

FILE: DHA

INTERNAL CONTROLS AND PROCEDURES

GENERAL

The Andes Central School District #11-1 has established procedures to maintain internal control over 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 FRAMEWORK

The Andes Central School District #11-1 has implemented an internal control system and framework based on its internal and external needs. 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:

1. Be free from bias;
2. Permit reasonably consistent qualitative and quantitative measurements of the district's internal control system;
3. Are sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of the district's internal controls are not omitted.

ETHICS STATEMENT

The Andes Central 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 controls and the management of these controls.

COMMUNICATION AND TRAINING

The Andes Central 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 the requirements for safekeeping of various assets and transparency of financial operations for both employees and taxpayers. Supervisory hierarchies are maintained to insure proper approvals and processes are in place.

PERSONNEL

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

- 1. 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.
- 2. 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 for monitoring. The individual school principal is responsible for his/her budget and for assuring that each request is appropriate and necessary. The district requires all purchase orders to be processed with all necessary signatures including the staff member, principal, superintendent, and business manager.
- 3. Transaction Recording.** Transactions are recorded at the time of payment. The business office staff is responsible for verifying the amounts, the classification to the appropriate account codes, and the proper authorization of all transactions prior to posting to the school accounting system. All source documents used to record transactions are official district forms and are sequentially numbered by the accounting system or on pre-numbered forms for accountability. All voided check warrants are marked VOID and kept on file for the auditor's review. All voided Purchase Orders are marked VOID and are kept on file in the business office.
- 4. Safekeeping Assets.** The access to assets is limited by assigning primary custodians for the assets at each building or department. The primary custodian at each location is responsible for monitoring the access of building, vehicles, cash, and other assets.
- 5. Record Reconciliation.** The business office administers the comparison of actual assets on hand with the amounts recorded in the school accounting system. Monthly reconciliation of bank statements 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 the bank accounts is handled by the business manager and verified by the Superintendent. The fixed asset listing is maintained by the administrative assistant and verified by either the business manager or Superintendent.

RISK ASSESSMENT

The Andes Central School District analyzes all processes and applies a risk assessment evaluation 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 Andes Central School District prepares and adopts an annual budget in accordance with South Dakota Codified Law requirements. The budget is prepared by the business manager under the supervision of the superintendent. A budget committee, consisting of building principals and department managers, is formed and makes recommendation regarding budgetary issues, including site

based allocations and staffing. The Superintendent monitors all staffing and compares all positions to student class loads. The budget committee is designed to ensure representation from instructional, program, parent, and administrative perspectives. These decisions are reviewed by the Superintendent, business manager, and School Board Finance Committee before being finalized by the entire School Board. The budget is then presented to the Board of Education for approval and adoption at the September board meeting. Upon approval, the budget is entered into the school accounting software. South Dakota Codified Law allows schools to expend funds for the new fiscal year beginning July 1 prior to the approval and adoption of the official budget.

FINAL CASH BALANCES

Upon completion of the final close for each fiscal year, the district determines the actual cash balances and fund balances for all funds and reports them to the Board of Education. The budget is then adjusted by the adoption of a Supplemental Budget. Upon approval by the Board of Education the district will adjust the budget and incorporate the changes into the school accounting system.

BUDGET MAINTENANCE

The budget is maintained in the Business Office using the school accounting system to ensure that all spending is in accordance with budget authority. While budget objects and functions may be overspent, overall budget funds may not be overspent.

All budget increases, decreases, and adjustments are presented to the Board of Education for approval. Budget adjustments, which do not alter the total amount of the budget, are processed as follows:

- 1. Intra-budget transfers**-Transfers between expenditures account codes within the same function are prepared and presented to the Board of Education for approval at the monthly scheduled board meetings. Once approved, the adjustments are recorded into the school accounting system.
- 2. Inter-budget transfers**-Transfers between expenditure account codes outside of the same function are presented to the Board of Education for approval. Once the approvals are in place, the change is recorded to the school accounting system as an adjustment to the budget.

