

1. Financial Accounting and Reporting

Update 14

A MODULE OF THE

TEXAS EDUCATION AGENCY FINANCIAL ACCOUNTABILITY SYSTEM RESOURCE GUIDE

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1.5 Internal Control

A strong system of internal control enables the school district to ensure that resources are properly handled, properly used and are available for management's and the board's designation. In addition, the various agencies of the federal and state governments, including such agencies as the Office of Management and Budget, the Government Accountability Office, Texas Education Agency and others, require school district auditors to report on the internal control structure as a whole and as it relates to the federal financial assistance area.

This section provides both general and specific guidance on the fundamental principles of an effective system of internal control and addresses the following topics:

- Internal control defined
- Common types of control procedures
- Internal control check list
- Suggested areas for consideration of the internal control

Of particular interest to school district business officials is the Internal Control Check List and a listing of suggested areas for consideration relating to the internal control structure. These resources can be used to aid in assessing and improving the internal controls in place in a school district.

1.5.1 Internal Control - Defined

The extent of internal control that a school district should establish is a judgment that must be made by management. Management's judgment regarding the extent of internal control necessary is affected by circumstances such as the size of the organization and the number of personnel available. Consideration must be given to the relationship between costs and benefits. In addition, the nature of internal control is such that even appropriate internal control methods and systems will not guarantee that a school district's objectives will be achieved, nor will they ensure its success.

Internal control is defined as “a process - effected by an entity’s board of trustees, management and other personnel - designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations”

Internal control consists of five interrelated components:

- Control environment
- Risk Assessment
- Control activities
- Information and communication systems
- Monitoring

1.5.1.1 Control Environment

The control environment establishes the school district management’s attitude toward internal control. It is the basis for all other elements of the system of internal control. AU 314.67 states that the control environment “sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.”

The collective effort of various factors affects the control environment, including the following:

- Integrity and ethical values

- Commitment to competence
- Participation of those charged with governance
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of controls is more important than their form because the controls may not be effectively implemented and maintained. An auditor should weigh the collective effect on the control environment of strengths and weaknesses of the organization’s internal control. It may be that a particular weakness may have a significant effect on the control environment.

1.5.1.2 Risk Assessment

Risk assessment is defined as the “entity’s identification, analysis, and management of risks” relevant to the preparation of GAAP financial statements.

Risks can arise or change as a result of the following factors:

- Changes in operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology

- New grant activities, building projects and other activities
- Organizational restructuring
- Accounting pronouncements
- Federal regulations
- School finance statutes

1.5.1.3 Control Activities

Control activities are “the policies and procedures that help ensure that management directives are carried out.” Control activities can be divided into four categories:

- Authorization
- Asset accountability
- Safeguarding
- Segregation of duties

The application of control activities, such as segregation of duties, is affected to some degree by the size of the school district. In smaller school districts, control activities will be less formal than in larger school districts. Additionally, certain types of control activities may not be relevant in a smaller entity.

1.5.1.4 Information and Communication

Information and communication are “the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.” Information systems encompass procedures and documents that:

- Identify and record all valid transactions

- Describe, on a timely basis, the transactions in sufficient detail 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
- Present properly the transactions and related disclosures in the financial statements.

Top management should deliver a clear message to school district personnel that control responsibilities must be taken seriously. School district personnel must understand their own role in the internal control system, as well as how individual activities relate to the work of others. In addition, school district personnel must have a means of communicating significant information to upper levels of management. In addition to internal communication, effective communication with external parties such as parents, TEA and various agencies of the federal government when necessary should be made available. Communication also includes policy manuals as well as accounting and financial reporting manuals.

1.5.1.5 Monitoring

Monitoring is “a process that assesses the quality of internal control performance over time.”

Ongoing activities include regular management and supervisory activities and other actions taken during the normal performance of an individual’s daily responsibilities.

The nature and timing of *separate evaluations* depend on the effectiveness of ongoing activities and the risk that the internal controls are not performing as intended by school district management.

Deficiencies in the system of internal controls should be reported to management at the appropriate level.

One type of monitoring activity that management may perform is to examine certain ratios or financial indicators. These ratios and indicators are measures of performance reflecting key variables of the organization that normally lead to or indicate the current or future effectiveness of the school district.

