MANUAL OF PROCEDURES
PSAB SUPPLEMENT 2
INTERNAL CONTROL STRUCTURE

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Introduction

Each Budget Entity (School district, local or state charter school, and regional educational cooperative and other entities) is responsible for establishing and maintaining an internal control structure including policies and procedures and is also responsible for ensuring that the Budget Entity complies with laws and regulations applicable to state and federal programs. (Section 22-8, NMSA 1978; 6.20.2.11, NMAC)

These internal control policies should be based on the *Standards for Internal Control in the Federal Government* (known as the Green Book) published by the General Accounting Office (GAO). The Green Book adapts the principles of the Internal Control-Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

The Office of Management and Budget (OMB) provides Circular No. A-123 Management's Responsibility for Enterprise Risk Management and Internal Control. Circular No. A-123 provides specific requirements for assessing and reporting on controls in the federal government. The term internal control in this document covers all aspects of an entity's objectives (operations, reporting, and compliance).

Much of the material in this supplement is from the Green Book and COSO. The terms defining internal control in this document are synonymous with management control in the Office of Management and Budget publication *OMB Circular A-123*.

Section 1 – Fundamental Concepts of Internal Control

Definition of Internal Control
Internal Control is a process to provide reasonable assurance that the objectives of an entity will be achieved. The objectives can be broadly classified in three categories:

- **Operations** – Effectiveness and efficiency of operations
- **Reporting** – Reliability of reporting for internal and external use
- **Compliance** – Compliance with applicable laws and regulations

Definition of an Internal Control System
The Green Book's definition of an Internal Control System is:

"An internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved." (Green Book, page 5)

Internal Control is not a system separate from day-to-day operations. Internal Control must be an integral part of the day-to-day operation of an entity. Management sets the entity's objectives, implements controls, and evaluates the internal control system.

> **People make internal control work. Management is responsible for implement a overseeing an effective internal control system.**

The responsibility for good internal control rests with the management of a school district or charter school. The entity leader, with the approval of the school board or governance council, sets the objectives, puts the control mechanisms and activities in place, monitors and evaluates the controls and sets the general "tone" of the organization. However, all personnel in the organization play important roles in an effective and efficient operation.

Section 2 – Establishing an Effective Internal Control System

Components, Principles, and Attributes
Management, in collaboration with an oversight body, sets objectives to meet the entity's mission, strategic plan, goals and requirements of applicable laws and regulations. Objectives shall be specific and measurable to enable management to identify, analyze, and respond to risks related to achieving those objectives.

Effectively designed internal control systems consist of five components:

• **Control Environment** - Provides the discipline and structure to help an entity achieve its objectives. This component is often discussed most frequently in the COSO Framework because from a controls performance perspective, if this component is ineffective, most of the other components could be negatively affected. For example, if the entity operates in an environment devoid of ethical values and honesty in which management tends to

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override controls, it is unlikely that specific controls over transactions can be considered effective. An ineffective control environment effectively sets precedence for the lower-level controls. Management should consider risk and not only quantitative measures.

• **Risk Assessment** – Identifies and assesses the risks that may prevent the entity from achieving its objectives. Two types of risk can affect an organization, inherent and control. Inherent risk is the level of risk inherent in a process or activity without doing anything to reduce or mitigate it. Control risk is the probability that financial statements are materially misstated, due to failures in a process or activity. If inherent and control risks are overlooked or not effectively managed, an organization is likely to experience increased financial mismanagement issues both in frequency and magnitude.

Three-step process to assess risk:

1. Identify risks that threaten the achievement of organizational (and financial reporting) objectives.
2. Design and assess controls that mitigate identified risks.
3. Assess the effectiveness of the controls.

Information Technology (IT) is an important component of any risk assessment process which is why COSO established Principle 11: "Design control activities for automated processes." IT may easily be overlooked by those not familiar with IT, so it is important for management to incorporate an IT component to the entity's risk assessment.

• **Control Activities** – Actions established by management (through Policies) for procedures designed to achieve objectives and respond to risks within the internal control system.

Controls identify key activities of the organization and establish a time frame for implementation and follow through. Controls exist to mitigate all risks identified during the Risk Assessment. The process owner is responsible for the identification and definition of all needed inputs as well as the outcome and evaluation of each control's effectiveness. During the identification and design of each control, it is important to include the proper personnel that serve as subject-matter experts for that control.

A control activity should not be handled by one individual. A control for an automated process should include controls for completeness, accuracy, and validity. Also, for automated processes there are two types of controls: general and application specific.
- General controls: security management, logical/physical access, configuration management, segregation of duties, contingency planning.
- Application specific controls: input, processing, output, master file, interface, data management, software management.

All controls should be assigned to a team thus ensuring when personnel are absent or positions are vacant, all applicable controls assigned to the team are performed consistently. It is important to cross-train for each control activity and determine whether initial training is sufficient or whether periodic training is needed.

• **Information and Communication** - Quality of information management and and communication between personnel that use or support the internal control system are both critical.
Information requirements must be identified first, as should the sources utilized to obtain the information. Only validated data should be used in a control activity. Next the internal customers of the produced control information are defined as well as the criteria for how/when information is communicated. It may be important to consider if external parties require information also. Information must be appropriately communicated, particularly when the information is highly important.

• **Monitoring** - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Control activities may need to change as a result from technological updates , personnel turnover, audit findings, etc. Baselines should be defined for each control activity. Only knowledgeable personnel should perform control activities and ensure that the control activities achieve the expected outcome. The frequency of a control activities should be determined based on the individual risk(s) being mitigated. A reporting protocol should be established to ensure prompt evaluation. And finally, mitigation activities should be monitored to ensure issues are properly resolved.

COSO has established 17 principles of internal control systems.

The 17 principles support the effective design, implementation, and operation of the associated components and represent the requirements necessary to establish an effective internal control system (See Figure 1 and Figure 2). The principles support the components of internal control. In general, all components and principles are relevant for establishing an effective internal control system.

Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.

2. The oversight body should oversee the entity's internal control system.

3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.

4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.

5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.

7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.

8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.

9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

10. Management should design control activities to achieve objectives and respond to risks.

11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

12. Management should implement control activities through policies.

Information and Communication

13. Management should use quality information to achieve the entity's objectives.

14. Management should internally communicate the necessary quality information to achieve the entity's objectives.

15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.

17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

Figure 1 - Description of principles.

Internal Control and the Entity

A direct relationship exists among an entity's objectives, the five components of internal control, and the organizational structure of an entity. Objectives are what an entity wants to achieve. The five components of internal control are what are required of the entity to achieve the objectives. Organizational structure encompasses the operating units, operational processes, and other structures management uses to achieve the objectives. This relationship is depicted in the form of a cube developed by COSO.
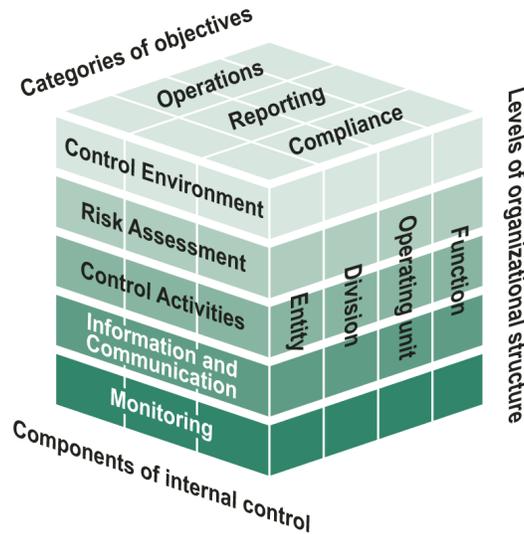
Sources: COSO and GAO. | GAO-14-704G

Figure 2 – COSO's internal control cube.

The 17 principles support the effective design, implementation, and operation of the associated components and represent the requirements necessary to establish an effective internal control system (See Figure 2 and Figure 3). The principles support the components of internal control. In general, all components and principles are relevant for establishing an effective internal control system. The Green Book provides *attributes* to help management design, implement, and operate an internal control system. Management has a responsibility to understand the attributes and exercise judgment in fulfilling the requirements of the standards.

Internal control is a dynamic, iterative, and integrated process in which components impact the design, implementation, and operating effectiveness of each other.

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Control Environment
5 principles

Risk Assessment
4 principles

Control Activities
3 principles

Information and
Communication
3 principles

Monitoring
2 principles
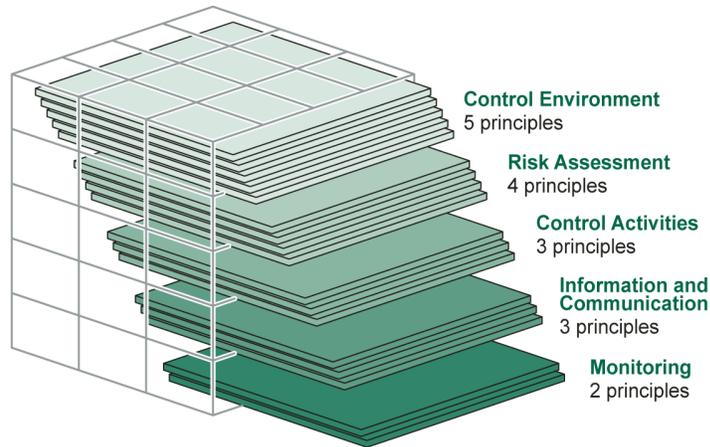
Source: GAO. | GAO-14-704G
Figure 3 - Relationship between components and principles.

Roles in an Internal Control System

In general, roles in an entity's internal control system can be categorized as follows:

• **Oversight body** - The oversight body is responsible for overseeing the strategic direction of the entity and its obligations related to the accountability. This includes overseeing management's design, implementation, and operation of an internal control system.

• **Management** - Management is directly responsible for all activities of an entity, including the design, implementation, and operating effectiveness of an entity's internal control system.

• **Personnel** - Personnel help management design, implement, and operate an internal control system and are responsible for reporting issues noted in the entity's operations, reporting, or compliance objectives.

External auditors and the Public Education Department (PED) are not considered a part of an entity's internal control system. While management may evaluate and incorporate recommendations by external auditors and PED, responsibility for an entity's internal control the system resides with management.

Categories of Objectives
Management groups objectives into one or more of the three categories of objectives:

• **Operations** - Effectiveness and efficiency of operations
• **Reporting** - Reliability of reporting for internal and external use
• **Compliance** - Compliance with applicable laws and regulations

Operations Objectives (Effectiveness and Efficiency of Operations)

Operational objectives relate to program operations that achieve an entity's mission. An entity's mission may be defined within its strategic plan. Such plans set the goals and objectives for an entity along with the effective and efficient operations necessary to fulfill those objectives. Management may create sub-objectives within an identified objective when detailing operational processes. Management improves the effectiveness and efficiency of operations by linking objectives throughout the organization to the mission of the agency.

