



Internal Controls for Charter Schools

**Utah State Office of Education
Internal Audit Department
Natalie Grange CPA, CFE**

Internal Controls

Internal controls are an integral part of any organizations financial and business policies and procedures. Internal controls consist of measures to:

- 1) Protect resources against fraud, waste, and abuse
- 2) Ensure accuracy and reliability in accounting records
- 3) Ensure compliance with organizational policies and requirements of state and federal dollars
- 4) Evaluate levels of performance

Why Have Internal Controls?

- * **Protect employees**

- * To ensure compliance with policies and laws

- * To aid in the prevention or detection of errors or misuse

- * To provide reasonable assurance that financial statements are fairly stated

- * Requirement of State and Federal laws

Risk Assessment Process

- 1) Determine the type of transactions or processes you want to assess
- 2) Understand policies and rules
- 3) Risk Assessment
- 4) Evaluate and implement internal controls
- 5) Develop high level analytics and review processes

Step 1

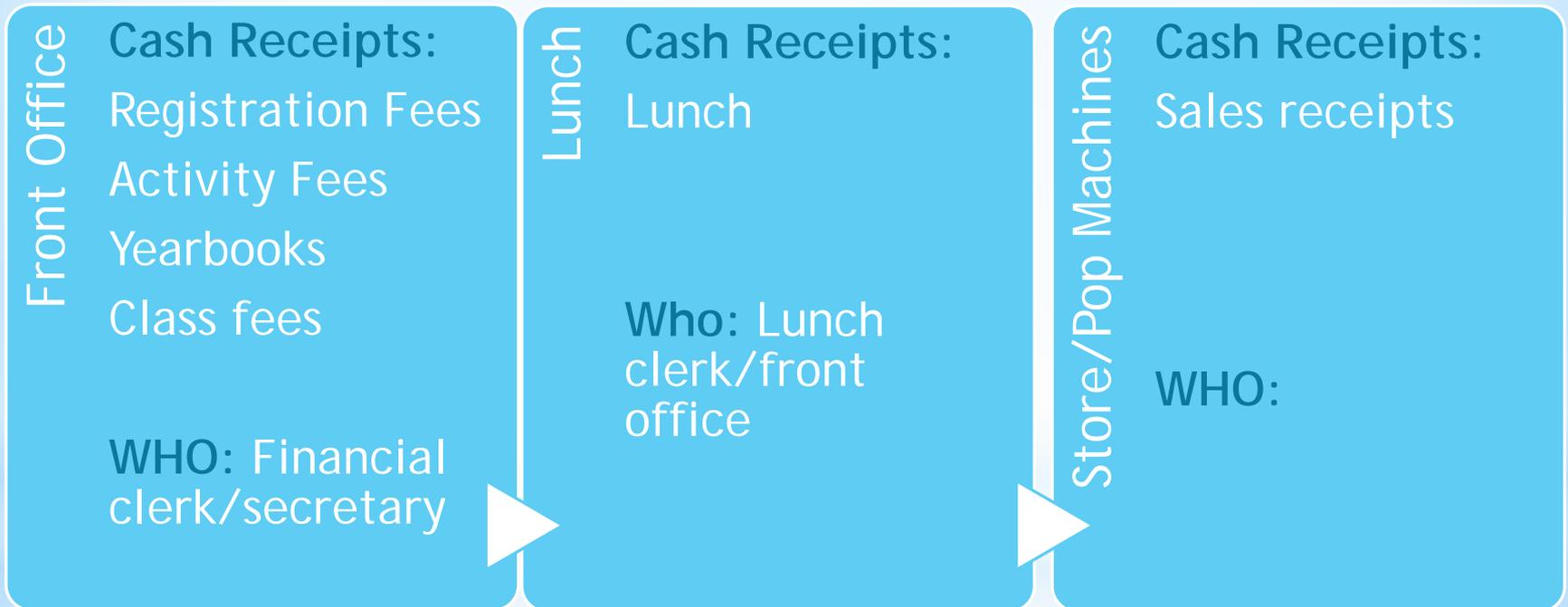
What Cash
Receipts and
Disbursements Do
You Have?

What is considered a cash receipt?

- Cash, MONEY
- Checks
- Money Orders
- Credit Card Transactions
- Transfers
- Donations



Cash Receipting Streams (Where/Who)



What are your cash disbursement streams?

