


SCHOOL FINANCE, w/ RELATED SCHOOL LAW
For Principals, Assistant Principals, and Administrative Assistants



TENNESSEE ASSOCIATION OF SCHOOL BUSINESS OFFICIALS

MURFREESBORO, TN
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SECTION VI: INTERNAL CONTROLS



- What are Internal Controls?
- Common Audit Finding
- Limited Personnel

RISKS ARE A FACT OF LIFE

- An organization can never completely avoid risk if it is taking action to accomplish its mission.
- The best an organization can do is manage the risks it faces to an acceptable level, consistent with achieving the organization's objectives.

WHAT ARE INTERNAL CONTROLS?

- Internal controls are systematic measures instituted by an organization to
 1. Conduct its business in an orderly and efficient manner;
 2. Safeguard its assets and resources;
 3. Deter and detect errors, fraud, and theft;

WHAT ARE INTERNAL CONTROLS?

4. Ensure accuracy and completeness of its accounting data;
 5. Produce reliable and timely financial and management information; and
 6. Ensure adherence to its policies, laws, and regulations.
- The school principal is responsible for ensuring that the internal controls he/she puts in place will protect the school's assets for which he/she has been entrusted.

SO WHAT DOES ALL THAT MEAN?

- When you came to work today, did you lock the doors to your house?
- Do you keep the PIN number for your ATM card secure?
- Do you balance your bank statements each month?



WHAT ARE INTERNAL CONTROLS?

- Section 4, Title 2 of the *Manual* discusses internal controls in great detail.
- Most schools cannot follow the recommended internal controls due to limited personnel
 - (although the *Manual* states these procedures are the minimum procedures necessary, *i.e.*, use of a cashier?)
- Within any school, the controls established are a matter of judgment on the part of the principal, director of schools, and the local board of education.

WHAT ARE INTERNAL CONTROLS?

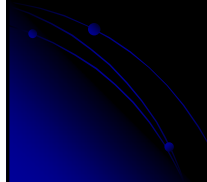
- Careful consideration must be given to
 1. the size of the school,
 2. the number of personnel available, and most importantly,
 3. the relationship between the costs and benefits of designing and implementing controls (cost < benefits).
- Even the most elaborate internal control structure will not *guarantee* that the objectives will be achieved.

INTERNAL CONTROLS

- Internal controls can be either preventative or detective.
- Preventative controls attempt to deter or prevent undesirable events from occurring.
 - Separation of duties, proper authorization, adequate documentation, and physical control over assets are all examples or preventative controls.

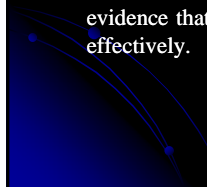
INTERNAL CONTROLS

- Detective controls attempt to detect errors or irregularities which have already occurred.
- Reviews, analyses, reconciliations, periodic physical inventories, audits and surveillance cameras are all examples of detective controls.



INTERNAL CONTROLS

- Both types of controls are essential to an effective internal control system.
- From a quality standpoint, preventative controls are essential because they are proactive.
- Detective controls play a critical role providing evidence that preventative controls are functioning effectively.



WHY WE NEED INTERNAL CONTROLS

1. Ensure mission accomplishment
2. Reduce fraud opportunities
3. Prevent loss of funds or other resources
4. Establish standards of performance
5. Assure compliance
- 6. Preserve integrity
7. Eliminate adverse publicity
8. Assure public confidence



CONSEQUENCES OF WEAK INTERNAL CONTROLS

1. Waste of school assets
2. Inaccurate or incomplete information
3. Misuse of school assets
4. Embezzlement and theft
5. Purchases that were not necessary or not authorized
6. Assets not accounted for

WHO IS RESPONSIBLE?

- Each individual within a school is responsible for knowing proper internal control procedures associated with their specific job responsibility.
- The principal is responsible for assuring that established internal controls are followed and applied.

COMMON AUDIT FINDING

- “duties were not segregated adequately among staff.”
- Employees responsible for maintaining accounting records were also involved in
 - receipting,
 - depositing, and/or
 - disbursing funds.
- These duties must be segregated to provide minimum internal controls.

COMMON AUDIT FINDING

- Accounting standards provide that internal controls be designed to give reasonable assurance of the reliability in financial reporting and of the effectiveness and efficiency of operations.
- Auditors cite that this lack of segregation of duties is the result of *management's decisions* based on the *availability of financial resources* and is a significant deficiency in internal controls that increases the risk of unauthorized transactions.

COMMON AUDIT FINDING

- Most schools and school systems in the State of Tennessee have dealt with this audit finding at one time or another.
- So, how can schools address internal control issues with limited personnel?
- Generally, especially in small to average size schools, the principal, bookkeeper, and possibly the school secretary are the only personnel involved in financial transactions.

LIMITED PERSONNEL

- Even with a limited number of school personnel, principals can take certain steps to ensure financial resources are protected.
- Although not an all inclusive listing, here are some recommendations to provide some assurance that internal controls are effective to protect school funds:

LIMITED PERSONNEL

1. Ensure that all school employees know the proper procedures for conducting a fundraising activity.
 - If a school employee cannot properly handle funds, that individual should be prohibited from participating in any activity in which funds are collected.