Reporting Objectives (Reliability of Reporting for Internal and External Use)

Reporting objectives relate to the preparation of reports for use by the entity, its stakeholders, or other external parties. Reporting objectives may be grouped further into the following subcategories:

- **External financial reporting objectives** - Objectives related to the release of the entity's financial performance in accordance with professional standards, applicable laws, and regulations, as well as expectations of stakeholders.
- **External nonfinancial reporting objectives** - Objectives related to the release of nonfinancial information in accordance with appropriate standards, applicable laws, and regulations, as well as expectations of stakeholders.
- **Internal financial reporting objectives and nonfinancial reporting objectives** - Objectives related to gathering and communicating information needed by management in support of the entity's mission.

Compliance Objectives (Compliance with Applicable Laws and Regulations)

In the government sector, objectives related to compliance with applicable laws and regulations are crucial to the success of an organization. Laws and regulations often prescribe a government entity's objectives, structure, methods to achieve objectives, and reporting of performance relative to achieving objectives. Management considers objectives in the category of compliance comprehensively for the entity and determines what controls are necessary to design, implement, and operate for the entity to achieve these objectives effectively.
Management is expected, at a minimum, to set objectives that incorporate laws and regulations applicable to the entity.

Safeguarding of Assets
A subset of the three categories of objectives is the safeguarding of assets. Management's internal control system must provide reasonable assurance regarding the prevention or prompt detection of an entity's assets. Additionally, it is equally important address and correct any unauthorized acquisition, use, or disposition of an entity's assets.

Setting Subobjectives
Management can expand on its objectives by developing more specific subobjectives. Management defines subobjectives in specific and measurable terms that can be communicated to the personnel who are assigned responsibility to achieve these subobjectives. Personnel assigned to subobjectives should also be mindful of the

connectivity of their work with respect to the assigned subobjective(s) to the larger organizational objective. Both management and personnel require an understanding of an objective, its subobjectives, and defined levels of performance for accountability in an internal control system.

Section 3 – Evaluation of an Effective Internal Control System

For federal entities, OMB Circular No. A-123 provides specific requirements on how to perform evaluations and report on internal control in the federal government. Nonfederal entities may refer to applicable laws and regulations as well as input from key external stakeholders when determining how to appropriately evaluate and report on internal control.

Factors of Effective Internal Control

An effective internal control system contains all five components of internal control effectively designed, implemented, and operating together in an integrated manner.

To determine if an internal control system is effective, management assesses the design, implementation, and operating effectiveness of the five components and 17 principles. In the following some of the factors and components that are essential for an effective internal control system are provided.

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Control Environment

1. The organization demonstrates a commitment to integrity and ethical values.

2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk Assessment

6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.

8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.

9. The organization identifies and assesses changes that could significantly affect the system of internal control.

Control Activities

10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

11. The organization selects and develops general control activities over technology to support the achievement of objectives.

12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information & Communication

13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.

14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring Activities

16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

For more information about COSO, visit coso.org.

Figure 4 – Effective internal control.

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Evaluation of Internal Control
This section provides management with factors to consider the evaluation of each control within an internal control system.

Design and Implementation

Management determines if a control is missing and if an existing control is properly/sufficiently designed. A deficiency in implementation exists if a control is properly designed but not correctly implemented.

Operating Effectiveness

Management is responsible for the evaluation of each internal control to include what, when, how and by whom. This may include the timing of evaluations, consistency in how evaluations are applied uniformly, and who is responsible for the evaluation.

A deficiency in operations exists when a control is not designed properly, a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or expertise to perform the control effectively.

Effect of Deficiencies on the Internal Control System

Management evaluates control deficiencies identified by conducting ongoing monitoring of the internal control system as well as any separate evaluations performed by both internal and external sources. A deficiency in internal control exists when the design, implementation, and/or operation of a control does not allow management or personnel to achieve control objectives.

Management evaluates the significance of each identified deficiency by considering the magnitude of impact, likelihood of (re)occurrence, and nature of the deficiency. The nature of the deficiency depends on the degree of subjectivity pertaining to the deficiency and whether the deficiency is the result of fraud or misconduct.

Management makes a summary determination as to whether each principle is designed, implemented, and operating effectively. Management's summary determination considers the impact of identified deficiencies and documentation on requirements to address these deficiencies. Based on the results of the summary determination for each principle, management finalizes the design, implementation, and operating effectiveness of each of the five components of internal control.

Section 4 – Additional Considerations

Service Organization

Service organizations are external parties that management may engage with to perform certain operational processes for the entity, such as accounting and payroll processing, security services, or health care claims processing. Using service organizations does not absolve management of oversight to any outsourced process; management is ultimately responsible for all activities and processes within the entity, including those assigned to service organizations. Therefore, management needs to fully understand each control, its implementation, its impact to operations and the overall impact to the internal control system, particularly when service organizations are utilized. Special attention should be paid to the interfaces between the service organization and the entity's organization.

Large versus Small Entities

The 17 principles apply to both large and small entities, although the implementation of internal controls may vary depending on the size of the entity. Smaller entities may have unique advantages such as a higher level of involvement by management in operational processes and direct interaction with personnel through informal staff meetings effective for communicating quality information. Larger entities may need more formal mechanisms such as written reports, intranet portals, or periodic formal meetings to communicate with the organization.

Smaller entities must recognize the importance of segregation of duties as individuals may have multiple responsibilities and authorities within the organization.
However, management can respond to this increased risk through the design of the internal control system, such as by adding additional levels of review for key operational processes, reviewing randomly selected transactions and their supporting documentation, taking periodic asset counts, or checking supervisor reconciliations.

Documentation Requirements

Documentation is a necessary part of any effective internal control system, so management must use its judgement in determining the extent of documentation that is needed. Documentation is essential for the effective design, implementation, and operating effectiveness of an entity's internal
control system. The minimum suggested documentation requirements are:

- If a decision is made that a principle is not relevant, management must support that determination with documentation.
- Management develops and maintains documentation of its internal control system.
- Management documents in policies the internal control responsibilities of the organization.
- Results of ongoing monitoring are evaluated and documented individually by management to identify internal control issues.

- Issues pertaining to internal control are evaluated and documented by management to determine appropriate corrective actions for internal control deficiencies on a timely basis.
- Corrective actions to remediate internal control deficiencies are completed and documented on a timely basis.

Section 5 –Considerations to implement an internal control system

Key Factors

Management's Philosophy and Operating Style
Management must determine the degree of risk it is willing to undertake in alignment with the organization's philosophy towards performance-based management. Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, audits, and evaluations will have a profound effect on internal control.

Management's Commitment to Competence

All personnel need to possess and maintain a level of competence necessary to accomplish their assigned duties and comprehend the importance of developing and implementing a good internal control system. Management needs to identify appropriate knowledge and skills needed for various jobs, provide needed training, constructive counseling, and performance appraisals suited specifically for these jobs.

The School District's Organizational Structure
Entities will devise, establish, and maintain an effective organizational structure in alignment with the New Mexico Administrative Code 6.20.2.12 NMAC:

- Devise a system of measurement and accountability for employee performance.
- Establish a policy in which the delegation of the responsibility for employee actions is combined with sufficient authority to perform the assigned activities.
- Create and maintain budgets and financial reports which facilitate the dischargeof assigned responsibilities and monitor activities at each level of the organizational structure.
- Develop a system of checks and balances which separates incompatible activities to preclude absolute control by any individual or unit and provides for supervision by higher levels of management and for the monitoring of overall school district activities.

The Functioning of the School Board and Its Subcommittees
The functions of school board and its subcommittees have a direct impact on the internal control system (Section 22-8-12.3, NMSA 1978).

> **As used in this section, the "local school board" includes the governing authority of a charter school.**

The Finance Subcommittee shall serve as an external monitoring committee on budgetary and

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other financial matters. Each local school board is charged with appointing at least two board members to serve as a finance subcommittee to assist the board in carrying out its budget and finance duties. This finance subcommittee shall make **recommendations** to the school board in the following areas:

- Financial planning, including reviews of the school district's revenue and expenditure projections.
- Review of financial statements and periodic monitoring of revenues and expenditures projections.
- Annual budget preparation and oversight.
- Procurement.
- Methods of Assigning Authority and Responsibility

The finance subcommittee shall also serve as an external monitoring committee on the budget and other financial matters.

Methods of assigning authority and responsibility

A good internal control environment requires that the school district's or charter school's organizational structure clearly define key areas of authority and responsibility as well as the establishment of appropriate lines of reporting. The environment is also affected by the way the district/charter school delegates authority and responsibility throughout the organization for operating activities, reporting relationships, and authorization protocols.

Audit Subcommittee

Management's Control Methods have a key role for monitoring and following up on performance, including internal auditing and the establishment of an audit committee (Section 22-8-12.3, NMSA 1978).

Each local school board shall appoint an audit subcommittee that consists of:
- Two board members, one volunteer member who is a parent of a student attending that school district and one volunteer member who has experience in accounting or financial matters.

The superintendent and the school district business manager shall serve as ex-officio members of the committee. A local school board with more than five members may appoint more than two board members to its audit committee (Section 22-8-12.3, NMSA 1978). The audit committee shall:

- Evaluate the request for proposal for annual financial audit services.
- Recommend the selection of the financial auditor.
- Attend the entrance and exit conferences for annual and special audits.
- Meet with external financial auditors at least monthly after audit field work begins until the conclusion of the audit.
- Be accessible to the external financial auditors as requested to facilitate communication with the board and the superintendent.
- Track and report progress on the status of the most recent audit findings and advise the

local school board on policy changes needed to address audit findings.

- Provide other advice and assistance as requested by the local school board; and
- Be subject to the same requirements regarding the confidentiality of audit information as those imposed upon the local school board by The Audit Act (Section 12-6-1, NMSA 1978) and rules of the state auditor (2.2.2, NMAC).

The Audit Subcommittee's role is primarily to assist management in fulfilling its responsibilities with respect to its oversight of the following**:**

- The quality and integrity of the district's accounting and reporting practices andcontrols, and the financial statements and reports of the district.
- The district's compliance with legal and regulatory requirements.
- The independent auditor's qualifications and independence; and
- The performance of both the district's internal audit function and independentauditors.

Personnel Policies and Practices
Management is charged with establishing appropriate practices for hiring, orienting, training, evaluating, counseling, promoting, compensating, and disciplining personnel. Providing sufficient supervision is also a requirement.

External Influences Affecting Operations and Practices
Because governmental, economic, regulatory, and operating conditions continually change, systematic reviews should be established to identify and address any special risks prompted by such changes that are external to the district.

Risk Assessment
A risk assessment is a process to identify, analyze, and manage risk. Management must identify both external and internal risks. Developing a plan will help the school district or charter school understand how those risks affect their activities, assess their significance, manage their effect, and provide for continuous monitoring. Risk identification can often be integrated with a school district's planning activities. Risk analysis involves a methodical, rational process of estimating the significance of a risk, assessing the likelihood of its occurrence, and considering what actions and controls need to be taken to manage it. Risk analysis also involves estimating the potential cost to the school district if something goes wrong.