- * Who has access to checks?
- * Who uses the debit/credit cards?
- * Who has petty cash or change funds?
- * Are expenditures paid for out of cash receipts?
- * Are bank transfers used to pay bills?
- * Payroll?



YOUR COMPANY NAME HERE
www.yourcompany.com
123 MAIN STREET
ANYWHERE, US 12345
PH 555-555-5555
FAX: 555-555-5555

YOUR FINANCIAL INSTITUTION
555 BRANCH STREET
ANYWHERE, US 12345
12-3456789

3537

PAY TO THE ORDER OF _____ \$ _____

_____ DOLLARS
YOUR COMPANY NAME HERE

MEMO _____

AUTHORIZED SIGNATURE _____

⑆003537⑆ ⑆000000000⑆ 00000000⑆

Commonly Missed Areas

*What are your controls over:

- a) Journal entries
- b) Electronic transfers
- c) Paypal accounts
- d) Debit/credit cards
- e) Creation of budget estimations
- f) Data submissions
- g) Appropriation grant expenditures
- h) Supporting documentation
- i) Compliance with procurement guidelines

*The Board and Management of each LEA are responsible to establish an appropriate internal control environment. The “Tone at the Top” sets the standard for all employees.

*If your LEA hires a management company, the Board is responsible to establish controls over the work performed by management companies, in the same manner as they would their own employees.

Step 2

Understanding Governing Policies and Procedures

Are your critical policies in
writing?

Step 3

Risk Assessment

Evaluating Cash Receipting Streams

- * Who receives or has access to the cash receipts?
- * Where is the \$ collected?
- * Are receipts issued for each payment?
- * If receipts are issued, are they pre-numbered?
- * Where are the cash receipts stored?
- * Who prepares the deposit?
- * Who takes the deposit to the bank?
- * How often are deposits taken to the bank?
- * What name is the bank account under?
- * Who receives the bank statement?
- * Does anyone perform a bank reconciliation?
- * How often is the bank reconciliation performed?
- * Who reviews the bank reconciliation?
- * Does anyone account for the receipts issued?

Evaluating Cash Receipting Streams (cont'd)

- * Are expenses paid out of the cash collected?
- * Are the receipts collected expected, will someone notice if they are missing?
- * In a years time, how much money is collected in this stream?
- * Are collections consistent with your expectations?
- * Are there any compensating controls over this receipting stream?
- * Are accounting records complete and accurate?

***DOES THE CUSTODIAN OF THIS ACCOUNT REVIEW THEIR INCOME STATEMENT MONTHLY?**

As you find the answers to these questions, you'll gain an understanding of how many people are involved with this cash receipting stream. If it is all in the hands of one person, you have a significant segregation of duties issue.

Evaluating Cash Disbursements (CHECKS)

- * Who has custody of blank checks?
 - * Who has the authority to “create or print” checks?
 - * What documentation is required to get a check?
 - * What approval process governs the issuance of a check?
 - * Are there any bill pay or reoccurring electronic transactions on your monthly bank statements?
 - * Are there transfers on your monthly bank statement?
 - * Are there excessive fees on your monthly bank statement?
 - * Does anyone perform a bank reconciliation?
 - * How often is the bank reconciliation performed?
 - * Who reviews the bank reconciliation?
 - * Does anyone ensure all checks issued and paid are recorded in the general ledger?
 - * How do you document compliance with procurement guidelines?
- *DOES THE CUSTODIAN OF THIS ACCOUNT REVIEW THEIR INCOME STATEMENT MONTHLY?**

Evaluating Cash Disbursements (Debit/Credit Cards)

- * Who has custody of the card(s)?
- * Who has the authority to make charges on the card?
- * Are there any bill pay or reoccurring electronic transactions on your monthly statements?
- * Are receipts retained for every purchase?
- * Does anyone review the monthly statement with detailed receipts?
- * Who has the authority to “approve” the transactions on the monthly statement?
- * How do you document compliance with procurement polices?
- * **DOES THE CUSTODIAN OF THE CARD REVIEW THEIR MONTHLY STATEMENT?**

Evaluating DATA

- * Who is responsible to input data in the system?
- * Who compiles or generates reports?
- * Does anyone review these reports for accuracy and reasonableness before they are submitted?
- * How do you document compliance with policies or reporting guidelines?