PAYROLL

The Superintendent is responsible for monitoring the hiring of personnel, authorizing salaries, initiating employment contracts, and maintaining staffing levels approved in the annual budget. The business manager verifies that the budget is available for any staffing increases. All payrolls are processed from the approved employment contracts. All additional payrolls are processed by exception and only with proper authorization from the Superintendent. These payroll payments can include substitutes, non contracted personnel, and/or payment for additional services provided, such as summer school.

Sick Leave

Absences for sick leave:

Employees must notify the building principal when requesting sick leave. An absence form must be completed either before the leave is taken or immediately upon the employees return to work for accurate recording of leave taken.

Other types of leave:

Other types of leave which require prior approval must be submitted on a printed blue "request for leave" form signed by the building principal. The blue forms, which are turned into the business office, are used to verify absences. They are also used to make deductions for leave and are used to dock pay

when leave is taken with a sufficient leave balance. The pay docks are deducted from the employee's pay on the next scheduled check.

All department heads are responsible for monitoring time worked and appropriate date for his/her hourly employees. Any hourly employee falsifying date is subject to dismissal.

The business manager is responsible for maintenance of employee insurance, tax sheltered annuities, and other voluntary and mandatory payroll deductions. After the payroll data is entered into the school accounting system, a pro forma payroll is run to verify data for accuracy. A payroll register generated from the accounting software is used for the verification process prior to the generation of the payroll checks. The information systems department backs up the school accounting system nightly.

A payroll check register is generated to document all payments made for each payroll run. Additional reports are available for review and verification, and for audit purposes. A payroll summary sheet is produced from the school accounting software and is reviewed by the business manager before processing the checks, direct deposits, and federal tax payments.

All blank check stock is stored in a locked cabinet in the office of the business manager. Access to this office and locked cabinet is limited. All payroll checks are sequentially pre-numbered and direct deposit stubs are numbered sequentially by the school accounting system. Payroll checks have an original signature by the business manager and a stamped signature by the School Board President.

All certified contract employees are paid once a month. Employees can choose to receive their contracted salary in 9, 10 or 12 monthly payments.

The Business Office maintains all employee earnings, deduction, and leave records according to the regulations. Monthly, quarterly, and annual payroll tax-benefit reports required by the Federal, State, and local governmental agencies are prepared by the business manager and are verified monthly by the administrative assistant or the Superintendent.

PURCHASING

The building principals, Superintendent, and business manager are responsible for assuring that all purchases against budgets are appropriate and necessary. The administrative assistant primarily initiates the purchasing process. Requisitions are the initial document submitted to the building principals. Once approved by the building principal, Superintendent, and business manager the document is assigned a purchase order number by the administrative assistant. Orders are then placed by either the staff member or administrative assistant.

RECEIVING

The merchandise ordered is delivered directly to the high school building. The high school secretary and/or administrative assistant verify each receipt and indicate this on a copy of the Purchase Order. Once this document has been received by the business manager, payment can be made to the vendor.

ACCOUNTS PAYABLE

All vendor invoices are mailed to the business office. 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. The administrative assistant checks each invoice carefully to verify amounts due, shipping and handling costs, and any other applicable discounts, etc. After these verifications are in place, payment can be processed.

The business manager generates a detail invoice listing and schedule of checks to be written to verify the accuracy before checks are written. Once checks have been printed, they are signed by the business manager. A listing of all checks written is created from the school accounting system and is presented to the board of education for approval. Once approved, the school board president places his/her

signature or stamp on all checks. (Authorized signature cards reside at each banking institution handling district accounts.) Payment vouchers are also generated from the school accounting software and signed by the business manager, Superintendent, and a board member. These include vendor name, check number, date, and account number(s) to which the item is expensed. Vouchers are attached to the corresponding invoice.

BANK RECONCILIATIONS

All bank accounts are reconciled on a monthly basis. The Superintendent approves the bank reconciliation and approves any adjustments necessary to the general ledger. The business manager cancels all checks as the checks clear the bank (as indicated on each bank statement) in the bank reconciliation option of the school accounting software and locates any discrepancies in the balances, and makes any journal entries necessary for correction. The monthly check registers, transaction journals, and general ledgers are generated monthly and are stored in the Business Office and may be accessed from the school accounting software for review by the superintendent and other interested parties. All journal entries needed for correction are detailed on the Manual Journal Entries report from the school accounting software.

