

INTERNAL CONTROL POLICY

The District will maintain a system of internal control that is built on a foundation of management responsibility. The district must, therefore, plan, organize and direct all processes in a manner that ensures the goals and objectives of internal control are met. All systems, processes, operations, functions and activities must be managed to support the established internal control policy.

Internal Control

The internal control structure shall be designed to ensure that the assets of the District are protected from loss, theft or misuse and provide reasonable assurance that these objectives are met.

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is effected by people. It's not merely policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity's management and board.
- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories

Internal control comprises the districts environment, staff, plans, policies, systems and procedures, and must be:

1. Established, executed, and monitored by the Board, management, and other personnel
2. Designed to foster achievement of the District's objectives
3. Compliant with applicable laws and ethical standards
4. Developed in a prudent manner with balanced cost-benefit considerations.

Internal accounting controls should be established that are so designed to achieve the following objectives:

- **Validation**
Validation is the examination of documentation, by someone with an understanding of the accounting system, for evidence that a recorded transaction actually took place and that it occurred in accordance with the prescribed procedures. Transactions should be tested by an informed individual and determination made as to their validity (i.e., appropriate approvals have been obtained and/or comparisons have been made to the underlying documentation).
- **Accuracy**
The accuracy of amounts and account classification is achieved by establishing control tasks to check calculations, extensions, additions, and account classifications.

District Code: New

The objective is to be certain that each transaction is recorded at the correct amount in the appropriate account, in the right time period.

Documents supporting transactions should be tested for mathematical accuracy. The extent of checking could be either:

1. 100% recalculation, or
2. A check of amounts above (or below) a specified amount.

Once testing is complete, any corrections or changes should be entered into the appropriate journals or registers with a notation or cross-reference indicating the change. All differences must be investigated on a timely basis.

Reconciliations between subsidiary records and control accounts should be performed monthly to ensure that postings are correct and adjustments have been properly processed.

- **Completeness**

Completeness of control tasks ensures that all transactions are initially recorded on a control document and accepted for processing once and once only.

Completeness controls are needed to ensure proper summarization of information and proper preparation of financial reports. To ensure proper summarization of recorded transactions as well as a final check of completeness, subsidiary ledgers and journals with control accounts need to be maintained.

Completeness can be achieved by using two techniques. One is to sequentially number all transactions via documents as soon as the transactions occur and then apply the control task of accounting for all the numbered documents completed in the processing. The use of "control totals" also provides information by which control is exercised. This is done by totaling the critical numbers before and after processing. When the two totals agree the processing is completed (accomplished within the financial software system).

- **Maintenance**

The objective of the maintenance controls is to monitor accounting records after the entry of transactions to ensure that they continue to reflect accurately the operations of the business. The control system should provide systematic responses to errors when they occur, to changed conditions, and to new types of transactions. The maintenance function should be accomplished principally by the operation of the software system itself. Control maintenance policies require procedure, decisions, documentation and subsequent review by a responsible authorized individual. Disciplinary control tasks, such as supervision and segregation of duties, should ensure that the internal control system is operating as planned.

- **Segregation of Duties**

The internal control process must follow the rule of separation of transaction authority from accounting and record keeping. In addition, an individual, independent of the custodian of the journals generated should establish a separate control account to account for the completed items (accomplished within the financial software system).

District Code: New

- **Physical Security**

All assets and the accounting records should be properly safeguarded to prevent theft or other loss. Physical security of assets requires that access to both assets and related accounting records is through the use of physical controls. Protection devices restrict unauthorized personnel from obtaining direct access to assets or indirect access through accounting records which could be used to misappropriate assets. Locked storage facilities restrict access to inventories and fireproof vaults prevent access to valuables. Transaction recording equipment limits access to assets by limiting the number of employees involved in recording and posting transactions, thereby minimizing the possibility of fraudulent misrepresentation (system software security).

Application of Internal Controls

The environment for effective internal control must conform to the following:

1. The organizational structure must be conducive to control, providing a clear definition of responsibilities and segregating the duties of authorization, custodianship and record keeping. The Board of Education and district Administrators are responsible for Accounting policies and procedures and job descriptions must be communicated via manuals and training.
2. Personnel selection methods, district training programs, supervisory practices, and performance evaluation techniques must be conducive to control, providing assurance that an adequate number of employees are available to perform both operating and control duties related to financing and non-routine transactions.
3. Vacations are mandatory and provisions must be made for competent replacements to perform all of the assigned duties of the vacationing employee.
4. For positions of trust, employees' duties should be rotated when possible.
5. Provisions for reasonable protection against fire, explosion, other natural disasters, and/or malicious destruction of records, of processing facilities and of other assets of the entity should be established. Such provisions should include adequate loss-of-records insurance coverage as well as adequate insurance coverage of assets. Backup files and contingency plans for EDP records are essential and should be stored at an off-site location.
6. Access to cash, financing and accounting records, and critical forms both issued and un-issued, must be permitted only in accordance with management criteria which reflects control objectives (i.e., is access limited to those persons whose duties require such access).
7. Record retention must follow or exceed Federal, State and District policies.
8. Accounting data must be periodically reviewed, tested and compared to budgets, variance and exception reports and non-financial reports generated outside of the

District Code: New

accounting department by internal auditors or by individuals who are independent of generating the accounting data.

9. Recorded balances of cash and similar related transaction activity must be periodically substantiated and evaluated through physical inventory confirmation and through a review of legal documents. The adjusting journal entries that result must be consistent with an adequate control environment

Audit Committee Responsibilities

Annually the Board of Education will appoint three (3) individuals to serve as the districts Audit Committee, and two (2) of the three (3) members must be current members of the Board of Education. No current employee may serve as a member of the committee. Members of the committee must be knowledgeable of district operations, finances, and policies and procedures.

The Audit Committee is empowered by the Board of Education to review all district practices, policies and procedures. Their responsibility is to create a rigorous system of internal control to protect the district, its assets, its people, and its reputation. Sufficient resources must be allocated to aid the committee in their ongoing review and assessment.

The committee's review must be designed to achieve a comprehensive understanding over internal control. The Chief Financial Officer or another designee of the Audit Committee will be responsible for coordinating data collection and review as directed by the committee, and implementing their recommendations and findings.

Specific responsibilities of the Audit Committee include, but are not limited to the following:

1. Creating an environment of control for the entire district, and communicating that throughout the district.
2. Meet at least twice annually to review and assess internal control. This will include those areas of concentration for the year, and who will be charged by the committee to carry out the review. These areas of concentration must focus on all areas of internal, but should pay special attention to those areas with the greatest potential for misuse. Overtime the committee's review and assessment must provide for a comprehensive understanding over internal control. Review over internal control is ongoing and areas must be continually reviewed.
3. Review the districts audited financial statements
4. Meet with the districts external auditors
5. Report at least annually to the Board of Education to discuss findings and recommendations
6. Maintain minutes of all meetings, and notes of internal reviews conducted

Adopted: May 27, 2008