

Internal Controls Checklist

TWENTY DANGER SIGNS OF EMBEZZLEMENT

1. Borrowing small amounts from fellow employees.
2. Placing personal checks in change funds - undated, postdated - or requesting others to "hold" check.
3. Personal checks cashed and returned for irregular reasons.
4. Collectors or creditors appearing at the place of business, and excessive use of telephone to "stall off" creditors.
5. Placing unauthorized I.O.U.'s in change funds, or prevailing on others in authority to accept I.O.U.'s for small, short-term loans.
6. Inclination toward covering up inefficiencies or "plugging" figures.
7. Pronounced criticism of others, endeavoring to divert suspicion.
8. Replying to questions with unreasonable explanations.
9. Gambling in any form beyond ability to stand the loss.
10. Excessive drinking and nightclubbing or associating with questionable characters.
11. Buying or otherwise acquiring through "business" channels expensive automobiles and extravagant household furnishings.
12. Explaining a higher standard of living as money left from an estate.
13. Getting annoyed at reasonable questioning.
14. Refusing to leave custody of records during the day; working overtime regularly.
15. Refusing to take vacations and shunning promotions for fear of detection.
16. Constant association with, and entertainment by, a member of a supplier's staff.
17. Carrying an unusually large bank balance, or heavy buying of securities.
18. Extended illness of self or family, usually without a plan of debt liquidation.
19. Bragging about exploits and/or carrying unusual amounts of money.
20. Rewriting records under the guise of neatness in presentation.

COMMON FORMS OF FRAUD

1. Pilfering postage stamps.
2. Stealing tools, supplies and other items of equipment.
3. Removing small amounts from cash boxes.
4. Failing to record receipt of money and pocketing the cash.
5. Overloading expense accounts or diverting advances to personal use.
6. Pocketing payments on customers' accounts, destroying, altering or voiding receipts, collecting charged-off accounts and not reporting.

7. Failing to make timely bank deposits or depositing only part of the money.
8. Altering dates on deposit slips to cover stealing.
9. Making round sum deposits – attempting to catch up by end of month.
10. Carrying fictitious extra help on payrolls or increasing rates or hours.
11. Carrying employees on payroll beyond actual severance dates.
12. Falsifying additions (persons, hours, stipends, etc.) on payrolls.
13. Withholding cash lunch sale receipts by using false charge accounts.
14. Increasing amounts of petty cash vouchers and/or totals in accounting for disbursements.
15. Using personal expenditure receipts to support false paid-out items.
16. Using copies of previously used original vouchers or using a properly approved voucher of the prior year by changing the date.
17. Increasing amounts of suppliers' invoices, paying false invoices, either self-prepared or through collusion with suppliers.
18. Charging personal purchases to the employer through misuse of purchase orders.
19. Billing stolen supplies and/or equipment to fictitious accounts.
20. Shipping stolen supplies and/or equipment to an employee's or relative's home.
21. Falsifying inventories to cover thefts or delinquencies.
22. Seizing checks that are payable to the employer or to suppliers.
23. Increasing the amount of canceled bank checks to agree with fictitious entries.
24. Creating fictitious accounting entries.
25. Selling school equipment and/or supplies and pocketing proceeds.
26. "Selling" door keys or the combination to safes or vaults.
27. Creating credit balances on ledgers and converting to cash.
28. Falsifying packing slips for monetary gain and splitting the proceeds with the carrier.
29. Obtaining blank checks (unprotected) and forging the signature.
30. Permitting special prices or privileges to customers, or granting business to favored suppliers, for "kickbacks."

I. BUDGETING AND PLANNING

(Segregation of Duties – When working with the various fund budgets it is important for principals, superintendents and business managers to be involved in the process. This is important so that the financial team (“the team”) is on the same page about where the upcoming budget will be spent. The team then can provide a unified opinion to the board and the public. In the following section, each district will decide who is part of each process.)

A. Planning

Between December and February initial budget submissions should be developed and prepared by major departments and activity center and submitted to the team. The team will review departmental budgets for accuracy and completeness. The team makes decisions on what will be included in the proposed budget.

Around March 1st, when preliminary budget data sheets are sent from OPI, the team meets to determine what direction the upcoming budget is taking. The team needs to double check items that have a financial impact on the budget limits, such as (ANB, Indian students, Quality Educators, etc.) In some school districts, a board budget committee might be involved in some or all of these functions.