Risk assessment provides the foundation for the other elements of risk management. Other elements include, but are not limited to, the establishment of a central management focal point, implementation of appropriate policiesand related controls, promotion of awareness throughout the organization, and the establishment of a system for monitoring and evaluating the effectiveness of policies and controls. It is important to implement the most cost-effective measures that will result in minimizing risk.

Critical success factors include (but are not limited to):

- Obtaining senior management support and involvement
- Designating focal points
- Defining procedures

- Involving business and technical experts
- Holding operating departments responsible
- Limiting the scope of individual assessments
- Documenting and maintaining results

The benefits of an organization's implementation of a risk management program are assurance that the greatest risks are identified, addressed, and understood by all personnel, management supports controls, and has implemented a systematic means of communicating results.

Management must define a process for identifying risks and developing appropriate tools. These tools may include tables, questionnaires, standard report forms, and software to facilitate documentation and analysis. A sample Risk Assessment Tool for Internal Controls is included in the Tips, Tools, and Resources section of this manual.

As risks and threats change over time, it is important to periodically evaluate existing policies and procedures for appropriateness in the current environment. Thus, risk assessment is a continuing cycle of activity as illustrated in Figure . (GAO, Information Security Risk Assessment).

Risk Assessment Cycle
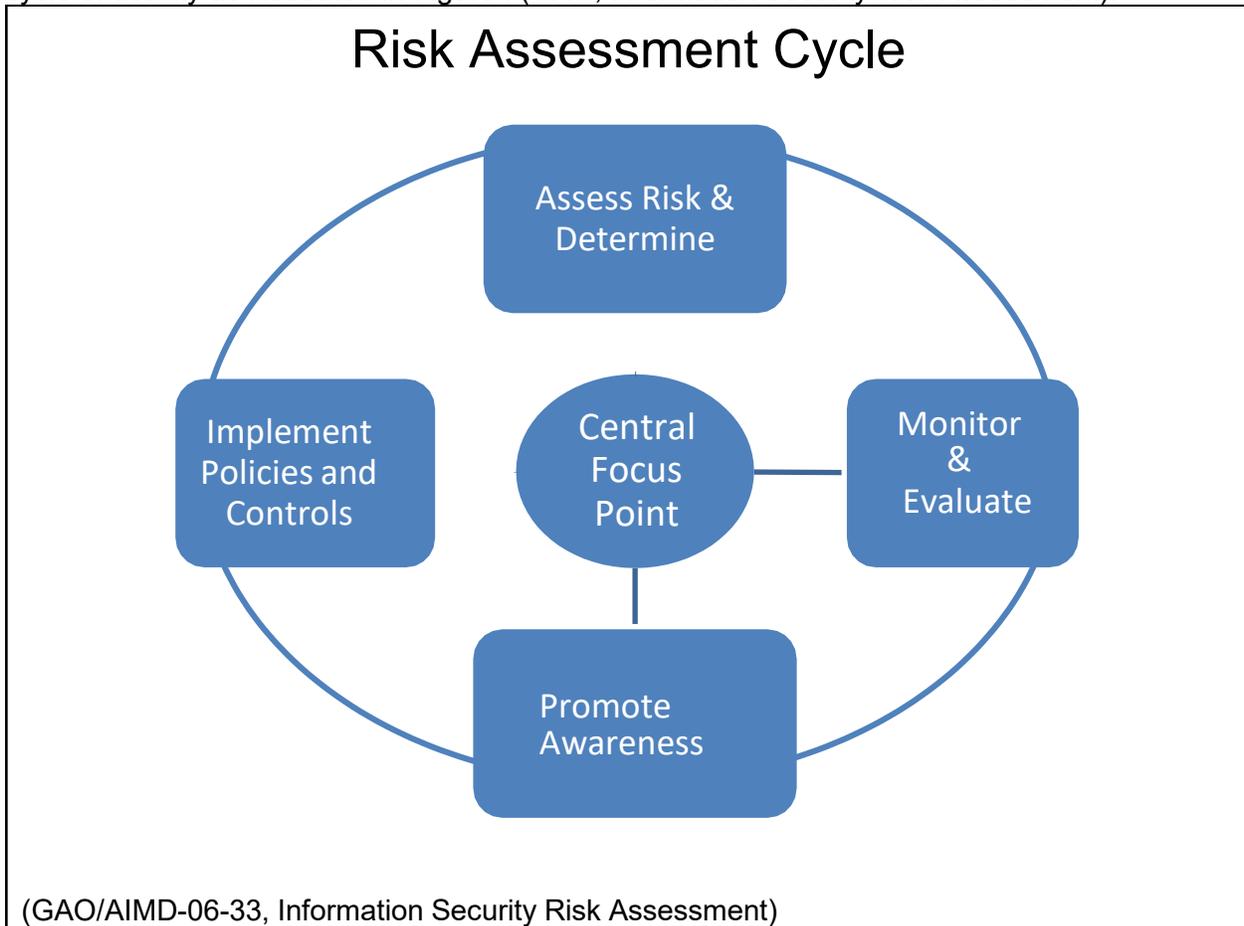
(GAO/AIMD-06-33, Information Security Risk Assessment)

Figure 2 – Risk assessment cycle.

Control Activities and Procedures

Control activities are the internal policies and procedures that help ensure district directives are carried out. These policies and procedures help ensure necessary actions are taken to address risks required to achieve the school district's objectives. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, review of operating performance, security of assets, and segregation of duties.

In addition to the control environment and accounting system, control procedures are those processes that the district or charter school has established to provide *reasonableassurance* that specific school district objectives will be achieved. Control procedures have various objectives and are applied at various organizational and data processing levels. They may also be integrated into specific components of the control environment and the accounting system. PSAB Supplements 7 through 14 address defined processes for the subject of each Supplement coupled with a sample Risk Assessment Analysis worksheet for each process.

Certain basic internal control structure concepts will not vary amongst school districts ([6.20.2.11, NMAC Internal Control Standards](#)). Each school district will devise, establish, and maintain a written structure of internal administrative and accounting controlsto provide:

Segregation of responsibilities (commonly referred to as division of duties) shall be established and implemented. The three main duties to be segregated are the authorization to execute a transaction, the recording of the transaction, and the custody of assets involved in the transaction.

A system of authorization and recording procedures shall be adopted by the local school board and implemented by the school district. Management will ensure that protection of the public trust is a major focus when granting the authorization to execute business of the school district.

Sound accounting practices in performance of duties and functions shall be implemented to include varied error-checking routines that may be performed in connection with record keeping and by comparing recorded amounts with existing budgets. Appropriate action shall be taken with respect to any differences.

Bonding of employees handling significant amounts is required. Access to assets is permitted only in accordance with the district's authorization through written policies.

Sequential numbering of receipts, checks, purchase orders, and vouchers either on pre-printed forms or by the financial accounting system as appropriate is required. Sequences should be examined to determine any skips in numbers or any duplicate numbers.

Proper safeguards to protect unused checks and other pre-numbered forms, cash prior to deposit, and other receipts, and facsimile signature plates shall be in place.

Transactions shall be properly recorded on a timely basis in order to permit preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP). In addition, school districts shall establish any other criteria applicable to such statements to maintain accountability for assets.

Independent performance checks and proper valuation of recorded amounts such as clerical checks, reconciliations, comparison of assets with recorded accountability, computer-programmed controls, management review of reports that summarize the detail of account balances, and user review of computer generated reports will be performed.

An internal control structure is required to demonstrate the school district's ability to record, process, summarize and report financial data consistent with financial statement assertions (See PSAB Supplement 5, Financial Statements) which are:
- Rights and ownership
- Existence and occurrence
- Valuation and allocations
- Completeness
- Presentation and disclosure

This structure shall demonstrate that the school district or charter school identifies applicable laws as well as regulations and designs procedures to provide reasonable assurance that it is compliant with those laws and regulations. **Please refer to PSAB Supplements 5and 6 for examples of laws and regulations the school district or charter school should be aware of when disbursing public funds and carrying out public programs**.

Internal control procedures shall be established, implemented, and documented via school district or charter school memos, manuals, etc. These procedures should be adopted to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. The internal control structure should address all school district transactions for all operating units and departments.

Information and Communication

Pertinent information must be identified, captured, and communicated in a form and timeframe that enables personnel to carry out their responsibilities. The Financial Management System (FMS) generally produces reports containing operational, financial, and compliance related information recorded on a **cash basis** of accounting, making it possible to efficiently manage the cash functions of the organization. Additional software is generally needed to convert from a cash basis to an **accrual basis** of accounting required by Generally Accepted Accounting Practices (GAAP) and Generally Accepted Governmental Auditing Standards (GAGAS). School districts and charter schools should understand the differences and management implications inherent in these statements, reference PSAB Supplement 5, Financial Statements.

The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report an organization's transactions and to maintain accountability for the related assets and liabilities. An effective accounting system considers establishing methods and records that will:

- Identify and record all valid transactions.
- Describe transactions in sufficient detail and on a timely basis 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.
- Properly document transactions and relate disclosures in the financial statements.

Sources outside of the district may provide valuable information for districts and charter schools to use in verifying their reports. These sources may include but are not limited tovendors, auditors, and the PED. Information such as vendor statements, OBMS reports, and auditor's and PED's analysis are useful tools for districts and charter schools.

Computer Data

Information in this section is taken from GAO publication Information Security Risk Assessment, (GAO).(Information Security Risk Assessment: Practices of Leading Organizations | U.S. GAO)

The school district or charter school should be concerned about the eligibility of computer-processed data, general access controls, access to computer data, the storage for backup media, the existence of duplicate media, and the cross-training of personnel. Computer data security must be proved to the auditors, and the entity should consider internal control requirements when they purchase computer software and when staffing assignments are made to their respective data processing departments. Auditors shall test the general and application controls.

General Controls
General controls are applicable to all data processing and provide a controlled environment for processes within an organization. Application controls, however, apply on an individual basis, and may vary amongst organizations.

Controls include the organizational plan as well as the procedural methods applied to an organization's information technology and overall computer operations. The general controls should determine whether the controls (a) have been designed according to management direction and known legal requirements and (b) are operating effectively to provide reliability of, and security over the data being processed. The objectives and procedures followed in conducting this work are discussed below.

Organization and management controls: Is there a clear assignment of responsibilities and accountability for planning, managing, and controlling the functions of the data processing organization? (b) Are personnel qualified andadequately trained and supervised? (c) Is there proper separation of duties?

Such controls will help ensure that the school district's or charter school's objectives are achieved, and that errors or irregular acts are detected and prevented in a timely manner.

