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FISD Internal Controls

Purpose and Scope

An important part of the delegated accountability for the financial management of FISD resources is the establishment and implementation of adequate internal controls. Internal control is a broadly defined process designed to provide reasonable assurance regarding the achievement of the following objectives:

- Ensuring the effectiveness and efficiency of operations;
- Safeguarding of assets against loss and unauthorized use or disposition;
- Ensuring the validity, accuracy and reliability of accounting records and financial reports; &
- Promoting adherence to prescribed management policies and procedures and regulatory requirements.

This policy describes the internal control components used to achieve the objectives noted above, and identifies those with responsibility for ensuring the efficacy of local guidelines designed to implement this policy and related policies of the District.

Responsibility for Internal Control

1. Department administrators and managers are responsible for establishing and maintaining a system of internal controls, and for promoting a positive and supportive attitude toward them at all times by:

- conducting or assigning to a designee required periodic review of departmental operating procedures to ensure that the principles and guidelines of internal control are being followed;
- establishing controls where new types of transactions occur;
- improving upon existing controls if control weaknesses are detected.

Because not all departments have sufficient resources to provide optimal control at all times, estimates and judgments must be exercised to assess the costs, benefits, and risks involved. The costs associated with internal control should not exceed the benefits derived. Given these considerations, administrators are strongly urged to adhere to the control guidelines contained in this policy as is practicable.

2. The Assistant Superintendent for Business & Finance as well as external auditors, are responsible for reviewing the adequacy of departmental internal controls and for reporting their findings to the appropriate administrative levels within the District.

3. Department administrators and managers are required to take prompt and responsive action on all findings and recommendations made by both internal personnel and external auditors.

Internal Control - System

A strong system of internal control enables FISD to ensure that resources are properly handled, properly used and are available for management's and the board's designation. In addition, the

various agencies of the federal and state governments, including such agencies as the Office of Management and Budget (OMB), the Government Accounting Office (GAO), Texas Education Agency (TEA) and others, require school district auditors to report on the internal control structure as a whole and as it relates to the federal financial assistance area.

Included herein is both general and specific information on the fundamental principles of FISD's effective system of internal control and addresses the following topics: Internal control definition, control procedures, internal control resources, internal control check list, and areas for consideration of internal control. The Internal Control Check List is an aid in assessing and improving the internal controls at FISD. See separate section.

Internal Control - Definition

The extent of internal control that FISD establishes is a judgment that is made by management. Management's judgment regarding the extent of internal control necessary is affected by circumstances such as the small size of FISD and the number of personnel available. Consideration is given to the cost/benefit relationship. Additionally, the nature of internal control is such that even appropriate internal control methods and systems will not guarantee that FISD's objectives will be achieved, nor will they ensure its success.

Internal control is a process - effected by an entity's board of trustees, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories: reliability of financial reporting; effectiveness and efficiency of operations; and compliance with applicable laws and regulations.

1. Internal control is a process.

It's a means to an end, not an end in itself.

2. Internal control is effected by people at every level of a department/agency.

Internal control is, to some degree, everyone's responsibility. Administrative officials at the department-level are primarily responsible for, and will be held accountable for internal control in their departments/agencies.

3. Internal control can provide only reasonable assurance -- not absolute assurance -- regarding the achievement of a department's/agency's objectives.

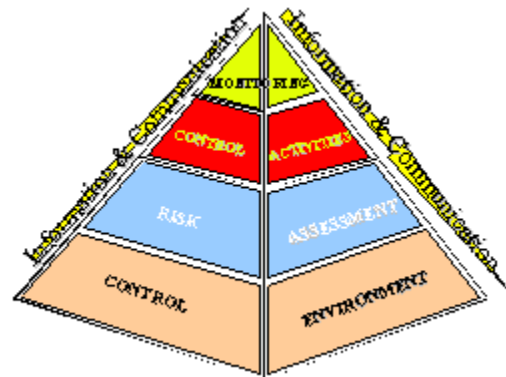
Effective internal control helps a department/agency achieve its objectives; it does not ensure success. There are several reasons why internal control cannot provide absolute assurance that objectives will be achieved: cost/benefit realities, collusion among employees, and external events beyond a department's/agency's control.

4. Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives.

Effective internal control is a built-in part of the management process (i.e., plan, organize, direct, and control). Internal control keeps an organization on course toward its objectives and the achievement of its mission, and minimizes surprises along the way. Internal control promotes effectiveness and efficiency of operations, reduces the risk of asset loss, and helps to ensure the reliability of financial reporting and compliance with laws and regulations.

Internal control consists of five interrelated components: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

The nationally recognized Committee of Sponsoring Organizations (COSO) control framework is discussed below. This standardized framework provides definitions and responsibilities for internal controls. The internal control elements of the framework are depicted in the adjacent diagram.



At the base of the diagram is the *control environment*. The control environment includes “soft controls,” which are the human factors such as morale and ethics that impact how well internal controls are implemented.

It is the environment in which employees conduct their activities and carry out their individual control responsibilities, and it is the foundation for the control elements higher in the pyramid. Within the control environment, management *assesses risks* to the achievement of business goals. The *control activities* are the procedures that help mitigate risks and are traditionally prescribed to provide accountability, such as separation of duties, requiring approvals, reconciling assets and records, safeguarding assets and establishing audit trails. *Monitoring* refers to management’s obligation to ensure that COSO elements are functioning as intended. Open lines of *communication and business and accounting information* are essential to ensure the successful operation of the activity or entity.

Control Environment

The control environment establishes FISD’s management’s attitude toward internal control. It is the basis for all other elements of the system of internal control. AICPA Statement on Auditing Standards No. 78 states that the control environment “sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.”

The collective effort of various factors affect the control environment, including the following:

- Integrity and ethical values
- Commitment to competence
- Board of trustees or audit committee participation
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of controls is more important than their form because the controls may not be effectively implemented and maintained. The collective effect on the control environment of strengths and weaknesses of the organization’s internal control should be weighed. It may be that a particular weakness may have a significant effect on the control environment.

Risk Assessment

Risk assessment is identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed. Risks can arise or change as a result of the following factors: changes in operating environment, new personnel, new or revamped information systems, rapid growth, new technology, new grant activities, building projects and other activities, organizational restructuring, accounting pronouncements, federal regulations, and school finance statutes.

FISD informally assesses risks for the school district.

Control Activities

Control activities are the policies and procedures that help ensure that management directives are carried out. Control activities are divided into four categories:

- Performance reviews
- Information processing
- Physical controls
- Segregation of duties

The application of control activities, such as segregation of duties, is affected to some degree by the size of FISD. In smaller school districts, control activities are less formal and certain types of control activities may not be relevant in a smaller entity.

Control activities include, but are not limited to, the following:

- Implement *segregation of duties* where duties are divided, or segregated, among different people to reduce risk of error or inappropriate actions. No one person has control over all aspects of any financial transaction.
- Make sure transactions are *authorized* by a person delegated *approval* authority when the transactions are consistent with policy and funds are available.
- Ensure records are routinely *reviewed* and *reconciled*, by someone other than the preparer or transactor, to determine that transactions have been properly processed.
- Make certain that equipment, inventories, cash and other property are *secured* physically, counted periodically, and compared with item descriptions shown on control records.
- Provide employees with appropriate *training* and guidance to ensure they have the knowledge necessary to carry out their job duties, are provided with an appropriate level of direction and *supervision*, and are aware of the proper channels for reporting suspected improprieties.

- Make sure FISD and departmental level policies and operating procedures are formalized and communicated to employees. *Documenting policies and procedures* and making them accessible to employees helps provide day-to-day guidance to staff and will promote continuity of activities in the event of prolonged employee absences or turnover.

Everyone in the department has responsibility for internal control.

Information and Communication

Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Information systems encompass procedures and documents that:

- Identify and record all valid transactions
- Describe, on a timely basis, the transactions in sufficient detail to permit proper classification of transactions for financial reporting
- Measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements
- Determine the time period in which transactions occurred to permit recording of transactions in the proper accounting period
- Present properly the transactions and related disclosures in the financial statements.

Top management delivers a clear message to FISD personnel that control responsibilities must be taken seriously. FISD's personnel understand their own role in the internal control system, as well as how individual activities relate to the work of others. FISD personnel have a means of communicating significant information to upper levels of management. In addition to internal communication, effective communication with external parties such as parents, TEA and various agencies of the federal government when necessary is made available.

Monitoring

Monitoring is a process that assesses the quality of internal control performance over time. Ongoing activities include regular management and supervisory activities and other actions taken during the normal performance of an individual's daily responsibilities. The nature and timing of separate evaluations depend on the effectiveness of ongoing activities and the risk that the internal controls are not performing as intended by FISD's management. Deficiencies in the system of internal controls should be reported to management at the appropriate level.

Management monitors in part by preparing and evaluating Schools FIRST ratings, the Investment Report quarterly, the financial statements and percentages of expenditures of funds monthly, and the tax collection report monthly. Ratios and indicators are measures of performance reflecting key variables of the organization that indicate the current or future effectiveness of FISD.

The extent to which a manager is held accountable for the effectiveness of control procedures may determine the extent to which the manager monitors their performance. Management of FISD has assigned responsibility and delegated authority to the Assistant Superintendent of Business and Finance to ensure that persons who perform control procedures are held accountable for their performance by those who monitor their activities and persons who monitor the performance of control procedures are held accountable by the Superintendent and the FISD Board of Trustees.

Management uses accounting information in making operating decisions, and so effective controls are established and followed. Management also uses accounting information in measuring progress and operating results, and so significant variances can be investigated between planned (budget) and actual results. This investigation may detect the causes of significant variances and effect the steps necessary to correct control procedures that failed to prevent misstatements.

Control Procedures

Numerous control procedures and monitoring activities are performed by individuals to accomplish particular objectives. All of these controls, however, can be categorized as a variation of one of the basic types of controls described below.

Controls over Unauthorized Access or Obligations

Certain controls are designed to prevent access to assets by persons not authorized by management to have access. Often these controls are physical in nature, for example, storing inventories of supplies in locked storage areas, storing currency in a locked fire-safe drawer and using alarm systems to discourage vandals. When controls relating to unauthorized access to assets are not effective, assets may be lost or stolen. Detective control procedures such as physical inventory counts are appropriately annually, and shortages should be discovered in a timely manner.

Unauthorized access to assets may be gained through access to records – especially those records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals are kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method). At FISC, passwords are used extensively to PCs and the programs loaded on the network.

Monitoring of control procedures to address unauthorized access includes activities such as observing physical control procedures and ensuring established access privileges with the Technology Director.

Controls over Authorized Access or Obligations

Access controls do not necessarily prevent persons who have authorized access to assets from misappropriating them. Persons who have authorized access to both assets and related accounting records may be in a position to conceal shortages of the assets in the records. If duties are properly segregated, persons who have authorized access to assets will not also have access to related accounting records in which they might conceal shortages. Access restriction where two persons are acting jointly is referred to as dual control. For example, management requires that three different people receive cash, list cash receipts, and deposit cash receipts to prevent one of them from pilfering cash receipts before they are initially recorded.

Controls over authorized access to assets are important to FISC not only to prevent thefts, but to ensure that assets of FISC are committed only after proper consideration by persons who are knowledgeable and experienced. Authorization and approval are types of controls over access to assets that are designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to assure that disbursements are made only when authorized orders for goods and services have been received.