Considerations for determination of model general fund budget:

1. Staff:

- Maintain, reduce, addition of staff
- Benefit changes (i.e. health insurance, etc.)
- Retirements and/or separation
- Overtime (Classified only)
- Extracurricular positions

2. Operations:

- Repairs or remodel of facility
- Utility Costs (i.e., electric/fuel, phone, etc.)
- Building Insurance
- New Equipment
- Curriculum updates
- Testing requirements
- Professional Development
- Technology Needs
- Election Expenses/Requirements
- Paper/Copier Costs

3. Special Need Students:

- Transportation Needs (Buses, Individual Contracts, etc.)
- Para-educators needs
- Facility remodeling
- Additional curriculum needs
- 4. Considerations where changes in other funds may affect the general fund:
 - Changes to Federal Programs
 - Changes to Extracurricular
 - Travel
 - Staff
 - Uniforms and supplies
 - Changes to Food Service operation
 - Increase/Decrease to Free and Reduced numbers
 - Staff Changes
 - Food/Equipment costs
 - Compensated Absences Fund balance

Prior year expenditures should be used as a measurement tool. Budgets of other funds need to be considered in conjunction with general fund. Report to the board the preliminary budget numbers and begin discussion of possible levies that need to be run. Decide if a levy vote is necessary and make resolutions within the approved election time frame. After election results are canvassed, final budget decisions need to be made (i.e. staffing, teacher contracts by June 1st). In May and June look at revenues received and cash available. The team will finalize all budgeted and non-budgeted funds for presentation to the board of trustees. By appropriate August date, MAEFAIRS budget reporting must be completed.

B. Adoption Controls

Set and publish the final budget hearing date and give opportunity for public input. The board has to approve adoption of budgets at a legally called budget meeting.

1. Approve expenditure budgets
2. Approve the mill levy amounts
3. Document approval action in formal minutes
4. Reserves (regular and excess) This should be done before approval of mill levy amounts. Also, school boards should discuss revenue estimates, such as oil and gas estimates, etc. Revenue estimates affect mill levy amounts, so a revenue estimate discussion should also precede approving mill levy amounts.
5. Compensated Absences Transfer

Final MAEFAIRS reports sent to County Superintendent in order that cover pages are signed and mill levies will be set by County Commissioners. Signed cover pages returned from County Superintendent.

C. Execution/Reporting Controls

1. The team should oversee should the function of cashiers, purchasing agents, payroll and accounting clerks.
2. Compare actual encumbrances and expenditures monthly with the budget reports. At least monthly the board should receive reports containing actual expenditures versus budget.
3. Administration and the business official should review revenues on a quarterly basis to determine if revenue estimates are accurate.
4. Monitor encumbrance system on a regular basis. Verify that the previous year's encumbrances are brought to zero within 90 days of year end.
5. Internal controls should ensure that budget data included in the annual financial statements agree with the approved budget (including revisions, if any).
6. Budgets that have been approved by grantors in connection with grant activity should be correctly recorded in the accounting system.
7. Procedural manuals and budget details should be made available for designated personnel.
8. Procedures are in place so that the team is aware of the flow of expenditures of district dollars. A process should be in place so that the business office obtains approval as to availability of funds before the issuance of a purchase order or expenditure.
9. If a budget amendment is necessary, the team and the board follow procedures as required by law.
10. Departmental budget should be reviewed for significant variations.
11. As per state and federal laws, districts should have an audit/or financial reviews of the financial statements on a timely basis. The scope of internal audit reviews should be reasonably comprehensive.
12. Auditors should be independent of the individuals or department subject to audit.
13. Procedures are in place to ensure that all journal entries made in the district records have adequate backup documentation, are reviewed by someone other than the person that prepared the

journal entry, and are accurately recorded in the accounting system.

II. Cash

Segregation of Duties – It is important that the various functions dealing with cash be assigned to a variety of people. No one person should receive, receipt, deposit, disburse and reconcile money.