Security controls: Is adequate security provided over the computer programs, data files, telecommunications network, and input and output materials? These controls, such as physical restrictions and the use of secure passwords and user IDs to limit system access, help ensure that only authorized persons are granted access to the computer system and are properly authorized to do so.

Systems software and hardware controls: Computer systems are controlled by systems

software such as operating, database management, and program library systems. Systems software and hardware normally include built-in error-checking features to detect any errors during processing. The school district or charter school should be aware (a) of the procedures used to ensure that the system's software and hardware are functioning properly, and (b) when errors are detected, appropriate and authorized corrective actions are taken. The school district or charter school should also be aware of the controls the system's software can exercise over the system, how these controls can be bypassed or overridden, and how modifications to the software are controlled.

Application Controls

Application controls are designed to authenticate data origination, ensure data input is accurate, maintain the integrity of data processing, as well as verify the distribution of output. Districts and charter schools should review its application controls to assess their reliability of processing only authorized data and to process them promptly, accurately, and completely. A review of the controls used to ensure that application software and later modifications are authorized and tested is essential before implementation. These controls are intended to protect the integrity of the application software.

Monitoring

Systems and internal activities require regular monitoring to assess the quality of the system's performance over time. Assessment is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Deficiencies should be reported to supervisors, with serious matters reported to top management of the district or charter school.

Monitoring includes the normal day-to-day standard operating procedures used by the district to conduct business and the evaluation of employees' understanding of those procedures. Monitoring also includes both internal and external quality assessments of the internal control system. The results of the quality assessments are used to produce a positive impact on the internal control system and ensure that recommendations are implemented.

Management must ensure that employees understand the control system and standard operating procedures, and their responsibility to ensure that the internal controls are effective.

Employees' understanding of the internal controls system is evidenced through training and interviews. They are expected to notify management of suspected weaknesses in the internal controls, information inaccuracies or any other volunerabilities that may indicate internal control weaknesses. The environment should be conducive to forthright assessments regardless of employee's position in the managerial hierarchy.

Internal control checklists are reviewed on a set periodic basis. Periodic internal audits are conducted and comply with the requirements set forth by the audit committee, if applicable. Results of the periodic internal audits must be documented.

External audits are conducted annually in accordance with standards set forth by OMB Circular A-133 pursuant to the Single Audit act of 1984 and Title 6, Chapter 21, Part 2 of the New Mexico Administrative Code (NMAC).

External audits include a review of the districts internal control system.

Internal control weaknesses and deficiencies are immediately corrected by the district. Where there is a failure to correct a deficiency in the audit, the state auditor may invoke anenforcement process. (6.21.2.10-11, NMAC).

See also 2.2.2, NMAC, The Audit Rule, and PSAB Supplement 6, Financial andCompliance Audit for additional information.

Tools

Tools and checklists that have been developed by GAO and others are included to aid districts and charter schools in developing Internal Control Environments. Districts and Charter schools will find that implementing and monitoring controls will generate new controls. Controls will evolve and districts and charter schools will make successive refinements. The tools presented in this supplement are examples only and may be modified by entities to fit their particular organizations. A Risk Assessment tool is included in the Tips, Tools, and Resources section of this manual.

Section 6 – Example Template for Internal Controls and Procedures

Overview
The ABC School District #103 has established procedures to maintain internal control over all assets. The purpose of establishing internal controls is to provide a reasonable assurance that the District will accomplish its objectives of safeguarding assets, providing reliable financial information, promoting operational efficiency, and ensuring compliance with laws, regulations and established district policies and procedures.

Control Environment
The control environment includes an oversight body with a defined structure of supervisory board. The oversight body oversees the activities of school district management and defines appropriate decisions to achieve the objectives of internal control.

Control Framework

The District has implemented an internal control system and framework based on its internal and external needs. This framework includes elements modeled according to the COSO model. It is the policy of the district to ensure that its control framework provides for strong administrative governance. The district's internal control system is a relevant evaluation tool for internal control over financial reporting.

It is the policy of the district that its own internal control framework and review evaluations:

- be free from bias;
- permit consistent qualitative and quantitative measurements of the District's internal control system;
- are sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of the district's internal controls are notomitted.

The school district demonstrates commitment to integrity and ethical values. The expectations of the oversight body and management regarding integrity and ethical values should be well defined and understood by all of the entities within the organization as well as the external entities who are responsible for evaluating performance against expected conduct. The school district is also responsible for the timely addressing of deviations from ethical values.

Ethics Statement
 ABC School District makes every effort to set an honest and ethical tone for the district that is demonstrated at every level. The district operations reflect the overall attitude, awareness, and actions of the school board, management and others concerning the importance of how the district views internal control and the management of these controls.

COMMUNICATION AND TRAINING
Communication to internal parties: The ABC School District makes every effort to maintain

communication with all employees regarding the policies and procedures of the district including but not limited to periodic training for personnel, both at school sites and central office, and regular meeting of the school board. The District's Board Policies and meeting agendas are maintained on the District web site along with other information necessary to therequirements for safekeeping of various assets and transparency of financial operationsfor both employees and taxpayers. Supervisory hierarchies are maintained to ensure proper approvals and processes are in place. The training of staff regarding the established policies and procedures governing all financial transactions is administered through the Business Office.

Communication to external parties: The ABC School District makes every effort to identify all external parties with established means and timing of communications. The school district promotes and listens to feedback from external sources. It also ensures that information needed by external parties is provided in a satisfactory manner. The school district has established various methods for communicating information to ensure that appropriate coverage Information is communicated dependent on the importance of the message.

Therefore, the ABC School District makes every effort to maintain communication with all relevant parties regarding the policies and procedures of the district including but not limited to periodic training for personnel, both at school sites and central office, and regular meeting of the school board. The District's Board Policies and meeting agendas are maintained on the District web site along with other information necessary to the requirements for safekeeping of various assets and transparency of financial operations for both employees and taxpayers. Supervisory hierarchies are maintained to ensure proper approvals and processes are in place.

Personnel

The recruitment of competent, honest individuals is administered through the services of the principals and Superintendent, and Assistant Superintendent for Human Resources. The training of staff regarding the established policies and procedures governing all financial transactions is administered through the Business Office.

Segregation of Duties.

The assignment of duties to staff members who have access to the Financial Management System is done with the intent of limiting their ability to cause and conceal errors or irregularities Working within certain limitations, including staff size, incompatible functions are not assigned to any staff member. Details of incompatible staff assignments are specifically addressed for focal points, such as accounts payable and receiving, or posting cash receipts and reconciling the bank accounts. Continued monitoring and oversight must take place daily to ensure secure business operations.

Monitoring

ABC school district performs monitoring departmentally (e.g., internal audit, compliance oversight, etc.). The school district has established baselines to monitor against them. Departmental monitoring is performed to ensure personnel familiar with control expectations are involved with the monitoring in order to ensure the control is performing as expected. Objective review of results is performed by knowledgeable personnel. Some examples of monitoring activities are:

Transaction Authorization. The budget is allocated to each school site and program area and the authorization or expending of funds is assigned to the principal or director for monitoring. The individual school principal or the appropriate director or supervisor is responsible for his/her budget and for assuring that each request is appropriate and necessary. The District allows for Purchase Orders of under $500 to be processed without additional authorization unless otherwise restricted by funding source. Purchase Ordersover $500 are forwarded electronically to the next approver.

Transaction Recording. Transactions are recorded at the time of authorization resulting in the encumbrance of the budget. The business office staffs (with assistance from the Director of Business Services) in the Finance Department is responsible for verifying the amounts, the classificationto the appropriate account codes, and the proper authorization of all transactions prior to posting to the Financial Management System. All source documents (checks warrants, etc.) used to record transactions are official District forms and are sequentially numbered by the accounting system for accountability. All voided check warrants are marked VOID and kept on file forthe auditor's review. All voided Purchase Orders are marked VOID and are reflected in the Financial Management System.

Safekeeping Assets. The access to assets is limited by assigning primary custodians for the assets at each school or department (including the central office) location. The primary custodian at each location is responsible for monitoring the access of building, vehicles, cash, and other assets. Custodians are periodically rotated or reassigned.

Record Reconciliation. The Finance Department administers the comparisonof actual assets on hand with the amounts recorded in the financial management system. Monthly reconciliation of bank statements, fixed asset records, and other financial records are prepared and verified during the monthly closing process. All discrepancies found during the reconciliation process are researched and corrected at the time they are detected. These closeout procedures are administered as a joint effort by the business office staff. Reconciliation of bank accounts is handled by the Internal Auditor, who does not participate in the purchasing or expending activities of the District. The fixed asset listing is maintained and reconciled to the general ledger by the Internal Auditor and verified by either the Director of Business Services or the Assistant Superintendent for Finance.

Risk Assessment
The ABC School District analyzes all processes and applies a Risk Assessment tool to determine inherent risks in each of its accounting processes. Emphasis is on communication to ensure that each employee is aware of necessary processes to meet certain objectives. The district holds meetings several times a year with key personnel to ensure that employees involved with the acquisition and disposal of assets are thoroughly trained and informed of proper procedures. At the same time, the district must weigh the costs of certain requirements to make sure that the benefits derived do not outweigh the cost of implementing, maintaining and monitoring the system.

Control Activities
Budget

The ABC School District prepares and adopts an annual budget in accordance with New Mexico Statutory requirements. The Operating Budget is prepared under thesupervision of the Superintendent and Assistant Superintendent for Finance. A budget committee in addition to the Budget Subcommittee of the School Board is selected at each school site and makes recommendations regarding budgetary issues, including site-based allocations, and staffing. The Superintendent of Schools monitors all staffing and compares all positions to student class loads. The budget committee at each schoolsite is designed to ensure representation from instructional, program, parent, and administrative perspectives. These decisions are reviewed by the Assistant Superintendent for Instruction and the Assistant Superintendent for Human Resources before being finalized by the Budget Subcommittee and the Assistant Superintendent for Finance. The Operating Budget is reviewed for technical accuracy and approved by the Public Education Department. It is then presented to the local Board of Education for approval and certification prior to June 20 of each year. The approved and certified budget constitutes the Operating Budget, which is authorization for the District to begin operations on July 1 of the fiscal year. The Director of Business Services integrates the Operating Budget formally into the Financial Management System prior to July 1 by uploading the budget spreadsheets prepared by the Assistant Superintendent for Finance.

Final Cash Balances

Upon completion (final audit results) of the final close for each fiscal year, the district or charter school determines the actual cash balances for all funds and reports them to the PublicEducation Department by the designated deadline. (See PSAB Supplement 7, Cash Controls). The Operating Budget is then adjusted by the use of a **Budget Adjustment Request** to incorporate adjusted cash balances as of June 30 into the Operating Budget. Upon approval by the Public Education Department through OBMS (Operating Budget Management System), the District will adjust the budget and incorporate the changes into the Financial Management System.
Budget Maintenance

The budget ledgers are maintained in the Business Office using the financial management system used in concert with the cash balance and encumbrances to ensure that all spending is in accordance with budget authority. While budget object lines may be temporarily overspent, budget functions may not be overspent.