Reconciliations and Comparison of Assets with Records

The purpose of reconciliations and comparisons of assets with records is to ensure that independent checks cover the output of a system, either by maintenance of a separate independent control record with which the processed data are reconciled or by direct comparison of the output with the related assets. Monitoring is usually accomplished by reviewing reconciliations or by participating in comparisons of assets. Examples of reconciliations of assets with records are reconciliation of physical inventory to accounting records annually during the physical count of the warehouse and monthly bank accounts reconciliations of the bank balance to the general ledger balance

Analytical Reviews

The purpose of analytical reviews is to evaluate summary information, usually resulting from a series of transactions or processes, by comparing it with expected results. Analytical reviews are performed by management to determine whether FISC is performing as planned. A common analytical review procedure is the monthly comparison of budget to actuals, with investigation of

variances. The analytical reviews serve as monitoring of various other underlying control procedures.

Authorization and Approval

The purpose of authorization and approval is to prevent invalid transactions from occurring. The effectiveness of these controls is often dependent on general computer controls over information security. FISD requires purchase orders be prepared in advance of purchasing items. The purchase requisition is input into the computer system, the Purchasing Agent reviews and approves the requisitions to turn them into Purchase Orders (POs). The POs are printed, reviewed, sent to the Assistant Superintendent for Business to review, and then processed. The Assistant Superintendent reviews and approves all travel, all cash transfers, all supplemental pay, all manual payments, and all scholarship payments. Additionally, all budget transfers and journal vouchers are reviewed and approved by the Assistant Superintendent.

Reviews of Output

Reviews of output are performed by personnel who have the knowledge and experience to identify errors. Such reviews could be performed in both computer and manual systems. The purpose of such reviews is to check the validity and accuracy of output by comparing it in detail with expected results. For example, the Purchasing Agent ensures proper purchasing procedures, the Accounts Payable clerk/bookkeeper compares requested amounts or quantities purchased and received with separate records of purchase orders and ensures all bills are paid appropriately. The Payroll Clerk compares current payroll to prior payroll. The Travel clerk reviews all travel and supporting documentation for reasonableness and appropriateness. The Assistant Superintendent for Business oversees all operations and reviews and prepares monthly financial information. The Superintendent and the Board of Trustees review financial information monthly.

Transactional Reviews

The purpose of transactional reviews is to check the validity and accuracy of output by comparing it in detail with expected results. Reviews of output are often performed with the use of exception reports, which are reports (usually computer-generated) listing items for which processing was rejected because the items did not match specified criteria. There are various exception reports and warnings that are produced by the iTTCS system used.

General Computer Controls

The iTCCS computer system has common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within one computer processing environment. General computer controls include all the usual elements of effective internal control, which includes a person or group responsible for control, control procedures and monitoring activities. Monitoring of the performance of general computer controls is usually performed by managers of the information systems department. This is shared by the FISD Technology Director and iTCCS personnel. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program

changes, oversight by information system steering committees and the monitoring of user complaints. General computer controls include controls over computer operations, systems acquisition development and maintenance, information security and information systems support.

Computer Operations - The computer operations staff at Region 13 is responsible for the day-to-day processing activities of FISD's system. It ensures that jobs are scheduled and processed as planned. It is also responsible for physical control of data stored on the system or tapes, as well as timely and accurate distribution of reports.

Systems Acquisition, Development and Maintenance - The systems acquisition, development and maintenance staff at Region 13 is responsible for the planning, acquisition or programming, testing and implementation of new application systems and changes to existing application systems.

Information Security - The information security function is responsible for the administration and maintenance of FISD's information security program, including both physical and logical security. The primary goal of such a program is to ensure that access to program data, on-line transactions and other computing resources is restricted to authorized users. FISD Technology manager ensures that these controls are in place.

Information Systems Support - Information systems support includes functions such as system software maintenance, data base administration, communications and network management, end user computing and other groups with technical and administrative support responsibilities. This is shared by FISD Technology Director and Region 13 personnel.

Areas for Consideration of the Internal Control Structure

Presented below is an extensive listing of areas that could require internal control procedures. The areas addressed are:

- Budgets and Planning
- Cash
- Investments
- Revenues and receivables
- Capital Assets
- Procurement and Payables
- Employee Compensation
- Electronic Data Processing
- Financial Reporting

This listing, which has been excerpted from the American Institute of Certified Public Accountant's 1986 *Audit and Accounting Guide, Audits of State and Local Governmental Units*, should not be considered all-inclusive. Also, procedures in all of these areas would not necessarily be desirable or required for all circumstances.

Budgets and Planning

Segregation of Duties

1. Segregation of responsibilities for budget preparation, adoption, execution and reporting

Procedural Controls

Preparation

2. Awareness of budgets and budgetary procedures required by law
3. Preparation of budgets for all significant activities regardless of whether mandated by law
4. Preparation of budget calendar to make orderly submission and approval of the budget
5. Development and preparation of initial budget submissions by major departments and activity centers
6. Review of departmental budgets by the finance or budget officer and corrections by departments of oversights or integration of the executive's goals and objectives
7. Compatibility of the type of budgeting performed (traditional, program, performance) with the accounting system
8. Preparation of the budget in sufficient detail (responsibility level) to provide a meaningful tool with which to monitor subsequent performance
9. Budget of interfund and interdepartmental transfers, if appropriate

Adoption

10. Budget hearings to obtain citizen input
11. Submission of the budget to the legislative body for approval; clear communication to operating departments or agencies of the effects of legislatively mandated budget modifications, either increases or decreases
12. Coincident with adoption of the budget, action of the legislative body, as appropriate, to:
 - Adopt legislation to implement the raising of budgeted revenues
 - Initiate expenditure appropriations

13. Recording in the accounting records of estimated revenues and appropriations for later comparison to actual amounts realized or incurred

14. Recording in the accounting system of budgets that have been approved by grantors in connection with grant activity

15. Publication of budgets if required by law

Execution

16. Formal adoption and communication of procedures establishing authority and responsibility for transfers between budget categories

17. Use of an allotment system to control the flow of expenditures or commitments

18. Approval as to availability of funds by the accounting department before issuance of a purchase order or expenditure commitment

19. Processing and approval of requests for supplemental appropriations or budget changes the same way as the original budget is processed and approved (or as required by law)

20. Controls to ensure knowledge of outstanding commitments if liabilities and expenditures are recorded on an encumbrance or obligation basis

Reporting

21. Comparison of actual expenditures to budget with reasonable (monthly) frequency and on a timely basis

22. Discussion of reports with departmental personnel and receiving explanations for significant variations from budget

23. Timely notification of both the executive and legislative branches of expenditures in excess of appropriations or budget

24. Publication of actual results of operations against the budget

Cash

Segregation of Duties

1. Segregation of responsibilities for collection and deposit preparation functions from those for recording cash receipts and general ledger entries
2. Segregation of responsibilities for cash receipts functions from those for cash disbursements
3. Segregation of responsibilities for disbursement preparation and disbursement approval functions from those for recording or entering cash disbursements information on the general ledger
4. Segregation of responsibilities for the disbursement approval function from those for the disbursement, voucher preparation and purchasing functions
5. Segregation of responsibilities for entries in the cash receipt and disbursement records from those for general ledger entries
6. Segregation of responsibilities for preparing and approving bank account reconciliations from those for other cash receipt or disbursement functions
7. If EDP is used, maintenance of the principle of segregation of duties within processing activities

Procedural Controls

Collections

8. Timely deposit (preferably daily) of all receipts
9. Controls over the collection, timely deposit and recording of collections in the accounting records in each collection location
10. Timely notice of cash receipts from separate collection locations to general accounting department
11. Comparison of daily reported receipts on a test basis to bank statements to verify timeliness of deposits
12. Placing a restrictive endorsement on incoming checks as soon as received
13. Delivery of "not sufficient funds" checks to someone independent of processing and recording of cash receipts

14. Procedures for follow-up of "not sufficient funds" checks
15. Controls to ensure that checks are returned promptly for deposit if checks received are forwarded to be used as posting media to taxpayers' or customers' accounts
16. Receipts controlled by cash register, pre-numbered receipts or other equivalent means if payments are made in person (over the counter)
17. Accounting for such receipts and balancing them to collections daily
18. Facilities for protecting un-deposited cash receipts

Disbursements

19. Control over warrant or check signing machines as to signature plates and usage
20. Procedures providing for immediate notification to banks when warrant or check signers leave the unit or are otherwise no longer authorized to sign
21. Furnishing invoices and supporting documents to the signer prior to signing the warrant or check
22. Setting reasonable limits on amounts that can be paid by facsimile signatures
23. Requiring two signatures on warrants or checks over a stated amount
24. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
25. Using plates only under the signer's control and recording machine reading by the signer or an appropriate designee to ascertain that all checks or warrants signed are properly accounted for by comparison to document control totals
26. Direct delivery to the mail room of signed warrants or checks, making them inaccessible to persons who requested, prepared or recorded them
27. Prohibiting the drawing of warrants or checks to cash or bearer

Custody

28. Maintenance of control over supply of unused and voided warrants or checks
29. Proper authorization of bank accounts
30. Periodically reviewing and formally reauthorizing depositories

31. Controls and physical safeguards surrounding working (petty cash) funds

32. Maintenance of adequate fidelity **insurance**

33. Maintenance of separate bank accounts for each fund, or if not, adequate fund control over pooled cash

Detail Accounting

34. Procedures ensuring that collections and disbursements are recorded accurately and promptly

35. Procedures for authorizing and recording interbank and interfund transfers providing for proper accounting for those transactions

General Ledger

36. General ledger control over all bank accounts

37. Delivery of bank statements and paid warrants or checks in unopened envelopes directly to the employee preparing the reconciliation

38. Procedures for steps essential to an effective reconciliation, particularly:

- Comparison of warrants or checks in appropriate detail with disbursement records

- Examination of signature and endorsements, at least on a test basis

- Accounting for numerical sequence of warrants or checks used

- Comparison of book balances used in reconciliations with general ledger accounts

- Comparison of deposit amounts and dates with cash receipt entries

- Footing of cash books

39. Review and approval of all reconciliations and investigation of unusual reconciling items by an official who is not responsible for receipts and disbursements, including recording evidence of the review and approval by signing the reconciliation

40. Periodic investigation of checks outstanding for a considerable time

Investments

Segregation of Duties

1. Segregation of responsibilities for initiating, evaluating and approving transactions from those for detail accounting, general ledger and other related functions
2. Segregation of responsibilities for initiating transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for monitoring investment market values and performance from those for investment acquisition
4. Segregation of responsibilities for maintaining detail accounting records from those for general ledger entries
5. Assignment of custodial responsibilities for **securities** or other documents evidencing ownership or other rights to an official who has no accounting duties
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Approval

7. If applicable, procedures adequate to ensure that only **investments** that are permitted by law are acquired
8. Formal establishment and periodic review of investment policy guidelines
9. Integration of the investment program with cash management program and expenditure requirements
10. Established authority and responsibility for investment opportunity evaluation and purchase
11. Periodic evaluation of the performance of the investment portfolio by persons independent of investment portfolio management activities
12. Formal establishment of procedures governing the level and nature of approvals required to purchase or sell an investment
13. Use of competitive bidding for certificate of deposit purchases

Custody

14. Adequate physical safeguards and custodial procedures over:
 - Negotiable and nonnegotiable **securities** owned
 - Legal documents or agreements evidencing ownership or other rights

15. Dual signatures or authorizations to obtain release of **securities** from safekeeping or to obtain access to the government unit's safe-deposit box
16. Authorization by the legislative body of persons with access to securities
17. Registering all securities in the name of the government unit
18. Periodic inspection or confirmation of securities from safekeeping agents
19. Bonding of individuals with access to securities

Detail Accounting

20. Maintenance of detail accounting records for **investments**
21. Procedures to ensure that transactions arising from investments are properly processed, including income and amortization entries
22. Controls to ensure that investment earnings are credited to the fund from which resources were provided for the investment
23. A periodic comparison between income received at the account specified by the terms of the security or publicly available investment information
24. Controls to ensure that transactions are recorded on a timely basis