A. Receipt of money

IMPORTANT CONSIDERATIONS IN RECEIVING MONEY – BOTH CASH AND CHECKS. These procedures are important in both the fund accounting and student activity account; however, most cash comes in through student activities. It is also more common in student activities that transactions are done by a number of people. *(For more specific information on student activities, refer to the MASBO Student Activity Manual.)*

1. Money received must be receipted immediately on a pre-numbered receipt. Receipt numbers must be continuous.
2. All checks should be stamped immediately with “For deposit only”.
3. Money received should have been counted by the party turning it in. The office is a second and verification count.
4. Receipts should identify who turned the money in, if it is cash, check or a combination, the fund or activity the money goes into, the purpose of the receipt, the total, and who received the money.
5. A copy of the receipt should be given to the remitter.
6. Documentation for the receipt should be attached.
7. After receipt, money should be put in a secure place. Be sure that Board policy defines who has access to this secure place.
8. Keep all voided receipts in numerical order.
9. Money should be deposited at the bank often. Depending upon the volume your school has, deposits should be made daily, weekly or at least monthly. Board Policy and/or your insurance policy should define the maximum amount of money to be in the safe.
10. The person that receives and receipts the money, should not be the same person making the deposit.
11. Check with your local financial institution to see what deposit and/or holding options they may offer when a deposit is not possible, but you have significant amounts of cash.
12. Deposit slips should contain the name of the check writer and the amount of each check. This can be done in a separate program, like Excel, and then attached to an adding machine tape.

13. When a deposit is made, the total should tie to a specific set of receipt numbers.
14. There should be no cashing of checks with school district money. Checks/warrants written by the district are specifically prohibited.
15. Other considerations:
 - a. A random review of receipts and deposits should be made by a person other than the creator of these documents.
 - b. When money is carried outside the building, is it in a secure container?
 - c. Financial institution should have adequate insurance coverage for your account with them.
 - d. Has Board policy been adopted pertaining to handling of district funds?
 - e. Procedures should be in place for collecting and depositing of NSF checks. NSF collections should be re-deposited separately so they are not counted as income twice. When recording the NSF transaction, be sure to reverse the revenue from the proper account. Do NSF checks go to a collection agency, county attorney, or do you try to collect them yourself?
 - f. The organization has established procedures to minimize the time elapsing between the receipt of funds from the Federal Government and their disbursement following federal cash management requirements.
 - g. If the district deposits money directly to the county treasurer, procedures may be different than outlined above; however, adequate documentation at the district level is essential.

B. Disbursement of funds

Spending public funds should be held to very specific procedures. Before checks/ warrants are ever written, the following items need to be considered:

1. Board policy should be in place to address procedures for approval and payment of bills.
2. Policy should clearly state who is in charge of writing checks and signing them. Law defines that district warrants are signed by the Clerk and Chairman of the board of trustees. (MCA 20-9-221)
3. Purchase orders or authorizations, with proper signatures, are the first step in the ordering/ payment process.
4. A detailed invoice needs to be attached to the PO. Payment should never be made from a statement only. It is a good idea to also attach the packing slip that has been date stamped or noted as to the date merchandise was received.

5. All invoices should be checked for arithmetic accuracy by the fund custodian before payment is made.

C. Paying the bill – issuing checks/warrants:

1. Coding of an expenditure, must be accurate, that is, coded to the proper fund, program, function, object and project reporter code (if applicable). If miscoding takes place, reports are not correct and can cause confusion in the future.
2. No check/warrant should be made payable to cash. Signed, blank checks/warrants are prohibited.
3. Disbursements made to district employees should have proper documentation and be approved by someone other than that employee.
4. Before printing checks/warrants, check to be sure that they have been entered and coded properly. These entries should be double checked by someone other than the person doing the input if at all possible.
5. Checks/warrants need to be pre-numbered and stored in a controlled place with limited access.
6. District warrants are required by law to have two signatures – the clerk and chairman of the board of trustees. Activity checks should also have two signatures. These signatures are set by the Board and on file with the financial institution. Signatures cards need to be kept up to date as employees change. It is a good idea to authorize at least three signers.
7. If using check signing machines or devices, controls need to exist so that no one person can sign the checks without the knowledge of the second person.
8. Checks/warrants should be mailed out by a different person than the one writing the check. An independent person should match the voucher to the check. If you are a one person office, ask someone else to be involved in the mailing process so that there is a process for validity.
9. After the checks/warrants are written,
All documents should be marked paid. Have bills paid received proper Board approval? Warrant lists need to be given to the Board for approval and a copy put in the minutes. Approval of warrants if by Board action. MCA 20-9-213 (2)
 - a. Is a review of budget limits performed in the budgeted funds? Expenditures should be coded to the proper accounts even if individual line items have been overspent. Expenditures in the non-budgeted funds and student activity fund are limited to the amount of cash in those funds; therefore, these funds should not carry a negative cash balance.