Segregation of Duties

Segregation of duties implements an appropriate level of checks and balances upon the actions and duties of individuals. An adequate system of internal controls is built around segregation of duties.

Duties to Segregate

- * **Authorization** - the process of reviewing and approving transactions or operations.
- * **Custody** - having access to or control over any physical asset such as cash, checks, equipment, supplies, or materials.
- * **Recordkeeping** - the process of creating and maintaining records of revenues, expenditures, inventories, and personnel transactions. These may be manual records or computerized accounting records.

Segregation of Duties (cont'd)

- * In a perfect system of internal controls, no one person should handle more than one type of function.
- * In the absence of total segregation of duties, reviews and reconciliations, conducted by independent parties, serve as compensating controls.
- * Compensating controls mitigate the risks associated with an existing or potential control weakness.
- * Supervision and review are an important compensating control.
- * Proper segregation of duties is important at all times – consider this when assigning backup responsibility or coverage when someone is out of the office.

Benefits of Proper Segregation of Duties

- 1) Segregation of duties provide protection for employees!
- 2) It is more likely that innocent errors will be found. No one person should have sole control over all phases of a transaction.
- 3) A deliberate fraud is more difficult to conceal because it requires collusion of two or more persons.

Compensating Controls

-Compensating Controls are less desirable than segregation of duties because they generally occur after the transaction is complete.

-Relying completely on compensating controls is less desirable than separation of duties because it takes more resources to investigate and correct errors, and recover losses, than it does to prevent them.

-**REALITY:** Most LEAs do not have the staff resources to establish adequate separation of duties. It is important for management to implement controls that compensate for the increased risk.

- * Monthly review of bank reconciliation by Board Treasurer.
- * Spot checking of expenditure documentation **AFTER** checks are issued.
- * Monthly review of detailed revenue and expenditure reports.
- * **Compensating controls come AFTER the initial transaction, not before, thus you only DETECT issues, you don't PREVENT them.**

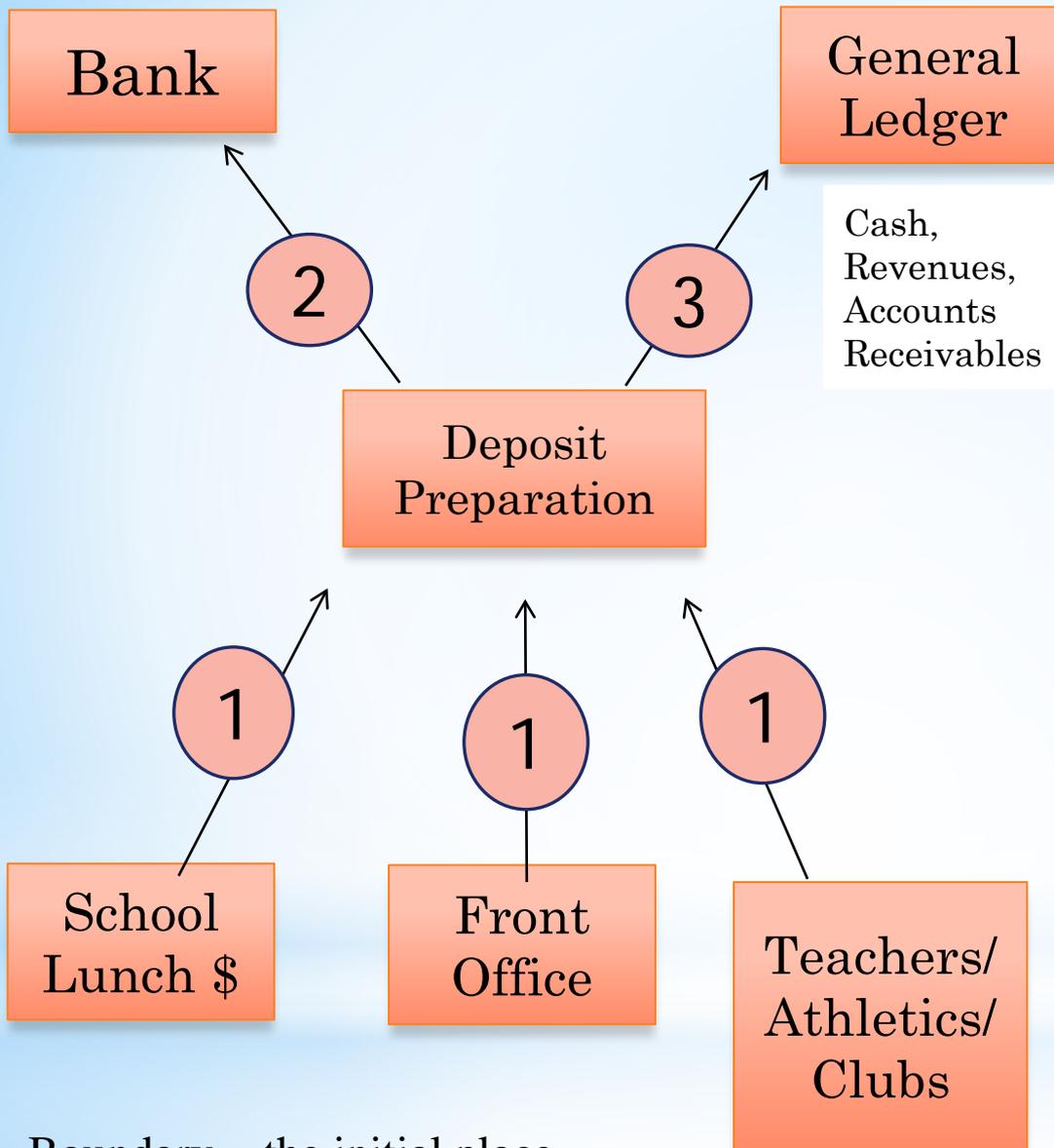
What are compensating controls?

