

## Internal Control Policy

### Considerations

The significance of a department's internal controls for program, administrative and fiscal operations cannot be overstated. Properly utilized, documented, and updated, internal controls assist in protecting the District's assets and maintaining public trust. Departments not in compliance with internal control requirements are subject to potential penalties.

### Policy

An internal control guide has been developed to provide assistance for department directors and staff in developing internal controls and internal control plans.

### The Internal Control Plan

An effective Internal Control Plan is a high level, department-wide summarization of risks and controls for all of its business processes. It is supported by lower level detail, communicated throughout the department, and continuously monitored and updated.

### Internal Controls

1. Internal control refers to the processes and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories:
  - a. Safeguarding assets,
  - b. Ensuring validity of financial records and reports,
  - c. Promoting adherence to policies, procedures, regulations and laws,
  - d. Promoting effectiveness and efficiency of operations, and
  - e. Facilitating accomplishment of established goals for operations and programs.
2. Internal controls include but are not limited to:
  - a. Segregation of duties
    - i. Financial responsibilities are divided between different people to assure a single person does not perform every aspect of a financial transaction. Segregating responsibilities can reduce errors and prevent or detect inappropriate transactions.
  - b. Authorization and Approval
    - i. Transactions should be authorized by a delegated official who verifies, prior to approving the transaction, that:
      1. Has approval authority,
      2. Sufficient funds are available,
      3. The transaction is:
        - a. Consistent with policy (and benefits the fund source(s) being charged), and
        - b. Allowable (meets the stipulations of the fund(s) as well as that of the Board),
        - c. Accurate, and
        - d. Reasonable.
3. Review and Reconciliation

- a. Routine examination and reconciliation of transaction records to official District records is required to verify the accuracy of the records, the appropriateness of the transactions, and their compliance with policy.
4. Physical Security
  - a. Equipment, inventories, cash and other property shall be physically secured, and periodically counted and reconciled to District records.
5. Training and Supervision
  - a. Training is to be provided to ensure employees are equipped to fulfill their job duties. Employees are to be supervised to ensure they are appropriately directed and held accountable. Employees are to be informed of the process for reporting suspected improprieties.
6. Documentation of Policies and Procedures
  - a. District and department policies and operating procedures shall be written, communicated, promoted, accessible, and used to assure integrity and consistency in processes and transactions.

### **Accountability**

Accountability for financial control purposes is the delegation of authority to qualified persons to initiate, approve, process, and review business transactions. The delegated authority is responsible for assuring that each transaction is:

1. Within their delegation,
2. Consistent with policy (and provides benefits to the fund source(s) being charged),
3. Allowable (meets the stipulations of the fund(s)),
4. Accurate, and
5. Reasonable.

### **Delegation of Authority (and redelegation of authority)**

A delegation of authority entrusts a task, power, or responsibility to another. The purpose of a delegation is to empower an official(s) with designated responsibilities.

### **Conflict of Interest**

A financial conflict of interest exists when an employee initiates, influences, authorizes, or approves a business decision that results in a financial benefit to the employee, a relative of the employee, a business associate or personal friend of the employee, or a business or investment in which the employee is associated.

**Policy****A. General**

To foster the mission of the District and sustain the District's integrity as a custodian of public funds, every member of the District community is responsible for safeguarding the District's assets and reputation by following District policies, exercising sound business and financial practices, and ethically performing their responsibilities. Internal controls such as policies, practices, processes, systems, and delegated authorities are tools to accomplish these goals.

**B. Accountability**

1. Each department has the responsibility and is accountable for managing the resources it administers on behalf of the District.
2. The department head may delegate the financial management responsibility to the business officer. Delegating authority and accountability does not relieve the department head of accountability for activities under their direction. The department head and or the business officer is responsible for developing an appropriate structure for handling the unit's financial resources, including the delegation of a variety of tasks to employees within the unit.
3. The department head must officially record in writing all delegations of authority as well as any cancellations or changes in delegations.
4. Accountability delegations are to be consistent with appropriate internal controls.