General Ledger

25. Procedures for reconciling the detail accounting records with the general ledger control
26. Periodic review of the nature of investments included in general ledger balances

Revenues and Receivables

Segregation of Duties

1. Segregation of the responsibilities for billing property taxes and services from collection and accounting
2. Segregation of the responsibilities for maintaining detail accounts receivable records from collections and general ledger posting
3. Segregation of collection, control and deposit of funds activities from maintaining accounting records
4. Maintenance of the property tax assessment rolls by individuals not engaged in any accounting or collection function
5. Segregation of the responsibilities for entries in the cash receipts records from those for general ledger entries
6. If EDP is used, maintenance of the principle of segregation of duties within processing activities

Procedural Controls

Data and File Maintenance

Property taxes

7. Controls to ensure that additions, deletions, transfers and abatements are properly and timely reflected in property tax records
8. Procedures to make property assessments in accordance with the law or legislative intent with prompt adjustment of records

Sales, income and other taxes

9. Cross-referencing returns filed against a data base of previous taxpayers
10. Organization and integration of the records in such a fashion that probable taxpayers are identified as a result of reporting of other governmental activities such as licensing

License fees and permits

11. If annual payments are involved, procedures to ensure that previous years' records are properly updated for new registrants and withdrawals
12. Use of the updated records as the basis for billing persons subject to payment

Fines, forfeitures and court fees

13. Maintaining and using court and other records of payments due as a basis for collections

14. Procedures surrounding the control, issuance and disposition of traffic violations to ensure that amounts due are assessed and collected

Enterprise and other service revenues

15. Maintaining controls that provide assurances that customer data base and, where appropriate, usage records are accurately maintained to ensure that amounts due are billed

Billing Remittance Verification

Property taxes

16. Controls within the billing system to ensure that eligible property owners are billed

17. Controls to ensure that tax assessments are being properly applied against tax rates and special charges are being considered in the preparation of billing amounts

18. Controls to ensure that tax exemptions are within the law and properly approved

Sales, income and other taxes

19. Reviewing returns for mathematical accuracy

20. Correlation of current year's taxpayers' returns with prior year's returns and accounting for and reviewing differences

21. Separate review and approval of claims for refunds

22. Audits of returns filed to provide reasonable assurance that taxable income is properly reported

License fees and permits

23. Comparison of current-year receipts to those for prior years and review of explanations of variations by senior officials

Fines, forfeitures and court fees

24. Procedures providing for correlation of amounts collected with records of court proceedings

25. Sequentially numbering and satisfactorily accounting for tickets for fines, arrests and so forth

Enterprise and other service revenues

26. If billing is based on usage, performing service readings in a timely fashion

27. Periodic rotation of the assignments of meter readers

28. Billing procedures providing for identification and investigation of unusual patterns of use

General

29. Billing of taxes and fees in a timely fashion

30. Procedures designed for other revenue areas ensuring timely payment of amounts due

31. Periodic review and approval by the legislative body of the rates of taxes, fines, fees and services

32. Periodic review and approval by the legislative body of programs of tax exemption or relief

33. Authorization by the legislative body of utility rate schedules

34. Procedures providing for timely notification of the accounting department at the time tax, service, or other billings or claims are prepared and rendered

35. Numerical or batch-processing controls over tax, fee, service or other billings

36. Controls over the billing of miscellaneous revenues (for example, sidewalk replacement and tree removal assessments)

37. Procedures to prevent the interception or alteration by unauthorized persons of billings or statements after preparation but before they are mailed

38. Prompt investigation of disputes with billing amount that are reported by taxpayers or service recipients by an individual independent of receivables recordkeeping

39. Controls providing reasonable assurances that restricted revenues are expended only for restricted purposes

Collection

40. Placing a restrictive endorsement on incoming checks as soon as received

41. Procedures providing reasonable assurances that interest and penalties are properly charged on delinquent taxes, fees or charges for service

42. Procedures providing for the timely filing of liens on property for nonpayment in all cases permitted by law

43. Controls surrounding the collection, timely deposit and recording of collections in the accounting records at each collection location

44. Timely notice of cash receipts from separate collection centers to general accounting department

45. If payments are made in person, use of receipts for payment and accounting for and balancing of such receipts to collections

46. Segregation and timely remittance of amounts collected on behalf of other governments
47. Monitoring taxes and fees collected by another unit of government to assure timely receipt and subjecting amounts received to reviews for reasonableness
48. Reviewing delinquent accounts and considering them for charge-off on a timely basis
49. Formally approved write-offs or other reductions of receivables by senior officials not involved in the collection function
50. Procedures providing for execution of all legal remedies to collect charged-off or uncollectible accounts, including tax sale of property, liens and so forth

Accounts Receivable Recordkeeping

51. Controls in the system that provide assurances that individual receivable records are posted only from authorized source documents
52. Reconciling the aggregate collections on accounts receivable against postings to individual receivable accounts
53. Where appropriate (for example, in proprietary funds), mailing statements of account balance on a timely basis

General Ledger

54. Regular preparation of trial balances of individual receivable accounts
55. Reconciliation of trial balances with general ledger control accounts and investigation of reconciling items by other than accounts receivable clerks
56. Periodic review of aged accounts receivable balances by supervisory personnel
57. Procedures providing for timely and direct notification of the accounting department of billings and collection activity

Grant and Entitlement Monitoring

Grants

58. Properly fixed responsibility for monitoring grant activities
59. A central grants monitoring activity
60. Procedures to monitor compliance with:
 - Financial reporting requirements
 - Use of funds and other conditions in accordance with grant terms

- Timely billing of amounts due under grants

61. Accounting for grant activity so that it can be separated from the accounting for locally funded activities
62. System for obtaining grantor approval before incurring expenditures in excess of budgeted amounts or for unbudgeted expenditures
63. Processing grant revenues and disbursements under the same degree of controls applicable to the organization's other transactions (budget, procurement, etc.)
64. Including requirements in sub-grantee agreements that the sub-grantee comply with primary grant agreement conditions as well as grantee's standards
65. Reasonable procedures and controls to provide assurances of compliance with recipient eligibility requirements established by grants
66. Establishing an indirect cost allocation plan
67. Approval of the plan by all grantor agencies
68. Establishing audit cognizance for rates generated by the plan

Entitlements

69. Comparison of the amount of funds received with the amount anticipated by a responsible official and investigation of unusual variances
70. Procedures to ensure that funds received are spent in accordance with legal requirements and spending restrictions
71. Review of any statistical or data reports that form the basis for revenue distribution by a responsible official before submission

Capital Assets

Segregation of Duties

1. Segregation of responsibilities for initiating, evaluating and approving capital expenditures, leases, and maintenance or repair projects from those for project accounting, property records and general ledger functions
2. Segregation of responsibilities for initiating capital asset transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for the project accounting and property records functions from the general ledger function
4. Segregation of responsibilities for the project accounting and property records functions from the custodial function

5. Assigning the responsibilities for the periodic physical inventories of capital assets to responsible officials who have no custodial or recordkeeping responsibilities

6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Authorization

7. Identification of those individuals authorized to initiate capital asset transactions and clear definition of the limits of their authority

8. Establishing guidelines with respect to key considerations such as prices to be paid, acceptable vendors and terms, asset quality standards, and the provisions of grants or bonds that may finance the expenditures

9. Preparation of a separate capital projects budget

Executive or Legislative Approval

10. Requiring written executive or legislative approval for all significant capital asset projects or acquisitions

11. Procedures for authorizing, approving and documenting sales or other dispositions of capital assets

12. Procedures for approving decisions regarding financing alternatives and accounting principles, practices and methods

13. Procedures providing for obtaining grantor (federal/state) approval, if required, for the use of grant funds for capital asset acquisitions

14. Subjecting grant-funded acquisitions to the same controls as internally funded acquisitions

15. Requiring supplemental authorizations, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts

Project Accounting

16. Engaging a qualified employee or independent firm to inspect and monitor technically complex projects

17. Establishing and maintaining project cost records for capital expenditure and repair projects

18. Reporting procedures for in-progress and completed projects

19. Procedures to identify completed projects so that timely transfers to the appropriate accounts can be made

20. Review of the accounting distribution to ensure proper allocation of charges to capital asset and expenditure projects

21. If construction work is performed by contractors, procedures to provide for and maintain control over construction projects and progress billings
22. The unit of government having the right to audit contractors' records
23. Exercising the right to audit contractor records during project performance
24. Audits of contractor compliance with EEOC, Davis Bacon, and other regulations and contract terms, in addition to costs

Asset Accountability

25. Maintaining detail property records for all significant self-constructed, donated, purchased or leased assets
26. Establishing the accountability for each asset
27. Procedures for periodic inventory of documents evidencing property rights (for example, deeds, leases and the like)
28. Physical safeguards over assets
29. Procedures ensuring that purchased materials and services for capital expenditure and repair projects are subjected to the same levels of controls as exist for all other procurements (for example, receiving, approval, checking)
30. Periodically comparing detail property records with existing assets
31. Investigating differences between records and physical counts and adjusting the records to reflect shortages
32. Procedures ensuring that capital assets are adequately insured
33. Subjecting lease transactions to control procedures similar to those required for other capital expenditures
34. Properly identifying equipment by metal numbered tags or other means of positive identification
35. Carrying fully depreciated assets in the accounting records as a means of providing accounting control
36. Procedures for monitoring the appropriate disposition of property acquired with grant funds

General Ledger

37. Periodic reconciliation of the detail property records with the general ledger control accounts
38. Procedures and policies to:
 - Distinguish between capital projects fund expenditures and operating budget expenditures

- Identify operating budget expenditures to be capitalized in capital asset fund
- Distinguish between capital and operating leases

- Govern depreciation methods and practices

39. If costs are expected to be charged against federal grants, depreciation policies or methods of computing allowances in accord with the standards outlined in OMB circulars or grantor agency regulations; if not, adjusting depreciation charged to grants accordingly

40. The accounting records should be adjusted promptly both the asset and related allowance for depreciation when items of plant and equipment are retired, sold or transferred

Procurement and Payables

Segregation of Duties

1. Segregation of responsibilities for the requisitioning, purchasing and receiving functions from the invoice processing, accounts payable and general ledger functions
2. Segregation of responsibilities for the purchasing function from the requisitioning and receiving functions
3. Segregation of responsibilities for the invoice processing and accounts payable functions from the general ledger functions
4. Segregation of responsibilities for the disbursement preparation and disbursement approval functions from those for recording cash disbursements and general ledger entries
5. Segregation of responsibilities for the disbursement approval function from those for the disbursement preparation function
6. Segregation of responsibilities for entries in the cash disbursement records from those for general ledger entries
7. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Requisitioning

8. Initiation of purchases of goods and services by properly authorized requisitions bearing the approval of officials designated to authorize requisitions

9. Using and accounting for pre-numbered requisitions
10. Indicating the appropriation to be charged on the purchase requisition by the person requesting the purchase
11. Before commitment, verification by the accounting or budget department that there are sufficient un-obligated funds remaining under the appropriation to meet the proposed expenditure
12. Having technical specifications accompanying requests for special purpose (nonshelf items) materials or personal services