The extent to which a manager is held accountable for the effectiveness of control procedures will probably determine the extent to which the manager monitors their performance. Management of a school district should assign responsibility and delegate authority with sufficient care to ensure that:

- Persons who perform control procedures are held accountable for their performance by those who monitor their activities
- Persons who monitor the performance of control procedures are held accountable by senior management, the board of trustees or the audit committee

If management routinely uses accounting information in making operating decisions, it is likely to establish effective controls and hold lower-level managers and employees accountable for their performance. In addition, if management routinely uses accounting information in measuring progress and operating results, it is likely to investigate significant variances between planned and actual results. This investigation may detect the causes of significant variances and affect the steps necessary to correct control procedures that failed to prevent misstatements.

1.5.2 Common Types of Control Procedures

Numerous control procedures and monitoring activities are performed by individuals in various organizations to accomplish particular objectives. All of these controls, however, can be categorized as a variation of one of the basic types of controls described below. Detailed control procedures or monitoring activities may be included within each of the categories below, depending on the size of the school district and the sophistication of the particular control environment.

1.5.2.1 Controls over Unauthorized Access or Obligations

Certain controls are designed to prevent access to assets by persons not authorized by management to have access. Often these controls are physical in nature, for example, storing inventories of supplies and commodities in locked storage areas, storing currency in

a vault or locked drawer and using alarm systems to discourage vandals. If controls relating to unauthorized access to assets are not effective, assets may be lost or stolen. However, if detective control procedures such as physical inventory counts are appropriately performed, shortages should be discovered in a timely manner. Changes in Federal banking laws in recent years have potentially increased risk of loss to ISDs from authorized access to bank accounts.

In some cases, unauthorized access to assets may be gained through access to records – especially those records maintained on computer systems. For example, if warehouse requisitions can be issued through a computer terminal, access to inventory may be gained through the system. Controls over unauthorized access to assets through computer records may be physical (e.g., terminals are kept in a locked room) or logical (e.g., access to the computer program or data files may be obtained only with the proper password or other user-identification method).

Monitoring of control procedures that address unauthorized access includes activities such as observing physical control procedures, reviewing established access privileges with the manager of information systems or reviewing reports of attempted computer access violations. Internal auditors often perform such activities.

1.5.2.2 Controls over Authorized Access or Obligations

Access controls do not necessarily prevent persons who have authorized access to assets from misappropriating them. Persons who have authorized access to both assets and related accounting records may be in a position to conceal shortages of the assets in the records. If duties are properly segregated, persons who have authorized access to assets will not also have access to related accounting records in which they might conceal shortages. In some cases, access to assets may be authorized only for two or more persons acting jointly. This access restriction is referred to as “dual control.” For example, management may require that two people open the mail and list cash receipts to prevent one of them from pilfering cash receipts before they are initially recorded.

Controls over authorized access to assets are important to a business, not only to prevent thefts, but to ensure that assets of the school district are committed only after proper consideration by persons who are knowledgeable and experienced. Authorization and approval are types of controls over access to assets that are designed to prevent invalid or inappropriate transactions from occurring. An example is a procedure designed to assure that disbursements are made only when authorized orders for goods and services have been received. In many computerized systems, access to computerized records (e.g., shipping requests) can result in access to assets; therefore, controls over authorized *access to assets* need to consider controls over *access to such records*.

1.5.2.3 Reconciliations and Comparison of Assets with Records

The purpose of reconciliations and comparisons of assets with records is to ensure that independent checks cover the output of a system, either by maintenance of a separate independent control record with which the processed data are reconciled or by direct comparison of the output with the related assets. Monitoring is usually accomplished by reviewing reconciliations or by participating in comparisons of assets. Examples of reconciliations of assets with records are reconciliation of physical inventory to accounting records and reconciliation of bank balance to general ledger balance

1.5.2.4 Analytical Reviews

The purpose of analytical reviews is to evaluate summary information, usually resulting from a series of transactions or processes, by comparing it with expected results. Analytical reviews are often performed by management to determine whether the entity is performing as planned. For example, a common analytical review procedure is the comparison of budget to actual, with investigation of variances. Often, analytical reviews serve as monitoring of various other underlying control procedures.

1.5.2.5 Authorization and Approval

The purpose of authorization and approval is to prevent invalid transactions from occurring. The effectiveness of these controls is often dependent on general computer controls over information security.