**C. Internal Controls**

1. Directors, principals, and coordinators at all levels are responsible for ensuring that an appropriate and effective internal control environment has been established within their areas of responsibility.
2. All District employees are responsible for:
  - a. Following District policy, procedures, and department internal control practices, and
  - b. Notifying their supervisor or an appropriate official if they observe or suspect fraud or misuse of District resources.

**D. Conflict of Interest**

1. All District employees shall refrain from participating in any activities which place them in a conflict of interest between their official activities and any other interest or obligation.
2. In addition, designated District officials are required to file conflict interest statements when they assume their designated position, annually, and when they leave the designated position.

**Internal Control Guidelines****A. Payroll/Personnel****1. Separation of Duties**

- a. Different employees should be responsible for (1) entering payroll information into the finance software, (2) correcting, modifying and posting hourly and leave information, and (3) reviewing the monthly Distribution of Payroll Expense reports and (4) writing payroll checks and direct deposits.
- b. Payroll direct deposit stubs are distributed via the employee portal by the IT Department.

**2. Authorization and Approval**

- a. Only persons with delegated authority should approve forms.
- b. Employees should not approve actions affecting their own pay.
- c. Supervisors should approve employee attendance records each month.
- d. Supervisors should approve any time recording or reporting alterations.

**3. Custodial and Security Arrangements**

- a. Payroll records should be filed in a secure location with access limited to authorized personnel.
- b. Presentation of identification should be required when releasing a manual check to employees not known to the person distributing. Employees picking up a manual check must sign for the check.
- c. Changes to employee direct deposit information must be verified in-person or through direct contact with the employee, not through email correspondence.

**4. Review and Reconciliation**

- a. Payroll expense reports should be reviewed and approved monthly.
- b. Any questionable or irregular entries should be immediately investigated and resolved.
- c. The person performing the review should sign and date reports to signify that the review has been satisfactorily completed and any discrepancies resolved.

**B. Procurement of Materials and Services****1. Separation of Duties**

- a. Separations of purchasing related duties should be established so that no one employee has total control over any purchase transaction.
- b. Different individuals should be assigned responsibility for (1) approving requisition and purchase orders, (2) receiving ordered materials, (3) approving invoices for payment, and (4) reviewing and reconciling the monthly general ledger.

**2. Authorization and Approval**

- a. Only persons with delegated authority should approve purchases, invoices and check requests.
- b. The receipt of goods and services should be verified prior to approving invoices for payment.
- c. Verification should be made that invoiced amounts are correct, accounts charged are correct, object coding is correct, and payment has not already been made.

d. Low-value purchasing policy requirements should be observed.

**3. Custodial and Security Arrangements**

a. Changes to vendor direct deposit information and changes to vendor check remittance addresses must be verified through direct contact with the vendor, not through email correspondence.

**C. Supply and Equipment Inventories**

**1. Separation of Duties**

a. Employees assigned to perform physical inventories to confirm that materials and equipment listed on inventory records are on hand should be persons other than those responsible for maintaining custody of the items or subordinates of the custodian.

b. Someone not directly responsible for custody or disposal of equipment should approve equipment and inventory changes.

**2. Authorization and Approval**

a. A person delegated approval authority should approve purchase orders.

b. Adjustments to inventory records for returned, missing, damaged or stolen items should be approved by departmental management.

**3. Custodial and Security Arrangements**

a. Security arrangements for safeguarding inventory should be proportional to its value.

b. Off-premises use of District equipment should be primarily for District business purposes and should be approved by the department head or higher authority, and a record maintained.

c. District equipment should not be used for personal purposes except as permitted by policy for incidental use.

d. The number of employees having access to inventories should be held to a minimum.

e. Locks should be re-keyed or changed whenever significant personnel turnover occurs. Keys should be obtained from separating employees.

**4. Review and Reconciliation**

a. Items should be inspected for condition prior to their inclusion in the inventory.

b. Obsolete, inactive or damaged items should be removed from inventory with appropriate approval from the Business Office.

c. Physical counts of large supply inventories should be taken annually. Equipment should be counted bi-annually.

**D. Cash Receipts**

**1. Separation of Duties**

a. Different persons should be responsible for (1) receiving and recording cash collections, (2) balancing daily cash receipts to related cash recordings, and (3) verifying that the deposit amounts reflected in the general ledger agree with departmental records.