- * Compensating controls can be performed by other employees who don't share the same duties.
- * Board members or members of an audit committee can review bank reconciliations, income statements, credit card statement reconciliations, etc.

Involve EVERYONE

Step 4

Evaluate and
Implement Internal
Controls



Cash Receipts

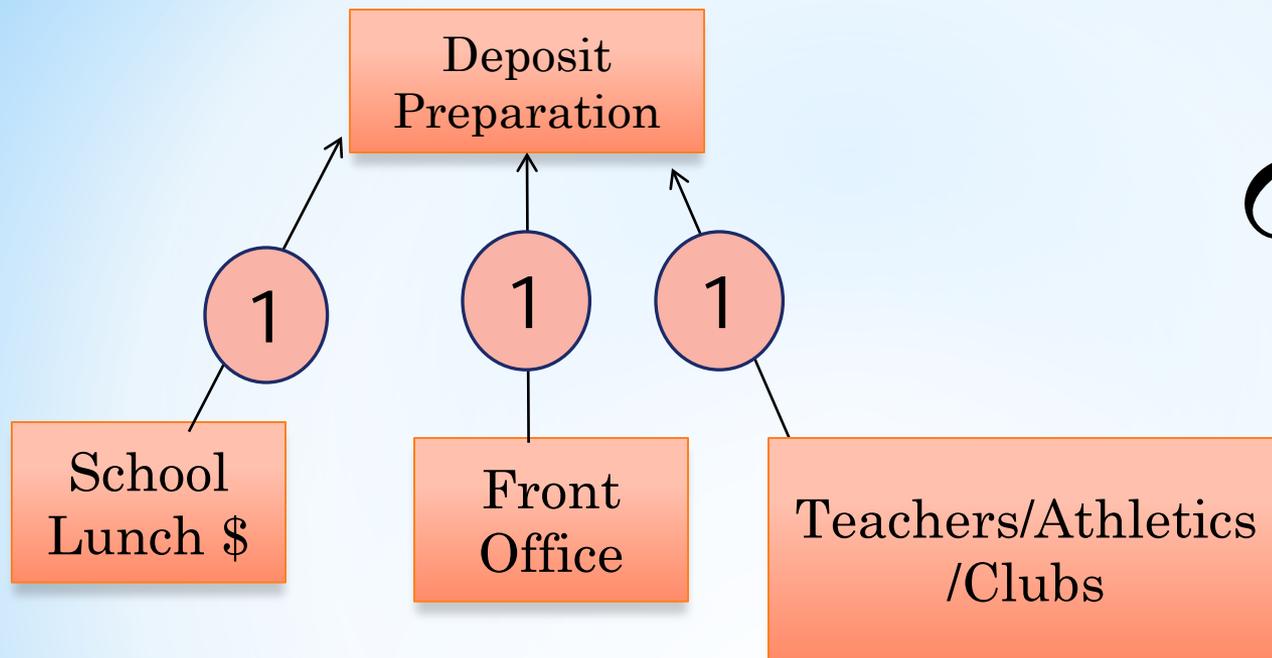
Controls are needed at the boundary and each time the “asset” changes hands or form.