1.5.2.6 Reviews of Output

Reviews of output should be performed by personnel who have the knowledge and experience to identify errors. Such reviews could be performed in both computer and manual systems. The purpose of such reviews is to check the validity and accuracy of output by comparing it in detail with expected results. For example, a purchasing manager may compare recorded amounts or quantities purchased with separate records of purchase orders.

1.5.2.7 Transactional Reviews

The purpose of transactional reviews is to check the validity and accuracy of output by comparing it in detail with expected results. Reviews of output are often performed with the use of exception reports, which are reports (usually computer-generated) listing items for which processing was rejected because the items did not match specified criteria. For example, a computer-generated check may be rejected if it is for an amount large enough to require manual signing. Monitoring of these types of control procedures is often performed by reviewing results at various levels of management.

1.5.2.8 General Computer Controls

Computer systems frequently have common areas of control and related control procedures referred to as general computer controls. These controls directly or indirectly affect all systems that operate within one computer processing environment. General computer controls include all the usual elements of effective internal control, which includes a person or group responsible for control, control procedures and monitoring activities. Monitoring of the performance of general computer controls is usually performed by managers of the information systems department. Monitoring activities include observation, exception reporting, reviews of work performed, reviews of program changes, oversight by information system steering committees and the monitoring of user complaints. For example, the effectiveness of programmed control procedures such as edit checks and approvals depends on general computer controls that ensure that program changes are not made improperly. General computer controls include controls over computer operations, systems acquisition development and maintenance, information security and information systems support.

Computer Operations - The computer operations staff is responsible for the day-to-day processing activities of the school district's system. It ensures that jobs are scheduled and processed as planned. It is also responsible for physical control of data stored on the system or tapes, as well as timely and accurate distribution of reports.

Systems Acquisition, Development and Maintenance - The systems acquisition, development and maintenance staff is responsible for the planning, acquisition or programming, testing and implementation of new application systems and changes to existing application systems. Such controls are usually important in larger processing environments where there is more development and maintenance activity. The systems are more complex and there is less reliance on purchased software.

Information Security - The information security function is responsible for the administration and maintenance of a school district's information security program,

including both physical and logical security. The primary goal of such a program is to ensure that access to program data, on-line transactions and other computing resources is restricted to authorized users.

Information Systems Support - Information systems support includes functions such as system software maintenance, data base administration, communications and network management, end user computing and other groups with technical and administrative support responsibilities.

Certain school districts may use service organizations for executing and recording certain transactions. In such situations, the school district needs to ensure that the service organization has adequate controls over processing the transactions.

1.5.3 Internal Control Check List

Presented in Exhibit 46 is a check list that may provide assistance to management in determining if a school district has areas where internal control procedures should be enhanced. The questionnaire below should be completed by placing a “√” in the appropriate column. Any “NO” responses could indicate that there is an internal control weakness and that further review should be performed to determine if there are other control procedures in place to mitigate potential risk.

Exhibit 46. Internal Control Check List

INTERNAL CONTROL CHECK LIST

		YES	NO	COMMENTS
1.	Are the following functions performed by someone other than the accounts receivable bookkeeper(s):			
	(a) Handling cash and maintaining cash records?			

		YES	NO	COMMENTS
	(b) Opening incoming mail?			
	(c) Credit collection, if applicable?			
	(d) Review and mailing of tax statements?			
	(e) Approval of and adjustments of uncollectible delinquent taxes?			
2.	Are accounts receivable ledgers unavailable to the cashiers?			
3.	Are subsidiary ledgers regularly balanced with control accounts?			
4.	Are subsidiary ledgers occasionally balanced with control accounts by someone other than the accounts receivable bookkeeper(s)?			
5.	Are tax statements sent at regular intervals to all taxpayers?			
6.	Are securities, insurance policies and similar instruments under the control of a responsible official?			
7.	Are all persons having access to securities properly bonded?			
8.	Are securities kept in a safe-deposit box and does access to the safe-deposit box require the presence of two or more employees?			