Purchasing

13. Structuring purchasing authorizations to give appropriate recognition to the nature and size of purchases and the experience of purchasing personnel
14. Purchase order and contract issuance and approval procedures
15. Periodic review of purchase prices by a responsible employee independent of the purchasing department
16. Use of competitive procurement procedures
17. If practicable, rotation on a regular basis of contract or purchasing officer's areas of responsibility
18. Provisions in contracts for materials, services or facilities acquired on other than a fixed-price basis that provide for an audit of contractors' costs, with payments subject to audit results
19. Procedures for public advertisement of non-shelf item procurements in accordance with legal requirements
20. Periodic review of recurring purchases and documentation of the justification for informal rather than competitive bids
21. Establishing, documenting and distributing policies regarding conflicts of interest and business practice policies
22. Issuing purchase orders and contracts under numerical or some other suitable control
23. Obtaining an adequate number of price quotations before placing orders not subject to competitive bidding
24. Prohibiting splitting orders to avoid higher levels of approval
25. Maintenance of price lists and other appropriate records of price quotations by the purchasing department
26. Maintenance of a record of suppliers who have not met quality or other performance standards by the purchasing department
27. Modification of procedures when funds disbursed under grant or loan agreements and related regulations impose requirements that differ from the organization's normal policies

28. Institution of procedures to identify, before order entry, costs and expenditures not allowable under grant (federal/state) programs
29. Maintenance of an adequate record of open purchase orders and agreements
30. Prohibiting or adequately controlling purchases made for the accommodation of employees
31. Considering bid and performance bonds if construction contracts are to be awarded
32. Predetermining selection criteria for awarding personal service or construction contracts and requiring adequate documentation of the award process
33. Subjecting changes to contracts or purchase orders to the same controls and approvals as the original agreement

Receiving

34. Preparation of receiving reports for all purchased goods
35. Procedures for the filing of claims against carriers or vendors for shortages or damaged materials
36. Taking steps to ensure that goods received are accurately counted and examined to see that they meet quality standards
37. Maintaining a permanent record of material received by the receiving department
38. Numerically accounting for or otherwise controlling receiving reports to ensure that all receipts are reported to the accounting department
39. Sending copies of receiving reports directly to purchasing, accounting and, if appropriate, inventory record keeping
40. With respect to procurements of special purpose materials, services or facilities, assigning a government technical representative to monitor and evaluate contractor performance and approve receipt of services
41. If a receiving department is not used, adequate procedures to ensure that goods for which payment is made have been received; verification by someone other than the individual approving payment that goods have been received and meet quality standards

Invoice Processing

42. Invoice processing procedures providing for:
 - Obtainment directly from issuing departments of copies of purchase orders and receiving reports
 - Comparison of invoice quantities, prices and terms with those indicated on purchase order

- Comparison of invoice quantities with those indicated on receiving reports
 - As appropriate, checking accuracy of calculations
43. Receiving all invoices from vendors in a central location, such as the accounting department
 44. Procedures ensuring that the accounts payable system is properly accounting for unmatched receiving reports and invoices
 45. Relating requests for progress payments under long-term contracts to contractors' efforts and formally approving them
 46. Procedures for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)
 47. Procedures ensuring accurate account distribution of all entries resulting from invoice processing
 48. If applicable, limiting access to EDP master vendor file to employees authorized to make changes
 49. Maintenance by the accounting department of a current list of those authorized to approve expenditures
 50. Procedures for submission and approval of reimbursement to employees for travel and other expenses
 51. Establishment of control by the accounting department over invoices received before releasing them for departmental approval and other processing
 52. Review of the distribution of charges in the accounting department by a person competent to pass on the propriety of the distribution
 53. Review and approval of invoices (vouchers) for completeness of supporting documents and required clerical checking by a senior employee
 54. If an invoice is received from a supplier not previously dealt with, taking steps to ascertain that the supplier actually exists
 55. Making payments only on the basis of original invoices
 56. Fixing responsibility for seeing that all cash discounts are taken and, if applicable, that exemptions from sales, federal excise and other taxes are claimed
 57. Referring differences in invoice and purchase order price, terms, shipping arrangements or quantities to purchasing for review and approval
 58. Recording and following up partial deliveries by the accounting department
 59. Promptly notifying the accounting and purchasing departments of returned purchases, and correlating such purchases with vendor credit advices

60. Reviewing the program and expenditure account to be charged for propriety and budget conformity
61. Having check signers or other responsible officials determine that restricted revenues are expended only for restricted purposes
62. If applicable, procedures to ensure adjustment of the reserve for encumbrances (obligations) when invoices are prepared for payment

Disbursements

63. Disbursement approval and warrant or check signing procedures
64. Control over warrant or check signing machines as to signature plates and usage
65. Procedures to notify banks when a new signer is authorized or a previous signer leaves the employ of the government
66. Furnishing and having the signer review invoices and supporting data before signing the warrant or check
67. Setting reasonable limits on amounts that can be paid by facsimile signatures
68. Requiring two signatures on all warrants or checks over a stated amount
69. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
70. Using plates only under the signer's control and having that person or an appropriate designee record machine readings to ascertain that all checks or warrants signed are properly accounted for
71. Cancellation of invoices and supporting documents by or in the presence of the signer at time of signing
72. Delivery of signed warrants or checks directly to the mail room, making them inaccessible to persons who requested, prepared or recorded them
73. Cross-referencing warrants or checks to vouchers
74. Control of and accounting for warrants or checks with safeguards over those unused and voided
75. Prohibiting the drawing of warrants or checks to cash or bearer
76. Procedures ensuring that warrants or checks that have been signed and issued are recorded promptly

Accounts Payable Encumbrances or Obligations

77. Regular comparison of statements from vendors with recorded amounts payable
78. If an encumbrance (obligation) system is used, monthly reconciliation of outstanding purchase orders to the reserve for encumbrances (obligations)

- 79. Recording encumbrance (obligation) entries based only on approved purchase orders
- 80. Procedures ensuring that accounts payable and encumbrances (obligations) are applied against the appropriate account
- 81. Procedures ensuring that department heads are notified of payments made against accounts payable and encumbrances (obligations)

General Ledger

- 82. Regular preparation of trial balances of reserve for encumbrances (obligations) and accounts payable
- 83. Checking the footing and testing the trial balances to the individual items as well as comparing the total to the general ledger balance by an employee other than the accounts payable clerk
- 84. Posting transactions between funds in all affected funds in the same accounting period and on a timely basis

Grant and Entitlement Monitoring

- 85. Disbursing grants only on the basis of approved applications
- 86. Defining (for example, in regulations) and communicating to grantees their reporting and compliance requirements
- 87. Procedures to monitor grantee compliance with grant terms
- 88. Subjecting financial operations of grantees to periodic and timely audit
- 89. Sufficiently timely monitoring of recipients to permit curtailment of any abuse before complete funds disbursement
- 90. Disbursing funds to grantees only on an as-needed basis
- 91. A level of grant approval authority that appears appropriate
- 92. Investigation of failure by grantees to meet financial reporting requirements on a timely basis
- 93. Requiring grantees to evidence correction of previously detected deficiencies before approval of an extension or renewal of a grant
- 94. Entitlement procedures ensuring that statistics or data used to allocate funds are accurately accumulated (for example, census bureau forms)
- 95. Requiring statements of recipient compliance with entitlement conditions (for example, statement of assurances) to be filed and having a responsible official review them

96. Review of audited financial statements or other compliance requirements of entitlement recipients on a timely basis and investigation of unusual items

Employee Compensation

Segregation of Duties

1. Segregation of responsibilities for supervision and time-keeping functions from personnel, payroll processing, disbursement and general ledger functions
2. Segregation of responsibilities for the payroll processing function from the general ledger function
3. Supervision of payroll distribution by employees:
 - Who are not responsible for hiring or firing employees
 - Who do not approve time reports

 - Who take no part in payroll preparation
4. Segregation of responsibilities for initiating payments under employee benefit plans from accounting and general ledger functions
5. Reconciliation of the payroll bank account regularly by employees independent of all other payroll transaction processing activities
6. If EDP is used, maintaining the principle of segregation of duties in processing activities

Procedural Controls

Personnel

7. Properly authorizing, approving and documenting all changes in employment (additions and terminations), salary and wage rates, and payroll deductions
8. Promptly reporting notices of additions, separations and changes in salaries, wages and deductions to the payroll-processing function
9. Maintaining appropriate payroll records for accumulated employee benefits (vacation, pension data, etc.)
10. Interviewing terminating employees as a check on departure and as a final review of any termination settlement by the personnel department
11. Written personnel policies
12. Establishing controls to ensure that payroll costs charged to grants are in compliance with grant agreements

13. Payroll and personnel policies governing compensation that are in accordance with the requirements of grant agreements

14. Determining that wages are at or above the federal minimum wage

Supervision/Time-keeping

15. Review and approval of hours worked, overtime hours and other special benefits by the employee's supervisor

16. Time-keeping and attendance records and procedures

17. Review for completeness and approval of timecards or other time reports by the employee's supervisor

18. Punching of timecards, if used, only by the employees to whom they are issued

19. Placing the time clock in a position where it can be observed by a supervisor

20. Procedures for authorizing, approving and recording vacations, holidays and sick leave, and approving and controlling compensatory time

Payroll Processing

21. Controls over payroll preparation

22. Approval and documentation of changes to the EDP master payroll file

23. Limiting access to the EDP master payroll file to employees who are authorized to make changes

24. Review and approval of completed payroll registers before disbursements are made

25. Review of documents supporting employee benefit payments (such as accumulated vacation or sick leave) before disbursements are made

26. Review for reasonableness of comparisons (reconciliations) of gross pay of current to prior-period payrolls by a knowledgeable person not otherwise involved in payroll processing

27. Review of the payroll (examination of authorizations for changes noted on reconciliations) by an employee not involved in its preparation

28. Balancing the distribution of dollars and hours of gross pay with payroll registers, and review by someone independent but knowledgeable of this area

29. Including in the review a comparison to amounts appropriated and budgeted

30. Prohibiting payroll advances to officials and employees or subjecting them to appropriate review

Disbursement

31. Keeping the signature plates and use of the payroll checksigning machines under control of the official whose name appears on the signature plate or an employee to whom he has delegated that responsibility
32. Maintaining a log that reconciles the counter on the checksigning machine with the number of checks issued in each payroll
33. Maintaining a separate, imprest-basis, payroll bank account
34. Regularly reconciling the payroll bank account
35. Comparing payroll check endorsements, on a test basis, with signatures on file by someone independent of the payroll department
36. If payment is made in cash, requiring signed receipts, having someone independent of the payroll department compare them, on a test basis, with signatures on file
37. Controlling the supply of unused payroll checks
38. Requiring employees to provide identification before being given checks or pay envelopes
39. Prohibiting employees from accepting another employee's pay
40. Returning unclaimed wages to a custodian independent of the payroll department
41. Having employees who distributed checks or pay envelopes make a report of unclaimed wages directly to the accounting department
42. Making payments of unclaimed wages at a later date only upon presentation of appropriate evidence of employment and approval by an officer or employee who is not responsible for payroll preparation or time reporting
43. Comparing W-2 forms to payroll records and mailing by employees not otherwise involved in the payroll process
44. Procedures for investigating returned W-2s
45. Periodic distribution of payroll checks by the internal auditors to ascertain that employees exist for all checks prepared

General Ledger

46. Adequate account coding procedures for classification of employee compensation and benefit costs so that such costs are recorded in the proper general ledger account
47. Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs

Electronic Data Processing

Segregation of Duties

1. Independence of the EDP department from the accounting and operating departments for which it processes data
2. Appropriate segregation of duties within the data processing function for (a) systems development (design and programming), (b) technical support (maintenance of systems software) and (c) operations
3. In smaller and minicomputer installations with limited opportunities for segregation of duties, procedures for user departments to:
 - Utilize batch or other input controls
 - Control master file changes

 - Balance master files between processing cycles
4. Having the personnel policies of the EDP function include such procedures as reference checks, security statements, rotation of duties and terminated employee security measures that enhance segregation of duties and otherwise improve controls

