

Policy DIE Internal Controls

Issued 4/19

Purpose: To communicate the internal control objectives of the school district administration and board of trustees.

The school district will establish specific policies and procedures on internal controls designed to provide the board of trustees, stakeholders, governmental agencies, and other outside parties with reasonable assurance that the school district's goals and objectives will be met. Internal controls will promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with laws and regulations.

Controls help ensure that assets are not exposed to unauthorized access and use, transactions are properly recorded in the financial records, and the resultant financial information is reliable. School district resources are dependent upon the system of internal control. Auditors are required annually to consider the school district's system for internal control over financial reporting and compliance in order to determine the procedures that are appropriate for the annual audit. The safeguarding of school district assets and the reliability which the school district and others can place upon its financial records is dependent upon the effectiveness of the internal control process.

The board of trustees expects the school district administration to create and enforce an internal control environment with policies and procedures necessary to provide reasonable assurance that practices enable effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.

The system of internal control is meant to ensure the school district remains on target toward its mission of "Children First...Every Day" and to minimize deviations. The system promotes efficiency, minimizes risks of asset loss, helps ensure the reliability of financial information, and compliance with applicable laws, rules, and regulations.

Definitions

Internal control is a process; a means to an end, and not an end unto itself.

The control environment is the foundation upon which all components of internal control are based. It sets the tone for school district operations. Internal control is about people, operations, communications, and the work environment. It is not about policies and forms though it takes shape through the implementation of relevant policies, procedures, and practices. Internal control can provide reasonable assurance, but no system of control can provide absolute assurance to the board of trustees and other users of financial information.

Procedures

A. Responsibility

1. The board of trustees is responsible for setting the expectations for internal control, ensuring administration is aware of those expectations, requiring the upward communications channels are open through all levels of management, and evaluating management's effectiveness toward monitoring the control environment and implementing sound control policies and procedures.
2. Individuals with delegated approval authority, e.g. superintendent, assistant superintendents, executive directors, directors, and principals are responsible for

establishing, maintaining, and supporting a system of internal controls within their areas of responsibility and for creating the control environment that encourages compliance with school district policies and procedures.

- a. Adequate supervision is necessary to monitor that internal controls are operating as intended, and to help ensure the reliability of accounting and operational controls by pointing out errors, omissions, exceptions, and inconsistencies in procedures.
 - b. Staff are responsible for the application of this policy and the design, development, implementation, and maintenance of systems of internal controls focusing on the effectiveness of operations and the safeguarding of assets within their respective areas of responsibility.
 - c. All levels of school district administration are responsible for strengthening internal controls when weaknesses are detected and should periodically review departmental procedures to ensure that the general principles of internal control are being followed.
3. The finance department has the primary responsibility for internal control over financial reporting and compliance with applicable laws, rules, and regulations. The assistant superintendent of finance and operations and the director of finance are the school district's source for information and assistance to other administrators and staff on this topic and will make resources available to assist in administering this policy.
 4. The human resources department is responsible for internal controls over employee recruitment, hiring, separation, promotion, job classification, employee rights, and salary administration. The executive director of human resources is the school district's source for information and assistance to other administrators and staff on this topic and will make resources available to assist in administering this policy.
 5. All levels of internal control may be reviewed by the external auditors during the annual audit. If significant deficiencies or material weaknesses are noted during the annual audit, the external auditors must communicate these issues to management and to the board of trustees of the school district.
 6. Department heads, working with the finance department, are responsible for prompt corrective action on all internal control findings and recommendations made by external auditors. The audit process is completed only after department heads receive the audit results and take action to correct internal control weaknesses, improve systems, or demonstrate that management action is not warranted.
 7. School district staff in leadership positions have the responsibility to ensure that those who report to them have adequate knowledge, skills, and abilities to function within, and contribute to, an effective internal control environment. This includes providing access to appropriate training on topics relevant to their job.
- B. School district administration and board of trustees will establish and maintain a system of internal controls that satisfies the school district's objectives in the following categories:
1. risks are identified and effectively managed
 2. safeguarding of assets
 3. reliability and integrity of financial information
 4. compliance with policies, plans, procedures, laws, and regulations
 5. economical and efficient use of resources
 6. meeting established objectives and goals for school operations and programs.
- C. General internal control principles for schools and departments are:
1. Separation of duties
 - a. Duties are separated so that one person's work routinely serves as a check on another's work.