		YES	NO	COMMENTS
9.	Does the accounting department maintain a record of each security, its cost, description and certificate number, and are all securities periodically accounted for and reconciled to the records?			
10.	Are inventory records maintained for supplies and capital assets?			
11.	Are inventory records verified by physical inventories at least once each year?			
12.	Are discrepancies between inventory records and the physical count promptly investigated and appropriate adjustments of the records made?			
13.	Are trial balances of inventory records taken at regular intervals and balanced with the general ledger control account?			
14.	Are inventory records maintained by persons who have no access to the supplies stored?			
15.	Are prenumbered receiving reports used, and are copies thereof forwarded to the accounting department for use in verifying invoices?			
16.	Are materials and supplies held in a central location and issued only on properly approved requisitions?			
17.	Are stolen goods promptly reported to a local law enforcement officer?			

		YES	NO	COMMENTS
18.	Are accounts payable personnel independent of purchasing and of the cashier or persons signing checks?			
19.	Are prenumbered purchase orders used, and are copies transmitted to the accounts payable department?			
20.	Are prices established at the time of placing orders?			
21.	Do the procedures for verification of invoices in the accounts payable department require a signature to ensure that:			
	(a) Quantities billed on the invoice agree with those called for on the purchase order and shown by the receiving report?			
	(b) Prices, discounts, credit period and terms of shipment per the invoice match with those specified on the purchase order?			
	(c) Extensions, footings and deduction of discounts are correct?			
22.	Are accounts payable balanced monthly to the general ledger control account?			
23.	Are monthly statements from vendors regularly reconciled to accounts payable ledgers?			

		YES	NO	COMMENTS
24.	Are returned purchases controlled in a manner to ensure that the school district receives proper credit against charges?			
25.	Are there established procedures to call attention to invoices not paid within the discount period?			
26.	Are all loans approved by the board and signed by the president or vice president and secretary?			
27.	Are invoices and supporting documents marked when approved for payment in a manner which precludes the possibility of submission a second time (duplicate payments)?			
28.	Are employees paid by prenumbered payroll checks?			
29.	Are spoiled payroll checks voided in a manner which prevents reuse, and filed in a numerical sequence with paid checks?			
30.	Is a check protector used?			
31.	Are various phases of payroll work, such as timekeeping, compilation of payroll, writing paychecks, filling envelopes and distribution of employees, divided among a sufficient number of persons?			
32.	Is there a reasonable rotation of duties, when possible, among timekeepers, paymasters and persons preparing payrolls?			

		YES	NO	COMMENTS
33.	Are undelivered payroll checks forwarded to an appropriate official for deposit after a specified period of time?			
34.	Is the payroll bank account reconciled monthly by employees having no other connection with payroll work?			
35.	Does the reconciliation of the payroll bank account include examination of endorsements on paid checks, accounting for numerical sequence of checks, and comparison of checks with payroll records?			

1.5.4 Suggested Areas for Consideration of the Internal Control Structure

Presented below is an extensive listing of areas that could require internal control procedures. The areas addressed are:

- Budgets and Planning
- Cash
- Investments and Investment-Related Activity
- Revenues and Receivables
- Capital Assets
- Expenses/Expenditures and Liabilities

- Employee Compensation
- Information Technology
- Financial Reporting

This listing should not be considered all-inclusive. Also, procedures in all of these areas would not necessarily be desirable or required for all circumstances.

1.5.4.1 Budgets and Planning

Segregation of Duties

1. Segregation of responsibilities for budget preparation, adoption, execution and reporting

Procedural Controls

Preparation

2. Awareness of budgets and budgetary procedures required by law
3. Preparation of budgets for all significant activities regardless of whether mandated by law
4. Preparation of budget calendar to make orderly submission and approval of the budget
5. Development and preparation of initial budget submissions by major departments and activity centers
6. Review of departmental budgets by the finance or budget officer and corrections by departments of oversight or integration of the executive's goals and objectives

7. Compatibility of the type of budgeting performed (traditional, program, performance) with the accounting system
8. Preparation of the budget in sufficient detail (responsibility level) to provide a meaningful tool with which to monitor subsequent performance
9. Budget of interfund and interdepartmental transfers, if appropriate