1- How do you know all the \$ that enters a stream gets turned in for deposit and gets into the accounting system?

2- How do you know all the \$ prepared for deposit gets to the bank?

3- How do you know all the money entered into the system gets deposited?

Boundary = the initial place where a cash receipt enters the school

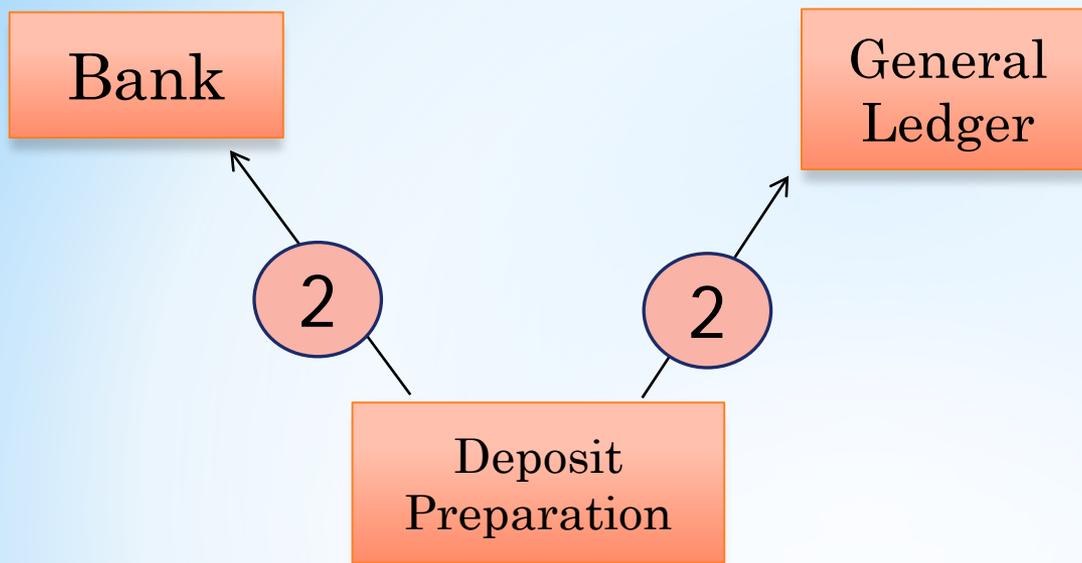


Boundary Controls

1- How do you know all the \$ that comes into each stream gets turned in for deposit and gets into the accounting system?

Boundary Controls:

- 1) Cash receipt log (verified by two people) that is reconciled to deposits.**
- 2) Prenumbered/duplicate receipts that are reconciled.**
- 3) Segregation of duties.**



Cash Receipts

- 2- How do you know all the \$ prepared for deposit gets to the bank?
- 3- How do you know all the money entered into the system gets deposited?

Controls:

- Reconciliation of boundary detail to validated deposit slip.
- Bank reconciliation.
- Budget reviews.