- b. No one person has complete control over more than one key function or activity (e.g. authorizing, approving, certifying, disbursing, receiving, or reconciling).
 - 2. Authorization and approval
 - a. Proposed transactions are authorized when proper and consistent with school district policy and the school or department's plans.
 - b. Transactions are approved by the person who has delegated approval authority, which is usually delegated on the basis of special competency or knowledge.
 - 3. Custodial and security arrangements
 - a. Responsibility for physical security/custody of school district assets is separated from record keeping/accounting for those assets.
 - b. Unauthorized access to school district assets and confidential data is prevented.
 - 4. Timely and accurate review and reconciliation as appropriate
 - a. School and department accounting records and documents are examined by employees who have sufficient understanding of the school district's accounting and financial systems to verify that recorded transactions actually took place and were made in accordance with the school district's policies and procedures.
 - b. School and department accounting records and documentation are compared with the school district's accounting system reports and financial statements to verify their reasonableness, accuracy, and completeness.
- 5. The general internal control principles should be applied to all school and department operations, especially accounting records and reports, payroll, purchasing/receiving/disbursement approval, equipment, and supply inventories, cash receipts, petty cash and change funds, billing, and accounts receivable.
- D. All schools and department processes, operations, functions, and activities are subject to evaluations of internal control systems. The results of these evaluations provide information regarding the school district's overall system of control.
- E. Information and communication - Information must be timely and communicated in a manner that enables employees to carry out their responsibilities.
 - 1. All personnel must receive a clear message from the school district's administration that control responsibilities are to be taken seriously.
 - 2. Employees must understand their own roles in the internal control system, as well as how individual activities relate to the work of others.
 - 3. Employees must have a means of communicating significant information to the school district's administration.
 - 4. The school district must communicate effectively with external parties, such as governmental agencies, contractors, suppliers, parents/legal guardians, students, and other stakeholders.
- F. Internal control is meant to keep the school district focused on achieving its mission; however, there is a balance between effective controls and mission accomplishment. Costs associated with internal controls should not exceed their benefit, nor should controls be allowed to stifle mission effectiveness and timely action. All levels of leadership must assess the costs, benefits, and risks when designing controls to develop a positive control environment and compensate for the risks of non-compliance, loss of assets, or unreliable reporting while accomplishing the school district mission.

Reporting Procedures and Resolution of Reported Incidents

It is the responsibility of all employees/personnel to comply with the established practices of the school district.

A “significant” incident is one where a control creates, or appears likely to create, vulnerability to failure in operational efficiency and effectiveness, reliable financial information, safeguards for assets and records, adherence to prescribed policies, and compliance with laws and regulations, which failure would disrupt school district operations, safety, or the legal or financial position of the school district. Incidents that are not “significant” are those which are minor mistakes, errors, nonconformities, and observed vulnerabilities which can be quickly resolved at a minor level without posing threats to the school district.

All employees/personnel are required to immediately report all significant allegations or incidents of noncompliance to their immediate superior or, if the employee has reason to believe that his/her immediate supervisor is involved, to the next level of management. All significant incidents and allegations of noncompliance must be reported to the administrative officer with primary responsibility for the affected field of operations (e.g. assistant superintendents, executive directors, directors) with a notice to the superintendent. The superintendent will then assure that an investigation into the matter is conducted by the appropriate administrator, the superintendent, or by a third party on behalf of the superintendent (e.g. legal counsel and/or subject matter expert consultants).

Any significant noncompliance committed by employees of the school district will be pursued by thorough investigation, and upon discovery will prompt consideration of the following:

- taking disciplinary action in accordance with applicable school district’s personnel policy
- dismissal
- modifications of the applicable controls;
- investigation into the potential existence of other controls failures or vulnerabilities
- any other appropriate and legal remedy available

All information relating to significant noncompliance that is received and investigated will be treated confidentially to the extent permitted by law. The progression of investigations will be handled in a confidential manner and will not be disclosed or discussed with any person(s) other than those who have a legitimate right to such information, to the extent permitted by law. This is important to avoid harming the reputations of suspected persons where the investigation reveals no wrongful conduct or otherwise indicates that a problem is with the controls and not bad faith of the involved people. No person is authorized to supply any information with regard to allegations or incidents of noncompliance to the media or otherwise outside the scope of the investigation and response(s) to the investigation, without the express permission of the superintendent.

No person will suffer any penalty or retribution for reporting in good faith, any suspected or actual incident of noncompliance. Employees must not make allegations which are false and made with malicious intentions. Where such false allegations are discovered, the person making the allegations will be subjected to disciplinary actions.

Adopted 4/9/19

Fort Mill School District