Adoption

10. Budget hearings to obtain citizen input
11. Submission of the budget to the legislative body for approval; clear communication to operating departments or agencies of the effects of legislatively mandated budget modifications, either increases or decreases
12. Coincident with adoption of the budget, action of the legislative body, as appropriate, to:
 - Adopt legislation to implement the raising of budgeted revenues
 - Initiate expenditure appropriations
13. Recording in the accounting records of estimated revenues and appropriations for later comparison to actual amounts realized or incurred
14. Recording in the accounting system of budgets that have been approved by grantors in connection with grant activity
15. Publication of budgets if required by law

Execution

16. Formal adoption and communication of procedures establishing authority and responsibility for transfers between budget categories

17. Use of an allotment system to control the flow of expenditures or commitments
18. Approval as to availability of funds by the accounting department before issuance of a purchase order or expenditure commitment
19. Processing and approval of requests for supplemental appropriations or budget changes the same way as the original budget is processed and approved (or as required by law)
20. Controls to ensure knowledge of outstanding commitments if liabilities and expenditures are recorded on an encumbrance or obligation basis

Reporting

21. Comparison of actual expenditures to budget with reasonable (monthly) frequency and on a timely basis
22. Discussion of reports with departmental personnel and receiving explanations for significant variations from budget
23. Timely notification of both the executive and legislative branches of expenditures in excess of appropriations or budget
24. Publication of actual results of operations against the budget

1.5.4.2 Cash

Segregation of Duties

1. Segregation of responsibilities for collection and deposit preparation functions from those for recording cash receipts and general ledger entries
2. Segregation of responsibilities for cash receipts functions from those for cash disbursements

3. Segregation of responsibilities for disbursement preparation and disbursement approval functions from those for recording or entering cash disbursements information on the general ledger
4. Segregation of responsibilities for the disbursement approval function from those for the disbursement, voucher preparation and purchasing functions
5. Segregation of responsibilities for entries in the cash receipt and disbursement records from those for general ledger entries
6. Segregation of responsibilities for preparing and approving bank account reconciliations from those for other cash receipt or disbursement functions
7. If EDP is used, maintenance of the principle of segregation of duties within processing activities

Procedural Controls

Collections

8. Timely deposit (preferably daily) of all receipts
9. Controls over the collection, timely deposit and recording of collections in the accounting records in each collection location
10. Timely notice of cash receipts from separate collection locations to general accounting department
11. Comparison of daily reported receipts on a test basis to bank statements to verify timeliness of deposits
12. Placing a restrictive endorsement on incoming checks as soon as received
13. Delivery of "not sufficient funds" checks to someone independent of processing and recording of cash receipts

14. Procedures for follow-up of "not sufficient funds" checks
15. Receipts controlled by cash register, prenumbered receipts or other equivalent means if payments are made in person (over the counter)
16. Accounting for such receipts and balancing them to collections daily
17. Facilities for protecting undeposited cash receipts

Disbursements

18. Control over warrant or check signing machines as to signature plates and usage
19. Procedures providing for immediate notification to banks when warrant or check signers leave the unit or are otherwise no longer authorized to sign
20. Furnishing invoices and supporting documents to the signer prior to signing the warrant or check
21. Setting reasonable limits on amounts that can be paid by facsimile signatures
22. Requiring two signatures on warrants or checks over a stated amount
23. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
24. Using plates only under the signer's control and recording machine reading by the signer or an appropriate designee to ascertain that all checks or warrants signed are properly accounted for by comparison to document control totals
25. Direct delivery to the mail room of signed warrants or checks, making them inaccessible to persons who requested, prepared or recorded them
26. Prohibiting the drawing of warrants or checks to cash or bearer
27. Use of positive-pay procedures for check-clearing purposes

Custody

28. Maintenance of control over supply of unused and voided warrants or checks
29. Proper authorization of bank accounts
30. Periodically reviewing and formally reauthorizing depositories
31. Controls and physical safeguards surrounding working (petty cash) funds
32. Maintenance of adequate fidelity insurance
33. Maintenance of separate bank accounts for each fund, or if not, adequate fund control over pooled cash

Detail Accounting

34. Procedures ensuring that collections and disbursements are recorded accurately and promptly
35. Procedures for authorizing and recording interbank and interfund transfers providing for proper accounting for those transactions

General Ledger

36. General ledger control over all bank accounts
37. Delivery of bank statements and paid warrants or checks in unopened envelopes directly to the employee preparing the reconciliation
38. Procedures for steps essential to an effective reconciliation, particularly:
 - Comparison of warrants or checks in appropriate detail with disbursement records