PER DIEM & MILEAGE

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.

- 1. 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 invoices attached to the reimbursement request.
- 2. Out-of-State Travel** – All out of state travel requires prior approval by the Superintendent and the building 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 receipts for out-of-pocket expenditures for transportation, registration, and miscellaneous expenses are required for reimbursement. Any meals and/or lodging costs included in the registration fee will not be reimbursed.

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. 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. All monies are receipted using pre numbered receipts and are deposited into the district bank account. The Superintendent verifies all receipts posted as being deposited as part of the reconciliation of the bank account. Business office personnel record all funds received in the business office to the school accounting system. Each receipt has a description of payment and has sufficient documentation for review by the independent auditor. These entries include the source, date, amount, fund, receipt number, and description of the payment. For monies received by mail, the business office staff assigned to mail duty reviews the incoming mail and delivers the monies to the business manager who receipts the funds and records 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 electronic notification from sender, and attached as appropriate. The receipts are posted and recorded into the school accounting software.

Monies received by the building secretaries are receipted using pre –numbered receipts. Each school secretary is responsible for submitting timely collections to the business office for reconciliation, receipt, and deposit. The administrative assistant prepares deposits for money received from the school secretaries for deposit.

ACCOUNTS RECEIVABLE

The accounts receivable system is maintained centrally. Each department is responsible for forwarding all information about receivables to the business office on a timely basis. The responsibility for the collection rests with the Business Office under the supervision of the Superintendent.

PETTY CASH

In accordance with law, a petty cash fund will be established under the authorization of the business manager and Superintendent. A petty cash fund will be intended for small purchases and set up utilizing the procedures set forth in School Board Policy DJB, Petty Cash Accounts.

INVESTMENTS

The Andes Central School District 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 school accounting system when the credit is received. Investments are made by issuing a check or by ACH transfer. A paper trail is automatically produced with this procedure and the transaction is entered into the school accounting software through the Accounts Payable System by the business manager. An investment register is maintained by the business manager and updated monthly. The register itemizes the type of investment, investment date, maturity date, investment institution, and the amount of investment. Correspondence with each banking institution is documented periodically and available for review. When investing district funds, the business manager utilizes the investment procedure outline in School Board Policy DFAA, Investment Policy.

INVENTORY

All district equipment and items of tangible value are identified in a permanent way using bar-coded tags. It is the responsibility of each staff member to ensure that all equipment delivered to their room or department is appropriately marked. Andes Central School District #11-1 Page 7

The administrative assistant 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 acquisition date, the location and the building room/department and the site code. Annually, school district staff are required to conduct an inventory of personal property and file it with the business manager by July 10th.

DEBT SERVICE

All authorized debt principal and interest payments are accounted for in the Capital Outlay Fund and Capital Outlay Certificates Fund. A record of indebtedness is maintained by the business manager and reconciled by the Superintendent. This schedule lists the date of each outstanding long term debt, the original amount of the issue, principal and interest payments, and the total outstanding balance for each issue.

All debt statement payments issued are verified by the business manager for payment. Checks are issued from the district's bank account and forwarded to the authorized paying agent as applicable on or before the due date.

REPORTING

Monthly reports are prepared and maintained by the district. The Superintendent reviews bank statements and a monthly reconciliation is performed by the business manager. Each fund's activities are then reconciled on a year to date basis to determine if all adjustments have been made to the school accounting system correctly. The Superintendent 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 school accounting system is limited and initiated by a password procedure established by the business manager. This limited access was established in an effort to ensure records will not be altered and accountability can be maintained. Reports are then filed and maintained as per the Schedule of Retention and Disposition of Records. A copy of the district's audit report is forwarded to the South Dakota Department of Legislative Audit. The Superintendent, the Andes Central School District's Board of Education, and the business manager receive hard copies of this report. This report can also be accessed through the South Dakota Department of Legislative's webpage at <http://legislativeaudit.sd.gov/default.aspx>.

JOURNAL ENTRIES

The district limits access for journal adjustments outside of the automated school accounting 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 authorized individuals.