**2. Cash Accountability**

a. Employees handling cash are individually accountable for their actions. Each is responsible for handling cash consistent with District policy and guidelines.

- b. Transfers of cash between two people should be jointly verified and documented.
  - c. Supervisors should verify cash deposits, voided transactions, and cash overages and shortages.
3. **Recording and Depositing**
- a. All cash receipts should be recorded on a cash receipt form, cash register, or a properly controlled computer database at the time of receipt.
  - b. Checks should be made payable to Fargo Public Schools and promptly endorsed for deposit upon receipt.
  - c. All collections (cash, checks, or cash equivalents) in excess of \$500 should be deposited with the applicable bank on the day they are received. Cash and equivalents totaling less than \$500 may be deposited weekly if departments meet safe requirement standards by properly securing the funds.
4. **Review and Reconciliation**
- a. Cash receipts should be balanced to receipt records on the day received.
  - b. Deposit receipts should be verified to ensure the depositing location recorded the proper amount.
  - c. Deposit entries in the general ledger should be reviewed and verified.
- E. **Petty Cash**
1. **Fund Establishment and Review**
- a. Petty cash funds must be authorized by Business Office, maintained in a secure location accessible only by the petty cash fund custodian of record, and used only for appropriate District business purposes.
  - b. A supervisory employee not responsible for custody of the petty cash fund should review expenditure documentation, verify that the total fund amount is accounted for and approve requests for petty cash fund replenishment.
2. **Custodial and Security Arrangements**
- a. Cash and checks should be stored in a locked receptacle located in a secure area.
  - b. Custodial responsibility for a petty cash fund should be assigned to only one employee, with a designated alternate.
3. **Review and Reconciliation**
- a. A receipt documenting the expenditure should support all disbursements.
  - b. The fund should be counted and balanced at least monthly by a supervisor not directly responsible for maintaining the fund.
- F. **Billing and Accounts Receivable**
- The use of the District's Billing/Accounts Receivable Finance System is required for billings to external parties.**
1. **Separation of Duties**
- a. Different persons should be responsible for (1) billing and maintaining accounts receivable records, (2) receiving or handling incoming payments, and (3) reconciling receivable records to the general ledger.
2. **Custodial and Security Arrangements**
- a. Invoices should be prepared for all charges and issued on a timely basis.
  - b. Invoices should be issued in numerical sequence.
  - c. Blank invoices, credit memos, and cancellation forms should not be used.

**3. Review and Reconciliation**

- a. Receivable reports should include aged listings of all amounts due, should be reviewed at least monthly, and should be balanced to the related general ledger account.
- b. Delinquent account balances should be examined and follow-up with customers should be initiated on a timely basis to facilitate payment.

**G. Budgetary Control**

1. Budgets should be prepared annually and based on realistic expectations of revenues and expenses.
2. General ledgers should be reviewed monthly to verify charges to expenditure accounts.
3. Actual expenditures should be compared to budgeted amounts, and variances identified monthly.
4. Financial and budgetary status reports should be reviewed regularly by directors, coordinators, principals, and other responsible managers.

**H. Information Systems**

1. New systems should be developed or acquired consistent with District policies, guidelines, and procedures.
  - a. New systems should be completely tested prior to putting them into operation.
  - b. Systems should be fully documented, including operations, program, and user instructions.
  - c. All changes to computer programs should be properly authorized and documented.
  - d. Systems should include audit trails and edit routines.
  - e. Systems, programs, databases, and data files should have logical access security and be physically secure.
  - f. Equipment should be properly safeguarded against theft, power fluctuations and application viruses.
  - g. Departments shall have backup and recovery processes to ensure continuity of operations. Backup media should be stored off-site, remote from the production files.
  - h. Employees should be properly trained and cross-trained to prevent an unduly high degree of reliance on one knowledgeable employee.
  - i. Employees should receive appropriate information on managing and protecting confidentiality of passwords.
  - j. Software installed on District equipment should be authorized and used for District business purposes. Software use shall conform to copyright laws and licenses.

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