Procedural Controls

User Controls

5. Controls over preparation and approval of input transactions outside the EDP department and prohibiting the department from initiating transactions
6. Having the user exercise control procedures over input to ensure that all approved input is processed correctly through the system and only once
7. Having controls over entry of data in on-line systems to restrict access to terminals and data entry to authorized employees
8. On-line systems controls that prevent documents from being keyed into the system more than once and that permit tracing from computer output to data source and vice versa
9. Controls over changes to master files, such as requiring preparation of specific forms indicating data to be changed, approval by a supervisor in the user department, and verifying against a printout of changes
10. User controls over rejected transactions through the use of a computerized suspense file of rejected transactions or an auxiliary manual system
11. User department management reconciliation of output totals to input totals for all data submitted, reconciliation of the overall file balances, and review of outputs for reasonableness

Application Controls

12. Procedures within the data processing control function that provide that data is properly controlled between the user and EDP department
13. Controls over data entry, for example, that include adequate supervision, up-to-date instructions, key verification of important fields and self-checking digits
14. Program controls over entry of data into on-line systems
15. Editing and validation of input data
16. Data processing controls over rejected transactions
17. Controls for balancing transaction and master files
18. Procedures within the data processing control function concerning review and distribution of output

General Controls

19. Controls over changes to system software
20. Controls over use and retention of tape and disk files, including provisions for retention of adequate records to provide backup capabilities
21. Controls that limit access to data processing equipment, tapes, disks, system documentation and application program documentation to authorized employees
22. Use of a job accounting system (or console logs) to ensure that scheduled programs are processed and proper procedures followed and that supervisory personnel know that only required programs have been processed
23. Supervision of EDP department employees for all shifts
24. Documentation of procedures to be followed by computer operators
25. Documentation of the data processing system such that the organization could continue to operate if important data processing employees leave
26. Procedures to protect against a loss of important files, programs or equipment
27. Insurance to cover equipment, programs and data files
28. User-approved written specifications for new systems and modifications to existing application systems
29. Procedures to test and implement new systems and modifications to existing application systems

Financial Reporting

Segregation of Duties

1. Segregation of the final review and approval of financial reports from the responsibility for preparation of the reports
2. Segregation of the responsibilities for maintaining the general ledger from those for maintaining subsidiary ledgers
3. Segregation of the responsibilities for maintaining the general ledger and custody of assets
4. Segregation of the preparation and approval functions for journal entries
5. Segregation of principal accounting, treasury and custody functions
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

General Ledger

7. A formal plan of organization for the unit of government under which reporting responsibilities are clearly defined and reasonably aligned
8. Supervision of a principal accounting officer over accounting records and accounting employees at all locations
9. General ledger control over all assets and transactions of all departments of the organization
10. Bonding employees in positions of trust in amounts required by statutes or organization policy
11. Written accounting, policy and procedural manuals that are distributed to appropriate personnel
12. Updating the accounting, policy and procedural manuals as necessary
13. Procedures to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the organization
14. Security for accounting records
15. A formal policy regarding conflicts of interest
16. Requiring written representations from appropriate personnel as to compliance with accounting policies and procedures and ethics policies

17. Prohibiting or closely controlling loans to officials or employees

18. Periodically evaluating the adequacy and effectiveness of the internal accounting controls related to the organization's transaction systems (procurement, revenues and receivable, etc.)

19. Implementing measures to correct weaknesses

Closing

20. Procedures and policies for closing the accounts for a reporting period sufficient to ensure that accounts are closed, adjusted and reviewed on a timely basis

21. Procedures to ensure that all accounting systems have included all transactions applicable to the reporting period

22. Review and approval of valuation reserves or other account balances based on estimates

23. Having all journal entries reviewed, approved and supported by adequate descriptions or documentation

24. Controls that ensure that only authorized individuals can initiate entries

Combining

25. Procedures to ensure the orderly and effective accumulation of financial data

26. Procedures for the orderly processing of financial data received from departments and other accounting units

27. Procedures to permit the recording and review of special entries generated in the combining process

Preparation, Review and Approval

28. Procedures to ensure that financial reports are supported by either underlying account records or other documentation

29. Procedures providing reasonable assurances that all data required to be included in legal as well as public reports are properly disclosed

30. Procedures to ensure that financial reports are prepared on a consistent basis

31. Review and approval of financial reports at appropriate levels of management and, if appropriate, the legislature before public release

32. Procedures to ensure that all requirements for filing of financial reports are met (for example, senior levels of government, bondholders and public)

FISD Internal Control Specifics

The purpose of these Internal Controls is to ensure that adequate controls exist in the areas of purchasing, cash management, investments, payroll, personnel, fixed assets, and the other business areas. The Business Department's primary goal is to protect the assets of the District and to ensure that all financial transactions are performed in accordance with generally accepted accounting practices.

Since FISD is a small district, the Business Department staff shall perform multiple roles; however, adequate controls of separation of duties shall be maintained at all times. The staff consists of:

- Assistant Superintendent for Business & Finance
- Secretary to Assistant Superintendent (cash management, reconciliations)
- Payroll Clerk (all payroll activities, voting, vehicle registrations)
- Purchasing Clerk (all purchasing and bid activities, budget)
- Accounting Specialist (Travel, Athletics, Cash Receipts)
- Accounting Specialist (GL Accounting, Accounts Payable, scholarships, property taxes, annual audit)

All Business Department staff are expected to comply with the Code of Ethics and Standard Practices for Texas Educators [Board Policy DH (Exhibit) and the FISD Code of Conduct (Employee Handbook)].

State Aid and Chapter 41 payments

- The Assistant Superintendent for Business will estimate and monitor state aid on a regular basis.
- The Assistant Superintendent for Business will estimate and make all Chapter 41 recapture payments monthly from February through August and will monitor constantly.

Property Tax

- The Financial Assistant will receive the tax reports monthly.
- The tax reports will be reconciled monthly and communications with the tax office will occur if the reports are off.
- The Assistant Superintendent for Business will monitor monthly and prepare all annual reports.

Grants and Entitlements:

- All grants are to follow the FISD EDGAR grant procedures.
- All grant awards shall be maintained by Special Programs Director.
- All JVs are prepared are reviewed by the Assistant Superintendent for Business. The general journals should be posted by the accounting specialist.

- ❑ The Assistant Superintendent for Business shall coordinate the budgets received from grant administrators and/or campus principals to ensure compliance with grant award documents.
- ❑ Grant reporting timelines shall be monitored by the Assistant Superintendent for Business and all financial reports prepared and submitted via paper form or electronic submission in accordance with grant requirements.
- ❑ The Assistant Superintendent shall establish purchasing deadlines to ensure that all grant purchases and payments are settled prior to the end of the grant period.

Cash/Check Handling & Bank Deposits:

- ❑ All cash and checks received from campuses and departments should be counted, receipted, and prepared for bank deposit by the data processing specialist on a daily basis.
- ❑ Deposits which cannot be made on the same day shall be stored in the district's safe until such time as the deposit can be made.
- ❑ All checks shall be stamped upon receipt for endorsement purposes.
- ❑ Deposits are taken to the bank by the business office or the activity funds bookkeeper.
- ❑ The bank deposit receipt should be forwarded to the accounting specialist for posting to the general ledger and bank reconciliation purposes.
- ❑ All supporting documents for the bank deposits should be forwarded to and maintained by the accounting specialist for audit purposes.
- ❑ Notices of checks which were not deposited due to "insufficient funds" shall be received by and processed by the accounting specialist. A form letter should be sent to all makers of rejected checks. The established fee for rejected checks shall be noted on the form letter.
- ❑ All cash transfers between cash and investment accounts will be initiated by an investment officer and posted by the accounting specialist.
- ❑ All other cash withdrawals from a bank account such as ACHs or wire transfers will be initiated by the Business Manager or Payroll Director and posted by the accounting specialist.
- ❑ All electronic deposits to the bank accounts, such as state aid or impact aid payments, shall be posted to the general ledger on a monthly basis by the accounting specialist. Clarifications, if needed, on the appropriate revenue codes shall be forwarded to the Business Manager.
- ❑ All recurring miscellaneous revenue, such as vending commissions, shall be forwarded to the data processing specialist for receipting and depositing purposes. The accounting specialist shall post the deposits to the general ledger.
- ❑ All travel reimbursements to the district shall be submitted to the respective campus by the traveler, and then forwarded by the campus secretary/bookkeeper to the data processing specialist for receipting and depositing purposes. The accounting specialist shall post the deposits to the general ledger.

Investment Functions:

- ❑ The Assistant Superintendent for Business shall review the investment policies and strategies and recommend changes to the School Board on an annual basis. Recommended changes, if any, shall be adopted by the School Board by formal action during a regularly scheduled board meeting.

- ❑ All investment officers shall be designated by the School Board and shall attend the legally required training through an approved source of instruction.
- ❑ A quarterly investment report should be prepared, signed by all investment officers, and submitted to the School Board for approval.
- ❑ All securities purchased by the district shall be held in the name of the district.
- ❑ All purchase of securities shall be phone and email.
- ❑ Securities shall be purchased only from authorized investment brokers who have completed and filed with the district the appropriate certification.
- ❑ All cash transfers between cash and investment accounts will be initiated by an investment officer and posted by the accounting specialist.
- ❑ All investment transactions shall be posted on at least a monthly basis.
- ❑ All investment reports shall be reconciled to the general ledger on a monthly basis and at fiscal year-end.

Bank Reconciliation:

- ❑ Upon receipt of the monthly bank statements, the bank statements should be delivered to accounting specialist in the original sealed envelopes.
- ❑ The Secretary to the Assistant Superintendent for Business should reconcile all bank accounts with the general ledger. The Assistant Superintendent will approve all recons.
 - ❑ All deposits should be posted on the general ledger to appropriate revenue accounts
 - ❑ All withdrawals should be on the monthly check register or posted on the general ledger via general journal
 - ❑ All interest earnings should be posted on the general ledger via general journal
- ❑ Endorsements on cleared checks should be checked on a periodic basis or at least for those items that appear suspect.
- ❑ Checks that have remained outstanding for a period of six (6) months should be researched and reissued if the original check was lost. If the lost checks are not claimed within twelve (12) months, the outstanding checks should be reversed on the general ledger and voided.
- ❑ The on-line banking system should be utilized on a daily basis by the accounting specialist and Assistant Superintendent for Business to monitor cash flow in and out of the bank accounts. The Cash Management spreadsheet is updated daily.

Purchase Requisitions

- ❑ Purchase requisitions are prepared on line for the purchasing clerk to review and approve.
- ❑ Ensure that all purchase requisitions are prepared by the appropriate administrator (principal or director)
- ❑ If a vendor does not exist in the finance system, the purchasing specialist should contact the originator so that the vendor can be added with the Vendor Request Form obtaining all appropriate information such as: vendor name, SSN or TIN, address, phone, W-9 information, and 1099 eligibility. If a W-9 is not submitted with the purchase order, a form should be mailed or faxed to the vendor. After receipt, the vendor tax information should be entered into the vendor database. Payments for services should not be made until the W-9 is received.

- ❑ Ensure that item(s) do not exceed bidding and/or quoting thresholds. If quotes were obtained, the quotes should be attached to the purchase order. If bids were obtained, a tabulation sheet should be attached to the purchase order.
- ❑ All technology purchases should be pre-approved by the district Technology Coordinator.
- ❑ Ensure that funds exist in the designated account(s)
- ❑ All purchase orders shall be encumbered in the finance system.
- ❑ Contact originating administrator if purchase requisition cannot be processed – inform them of the reason(s) for non-approval and provide an opportunity for them to correct the deficiency(ies)
- ❑ Assistant Superintendent for Business reviews and manually approves all purchase orders. Review consists of account code compliance, item purchased, and appropriate signatures. Purchase order is returned to the Purchasing Clerk for distribution via mail or fax to the vendor.
- ❑ Throughout the fiscal year and at fiscal year end, the physical outstanding purchase orders should be reconciled with an Outstanding Purchase Order report from the finance system.