LIMITED PERSONNEL

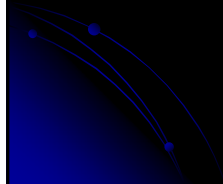
2. Ensure that all teachers correctly use collection logs and
 - remit *any* (no matter how little) collections *daily* to the school bookkeeper or person designated by the principal.
 - At the time of remittance, teachers shall be given a prenumbered receipt by the bookkeeper/designee (TCA §9-2-104(b)).

LIMITED PERSONNEL

3. Ensure that all collections are promptly receipted and
 - deposited intact in accordance with State law.
 - TCA §5-8-207(a)(1) provides that public funds shall be deposited within three (3) days of collection.
 - This section has been interpreted to encompass only banking days in the calculation of three (3) days.

LIMITED PERSONNEL

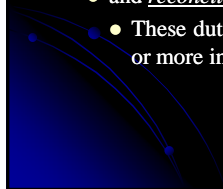
4. Ensure that all types of reconciliations, *i.e.*, ticket reconciliations, fundraiser summary reports, etc., are completed accurately and in a timely manner.



LIMITED PERSONNEL

5. One individual should not have the responsibilities for

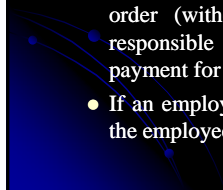
- *receiving* funds,
- making *deposits*,
- and *reconciling* the bank statement.
- These duties *must be segregated* between two or more individuals.



LIMITED PERSONNEL

6. Ensure all school employees understand the purpose of a purchase order (gives authority to purchase) and ensure all school employees use the purchase order system.

- If an employee purchases without a purchase order (without authority), the school is not responsible for payment and should not make payment for the goods purchased.
- If an employee purchases without authorization, the employee is responsible for the purchase.



LIMITED PERSONNEL

7. One individual should not have the responsibilities of

- *issuing* purchase orders,
- *approving* payment,
- *preparing* checks,
- *signing* checks, and
- *reconciling* the bank statement.

● These duties *must be segregated* between two or more individuals.

INTERNAL CONTROLS

- When evaluating your internal control structure, ask
 1. What do you worry about going wrong?
 2. What steps have been taken to assure something doesn't go wrong?
 3. How do you know things are under control?

INTERNAL CONTROLS

- Internal controls are already a part of your daily operations.
- As available resources decline, the need for adequate internal controls is more important than ever.
 - Fewer people are doing more work with less time and less funding (which is not new to education).

INTERNAL CONTROLS

- Opportunities for fraud, waste, and abuse increase significantly in a weak internal control environment.
- The single most important success factor of an internal control system is a high level of individual awareness and understanding.
- Internal controls are everyone's responsibility; therefore we are all responsible for knowing what internal controls exist and how to evaluate their effectiveness.

CASE STUDY

- Fact: To document seating order for football season ticket holders, school personnel prepared a chart listing names and whether payment for the tickets had been received.
- Appears to be a pretty good control procedure, right?

CASE STUDY

- Problem: School personnel apparently failed to trace collections.
- Although the chart indicated collections for season tickets totaled \$11,660, receipts for season tickets recorded in the school's accounting system totaled only \$710, leaving a \$10,950 shortage.
- How difficult would it have been to detect this?
- How difficult would it have been to assign another individual to reconcile the bank statement or take a deposit to the bank?

CASE STUDY

- Fact: During the 20xx football season (the second straight state championship year), the largest gate receipt was \$3,966.
- The football team won the TSSAA state championship for three consecutive years – 20xx through 20xx.
- By comparison, the lowest gate receipt during the first championship year was \$8,546, and,
- during the third championship year, the lowest gate receipt was \$11,615.

CASE STUDY

- Problem: It certainly does not take rocket science to look at a bank statement to analyze amounts deposited.
- Did we pay no attention to attendance?
- What about ticket reconciliations?
- Are gate workers performing?
- Were receipts issued to gate workers?
- How many personnel were working gates?
- Was one person allowed to perform all duties?
- Did no one analyze the accounts?

CASE STUDY

- In all instances, who is responsible for these transactions?
- Afterwards, the audit turned to the principal's duties, and repeatedly stated
 - ...the principal failed to ensure...
 - ...the principal failed to ensure...
 - ...the principal failed to ensure...

CASE STUDY

- Although all problems cannot be fixed at once, the school principal must ensure written procedures are in place and known by all school personnel, as well as consequences for noncompliance.
- Written procedures are internal controls, and a lack of written procedures indicates a lack of internal controls.

CASE STUDY

- At a minimum, procedures are needed for
 - the handling of cash receipts
 - concessions procedures
 - how to conduct fundraisers
 - how to purchase (purchase order system) and disbursements
 - authorization and approval

HOW TO MINIMIZE FRAUD RISK

- Adhere to policies and procedures
- Ensure physical security over assets
- Provide proper training to employees
- Independently review and monitor tasks
- Provide for segregation of duties
- Establish clear lines of authority
- Rotate duties in positions susceptible to fraud
- Ensure employees take scheduled time off

HOW TO MINIMIZE FRAUD RISK

- Schedule regular independent audits of areas susceptible to fraud
- Make sure internal controls are being followed
- Review! Review! Review!
- Ask for documentation
- Ensure that one person does not have total responsibility for a process
- Evaluate performance regularly
- Report suspicious activity (fiduciary duty)

QUESTIONS/COMMENTS: CONTACT INFORMATION

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