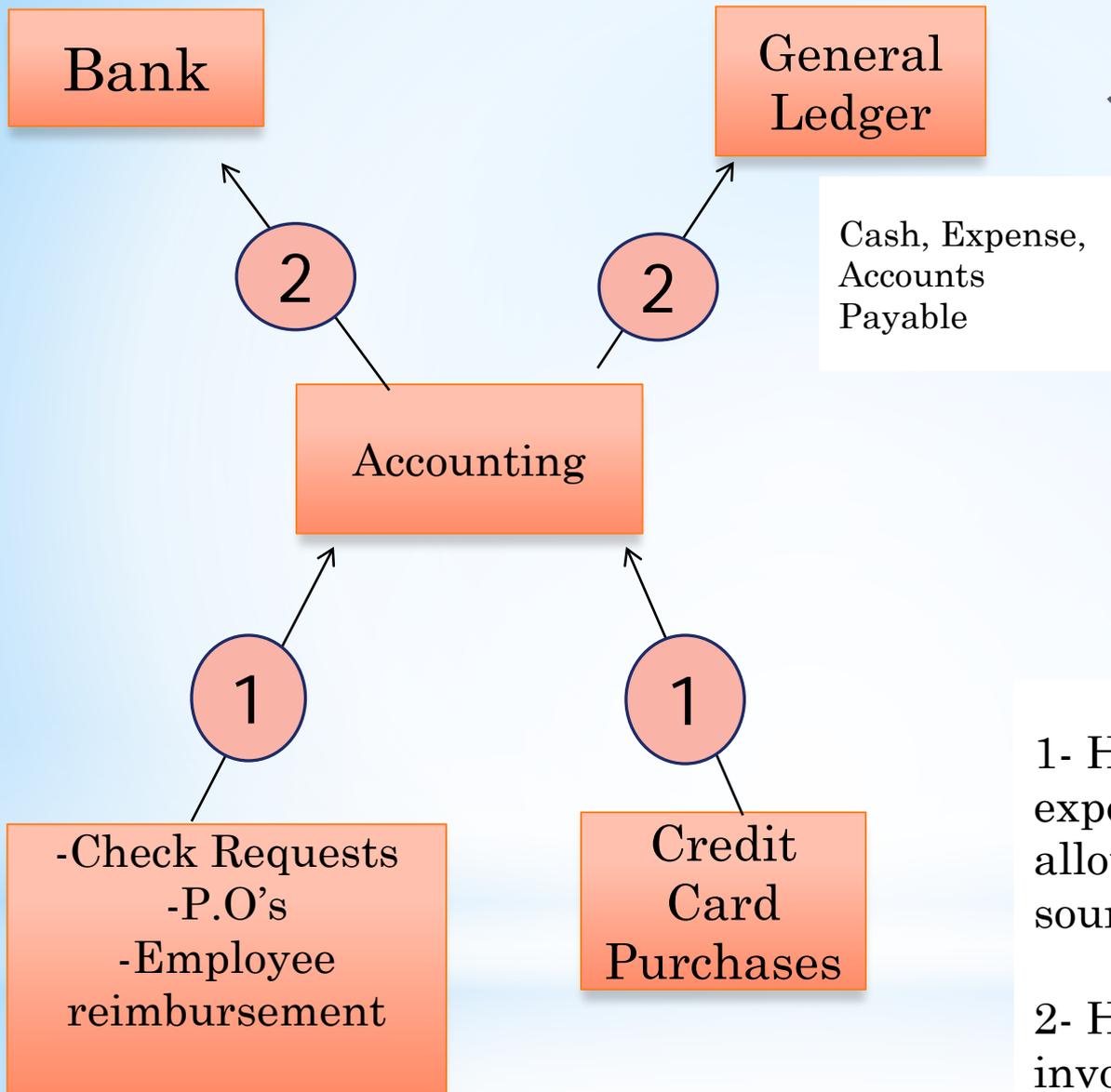
* These reviews can also detect errors, typos, and miscoding in a timely manner.

Controls Over the Recording of Cash Receipts

- * Receipts should be pre-numbered consecutively to facilitate control over missing documents and provided for each transaction.
- * All cash receipts should be recorded on a form, cash log, or a properly controlled computer database at the time of receipt.
- * Sufficient supporting documentation should support each cash receipt.
- * Cash and checks received should be **independently reconciled** between the cash register, the bank deposit, and the cash log to ensure proper accounting throughout the cycle.
- * Deposits should be presented intact and made timely.
- * Policies and procedures should be documented and reviewed.