All Operating Budget increases, decreases, and adjustments to the Operating Budget are presented to the local Board of Education for approval and then submitted to the Public Education Department via the department's OBMS (Operating Budget Management System) for approval. Budget adjustments, which do not alter the total amount of the budget, are processed as follows:

Intra-budget transfers—Transfers between expenditure account codes within the samefunction are prepared as maintenance BARs and presented to the local Board ofEducation for approval at the monthly scheduled board meetings. Once approved by thelocal Board, the adjustments are recorded into the Financial Management System (FMS) and into the Operating Budget Management system (OBMS). No further approvals are needed from the Public Education Department.

Inter-budget transfers—Transfers between expenditure account codes outside of the same

function are presented to the local Board of Education for approval. The transfer requests are then submitted to the Public Education Department via OBMS for approval. Once all approvals are in place, the change is recorded to the Financial Management System as an adjustment to the Operating Budget.

All **original budget** documents are summarized and rolled up to the required elements in the account string maintained in the OBMS system. (See PSAB Supplement 3, Uniform Chart of Accounts.) Copies are distributed to the appropriate staff for recording to the Financial Management System and these documents are made available to the auditor annually.

Payroll

The Assistant Superintendent for Human Resources is responsible for monitoring the hiring of personnel, authorizing salaries, initiating employment contracts, and maintaining the staffing levels approved in the annual budget. The Assistant Superintendent for Financial Operations verifies that budget is available for any staffing increases. The human resource Personnel Action Request (PAR) containing employment information (training and experience, fund to be paid from, and school information) is submitted to the payroll officer for new or replacement personnel by the human resources department. The payroll officer verifies the data supplied by thehuman resources department with the information entered or imported into the FinancialSystem using the PAR in the applications section. The information is then transferred to the Payroll system. All payrolls are processed from the approved employment contracts. All additional payrolls are processed by exception and only with proper authorization from the Superintendent, Assistant Superintendents, and/or the principal at each site. These payroll payments can include substitutes, increments, noon duty, Saturday school, and/or additional services such as tutoring and summer school.

Sick Leave

Absences for sick leave: Employees must call the ABC Substitute Sub Finder System and notify the building secretary. All District employees do not have to submit printed leave forms for sick leave,but they must verify their absences with the building/department secretary upon their return to work.

Other types of leave: Other types of leave which require prior approval must be submitted on a printed green "application for leave" or a printed white "Professional Leave" form signed by the buildingprincipal or supervisor. The building/department secretary will enter the approved leave into the Sub Finder System.

The green leave forms, which are turned into the business office, are used to verify absences, which have been entered into the Sub Finder System. The green leave forms arealso used to make deductions for leave and are used to dock pay when leave is taken without a sufficient leave balance. The pay docks are deducted from the employee's payon the next scheduled check.

The Food Service Director is responsible for monitoring time worked and for preparing andapproving timekeeping data for his/her employees. All other administrative department heads are responsible for monitoring time worked and appropriate data for his/her hourlyemployees. Any hourly employee falsifying data is subject to dismissal.

The payroll officer is responsible for maintenance of employee insurance, tax sheltered annuities, and other voluntary and mandatory payroll deductions After the payroll data isentered into the Financial Management System, a pro forma payroll is run to verify data foraccuracy. An excel spreadsheet is used for the verification process prior to the generation of the payroll checks. The information systems department, the Director of Business Services and Windsor Management back up the Financial Management Systemnightly.

The District maintains one payroll bank account, which is used as a clearing account for allchecks issued. A payroll check register is generated to document all payments made foreach payroll run. Additional reports are available for review and verification, and for audit purposes. A payroll summary sheet is produced from the Financial Management System isreviewed by the Director of Business Services before processing the direct deposits andfederal tax payments.

All blank check stock is stored in a locked cabinet in the office of the Director of BusinessServices. Access to this office and locked cabinet is limited. All payroll checks are numberedsequentially by the financial management system (FMS) and encoded with a signature andthis signature has limited access.

All contract employees are paid twice a month and payments are prorated according to theservices rendered and to insure 24 checks throughout the calendar years.

The Business Office maintains all employee earnings, deduction, and leave records according to the regulations. (See PSAB Supplement 21, Records, Retention and Disposition.) Monthly, quarterly, and annual payroll tax-benefit reports required by the Federal, State, and local governmental agencies are prepared by the Payroll Officer and/or the Director of Business Services and are verified monthly by the Director of BusinessServices or the Assistant Superintendent for Financial Operations.

Purchasing

The Purchasing Specialist is responsible for assuring that all purchases against the assigned budgets are appropriate and necessary. The principals at each site primarily initiate the purchasing process. The requests for purchase orders (requisitions) are the initial electronic document submitted to the Business office and once approved by the Purchasing Specialist, the document is assigned a purchase order number from the FMSand the amount is encumbered into the encumbrance ledger. District policies and procedures are designed to meet all the requirements of the Procurement Code in accordance with Chapter 13 of the New Mexico State Procurement Code. The District has implemented local procedures as required by PSAB Supplement 13, Purchasing in the Manual of Procedures for Accounting and Budgeting, and requires all Purchase Orders to be approved based on budget access to account codes used as enumerated in PSAB Supplement 3, Uniform Chart of Accounts.

Encumbrances

The initiating department forwards all requisitions over $500 for respective fund approvals as designed in the Financial Management System's security. The person responsible for the various funds verifies account code, fund number and checks to see if all necessary approvals are in

place. Then the purchase document is forwarded tothe Purchasing Specialist, who gives final approval to enter Purchase order in the General Ledger and Accounts Payable modules. Once receipt of the order has been verified as complete and correct, a copy is returned to the Business Office. This "OK" is attached to the purchase documents (including applicable invoices) and the payment can be issued. All invoices should be mailed directly to the Business Office by the vendors.

Receiving

The merchandise ordered is delivered directly to the end user. Individuals at the school site, instructors and/or secretaries verify receipt and indicate this on a copy of the Purchase Order. Once this document has been received by the Business Office, release of payment can be made to the vendor by the Accounts Payable personnel.

Accounts Payable

All vendor invoices are mailed to the Accounts Payable personnel in the BusinessOffice. The vendor invoice is matched to the receiving copy of the Purchase Order. Once the documents are matched, the items invoiced are checked back to the items listed on the approved copies of the purchase order. Accounts Payable personnel checkeach invoice carefully to verify amounts due, shipping and handling costs, and any otherapplicable discounts, etc. After these verifications are in place, payment can be processed.

The Financial Management System generates a check register, a schedule of checks tobe written, a purchase order report, and a journal of entries. These are completed for each fund as applicable. These reports are verified for accuracy before the checks are printed. The checks are then encoded by a signature with the name of the President of the School Board. (Authorized signatures cards reside at each banking institution handling District accounts.) Then, the checks are forwarded to the AssistantSuperintendent for Financial Operations for review as fiscal officer designated by the Board of Education to be authorized for release of payment. A listing of all checks writtenis created from the Financial Management System and is presented to the Board for approval. The Board also grants authorization for the Business Office to process the following months' vouchers.

Banks Reconciliations

All bank accounts are reconciled on a monthly basis. The Assistant Superintendent for Financial Operations approves the bank reconciliation and approves any adjustments necessary to the general ledger. The Internal Auditor cancels all checks as the checks clear the bank (as indicted on each bank statement) in the Financial Management Systembank reconciliation software and locates any discrepancies in the balances and makes any journal entries necessary for correction. The monthly check registers, transactions journals, and general ledger are generated monthly and are stored in the Business Officeand may be accessed from the Financial Management System for review by the Superintendent and other interested parties. All journal entries needed for correction aredetailed on the edit report from the Financial Management System.

Per Dime & Mileage Act

Employees and Board members of the District are entitled to reimbursement of registration fees, mileage, per diem, and other costs associated with authorized trips for official school business.

In District Travel - District employees may under certain circumstances, find it necessary to use their personal vehicles for travel within the school district in the performance of their duties. The rate of reimbursement is in accordance with DFA regulations and is reviewed by the Director of Business Services periodically.

In-State Travel - All in state trips must have administrative approval, prior to traveling. This approval is requested on the leave request form. The business purpose of the trip must be justified, and all costs associated with the trip must be itemized, if reimbursement is expected. The Business Office will process the reimbursement travel form only with sufficient approvals and required documentation such as agendas and invoices attached to the reimbursement request.

Out-of-State Travel - All out of state travel requires prior approval by the Superintendentand the site principal, as applicable. The travel reimbursement form will be processed with sufficient documentation only and personnel will follow the same procedures as listed with in-state travel. If, in the event, personal vehicles are utilized, proof of insurance will be required and submitted to the Business Office **prior to the trip.** All reimbursements are processed in accordance with the Per Diem and Mileage act, as outlined in the DFA regulations. All receipts for out-of-pocket expenditures for transportation, registration, and miscellaneous expenses are required for reimbursement. Any meals and/or lodging cost included in the registration fee are deducted from the per diem reimbursement.

Pre-payment of up to 80% of any per diem related costs are allowed only under special circumstances and the Superintendent must review these circumstances at least 30 days prior to the trip. All District employees are eligible for reimbursement of travel related expenses upon return from their approved trip but must submit reimbursement requests within 60 days of returning from the trip in accordance with the district's reimbursement plan.   Any requests for reimbursement not made within this time frame are forfeited. The School Board must approve actual expenses.

Cash Receipts

All operational monies received are receipted in the Business Office with the exception of Activity Fund collections, which are receipted at the school sites. Food Service collections are deposited by cafeteria staff and verified and recorded by Cafeteria Central Office Staff. All monies are receipted using pre numbered receipts and are deposited into the district bank account within 24 hours, and according to the 24 hour rule. The Internal Auditor verifies all receipts posted as being deposited as part of the reconciliation of the bank account.

Business office personnel, under the supervision of the Director for Business Services, record all funds received in the Business Office to the Financial Management System. The recording of these receipts is rotated so that no one employee handles all receipts. Each receipt has a description of payment and has sufficient documentation for review by the IPA or Independent Public Accountant. These entries include the source, date, amount, fund, receipt number, and a description of the payment. For monies received by mail, the business office staff assigned to

mail duty reviews the incoming mail and delivers a log of all receipts and the monies to the appropriate business office personnel who receipt the funds and record the amount to the appropriate fund. For monies received by ACH transfer and/or electronically, the same process is utilized, but the accompanying documents are generated by the bank and/or Public Education Department and attached as appropriate. The original Financial Management System receipt is attached to the documents posted and recorded into the Financial Management System. There is no need for a separate, manually written receipt.