Purchase Orders

- ❑ User profiles should be created in the system, to include clerical, teaching, and administrative staff, as appropriate. The appropriate restrictions to account codes and functions should be established. Global access and override functions shall be limited to the Assistant Superintendent for Business & the Purchasing Clerk.
- ❑ Approval paths shall be established which will dictate the electronic flow of the purchase order.
- ❑ Any authorized user may create a purchase requisition. Any paper documentation that is related to a purchase requisition should be forwarded separately to the Purchasing Clerk.
- ❑ All bid and quote thresholds will apply as they do in the manual system.
- ❑ The purchase requisition will be available for approval by all individuals in the approval path.
- ❑ The approver may approve the entire requisition, or approve/disapprove line items.
- ❑ The final approval will be the Assistant Superintendent for Business.
- ❑ After the final approval, the purchase orders will be printed and distributed to vendors as noted in the manual system.
- ❑ Copies of the purchase order will not be distributed to the schools since they can review and track purchase orders on-line.
- ❑ All other controls established for purchase orders processed under the manual system shall apply.

On-line Purchasing

- ❑ On-line purchasing is only performed by the Purchasing Clerk. At times, others can be done and printed.
- ❑ All purchases entered on-line by campus staff should be followed by a purchase order for the amount of the total purchase. A copy of the on-line order should be attached to the purchase order.

Travel Authorization Forms

- ❑ Campuses and departments forward all completed travel authorization forms to the Financial Specialist who works with travel.
- ❑ A tracking number is assigned to all travel authorizations for tracking and posting purposes. A log is maintained of all travel authorizations used during each fiscal year.
- ❑ Ensure that all travel authorizations are signed by the appropriate administrator (principal/director)
- ❑ Ensure that funds exist in the designated account(s) and that the function and object are appropriate to the traveler(s)
- ❑ All travel authorizations are forwarded to the Assistant Superintendent for Business for approval.
- ❑ No advance checks are issued to a traveler more than 30 days prior to their trip (IRS Regulation).
- ❑ Statements are sent on a monthly basis to all travelers who are delinquent in submitting travel settlements.

Travel Settlement Forms

- ❑ The traveler should complete a travel settlement form within 10 days after returning from the business trip. The immediate supervisor should sign the travel settlement form.
- ❑ Campuses and departments should forward all travel settlement forms to the Business Office.
- ❑ The travel settlement forms should have all required receipts attached to the form.
- ❑ The settlement funds, if any, should be receipted to the traveler by the respective campus secretary/bookkeeper and submitted to the accounts receivable clerk for deposit.
- ❑ The travel authorization shall be removed from the pending file for use in reconciling the travel advance with the settlement.
- ❑ If no funds are due to the traveler:
 - ❑ the travel settlement shall be attached to the advance check copy
 - ❑ both should be filed in the accounts payable files
- ❑ If funds are due from the traveler:
 - ❑ the traveler should submit cash or a check for the entire amount with the settlement form,
 - ❑ the funds should be receipted and deposited to the appropriate budget code
 - ❑ the travel settlement shall be attached to the advanced check copy
 - ❑ both should be filed in the accounts payable files
- ❑ If funds are due to the traveler:
 - ❑ ensure that funds exist in the designated account(s)
 - ❑ the settlement check should be processed and forwarded to the traveler and
 - ❑ a copy of the travel form should be returned to the originator with their settlement check
 - ❑ each check disbursement should be filed in the accounts payable files separately

Receiving Functions

- ❑ Upon receipt of a package/box from a vendor, the receiver should inspect the package/box for damage. If damages have occurred, the vendor should be promptly notified.
- ❑ All items should be “checked-off” on the receiving report. The vendor shall be promptly notified of any discrepancies.

- ❑ The receiving copy should be forwarded to the accounting/purchasing specialist for payment to the vendor.
- ❑ E-purchase orders: A copy of the purchase order with the receiving signature should be forwarded to the Accounting Specialist. In addition, the items received shall be entered into the Finance System.
- ❑ At the end of the month, an open Aged Purchase Order report [over 60 days] should be generated from the finance system and used to reconcile with the spreadsheet.
- ❑ All orders that have been outstanding for more than 60 days should be researched and cancelled, if appropriate. All order cancellations should be relayed to the campus/department and the purchasing specialist.

Accounts Payable Functions

- ❑ Accounts payable checks should be processed on a weekly basis for release by Friday morning.
- ❑ Upon receipt of an invoice from a vendor, it should be matched with a pending purchase order [accounts payable copy], and receiving copy [signed by the campus/department].
- ❑ If no discrepancies exist, the check payment should be entered into the finance system.
- ❑ If a discount is offered by the vendor for early payment, the payment should be processed within the allotted time if the goods have been received and their receipt has been verified by the originating campus or department.
- ❑ All invoices should be checked to ensure that appropriate discounts, bid/quote pricing, terms of shipment, tax exemption, and extensions are correct.
- ❑ If a discrepancy exists, the appropriate campus/department or vendor should be notified to reconcile the difference(s)
- ❑ All invoices that exceed the purchase order amount should be forwarded to the Assistant Superintendent for Business for approval before entering the payment in the finance system.
- ❑ All non-purchase order payments [except for travel documents] should be paid via a payment authorization/check request.
- ❑ The Assistant Superintendent for Business should approve all check requests.
- ❑ All construction payments to general contractors shall be approved by the Assistant Superintendent for Business.
- ❑ All payments should be made from original documents to ensure that duplicate payments do not occur.
- ❑ All check payments should be posted to the general ledger at the time that the checks are printed.
- ❑ Checks are printed in the district and are signed electronically. Both Financial Assistants are present when the checks are run.
- ❑ All “paid” check copies should be filed in alpha order by vendor last name or company name.
- ❑ Statements from vendors should be reconciled with check payments on file, discrepancies should be researched and resolved, and reconciled statements should be filed for a period of 60 days, and then discarded after the administrative value (AV) period.
- ❑ All returned purchases should be coordinated by the purchasing specialist:
 - ❑ Payment to the vendor for returned purchases should be withheld from the vendor until replacement items are received that are acceptable to the district

- ❑ All check copies for items returned to the vendor should be kept in a pending file until receipt of the replacement items.
- ❑ If replacement items are not received within a 60 day period, a demand for a refund should be forwarded to the vendor.
- ❑ Partial shipments should be monitored to ensure that the full shipment is received within a reasonable time period. Partial payments should not be made unless prior arrangements have been made with the vendor.
- ❑ All purchase order encumbrances should be reduced and/or liquidated when check payments are made for the purchase order.
- ❑ Checks shall not be issued to “Cash” or “Bearer”.
- ❑ All check stock shall be maintained in a locked cabinet or room and shall be inventoried for the purpose of restocking when less than a two (2) month supply of checks is on hand.

Accounting Functions

- ❑ All general journal entries should be approved by the Assistant Superintendent for Business.
- ❑ All payroll general journals are interfaced to the finance system by the payroll department.
- ❑ Within 20 days after the end of the month, all end-of-month reports should be printed and verified and the end-of-month posting processed.
- ❑ All month end reports are run electronically and should be filed to include:
 - ❑ Cash Journal
 - ❑ General Journal
 - ❑ Check Payments & Check Register
 - ❑ Detail General Ledger
- ❑ A capital outlay report [all 66XX accounts] should be printed and forwarded to the fixed assets clerk.
- ❑ The Assistant Superintendent for Business shall review a Summary General Ledger on a monthly basis to ensure the accuracy of fund accounting.
- ❑ The Assistant Superintendent for Business shall prepare a Financial Report for the School Board on a monthly basis that is supported by existing accounting records.
- ❑ The Assistant Superintendent for Business shall prepare and submit both financial PEIMS submissions with budget and actual expenditures data.

- ❑ All grant receipts shall be posted to the general ledger by the accounting specialist on a monthly basis.
- ❑ The assistant in the business office will draw down grant funds monthly.

Fixed Asset Functions

- ❑ A capital outlay report shall be generated at the end of each month by the accounting specialist and provided to the fixed asset clerk for reconciliation.
- ❑ All inventory and fixed asset relocation forms received from campuses and departments shall be entered in the fixed asset system upon receipt.

- ❑ All inventory or fixed asset items purchased with federal grants should be tagged and the appropriate federal grant indicated on the item.
- ❑ The disposal of assets via surplus sales, stolen, or lost assets shall be recorded.
- ❑ The inventory and fixed asset schedules maintained in the fixed asset system should be used to purchase property and casualty insurance.

Personnel Functions

- ❑ A Personnel Checklist – Pre Employment should be utilized to ensure that all staff recommended for employment has passed all pre-employment criteria such as references, criminal background, certification/licenses [if applicable], prior employment, and nepotism prior to Superintendent and/or Board approval.
- ❑ The HR Administrative Assistant shall properly authorize and document all changes in employment to include:
 - ❑ New employees
 - ❑ Terminating employees
 - ❑ Changes in status due to FMLA, Workers Compensation, Temporary Disability, etc.
 - ❑ Changes in salary rates due to promotion, demotion, educational level attained, etc.
- ❑ A form shall be completed by the HR Admin. Asst. within five (5) days of the employment or status change and submitted to the Payroll clerk
- ❑ The action form should include the total years of experience for all new staff, which will be cross-checked by the Payroll clerk. Discrepancies, if any, will be jointly resolved by both.
- ❑ The HR Admin. Asst. shall prepare and maintain an up-to-date employment file for all employees to include:
 - ❑ Application, resume, credentials [transcripts/licenses], etc.
 - ❑ SBEC Certification, if appropriate
 - ❑ Evaluations
 - ❑ Disciplinary actions
 - ❑ Service Records
 - ❑ Job Description
 - ❑ Contracts
- ❑ A Personnel Checklist – Post Employment should be utilized to ensure that all new staff submits all legally required documents within 30 days of employment.
- ❑ All new employees shall be entered into the HR system by the HR Admin. Asst., including but not limited to demographic, certification, contract, experience, and PEIMS data.
- ❑ All changes to the above data shall be entered into the HR system by the HR Admin. Asst.
- ❑ Separate files should be maintained by the HR Admin. Asst. for the following items:
 - ❑ References
 - ❑ Criminal History verifications
 - ❑ Medical Records, Requests for FMLA, Workers Compensation, and Temporary Disability
 - ❑ I-9 Forms
 - ❑ Alcohol & Drug Testing
- ❑ The HR Admin. Asst. should conduct an Exit Interview, or at a minimum collect a completed Exit Form, from all terminating employees

Position Management System and Payroll

- ❑ The ISD uses a position management system.
- ❑ Any new positions must be approved by the Assistant Superintendent for Business.
- ❑ As new employees are hired, they are entered in the system by HR.
- ❑ The information is sent over to PR via the system.
- ❑ The PR clerk will accept or reject the new employee or change.
- ❑ Each year, the departments work together to roll the new contracts for the July, August and September starts.
- ❑ The Assistant Superintendent for Business reviews all new data. Needed changes are sent back to HR to make the changes in the system.
- ❑ Employees can view their pay and leave data in the on line Employee Access System.

Payroll Salary Calculations

- The Payroll Director should verify the placement of professional and support staff on the pay scale.
- The placement of administrative staff on the pay scale will be recommended by the HR Director and approved by the Assistant Superintendent for Business and/or Superintendent.
- The Administrative procedure for placement on a pay scale should be utilized for all staff.
- The Payroll Director shall verify the number of years' experience for pay purposes as calculated by Human Resources.