- Examination of signature and endorsements, at least on a test basis
 - Accounting for numerical sequence of warrants or checks used
 - Comparison of book balances used in reconciliations with general ledger accounts
 - Comparison of deposit amounts and dates with cash receipt entries
 - Footing of cash books
39. Review and approval of all reconciliations and investigation of unusual reconciling items by an official who is not responsible for receipts and disbursements, including recording evidence of the review and approval by signing the reconciliation
40. Periodic investigation of checks outstanding for a considerable time

1.5.4.3 Investments and Investment-Related Activity

Segregation of Duties

1. Segregation of responsibilities for initiating, evaluating and approving transactions from those for detail accounting, general ledger and other related functions
2. Segregation of responsibilities for initiating transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for monitoring investment market values and performance from those for investment acquisition
4. Segregation of responsibilities for maintaining detail accounting records from those for general ledger entries
5. Assignment of custodial responsibilities for [securities](#) or other documents evidencing ownership or other rights to an official who has no accounting duties

6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Approval

7. If applicable, procedures adequate to ensure that only [investments](#) that are permitted by law are acquired
8. Formal establishment and periodic review of investment policy guidelines
9. Integration of the investment program with cash management program and expenditure requirements
10. Established authority and responsibility for investment opportunity evaluation and purchase
11. Periodic evaluation of the performance of the investment portfolio by persons independent of investment portfolio management activities
12. Formal establishment of procedures governing the level and nature of approvals required to purchase or sell an investment
13. Use of competitive bidding for certificate of deposit purchases

Custody

14. Adequate physical safeguards and custodial procedures over:
 - Negotiable and nonnegotiable [securities](#) owned
 - Legal documents or agreements evidencing ownership or other rights

15. Dual signatures or authorizations to obtain release of [securities](#) from safekeeping or to obtain access to the government unit's safe-deposit box
16. Authorization by the legislative body of persons with access to securities
17. Registering all securities in the name of the government unit
18. Periodic inspection or confirmation of securities from safekeeping agents
19. Bonding of individuals with access to securities

Detail Accounting

20. Maintenance of detail accounting records for [investments](#)
21. Procedures to ensure that transactions arising from investments are properly processed, including income and amortization entries
22. Controls to ensure that investment earnings are credited to the fund from which resources were provided for the investment
23. A periodic comparison between income received at the account specified by the terms of the security or publicly available investment information
24. Controls to ensure that transactions are recorded on a timely basis

General Ledger

25. Procedures for reconciling the detail accounting records with the general ledger control
26. Periodic review of the nature of investments included in general ledger balances

1.5.4.4 Revenues and Receivables

Segregation of Duties

1. Segregation of the responsibilities for billing property taxes and services from collection and accounting
2. Segregation of the responsibilities for maintaining detail accounts receivable records from collections and general ledger posting
3. Segregation of collection, control and deposit of funds activities from maintaining accounting records
4. Maintenance of the property tax assessment rolls by individuals not engaged in any accounting or collection function
5. Segregation of the responsibilities for entries in the cash receipts records from those for general ledger entries
6. If EDP is used, maintenance of the principle of segregation of duties within processing activities

Procedural Controls

Data and File Maintenance

Property taxes

7. Controls to ensure that additions, deletions, transfers and abatements are properly and timely reflected in property tax records
8. Procedures to make property assessments in accordance with the law or legislative intent with prompt adjustment of records

Fees and permits

9. If annual payments are involved, procedures to ensure that previous years' records are properly updated for new registrants and withdrawals
10. Use of the updated records as the basis for billing persons subject to payment

Fines, forfeitures and court fees

11. Maintaining and using court and other records of payments due as a basis for collections
12. Procedures surrounding the control, issuance and disposition of traffic violations to ensure that amounts due are assessed and collected

Enterprise and other service revenues

13. Maintaining controls that provide assurances that customer data base and, where appropriate, usage records are accurately maintained to ensure that amounts due are billed

Billing Remittance Verification

Property taxes

14. Controls within the billing system to ensure that eligible property owners are billed
15. Controls to ensure that tax assessments are being properly applied against tax rates and special charges are being considered in the preparation of billing amounts
16. Controls to ensure that tax exemptions are within the law and properly approved