Monies received at the schools are receipted using pre-numbered receipts. Each school secretary is responsible for depositing all funds within 24 hours using the 24-hour rule. A monthly recap or revenue report is generated in the Business Office and reconciled with the bank statement. The Internal Auditor reviews the report and looks for discrepancies such as missing receipt numbers, or lack of a fund raising form on file. Fund raising activities by students must always provide the user with a product or service and the method of accounting for funds collected before the fund raiser form will be approved. Training is provided at each school site to ensure anyone handling funds is aware of correct procedures (See District Activity Manual and PSAB Supplement 18, Student Activity and Athletics).

Accounts Receivable

The accounts receivable system is maintained centrally. Each school site, including Maintenance, Food Service, Special Services and Support Services is responsible for forwarding all information about receivables to the Business Office on a timely basis. The Business Office is responsible for monitoring the collection of all amounts due from other departments and/or outside agencies inducting the Public Education Department. Cash Requests or reimbursement requests are mailed or faxed quarterly or entered in OBMS and a copy of the request is filed in the grant file and a copy is given to the Business Office Supervisor for receipt documentation. Invoices are prepared by the proper department and approved by the Assistant Superintendent for Financial Operations. The responsibility for the collection rests with the Business Office under the supervision of the Assistant Superintendent for Financial Operations and/or his/her designee (Business Office Supervisor).

Petty Cash

A petty cash fund will be established under the authorization of the Assistant Superintendent for Financial Operations. A petty cash fund will be intended for small purchases and set up utilizing the procedures set forth in the Manual of Procedures, Supplement 7, Cash Controls.

Investments

The ABC Schools #103 accounts for all monies placed in interest bearing accounts by fund. Excess cash balances in the bank accounts generate interest which is credited by the financial institution on a monthly basis. The amount of interest earned is receipted and recorded to the Financial Management System when the credit is received. Excess cash balances can also be invested using the State Investment Pool as authorized by the Board of Education. Investments are made by either issuing a check or by wire transfer. A paper trail is automatically produced with this procedure and the transaction is entered into the Financial Management System through the Accounts Payable System or by Business Office personnel other than the one generating

the wire transfer. An investment register is maintained by the Director of Business Services and updated monthly. The register itemizes the type of investment, investmentdate, maturity date, investment institution, and the amount of investment. Interest to be earned is calculated at this time and made a part of the report. Correspondence with each banking institution is documented periodically and available for review by the district IPA on an annual basis.

A safekeeping receipts register is maintained by the Director of Business Services to track and monitor the pledging requirements for each financial institution, as required bystate statute. The register itemizes the safekeeping receipt number, description of the security, maturity date, amount, market value, pledge date, release date and released securities. (Reference PSAB Supplement 4, Public Fund Deposits, and Investments.)

Inventory

All District equipment and items of tangible value (over $1,000.00) are identified in a permanent way using bar-coded tags. It is the responsibility of the "Inventory Contact Person" assigned by the site administrator at each school site to ensure that all equipment delivered to their location is appropriately marked.

The Internal Auditor maintains fixed asset inventory records in the Business Office. The inventory database includes the inventory tag number, a description of the item, the serial number, the purchase order number, the acquisition date, the fund code, the location number and the building room/department number and the site code.

Annual review of the current years' purchases is made by the site administrator and the "inventory contact person". All adjustments to the records are forwarded to the Business Office for updating. All requests for removal of surplus property, deletions, anddiscards must be approved by the Board of Education if the amount is over $10,000.The District utilizes the forms provided by the Department of Finance and Administrationfor processing these items. Items should never be removed, transferred, or sold without expressed written approval of the Business Office

Audits are conducted periodically during the year by the Internal Auditor periodically to verify assets are correctly recorded and available for inspection.

Special Revenue Funds

All proposals prepared by district staff for special funding require administrative approval from the Business Office in coordination with the program or support staff from special services and/or the principals at each school site. Original and approved proposals are then submitted to the Superintendent for final approval and signature. **These procedures must be adhered to ensure proper budget authorization is obtained in a timely manner and prior to the expenditure of any monies.**

Upon receipt of an award notice, a budget document is prepared and submitted to the Business Office for review and processing. New Budget Adjustment Requests arepresented to the local Board of Education for approval monthly as applicable and then forwarded to the School Budget Finance and Analysis Bureau at the Public Education Department via OBMS for final approval

as applicable.

Special revenue fund approvals are then entered into the Financial Management System of the District and monitored by the Assistant Superintendent for Financial Operations. The program manager (principal and/or and Assistant Superintendent for Financial Operations) is responsible for program compliance regarding the nature ofthe grant guidelines and the Business Office Supervisor is responsible for the fiscal aspects of the award with oversight by the Assistant Superintendent for Finance.

Debt Service

All authorized bond and interest payments are accounted for in the Debt Service Fund.A record of Bonded Indebtedness is maintained by the Director of Business Services and reconciled by the Assistant Superintendent for Financial Operations. This schedule lists the date of each bond issue, the original amount of the issue, principal andinterest payments, and the total outstanding balance for each issue.

All bond payments statements issued are verified by the Director of Business Services for payment. Wire transfers are issued from the District's bank account and forwarded to the authorized paying agent as applicable on or before the due date.

The debt service portion of the property taxes collected by the county treasurer is receipted and deposited to the Debt Service bank account monthly or when received. Any excess cash balance in the district's bank account is invested per local investment procedures and in accordance with the Manual of Procedures, Supplement #8. The County Treasurer billing for the 1% administrative fee which is recorded to the Debt Service fund administrative account, is deducted by the County Treasurer prior tosubmitting the payment for collection. This fee is properly expensed, and revenue is increased via journal entry by designated Business Office personnel.

Insurance

The New Mexico Public School Insurance Authority provides insurance for employee benefits and property and liability coverage. Premiums are determined for health, vision,and dental coverage by the Authority and their staff with procedures set by statute. Property and Liability coverage are determined by a claim's loss ratio established by the New Mexico Insurance Authority and their brokers, Poms and Associates. A Memorandum of Coverage is provided to the district and forwarded to the IPA (independent public accountant) for review annually.

Reporting

Monthly reports are prepared and maintained by the District. The Director of Business Services reviews bank statements and a monthly reconciliation is performed by the Internal Auditor. The Assistant Superintendent for Financial Operations then reconciles each fund's activities on a year to date basis to determine all adjustments have been made to the Financial Management System correctly. The Assistant Superintendent for Financial Operations is responsible for ensuring the reports are prepared accurately and timely. Any discrepancies are reported immediately to the appropriate business office staff member for correction. Access to the Financial Management System is limited and initiated by a password procedure established by the Director of Business Services. This limited access was established to ensure records will not be altered and accountability can be maintained. Reports are then filed and maintained as per the Schedule for Retention and Disposition of Records. A copy of the District's fiscal

quarterly report is forwarded to the Public Education Department, School Budget Finance and Analysis Bureau via the OBMS system, The Superintendent, and ABC School District's Board of Education receive both electronic and had copies of this report.The Assistant Superintendent for Finance reconciles discrepancies between state records and district funds, independently of personnel assigned to handle day to day transactions.

** These procedures are reviewed periodically for applicable changes per legislative directives, etc.

Journal Entries

The District limits access for journal adjustments outside of the automated Financial Management System adjustments to selected personnel who have adequate training in the operation of complex financial software for fund and allocation accounting. All journal entries are jointly approved by at least two of the authorized individuals.

Appendix - **Internal Control – Self Assessment Checklist**

Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
			Strong - Weak				
			1	2	3	4	5
Section 1 – Control Environment							
1 - Integrity and Ethical Values							
1.1 Acceptable business practices.	Department management understand the Entity's policies covering matters such as legitimate use of Entity resources.	Policies are poorly understood					
1.2 Codes of conduct.	Department management understands the Entity's policies governing relationships with sponsors, suppliers, creditors, regulators, the community, and the public at large.	Policies are poorly understood.					
1.3 Conflicts of interests.	Department management understands the Entity's policies regarding potential conflicts of interest.	Policies are poorly understood.					
1.4 Integrity.	Department management sets a good example and regularly communicates high expectations regarding integrity and ethical values.	Management does not set a good example and/or does not communicate high expectations regarding integrity and ethical values.					
2 – Commitment to Competence							
2.1 Job descriptions.	Responsibilities are clearly defined in writing and communicated as appropriate.	Responsibilities are poorly defined or poorly communicated.					
2.2 Knowledge and Skills.	Department management understand the knowledge and skills required to accomplish tasks.	Management does not adequately consider knowledge and skill requirements.					
2.3 Employee competence.	Department management is aware of competency levels and is involved in training and increased supervision when competency is low.	Management is not adequately aware of competency levels or does not actively address problems.					

Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
			Strong - Weak				
			1	2	3	4	5
3 – Management's Philosophy and Operating Style							
3.1 Communication	Department management engages in open disclosure of financial or business issues with appropriate Entity personnel.	Management is secretive and reluctant to conduct business or deal with issues in an open manner.					
3.2 Laws and regulations.	There is active concern and effort to ensure compliance with the letter and intent of laws and regulations.	Management is willing to risk the consequences of noncompliance.					
3.3 Getting the job done.	Management is concerned with and exerts effort to get the job done right the first time.	Management is willing to get the job done without adequate regard to quality.					
3.4 Exceptions to policy.	Exceptions to policy are infrequent. When they occur, they must be approved and well documented?	Exceptions to policy are the norm and are rarely documented.					
3.5 Approach to financial accountability.	Management's approach shows concern and appreciation for accurate and timely reporting. Budgeting and other financial estimates are generally conservative.	Financial accountability is given low priority.					
3.6 Emphasis on meeting budget and other financial and operating goals.	Realistic budgets are established, and results are actively monitored. Corrective action is taken as necessary.	Management either shows little concern (climate of laxness) or makes unreasonable demands (climate of fear).					
3.7 Approach to decision making.	Decision-making processes are deliberate and consistent. Decisions are made after careful consideration of relevant facts. Policies and procedures are in place to ensure appropriate levels of management are involved.	Decision making is nearly always informal. Management makes arbitrary decisions with inadequate discussion and analysis of the facts.					
4 – Organizational Structure							
4.1 Complexity of the organizational structure.	Complexity of the structure is commensurate with the organization. Lines of reporting are clear, and documentation is up-to-date.	Lines of responsibility are unclear or unnecessarily complicated for the size and activities of the entity.					
4.2 Organization charts.	Documentation exists and is up to date.	Documentation does not exist or is out-of-date. The documented structure does not correspond with actual responsibilities.					

	Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment
				Strong - Weak
				1	2	3	4	5
4.3	Size of the management group.	Size is commensurate with the complexity of the department and its growth.	Size is not appropriate (e.g., too many levels, too dispersed, or too "thin").					
4.4	Stability of the management group.	Low turnover.	High turnover.					
5 – Assignment of Authority and Responsibility								
5.1	Delegation of authority and assignment of responsibility for operating and financial functions.	Delegation of authority and assignment of responsibility is clearly defined. Individuals are held accountable for results.	Decisions are dominated by one or a few individuals. Roles and responsibilities of middle management are unclear.					
5.2	Authority limits.	Authority limits are clearly defined in writing and communicated as appropriate.	Policies and procedures covering authority limits are informal or poorly communicated.					
5.3	Delegated signature authority.	Appropriate limits have been placed on each delegation of signature authority. Management reviews and updates signature records as turnover occurs.	Signature authority is delegated without adequate consideration. Delegated authority is not in line with employee knowledge, training, or competence.					
5.4	Knowledge and experience.	Key personnel are knowledgeable and experienced. Management does not delegate authority to inexperienced individuals.	Key personnel are inexperienced. Management delegates authority without regard to knowledge and experience.					
5.5	Resources.	Management provides the resources needed for employees to carry out their duties.	Management does not provide necessary resources.					
6 – Human Resource Policies and Practices								
6.1	Selection of personnel.	A careful hiring process is in place. The Human Resources Department is involved in identifying potential employees based on job requirements.	The hiring process is informal, and sometimes proceeds without adequate involvement by higher-level supervisors.					
6.2	Training.	On-the-job and other training programs have defined objectives. They are effective and important.	Training programs are inconsistent, ineffective, or are given low priority.					
6.3	Supervision policies.	Personnel are adequately supervised. They have a regular resource for resolving problems.	Regular supervision does not exist or is ineffective. Employees are frustrated and feel they 'have nowhere to go' with issues.					
6.4	Inappropriate behavior.	Inappropriate behavior is consistently reprimanded in a timely and direct manner, regardless of the individual's position or status.	Reprimands are not timely, direct, or are not consistently applied (climate of favoritism).					
6.5	Evaluation of personnel.	An organized evaluation process exists.	The evaluation process is ad hoc and inconsistent.					

	Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
			Performance issues are not formally addressed.					
6.6	Methods to compensate personnel.	Compensation decisions are based on a formal process with meaningful involvement of more than one level of management. The effect of performance evaluations on compensation decisions is defined and communicated.	Compensation decisions are ad hoc, inconsistent, or inadequately reviewed by management.					
6.7	Staffing of critical functions.	Critical functions are adequately staffed, with reasonable workloads.	There is inadequate staffing and frequent periods of overwork and "organizational stress."					
6.8	Turnover. Particularly turnover in financially responsible positions.	Low turnover. Management understands root causes of turnover.	High turnover. Management does not understand root causes.					
Section 2 – Risk Assessment								
7 – Organizational Goals and Objectives								
7.1	Unit-wide objectives.	A formal mission or value statement is established and communicated throughout the department.	A unit-wide mission or value statement does not exist.					
7.2	Critical success factors.	Factors that are critical to achievement of department-wide objectives are identified. Resources are appropriately allocated between critical success factors and objectives of lesser importance.	Success factors are not identified or prioritized.					
7.3	Activity-level objectives.	Realistic objectives are established for all key activities including operations, financial reporting and compliance considerations.	Activity-level objectives do not exist.					
7.4	Measurement of objectives.	Department-wide and activity level objectives include measurement criteria and are periodically evaluated.	Performance regarding objectives is not measured. Targets are not set.					
7.5	Employee involvement.	Employees at all levels are represented in establishing the objectives.	Management dictates objectives without adequate employee involvement.					
7.6	Long and short-range planning.	Long and short-range plans are developed and are written. Changes in direction are made only after sufficient study is performed.	No organized planning process exists. There are frequent shifts in direction or emphasis.					
7.7	Budgeting system.	Detailed budgets are developed by area of	Budgets do not exist or are "backed into" depending					

	Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
		responsibility following prescribed procedures and realistic expectations. Plans and budgets support the achievement of department-wide action steps.	on the desired outcome.					
7.8	Strategic planning for information systems.	Planning for future needs is done well in advance of expected needs and considers various scenarios.	The information system lags significantly behind the needs of the business.					
8 – Risk Identification and Prioritization								
8.1	Identification and consideration of external risk factors.	A process exists to identify and consider the implications of external risk factors (economic changes, changing sponsors, student and community needs or expectations, new or changed legislation or regulations, technological developments, etc.) on department-wide objectives and plans.	Potential or actual external risk factors are not effectively identified or evaluated.					
8.2	Identification and consideration of internal risk factors.	A process exists to identify and consider the implications of internal risk factors (new personnel, new information systems, changes in management responsibilities, new or changed educational or research programs, etc.) on department-wide objectives and plans.	Potential or actual internal risk factors are not effectively identified or evaluated.					
8.3	Prioritization of risks.	The likelihood of occurrence and potential impact (monetary and otherwise) have been evaluated. Risks have been categorized as tolerable or requiring action.	Risks have not been prioritized.					
8.4	Approach to studying risks.	In-depth, cost / benefit studies are performed before committing significant unit resources.	Risks are accepted with little or no study.					
8.5	Process for monitoring risks.	A risk management program is in place to monitor and help mitigate exposures.	Exposure is dealt with on a case by case basis. Regular efforts or programs to manage risks do not exist.					
8.6	Consultation with external advisors.	External advisors are consulted as needed to supplement internal expertise.	Internal expertise regarding risk and control issues is inadequate. Assistance is never sought from outside sources.					
9 – Managing Change								
9.1	Commitment to change.	Management promotes continuous improvement	Management promotes the status quo, even when					

Assessment Factor		Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
		and solicits input and feedback on the implications of significant change.	changes are needed to meet important business needs.					
9.2	Support of change.	Management is willing to commit resources to achieve positive change.	Management offers no resources to facilitate change.					
9.3	Routine change.	Mechanisms exist to identify, prioritize, and react to routine events (i.e., turnover) that affect achievement of unit-wide objectives or action steps.	Procedures are not present or are ineffective.					
9.4	Economic change.	Mechanisms exist to identify and react to economic changes.	Procedures are not present or are ineffective.					
9.5	Regulatory change.	Mechanisms exist to identify and react to regulatory changes (maintain membership in associations that monitor laws and regulations, participate in Entity forums, etc.).	Procedures are not present or are ineffective.					
9.6	Technological change.	Mechanisms exist to identify and react to technological changes and changes in the functional requirements of the unit.	Procedures are not present or are ineffective.					
Section 3 – Control Activities								
10 – Written Policies and Procedures								
10.1	Entity policies and procedures.	Department employees are aware of Entity policy and procedures that apply to the department.	Knowledge of Entity policy and procedures are not well known in the department.					
10.2	Department policies and procedures.	The department has documented its own policies and procedures if applicable. They are well understood by department employees.	Department policies and procedures are not well known or documented.					
11 – Control Procedures								
11.1	Senior management (Entity or College) reviews.	Senior management monitors the department's performance against objectives and budget.	Senior management does not monitor department performance.					
11.2	Objective performance reviews by department management of major initiatives.	Reviews are made of actual performance compared to objectives and previous periods for all major initiatives. Management analyzes and follows up as needed.	Analyses are not performed, or management does not follow up on significant deviations.					

	Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
11.3	Financial performance reviews by department management.	Reviews are made of actual performance versus budgets, forecasts, and performance in prior periods for all major initiatives. Management analyzes and follows up as needed.	Analyses are not performed, or management does not follow up on significant deviations.					
11.4	Direct functional or activity management by department management.	Performance reviews are made of specific functions or activities, focusing on compliance, and financial or operational issues.	No performance reviews occur.					
11.5	Performance indicators.	Unexpected operating results or unusual trends are investigated.	Operating results and trends are not monitored.					
11.6	Financial transactions, timekeeping records, and reconciliations.	Financial transactions, timekeeping, and reconciliations are completed timely. Management performs a diligent review and approval by signature and date or electronically.	The activities are not performed timely or regularly. Management does not carefully review or formally approve.					
11.7	Sponsored project account management.	Sponsored project accounts are reviewed and reconciled. PIs certify the expenditures timely. Department management monitors the portfolio of sponsored accounts for compliance and fiscal responsibility.	Sponsored project accounts are not monitored; reconciliations and certifications are not timely.					
11.8	Use of restricted funds (gifts).	Restrictions on use are well documented and are understood by employees who administer the funds. Usage is monitored by management, accounts are reconciled.	Restrictions are not clearly documented. Restricted fund accounts are not monitored; usage may not match restrictions.					
11.9	Information processing.	Controls exist to monitor the accuracy and completeness of information as well as authorization of transactions.	No information processing controls are in place.					
11.10	Physical controls.	Equipment, supplies, inventory, cash, and other assets are physically secured and periodically counted and compared to the amounts shown on control records. (if applicable)	Equipment, supplies, inventory, cash, and other assets are not protected. Control records do not exist or are not up to date.					
11.11	Training and guidance for asset custodians.	Adequate guidance and training are provided to personnel responsible for cash or similar assets.	No training or guidance is provided.					
11.12	Separation of duties.	Financial duties are divided among different people (responsibilities for authorizing transactions, recording them, and handling the asset are	No significant separation of financial duties among different employees.					

Assessment Factor	Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
			Strong - Weak				
			1	2	3	4	5
	separated).						
11.13 Record retention.	Unit employees understand which records they are responsible to maintain and the required retention period. Records are appropriately filed.	Unit employees do not understand which records they are responsible for maintaining. The filing system is inadequate.					
11.14 Disaster response plan.	A disaster response and recovery plan has been developed and is understood by key personnel.	No disaster response or recovery plan exists.					
12 – Controls over Information Systems							
12.1 Local information systems and LANs.	System operations are documented; software is appropriately acquired and maintained; access to the system, programs and data is controlled; the system is maintained in a secure environment; applications are appropriately developed and maintained.	Inadequate controls over local information systems or LANs.					
12.2 Application controls.	The department controls its computer applications by diligent and timely response to edit lists, rejected transactions and other control and balancing reports. Controls ensure a high level of data integrity including completeness, accuracy, and validity of all information in the system.	Application controls are not used.					
12.3 Back Up.	Key data and programs on LANs or desktop computers are appropriately backed up and maintained. Off-site storage is adequate considering possible risks of loss.	No formal back up procedures exist. Management has not informed staff of back up requirements.					