Payroll Leave Processing

- All employees should complete an absent from duty form after returning to duty.
- Upon approval by the campus/department administrator, all absent from duty form along with any support documents i.e. jury duty card, doctor's note, needs to be routed to the Payroll Office each Monday morning.
- Ensure that all absent from duty forms are signed by employee and approval signature of campus/department administrator.
- Leave information shall be entered into the Payroll system for all absent forms received.
- Verify all leave transmittals entered into Payroll system is correct before posting to master file.
- A Leave Status Report shall be filed with the appropriate payroll pay date reports.
- A Leave Status Report will be provided to the campus/department administrator each pay period for information and file purposes.
- Processed absent from duty forms will be filed in employees' individual payroll files.

Payroll Deductions

- The Payroll clerk shall enter the payroll deductions for each employee into the payroll system.
- Reconcile and ensure that all payroll deductions are correct before submission of payroll.

- Reconcile all payroll deductions to billings.
- Prepare and submit to the accounting specialist a listing of liability checks.
- Mail deduction checks with billings to the appropriate vendor upon receipt of the checks from the accounting specialist.

Payroll Direct Deposit

- Most all employees' (including substitutes) payroll wages will be direct deposited by ACH each payday.
- The Payroll clerk will ensure that the bank table within the system is updated with current information.
- Direct Deposit Forms will be completed by each employee with their current bank/credit union information and will be filed in the employees' individual payroll file.
- Ensure all the Direct Deposit forms are signed by the employee.
- The Payroll clerk will review and oversee the preparation and submission of the payroll ACH transmit.
- The ACH verification information form shall be attached to ACH file source document.

Payroll Deductions and Payment

- The Payroll Director will reconcile and verify payroll deductions to be sent via ACH (see procedures for deduction transmittals) and will also send reconciled deduction file via e-mail to First Financial.
- A Journal Voucher for the amount of any overages or shortages due to adjustments will be prepared and submitted to the accounting specialist for posting to the general ledger.
- Verification Information Form will be attached to ACH file source document and filed.

Payroll Supplemental Pay

- All supplemental payments will be paid from a supplemental payment form.
- Campus administrator will complete and approve the supplemental payment form. Payment information will include:
 - Employee Name and Social Security Number
 - Reason for supplemental pay and amount
 - Budget code
 - Date employee worked
 - Amount to be paid
 - Employees signature & date
 - Campus administrator approval & date
- The Payroll clerk will review and approve the supplemental payment.
- The Assistant Superintendent for Business will review and approve the payments.
- A copy of the supplemental payment form will be filed.

Payroll Submission

- The Payroll clerk will assure all payrolls are processed and submitted at least 3 days before pay date.
- The Payroll clerk will input all transmittals for payroll processing to include – hours worked, supplemental pay, substitute pay, leave used and update employees’ deductions when needed and any comp time earned.
- Checklist for Processing a Payroll form will be used during the payroll process and initialed when payroll is complete. This form will be attached to the top of the “verified” Transmittal Reports, Leave Transmittal Reports and the Payroll Control Listing.
- Payroll reports for each payroll processed should be filed to include:
 - Payroll Journal
 - Account Distribution
 - Bank Account Listing
 - Deduction Register Report
 - Check Register
 - Calendar & School Year to Date Reports
 - Workers Comp Reports
 - Gross Pay/FICA Distribution Reports
 - Leave Days Posted Report
 - Employee Wage and Earnings Statement

Payroll Quarterly/Annual Functions

- Quarterly 941 Employer Federal Tax Returns shall be reconciled with the 941 Worksheet Report EFTPS Payment Worksheet and Payroll Excel File Spreadsheet each quarter.
- The Payroll clerk will complete & sign the 941 Quarterly Tax Return.
- Unemployment Quarterly Reports processed and filed via the Internet.
- Reconcile and ensure W-2s are processed and sent via the Internet and mailed to employees. Employer’s copy shall be filed for a period of 7 years.

Payroll Journal Vouchers and Employer Tax Payments

- A Payroll General Journal Report will be created after every payroll and a General Journal Voucher that has been approved by the Payroll clerk will be prepared and submitted to the accounting specialist for posting to the general ledger.
- Payroll employer taxes will be called into the EFTPS at least 1 day before each pay date and a Journal Voucher that has been approved by the Payroll Director will be prepared and submitted to the accounting specialist for posting to the general ledger. A copy of the General Journal Report, the Journal Voucher and the EFTPS will be filed in the 941 Information Folder and the originals will be filed for audit purposes.

Payroll Updates

- Any mass updates to the system will be processed and approved by the Payroll clerk.

Payroll TRS Reporting

- The Payroll clerk shall prepare and submit all TRS reports via the Internet.
- Before the 6th of each month, the Payroll clerk shall prepare the TexNet form and submit via TexNet the amount due to TRS and TRS-ActiveCare Health Insurance.
- The Payroll clerk shall approve and submit a TRS general journal to the accounting specialist for posting to the general ledger.
- TRS Internet Reporting Checklist will be attached to copies of each report submitted to TRS via the internet, TRS Member Detail Data Report, TRS 2 Report, TRS 372 Report, TRS 4 Report, TRS 488 Report, TexNet Form, and the Journal Voucher. These reports will be filed for audit purposes.
- The Journal Voucher, TexNet Form TRS2 Report, TRS 372 Report, TRS 4 Report and TRS 488 Report will be filed.

Anti-Fraud

Consequences for Inappropriate Behavior (zero tolerance)

- ◆ Dishonest actions will not be tolerated
- ◆ Violators will be disciplined, may be terminated and may be reported to the appropriate authorities

Notification/Communication of fraudulent activities:

- ◆ We all have a duty to report certain matters such as theft, fraud, and dishonest in the workplace.
- ◆ Actual or suspected fraud should be reported to the Assistant Superintendent for Business.

Training:

- ◆ Every staff member will be allowed to attend at least one training and/or conference opportunity per year.
- ◆ Additional training requests should be submitted to the Assistant Superintendent for Business. It is the employee's responsibility to request additional training that he/she feels will be beneficial in performing the assigned job tasks.

Records Management & Security of Data

- ◆ All finance records are the property of Fisd and should be maintained in accordance with the established Records Retention Schedule
- ◆ System backups should be performed on a regular basis in accordance with established guidelines
- ◆ No district records and/or data backups shall be destroyed, removed from the district, or shared with any individuals outside the business department without appropriate authorizations.
- ◆ Each year in the fall the Business Office will communicate with all record holders and arrange the

Suggestions for Improvement:

- ◆ Suggestions to improve business operations and/or internal controls are welcome and encouraged
- ◆ Submit any suggestions to the Assistant Superintendent for Business.

Statement of Auditing Standards 99

The auditing standard, Statement of Auditing Standards 99 (SAS 99), Consideration of Fraud in a Financial Statement Audit, applies to the annual independent audit beginning with the audit for fiscal year 2004 ended August 31, 2004. Under SAS 99, school districts' auditors will be expected to perform procedures to assess the risk of fraud. The management of a school district is responsible for implementing appropriate administrative systems and policies that will sufficiently diminish the risk of fraud. Independent auditors will examine fiscal transactions, records, documents, procedures, processes, policies and/or systems, in addition to making observations and obtaining written evidence of close supervision and management of individuals that have access to fiscal assets and financial accounting processes. It is to be noted that school districts that provide evidence of proactive steps to adequately diminish the risk of fraud will achieve a more favorable assessment by their independent auditors.

It is recommended that school districts that have an enrollment of 5,000 and larger perform a periodic self-assessment of the risk for fraud. If a school district does not have an internal audit department, the self-assessment may be obtained through an engagement with a public accounting firm. This is recommended, because a self-assessment may provide a school district an opportunity to implement appropriate changes prior to the independent auditors' procedures under SAS 99.

Certain procedures, policies and aspects of administrative systems will provide evidence of a proactive environment to diminish the risk of fraud, including:

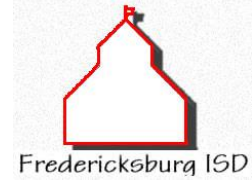
- Separation of employees' roles and responsibilities relating to receipt of cash and access to accounting controls;
- Establishment of an audit committee of the board of trustees;
- Employee disclosure to the governing board and administration of a substantial interest in a business arrangement of the employee or immediate family prior to the award of contracts, or authorization of purchase orders and payment of invoices;
- Policies that require a monthly financial report to the board of trustees;
- Policies that address employee and board member relationships with vendors and suppliers;

- Policies that address acceptance of gifts, entertainment or favors;
- Policies that address kickbacks or secret commissions;
- Job descriptions that address access to accounting systems, and the organizational hierarchy of authorization, recording and approval of transactions;
- Processes to verify adherence to authorized access to accounting system components, and the organizational hierarchy of authorization, recording and approval of transactions;
- Policies that require dual signatures on checks;
- Implementation of a written code of ethics or conduct;
- Periodic training on an entities' written code of ethics or conduct;
- Periodic training on fraud awareness to administrators assigned responsibility for supervising and managing individuals that have access to fiscal assets and accounting controls;
- Written policies communicating expectations for honest and ethical conduct;
- Reporting systems to promote prompt reporting of suspected fraud to appropriate levels of internal management;
- Policies that address prompt investigation of suspected fraud;
- Policies that address immediate dismissal of any employee that has committed fraud;
- Policies to require prompt analysis of factors that contributed to any instances of fraud, and reporting this information to the audit committee of the board and administration;
- Policies that require background and credit checks of applicants for positions that involve access to fiscal assets and accounting controls
- Systems to promote reporting fraud on a confidential basis;
- Policies addressing actual or apparent conflicts of interest, such as
 - business agreements between employees or their immediate family and the school district;
 - Written policies requiring true and accurate disclosure of information in reports and documents filed with the entity, including expense, attendance, production, travel, financial, or similar reports and statements;

- Written policies prohibiting the preferential disclosure of information that would provide a competitive advantage to selected vendors or suppliers during the competitive procurement process and prior to award of a contract by administration or board, except for information required to be disclosed by law or appropriate responses to inquiries about specifications in requests for qualifications, proposals or bids;
- Policies requiring a full-faith effort by employees to comply with applicable governmental laws, rules and regulations;
- Policies requiring the prompt internal reporting of violations of the code of ethics or conduct to an appropriate person or persons;
- Accountability for adherence to written standards, policies and/or the code of ethics through annual performance evaluations; and
- Periodic assessments by management of the risk of fraud through an internal audit function in mid- to large- enrollment school districts.

It is expected that independent auditors will not automatically reach an adverse conclusion about the risk for fraud if one or more of the above factors are not evidenced during the annual audit. However, independent auditors will expect a greater degree of sophistication in larger school districts in relation to the implementation of systems to diminish the risk for fraud. The American Institute of Certified Public Accountants has provided extensive guidance to independent auditors about this new auditing requirement.

FISD SAS 99 Questionnaire



In the wake of recent accounting scandals and corporate collapses, the Federal government passed a new rule commonly known as the Sarbanes-Oxley Act which impacts public accounting, auditing, and corporate governance. In response, the AICPA implemented a new auditing standard (SAS 99) called “Consideration of Fraud in a Financial Statement Audit.” SAS 99 requires external auditors to perform certain procedures that are more likely to uncover fraud in an organization.

Please complete the following questionnaire and return it to _____ on or before _____. Please provide as much detail as necessary to thoroughly answer each question. If you need more space, you may staple additional pages to this sheet.