Fees and permits

17. Comparison of current-year receipts to those for prior years and review of explanations of variations by senior officials

Fines, forfeitures and court fees

18. Procedures providing for correlation of amounts collected with records of court proceedings
19. Sequentially numbering and satisfactorily accounting for tickets for fines and so forth

Enterprise and other service revenues

20. If billing is based on usage, performing billings in a timely fashion
21. Billing procedures providing for identification and investigation of unusual patterns of use

General

22. Billing of taxes and fees in a timely fashion
23. Procedures designed for other revenue areas ensuring timely payment of amounts due
24. Periodic review and approval by the legislative body of the rates of taxes, fines, fees and services
25. Periodic review and approval by the legislative body of programs of tax exemption or relief
26. Procedures providing for timely notification of the accounting department at the time tax, service, or other billings or claims are prepared and rendered
27. Numerical or batch-processing controls over tax, fee, service or other billings
28. Controls over the billing of miscellaneous revenues

29. Procedures to prevent the interception or alteration by unauthorized persons of billings or statements after preparation but before they are mailed
30. Prompt investigation of disputes with billing amount that are reported by taxpayers or service recipients by an individual independent of receivables recordkeeping
31. Controls providing reasonable assurances that restricted revenues are expended only for restricted purposes

Collection

32. Placing a restrictive endorsement on incoming checks as soon as received
33. Procedures providing reasonable assurances that interest and penalties are properly charged on delinquent taxes, fees or charges for service
34. Procedures providing for the timely filing of liens on property for nonpayment in all cases permitted by law
35. Controls surrounding the collection, timely deposit and recording of collections in the accounting records at each collection location
36. Timely notice of cash receipts from separate collection centers to general accounting department
37. If payments are made in person, use of receipts for payment and accounting for and balancing of such receipts to collections
38. Segregation and timely remittance of amounts collected on behalf of other governments
39. Monitoring taxes and fees collected by another unit of government to assure timely receipt and subjecting amounts received to reviews for reasonableness
40. Reviewing delinquent accounts and considering them for charge-off on a timely basis

41. Formally approved write-offs or other reductions of receivables by senior officials not involved in the collection function
42. Procedures providing for execution of all legal remedies to collect charged-off or uncollectible accounts, including tax sale of property, liens and so forth

Accounts Receivable Recordkeeping

43. Controls in the system that provide assurances that individual receivable records are posted only from authorized source documents
44. Reconciling the aggregate collections on accounts receivable against postings to individual receivable accounts
45. Where appropriate (for example, in proprietary funds), mailing statements of account balance on a timely basis

General Ledger

46. Regular preparation of trial balances of individual receivable accounts
47. Reconciliation of trial balances with general ledger control accounts and investigation of reconciling items by other than accounts receivable clerks
48. Periodic review of aged accounts receivable balances by supervisory personnel
49. Procedures providing for timely and direct notification of the accounting department of billings and collection activity

Grant and Entitlement Monitoring

Grants

50. Properly fixed responsibility for monitoring grant activities

51. A central grants monitoring activity
52. Procedures to monitor compliance with:
 - Financial reporting requirements
 - Use of funds and other conditions in accordance with grant terms
 - Timely billing of amounts due under grants
53. Accounting for grant activity so that it can be separated from the accounting for locally funded activities
54. System for obtaining grantor approval before incurring expenditures in excess of budgeted amounts or for unbudgeted expenditures
55. Processing grant revenues and disbursements under the same degree of controls applicable to the organization's other transactions (budget, procurement, etc.)
56. Including requirements in subgrantee agreements that the subgrantee comply with primary grant agreement conditions as well as grantee's standards
57. Reasonable procedures and controls to provide assurances of compliance with recipient eligibility requirements established by grants
58. Establishing an indirect cost allocation plan

Entitlements

59. Comparison of the amount of funds received with the amount anticipated by a responsible official and investigation of unusual variances
60. Procedures to ensure that funds received are spent in accordance with legal requirements and spending restrictions

61. Review of any statistical or data reports that form the basis for revenue distribution by a responsible official before submission