Assessment Factor		Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
Section 4 – Information and Communication								
13 – Access to Information								
13.1	Relevant external information.	Department members receive relevant information regarding legislation, regulatory developments, economic changes, or other external factors that affect the department.	Relevant information is not available.					
13.2	Management reporting system.	An executive information system exists. Information and reports are provided timely. Report detail is appropriate for the level of management. Data is summarized to facilitate decision making.	A formal reporting system does not exist. Reports are not timely or are not at appropriate levels of detail.					
13.3	Management of information security.	Information is evaluated and classified based on level of integrity, confidentiality, and availability. Individuals with access to information are trained to understand their responsibilities related to the information.	Information used by the unit has not been evaluated and classified. Employees are not trained with respect to information security.					
14 – Communication Patterns								
14.1	Trust.	Management promotes and fosters trust between employees, supervisors, and others within the Department.	Interactions among staff and/or with other units is characterized by low levels of trust.					
14.2	Policy enforcement and discipline.	Employees who violate an important policy are disciplined. Management's communications and actions are consistent with policies.	Violations, while not condoned officially, are often overlooked. Management's actions are inconsistent with official policies.					
14.3	Recommendations for improvement.	Employees are encouraged to provide recommendations for improvement. Ideas are recognized and rewarded.	Employees' ideas are not welcomed.					
14.4	Formal communications.	Formal methods are used to communicate unit policies and procedures (e.g., manuals, training programs, written codes of conduct, and acceptable business practices).	To the extent that they exist, policies are buried in unused manuals and documents.					
14.5	External communications.	Standards and expectations are communicated to key outside groups or individuals (e.g., vendors, consultants, donors, sponsors, subcontractors, sub-	No external communication of standards and expectations.					

Assessment Factor		Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
		recipients).						
14.6	Informal communications.	Employees are kept informed of important matters (downward communication) and are able to communicate problems to persons with authority (upward communication). There is effective functional coordination within the department (lateral communication).	Most information is received by the "grapevine."					
14.7	Communication with evaluators.	Information is openly shared with outside evaluators.	Information is kept secret from outside evaluators.					
Section 5 – Monitoring								
15 – Management Supervision								
15.1	Effectiveness of key control activities.	Management routinely spot-checks transactions, records, and reconciliations to ensure expectations are met.	Management never performs spot-checks.					
15.2	Management supervision of financial and timekeeping activities.	Knowledge of Entity financial and timekeeping policies are known by those with those responsibilities in the department.	Policies are ad hoc or poorly communicated.					
15.3	Management supervision of new systems development.	Policies are defined for developing new systems or changes to existing systems (cost/benefit analysis, team composition, user specifications, documentation, acceptance testing, and user approval).	Policies and procedures are ad hoc, poorly communicated, or ineffective.					
15.4	Budget analysis.	Budgets are compared to actual results and deviations are followed up on a timely basis. Adequate consideration is given to commitments.	An analysis of actual versus budgeted results is not performed, or management does not follow up on deviations.					
16 – Outside Sources								
16.1	Industry and professional associations.	Data is used to compare the unit's performance with peers or industry standards.	Comparative data is not regularly monitored.					
16.2	Regulatory authorities.	Reports from regulatory bodies are considered for their internal control implications.	Response is limited to what is necessary to "get by" the regulators.					

Assessment Factor		Indication of Stronger Controls	Indication of Weaker Controls	Assessment				
				Strong - Weak				
				1	2	3	4	5
16.3	Sponsors, students, suppliers, creditors, and other third parties.	Root causes of inquiries or complaints are investigated and considered for internal control implications.	Inquiries or complaints are dealt with case-by-case, with little or no follow-up.					
16.4	External auditors.	Information provided by external auditors about control-related matters are considered and acted on.	Findings are referred to lower levels or are explained away.					
17 – Response Mechanisms								
17.1	Management follow-up of violations of policies.	Timely corrective action is taken.	Follow-up is sporadic.					
17.2	External or internal audit reports.	Audit report issues are considered and immediately acted upon at appropriate levels.	Consideration of issues from audit reports are delegated to lower levels or is given low priority.					
17.3	Changes in conditions (e.g., economic, regulatory, technological, or competitive).	Changes are anticipated and routinely integrated into ongoing long- and short-range planning.	Responses are reactive rather than proactive.					
18 – Self-Assessment Mechanisms								
18.1	Monitoring of control environment.	Management periodically assesses employee attitudes, reviews the effectiveness of the organization structure, and evaluates the appropriateness of policies and procedures.	Assessment processes do not exist.					
18.2	Evaluation of risk assessment process.	Management periodically evaluates the effectiveness of its risk assessment process.	Assessment processes do not exist.					
18.3	Assessment of design and effectiveness of internal controls.	Internal controls are subject to a formal and continuous internal assessment process.	Assessment processes do not exist.					
18.4	Evaluation of information and communication systems.	Management periodically evaluates the accuracy, timeliness, and relevance of its information and communication systems. Management questions information on management reports that appears unusual or inconsistent.	The assessment process does not exist.					

Appendix – Evaluation of an Effective Internal Control System – control environment question examples

The control environment sets the tone of a school district. Providing discipline and structure, it is the foundation for all other components of internal control. Control environment factors include the integrity, ethical values, and competence of the school district's staff; district management's philosophy and operating style; the way managementassigns authority and responsibility; the way management organizes and develops its staff, and the attention and direction provided by the board.

To evaluate the effectiveness of an internal control system, sufficient knowledge of the entity's control environment is required for understanding the management's and the oversight body's attitude and actions considering the following factors of the control environment:

- Integrity and ethical values
- Commitment to competence
- Oversight body
- Audit subcommittee
- Management philosophy and operating style
- Organizational structure
- Methods of assigning authority and responsibility
- Personnel policies and practices

For integrity and ethical values, the following items are required to be evaluated:
1. Does previous experience with the entity indicate financial integrity among management and personnel?
2. Has a code of conduct been adopted that addresses acceptable business practices?
3. Does the code of conduct address policy for potential conflicts of interest?
4. Are these policies communicated to employees?
5. Do management and staff comply with the department's policies and procedures?
6. Does management discuss internal controls at management and other staff meetings?
7. Does the entity have an updated internal control plan?
8. Is the internal control plan communicated to applicable personnel?
9. Does management reward employees for following good internal control practices?
10. Is there a procedure in place for employees to report suspected violations of policies?
11. Does management take appropriate disciplinary action when necessary to enforce the code of conduct?
12. Is the entity aware of applicable federal or state grant provisions and requirements?
13. Does the entity know to follow the applicable federal grant guidelines if they are more stringent than the entity's normal policies and procedures?
14. Do significant pressures exist to not exceed budgeted amounts because of taxpayer initiatives, election promises, or similar political considerations?

For commitment to competence, the following items are required to be evaluated:
1. Does previous experience with the entity indicate competence among management and key personnel?
2. Does the entity define the tasks that make up a particular job?
3. Does the entity analyze and document the knowledge and skills needed to perform jobs?

4. Does the entity provide for applicable training of its employees?
5. Are the personnel responsible for ensuring compliance with federal and state laws knowledgeable and experienced in administering these programs?
6. Do accounting personnel have the background, education and experience appropriate for their duties?
7. Do accounting personnel appear to understand the duties and procedures applicable to their jobs?
8. Do accounting personnel appear to have sufficient expertise in selecting and applying applicable accounting principles?
9. Do accounting supervisors appear to have sufficient expertise to review accounting transactions for accuracy and compliance with rules and regulations?
10. Do accounting supervisors frequently prepare reports or reconciliations to verify the accuracy of financial transactions processed?

For oversight body, the following items are required to be evaluated:
1.Are there regular meetings of the governing body to set policies and objectives and review the entity's
performance?
2. Are the minutes of such meetings prepared and signed on a timely basis?
3. Has the governing body been informed about and approved all of the federal and state grants the entity is to or has received?

For audit subcommittee, the following items are required to be evaluated:
1. Does the audit committee represent an informed, vigilant, and effective overseer of the financial reporting process and the entity's internals control structure?
2. Has the governing body written a charter for the audit committee, outlining its duties and responsibilities?
3. Does the audit committee assist the governing body in maintaining a direct line of communication with the entity's internal and external auditors?
4. Does the audit committee have resources and authority to discharge their responsibilities?

For management philosophy and operating style, the following items are required to be evaluated:
1. Does the entity have a mission statement, objectives and goals?
2. Is this information communicated to applicable personnel?
3. Are management and operating decisions determined at appropriate levels?
4. Does management ask employees for their suggestions on how to improve processes?
5. Has management given a high priority to its internal control structure?
6. Does management emphasize meeting the budget and/or other financial and operating goals?
7. Does management take an active role in the financial reporting of the entity?
8. Is the entity meeting its financial obligations?
9. Does management review audit recommendations and take appropriate corrective action?
10. Is management willing to adjust the financial statements for misstatements that approach a material amount?
11. Is there a plan for the future development of new information systems and acquisition of hardware?
12. Is this plan reviewed and approved by senior management within the office, division or department?
13. Does management review audit recommendations and take appropriate corrective action?

For organizational structure, the following items are required to be evaluated:
1. Is there an organization chart clearly defining the lines of management authority and responsibility?
2. Is the organization chart current and accurate?
3. Is the organizational structure appropriate for the size and complexity of the entity?
4. Are there formalized policies and procedures for all major operations of the entity?
5. Are policies and procedures for authorizations established at a reasonably high level?
6. Does the governing body and management stress adherence to such policies and procedures?
7. Have specific line of authority and responsibility been established to ensure compliance with federal and state laws and regulations?

For methods of assigning authority and responsibility, the following items are required to be evaluated:
1. Is there a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions, and regulatory requirements?
2. Is management actively involved in supervision of the various functions?
3. Are channels of communications (from top down and from bottom up) being utilized?
4. Has fiscal authority been formally delegated to specific management personnel?
5. Does management understand the concept and importance of internal controls, including the division of responsibility?
6. Has management clearly communicated the scope of the authority and responsibility to deal with information system management?
7. Has the entity identified an individual that is responsible for coordinating the various federal and state programs within the entity?
8. Do you perform periodic audits of subrecipient financial operations in compliance with OMB Circulars A-110 or A-133 regulations?
9. If independent audits of subrecipients are performed, do you require their submission for your review?

For personnel policies and practices, the following items are required to be evaluated:
1. Does management check credentials and references of new employees?
2. Are confidentiality agreements required for employees who come in contact with confidential information?
3. Does the workload of the accounting employees facilitate the preparation of reliable accounting records?
4. Is turnover of key fiscal personnel relatively low?
5. Are vacations mandatory for all personnel?
6. Are duties rotated when employees are on vacation?
7. Are policies regarding personal use of computer equipment and software clearly stated?
8. Does the entity have an information security officer?
9. Does the entity have a formal information systems security policy?
10. Are information system policies and expectations clearly communicated to all employees?
11. Does the workload permit information system personnel to perform their internal control responsibilities?
12. Is the information system work force relatively stable (low turnover)?
13. Is there a policy regarding ownership of in-house developed software and data?
14. Do the information system personnel practices include policies to maintain security upon termination of employment?
15. Are there written job descriptions for each employee (including information system personnel) delineating specific duties, reporting relationships, and constraints?

16. Does management ensure compliance with the department's personnel policies and procedures concerning hiring, training, promoting, and compensating employees?
17. Are sufficient training opportunities available to improve competency and update employees on new policies and procedures?
18. Are employees cross-trained to ensure the uninterrupted performance of personnel functions?