- b. Are purchase orders filed away in a manner so they are easily accessed at a later date? Common methods are filing by PO number, warrant number, vendor or alphabetically. Any of these are acceptable, just be consistent.
- c. Have you filed with thought to ease of destruction? Be conscience of retention schedules.

D. Reconciling

Reconciling of the books is a very important step. Funds should be reconciled monthly and careful attention given to cash balances.

Important considerations in reconciling include:

1. Are funds and cash balances in exact balance with the Treasurer or bank? If not, can you identify the differences and correct them for the following month?
2. Are books reconciled by a person other than the one receipting or disbursing funds?
3. Are bank statements delivered to the reconciler unopened?
4. Are reconciliations followed up on to determine if exceptions from the previous month cleared properly or are still outstanding?
5. Do procedures exist for steps essential to an effective reconciliation? Consider the following:
 - a. comparison of checks/warrants in appropriate detail with disbursements records.
 - b. Accounting for numerical sequence of checks/warrants used?
 - c. Comparison of book balances used in reconciliations with general ledger accounts
 - d. Comparison of deposit amounts and dates with cash receipt entries.
 - e. Examination of canceled checks/warrants for alterations.
 - f. Are checks/warrants outstanding for a considerable time periodically reviewed for propriety and cancellation?
6. Cash balances should be reviewed monthly for appropriateness.
7. In the student activities fund, is there an accounting of individual funds that reconcile to the total cash in the account? In fund accounting, if you have sub-accounts (for example, in the Miscellaneous Programs Fund 15), the total of the balances in the sub-accounts should be reconciled to the total cash in the fund.
8. Are appropriate reports (i.e. Cash and Reconciliation reports) given to the Trustees for approval?

III. Payroll Procedures

Segregation of Duties – In payroll, it is important that payroll is calculated accurately, reviewed by administration and a list submitted for approval by the board.

- Policy
 - Clear Separation of Duties
 - Timesheet approval
 - Overtime
 - Distribution (Warrant or direct deposit)
 - Payroll Advances
 - Balancing Payroll Account
 - Hiring Procedures
 - Application
 - Job Descriptions
 - Background checks
 - Board Approval
 - Salary schedule
 - Forms/Deduction authorizations
 - Employee Files
 - Payroll Forms
 - Compliance with CBA's and/or contracts
- Preparing/Computing
 - Method of timekeeping
 - Verify accuracy of calculation of time
 - Time card authorizations
 - Employee Benefits/Deductions
 - Insurance
 - Vacation/sick accruals
 - Misc deductions
 - Salary Distribution/Grants
- Input
 - Security of system input
 - Review of payroll input prior to processing
 - Gross Salary
 - Budget Accounting
 - Deductions
 - Hours (worked and leave accruals)
- Printing
 - Security of blank warrants

- Security of signature plates and or passwords
- Log maintained on signing machines
- Direct Deposit
 - Pre-notes
 - Deposit slip and/or voided check
- Disbursing
 - Person other than payroll clerk should distribute the checks
 - Confirmation of direct deposits
 - Checks handed only to employee
 - Timely mailing of checks (CBA)
- Reports
 - Monthly
 - Payroll warrant list to trustees for approval
 - Deductions remittances and reports on a timely basis
 - Federal income tax, Social Security & Medicare
 - Earned Income Credit
 - State income tax
 - TRS
 - PERS
 - Workers' Compensation (this is remitted quarterly)
 - Unemployment (this is remitted quarterly)
 - Health/Dental Insurance Premiums
 - Other Employee Contributions/Deductions
 - Secure backup of Payroll system
 - Payroll balancing
 - Quarterly
 - 941's
 - Verify COBRA
 - Workers' Compensation
 - Unemployment
 - State income tax
 - Annually
 - W-2
 - Preparation
 - Deadlines
 - Distributing
 - Returned W-2 investigation