Controls Over the Custody of Cash Receipts

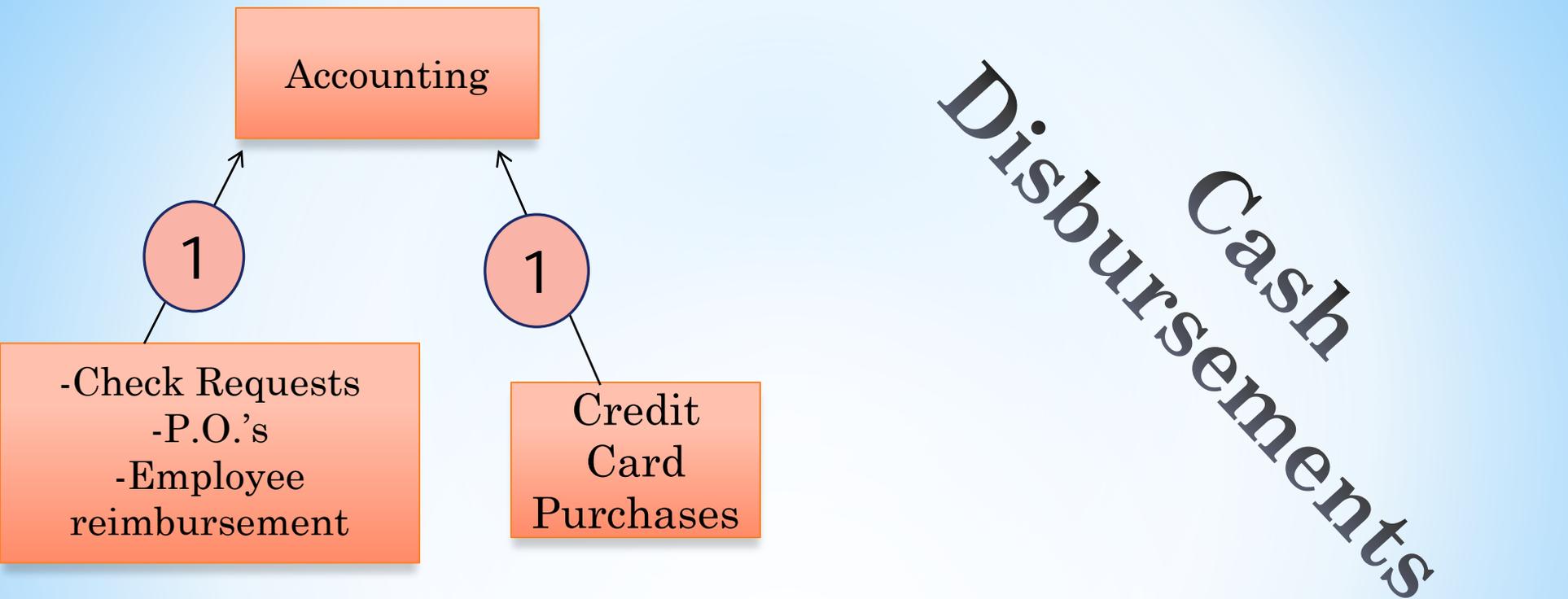
- * Cash and checks should be stored in a locked and secured area until they can be deposited.
- * The access to the various modules in the accounting system should be limited and protected by passwords.
- * Access to online banking accounts should be limited and password protected.
- * Access to bank statements should be protected and secured.
- * Records and other sensitive information should be adequately secured.



Cash Disbursements

1- How do you know that an expenditure is approved? Is it allowable for the funding source?

