errors
- ▶ Person Y performs monthly Bank Reconciliation
- ▶ Person Z and School Board review monthly Bank Reconciliation

▶ **THESE ARE NOT REQUIREMENT CONTROLS NOR ARE WE SUGGESTING SPECIFIC CONTROLS...THESE ARE MERELY EXAMPLES!**

Common Key Objectives (continued)

- ▶ Financial Statement Preparation
 - ▶ Financial Statements
 - ▶ Notes to Financial Statements
 - ▶ Schedule of Expenditures of Federal Awards (SEFA)
 - ▶ Notes to SEFA

Common Key Objectives (continued)

- ▶ Financial Statement Preparation (continued)

- ▶ Grant Reporting

- ▶ Cash Receipting

- ▶ Cash Disbursing

- ▶ Reconciliation

This has nothing to do with controls!!

Just FYI

- ▶ At the beginning of the audit, our staff will provide you with:
 - ▶ YOUR Financial Statement
 - ▶ Notes to YOUR Financial Statement
 - ▶ YOUR SEFA
 - ▶ Notes to YOUR SEFA
 - ▶ OUR Form 13
- ▶ You fill out Form 13 and sign approving those 4 documents
- ▶ At this point, these are the Financial Statements we will be auditing to

Control Activities over Grant Reporting

- ▶ Person Y tracks all grants of the School Corporation
- ▶ School Board reviews a list of all grants of the School Corporation
- ▶ Person X inputs information into the Gateway Annual Financial Report (AFR)
- ▶ Person Y reviews information put into the Gateway AFR
- ▶ Person X submits the Gateway AFR

Control Activities over Reconciliation

- ▶ Person X receives the Bank Statement monthly and reviews for errors
- ▶ Person Y performs monthly Bank Reconciliation
- ▶ Person Z and School Board review monthly Bank Reconciliation

Information and Communication

- ▶ Relevant and quality information from both internal and external sources is necessary to support the functioning of the other components of internal control
- ▶ Communication is a continual process of providing, sharing, and obtaining necessary information
- ▶ 2 way communication is important
 - ▶ Top to bottom
 - ▶ Management communicate control activities and demonstrates and positive control environment
 - ▶ Bottom to top
 - ▶ Employees have the ability to communicate with management their assessment of control activities

Monitoring

- ▶ Ongoing Evaluation

- ▶ Built into the business process at various levels
- ▶ Timely information

- ▶ Separate Evaluations

- ▶ Conducted periodically
- ▶ Frequency will depend on risk assessment and effectiveness of ongoing evaluations

Internal Control Process



Case Studies

- ▶ Collections
 - ▶ Corporation
 - ▶ Extra-Curricular
- ▶ Credit Card and Personal Expenditures