These questions are about topics that are not always easy to address. Please understand that your responses will be handled with care and sensitivity. Thank you in advance for your cooperation.

1. Have you ever been asked to approve or process a transaction you thought might be improper?
2. Have you ever been asked to ignore or override a policy or procedure that is part of your job?
3. Has anyone ever asked you to withhold information from the auditors?
4. Has anyone ever asked you to alter documents or records?
5. Do you have any reason to suspect that fraud may be occurring within the district? If so, where and how?

6. If one of your co-workers were to steal from the district or commit some other type of fraud, what do you believe would happen to him/her?
7. Do you know of any reason why someone might want to get back at the district by committing fraud?
8. Do you think that the importance of ethical behavior is clearly communicated to employees?
9. In your opinion, what department or activity in the district is most susceptible to fraud?
10. Is there anything else you would like to add?

Thank you for taking the time to fill out this questionnaire. Your input is greatly appreciated.

Name _____ Date _____

FISD Internal Control Review/Fraud Risk Assessment

Prepared by (Administrator): _____

Title: _____

Date: _____

Fraud, unlike an error, is intentional and usually involves deliberate concealment of the facts. Please consider the attached suggested considerations for activities in your campus or department when answering the questions below.

1. Are you aware of any allegations of fraud or suspected fraud made by employees, or other persons that your campus or department deals with regularly? If yes, please provide additional information.
2. What areas of your campus or department's operations, types of transactions, or accounts do you think are at risk of fraud?
3. What programs and controls has the campus or department established to mitigate these fraud risks?
4. How do you communicate your views on business practices and ethical behavior to your employees?
5. Does your department have an ethics policy as part of the policies and procedures? If yes, please provide a copy.

SAS 99 Audit Program

<p><u>GENERAL</u></p> <p>In the wake of recent accounting scandals and corporate collapses, the Federal government passed a new rule commonly known as the Sarbanes-Oxley Act which impacts public accounting, auditing, and corporate governance. In response, the AICPA implemented a new auditing standard (SAS 99) “Consideration of Fraud in a Financial Statement Audit.” There are three inherent presumptions in SAS 99:</p> <ul style="list-style-type: none"> ▪ there is an inappropriate recognition of revenue ▪ there is ineffective monitoring by management ▪ there is the ability to override information system controls <p>SAS 99 requires the external auditors to perform certain procedures that are more likely to uncover fraud in an organization.</p> <p>The management of a school district is responsible for implementing appropriate administrative systems and policies that will sufficiently diminish the risk of fraud. New guidance provided in the Financial Accountability System Resource Guide recommends that school districts that have an enrollment of 5,000 and larger perform a periodic self-assessment of the risk for fraud.</p> <p>Fraud is an intentional act that results in the material misstatement of the financial statements. Fraud can occur as a result of fraudulent financial reporting or a misappropriation of assets. It is the district’s responsibility to attest to the external auditors that adequate and sufficient controls are in place.</p>		
<p><u>AUDIT OBJECTIVES</u></p> <ol style="list-style-type: none"> 1. Prepare for evaluation by the external auditors under SAS 99 2. Assess the district’s risk for fraud 3. Identify areas where policies, procedures, or internal controls could be strengthened 		

AUDIT PROCEDURES

1) General

- a) Understand and consider:
 - i) Culture of the school district.
 - Attitude of top management.
 - Consequences in place for person/persons committing fraud.
 - Financial status of school district.
 - Financial status of individual departments or schools.
 - ii) Incentives and/or pressure to commit fraud.
 - iii) Opportunities to commit fraud.
 - iv) Management’s ability to override controls.
 - v) Strengths/weaknesses of school board oversight:
 - Unpaid volunteers or elected?
 - Actively involved?
 - Political “springboard”?
 - Nepotism?
 - Understand finances, controls and budgets?
- b) Review prior SAS 99 reports and responses to determine whether corrective action has been implemented for noted deficiencies.
- c) Review related SAS 99 material and become familiar with requirements before beginning fieldwork.

2) Inquiry of Management and Personnel

- a) Develop a questionnaire about fraud potential that includes open-ended questions. Judgmentally select individuals within the organization to respond. Document the selection process and results.
- b) Based on questionnaire responses, select employees to personally interview. Criteria for interviews might be based on position, years with the school district, access to cash or accounting records, connection with or knowledge of fraud, vague questionnaire answers, etc. Document reasons for selecting each individual.
- c) Document the results of interviews.

<p>3) Internal Control Checklist</p> <p>a) Using the Internal Control Checklist from the Financial Accountability System Resource Guide (1.5.3) as a guide, develop a questionnaire for FIRD activities and complete. Document results.</p> <p>b) For any negative responses found, evaluate the risk and suggest possible internal controls that could be implemented.</p>		
<p>4) Risk Assessment</p> <p>a) Using the list provided in section 4.6.3.2 of the FASRG, document the procedures, policies, and administrative systems that FIRD has established that would diminish the risk of fraud.</p> <p>b) Evaluate the results and suggest possible changes that might strengthen the anti-fraud environment.</p>		



TASB Policies addressing Internal Control

All FISD school board policies can be located at:

<http://pol.tasb.org/Home/Index/510>

BBF (local)
BBFA (legal)
CAA (local)
CBB (legal)
CDA (legal and local)
CE (legal and local)
CFA (legal)
CFC (legal)
CFD (local)
DBD (legal and local)
DCD (legal and local)
DCE (legal and local)
DFBB (local)
DH (legal and local)

FISD Internal Control Check List



An internal control check list provides assistance to FISD for determining if there are areas where internal control procedures could be enhanced. Any “NO” responses could indicate that there is an internal control weakness and that further review should be performed to determine if there are other control procedures in place to mitigate potential risk.

		YES	NO	COMMENTS
1.	Are the following functions performed by someone other than the accounts receivable bookkeeper(s) (Sheila):			
	(a) Handling cash and maintaining cash records?	✓		Also handled by Steve and Sheree
	(b) Opening incoming mail?	✓		Performed by student worker or AP
	(c) Credit collection, if applicable?	✓		Deborah and Steve
	(d) Review and mailing of tax statements?	✓		Tax Office
	(e) Approval of and adjustments of uncollectible delinquent taxes?	✓		Tax Office and Pam and Deborah
2.	Are accounts receivable ledgers unavailable to the cashiers?	✓		Not many AR ledgers
3.	Are subsidiary ledgers regularly balanced with control accounts?	✓		
4.	Are subsidiary ledgers occasionally balanced with control accounts by someone other than the accounts receivable bookkeeper(s)?	✓		Deborah
5.	Are tax statements sent at regular intervals to all taxpayers?	✓		Tax Office
6.	Are securities, insurance policies and similar instruments under the control of a responsible official?	✓		Deborah
7.	Are all persons having access to securities properly bonded?	✓		Thru TASB insurance
8.	Are securities kept in a safe-deposit box and does access to the safe-deposit box require the presence of two or more employees?	✓		None on premissis
9.	Does the accounting department maintain a record of each security, its cost, description and certificate number, and are all securities periodically accounted for and reconciled to the records?	✓		None on premissis; bank keeps up with security value
10.	Are inventory records maintained for supplies and capital assets?	✓		
11.	Are inventory records verified by physical inventories at least once each year?	✓		Warehouseman; Steve; Holly; Deborah
12.	Are discrepancies between inventory records and the physical count promptly investigated and appropriate adjustments of the records made?	✓		
13.	Are trial balances of inventory records taken at regular intervals and balanced with the general ledger control account?	✓		Not very often; balances immaterial
14.	Are inventory records maintained by persons who have no access to the supplies stored?	✓		Steve

15.	Are pre-numbered receiving reports used, and are copies thereof forwarded to the accounting department for use in verifying invoices?			Receiving reports are from the vendor. They are forwarded to accounting and matched with appropriate support.
16.	Are materials and supplies held in a central location and issued only on properly approved requisitions?			Warehouse
17.	Are stolen goods promptly reported to a local law enforcement officer?			
18.	Are accounts payable personnel independent of purchasing and of the cashier or persons signing checks?			AP = Pama Purchasing = Holly Check signing – Asst Super and Super
19.	Are pre-numbered purchase orders used, and are copies transmitted to the accounts payable department?			
20.	Are prices established at the time of placing orders?			Utilizing bid amounts
21.	Do the procedures for verification of invoices in the accounts payable department require a signature to ensure that:			
	(a) Quantities billed on the invoice agree with those called for on the purchase order and shown by the receiving report?			If receiving info not received, AP sends pink notice to employee to approve goods/services for payment.
	(b) Prices, discounts, credit period and terms of shipment per the invoice match with those specified on the purchase order?			Accounting system allows for no variance between PO and bill.
	(c) Extensions, footings and deduction of discounts are correct?			Verified by AP/Pam
22.	Are accounts payable balanced monthly to the general ledger control account?			Pam
23.	Are monthly statements from vendors regularly reconciled to accounts payable ledgers?			Pam/Steve
24.	Are returned purchases controlled in a manner to ensure that the school district receives proper credit against charges?			
25.	Are there established procedures to call attention to invoices not paid within the discount period?			
26.	Are all loans approved by the board and signed by the president or vice president and secretary?			
27.	Are invoices and supporting documents marked when approved for payment in a manner which precludes the possibility of submission a second time (duplicate payments)?			Stamped in and marked as posted
28.	Are employees paid by pre-numbered payroll checks?			Plus approximately 80% direct deposit
29.	Are spoiled payroll checks voided in a manner which prevents reuse, and filed in a numerical sequence with paid checks?			All spoiled checks are voided by cutting off the signature line and filed in sequence. Payroll and AP check stock maintained at ESC 13.
30.	Is a check protector used?			Positive pay is used for AP and Payroll checks
31.	Are various phases of payroll work, such as timekeeping, compilation of payroll, writing paychecks, filling envelopes and distribution of employees, divided among a sufficient number of persons?			New employees are entered in PMS system thru HR personnel (Phyllis). Item is sent to Payroll Clerk (Connie) to accept change. Pay is calculated based on 12 even months of the salary schedule approved by the board. Additional and

				supplemental pay is provided by various employees and worked up by PR Clerk. Each campus secretary picks up their checks at FISSD central office and distributes checks.
32.	Is there a reasonable rotation of duties, when possible, among timekeepers, paymasters and persons preparing payrolls?			Only one PR clerk. There are no timekeepers other than managers in the different areas such as Custodial, Maintenance, School Nutrition, and Transportation.
33.	Are undelivered payroll checks forwarded to an appropriate official for deposit after a specified period of time?			Very few; any are sent back to central office. If any after 3 years; they would be sent to Comptroller's office for Unclaimed Property.
34.	Is the payroll bank account reconciled monthly by employees having no other connection with payroll work?			Sheree
35.	Does the reconciliation of the payroll bank account include examination of endorsements on paid checks, accounting for numerical sequence of checks, and comparison of checks with payroll records?			Do not receive checks back; monthly receive electronic images of front and back of checks. Signatures reviewed when necessary.
36.	Do board members and senior executives set a day-in, day-out example of high integrity and ethical behavior?			
37.	Is there a written code of conduct for employees? Is it reinforced by training, top-down communications and periodic written statements of compliance from key employees?			
38.	Is it clear that fraudulent financial reporting at any level in any form will not be tolerated?			
39.	Are business risks identified and candidly discussed with the board of directors?			
40.	Is relevant, reliable, internal and external information timely identified, compiled, and communicated to those positioned to act?			
41.	Are risks identified and analyzed and actions taken to mitigate them?			
42.	Are controls in place to ensure management decisions re properly carried out?			
43.	Is there an audit committee?			Entire board is the committee
44.	Is there an internal audit function?			FISSD is too small to support an internal audit function; business office self audits work for reasonableness