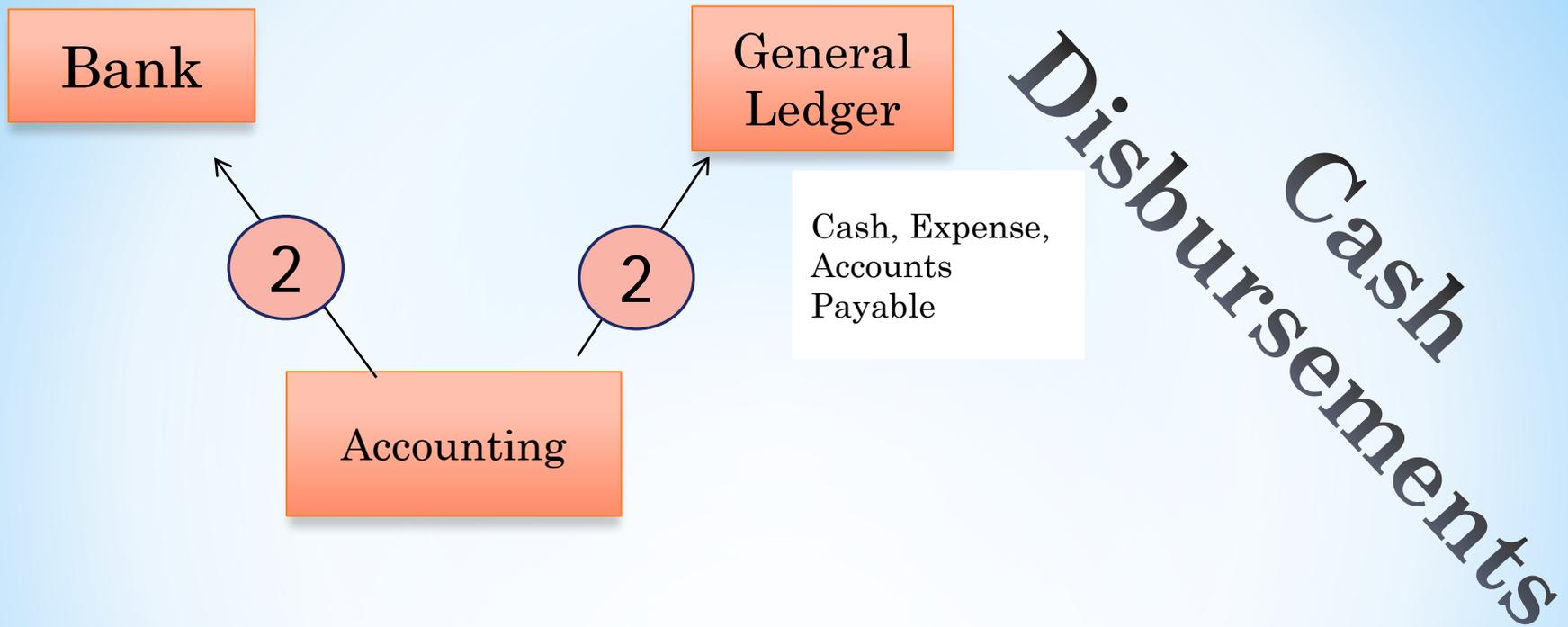
2- How do you know that invoices were not altered after approval? How do you know that an extra check wasn't added?



1- How do you know that an expenditure is approved? Is it allowable for funding source?

Controls:

- Approved invoice(s) with supporting documentation. (REVIEWED AND APPROVED PRIOR TO PURCHASE)
- Someone should compare shipping documents and invoice with approved P.O.
- Credit card statement (entire) with receipts, and supervisor approval.



2- How do you know that invoices were not altered after approval? How do you know that an extra check wasn't added?

Controls:

- Reconcile check runs to original documentation.
- **SEGREGATE DUTIES:** Don't allow the creator of checks to have access/mail them after they are signed.
- Bank reconciliations.
- Budget reviews by program.

Step 5

Reviews, Reconciliations, and High Level Analytics

High Level Analytics

- * High level analytics can be done at any time, in any frequency.
- * You don't have to review 100% of all transactions.
- * Can be conducted monthly, quarterly, yearly or as needed.
- * A simple comparison of actual expenditures to revenues and both to established budgets can yield interesting results.
- ** **You can pull invoices to review ANY TIME. DON'T rely on how much you trust your employees.**
- ** **Don't forget to review of allowability of funding sources and compliance with procurement policies.**

BANK RECONCILIATIONS

THEY SHOULD BE COMPLETED MONTHLY, and reviewed MONTHLY.

Reviewing consists of looking over original bank statement and the accounting system detail, asking questions about adjustments and reviewing documentation.

High Level Analytics

- * Comparison of # of lunches sold to cash receipts
- * Comparisons of # of burgers/drinks sold to cash receipts
- * Comparison of gate admissions to cash receipts (numbered receipts or a count)
- * Number of participants in a camp to cash receipts
- * Number of fundraiser items sold to cash receipts
- * Amount of students to fees paid, or number of students that have paid
- * Inventory and purchases at a student store or vending machines to revenues
- * Develop an expectation or average and if the actual cash receipts are really off then investigate
- * Compare to prior years or other schools of the same size
- * Identify revenue sources, are those all in your accounting system
- * Review the bank statements and bank reconciliations

USOE Internal Audit

Natalie Grange CPA, CFE

Natalie.Grange@schools.utah.gov

Hotline: 801-538-7813

Fraud@schools.utah.gov

www.schools.utah.gov/internalaudit