1.5.4.5 Capital Assets

Segregation of Duties

1. Segregation of responsibilities for initiating, evaluating and approving capital expenditures, leases, and maintenance or repair projects from those for project accounting, property records and general ledger functions
2. Segregation of responsibilities for initiating capital asset transactions from those for final approvals that commit government resources
3. Segregation of responsibilities for the project accounting and property records functions from the general ledger function
4. Segregation of responsibilities for the project accounting and property records functions from the custodial function
5. Assigning the responsibilities for the periodic physical inventories of capital assets to responsible officials who have no custodial or recordkeeping responsibilities
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Authorization

7. Identification of those individuals authorized to initiate capital asset transactions and clear definition of the limits of their authority

8. Establishing guidelines with respect to key considerations such as prices to be paid, acceptable vendors and terms, asset quality standards, and the provisions of grants or bonds that may finance the expenditures
9. Preparation of a separate capital projects budget

Management or Board Approval

10. Requiring written management or board approval for all significant capital asset projects or acquisitions
11. Procedures for authorizing, approving and documenting sales or other dispositions of capital assets
12. Procedures for approving decisions regarding financing alternatives and accounting principles, practices and methods
13. Procedures providing for obtaining grantor (federal/state) approval, if required, for the use of grant funds for capital asset acquisitions
14. Subjecting grant-funded acquisitions to the same controls as internally funded acquisitions
15. Requiring supplemental authorizations, including, if appropriate, those of the grantor agency, for expenditures in excess of originally approved amounts

Project Accounting

16. Engaging a qualified employee or independent firm to inspect and monitor technically complex projects
17. Establishing and maintaining project cost records for capital expenditure and repair projects
18. Reporting procedures for in-progress and completed projects

19. Procedures to identify completed projects so that timely transfers to the appropriate accounts can be made
20. Review of the accounting distribution to ensure proper allocation of charges to capital asset and expenditure projects
21. If construction work is performed by contractors, procedures to provide for and maintain control over construction projects and progress billings
22. The district having the right to audit contractors' records
23. Exercising the right to audit contractor records during project performance
24. Audits of contractor compliance with EEOC, Davis Bacon, and other regulations and contract terms, in addition to costs

Asset Accountability

25. Maintaining detail property records for all significant self-constructed, donated, purchased or leased assets
26. Establishing the accountability for each asset
27. Procedures for periodic inventory of documents evidencing property rights (for example, deeds, leases and the like)
28. Physical safeguards over assets
29. Procedures ensuring that purchased materials and services for capital expenditure and repair projects are subjected to the same levels of controls as exist for all other procurements (for example, receiving, approval, checking)
30. Periodically comparing detail property records with existing assets
31. Investigating differences between records and physical counts and adjusting the records to reflect shortages

32. Procedures ensuring that capital assets are adequately insured
33. Subjecting lease transactions to control procedures similar to those required for other capital expenditures
34. Properly identifying equipment by metal numbered tags or other means of positive identification
35. Carrying fully depreciated assets in the accounting records as a means of providing accounting control
36. Procedures for monitoring the appropriate disposition of property acquired with grant funds

General Ledger

37. Periodic reconciliation of the detail property records with the general ledger control accounts
38. Procedures and policies to:
 - Distinguish between capital projects fund expenditures and operating budget expenditures
 - Identify operating budget expenditures to be capitalized in capital asset fund
 - Distinguish between capital and operating leases
 - Govern depreciation methods and practices
39. If costs are expected to be charged against federal grants, depreciation policies or methods of computing allowances in accord with the standards outlined in OMB circulars or grantor agency regulations; if not, adjusting depreciation charged to grants accordingly
40. The accounting records should be adjusted promptly both the asset and related allowance for depreciation when items of facilities and equipment are retired, sold or transferred

1.5.4.6 Expenses/Expenditures and Liabilities

Segregation of Duties

1. Segregation of responsibilities for the requisitioning, purchasing and receiving functions from the invoice processing, accounts payable and general ledger functions
2. Segregation of responsibilities for the purchasing function from the requisitioning and receiving functions
3. Segregation of responsibilities for the invoice processing and accounts payable functions from the general ledger functions
4. Segregation of responsibilities for the disbursement preparation and disbursement approval functions from those for recording cash disbursements and general ledger entries
5. Segregation of responsibilities for the disbursement approval function from those for the disbursement preparation function
6. Segregation of responsibilities for entries in the cash disbursement records from those for general ledger entries
7. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

Requisitioning

8. Initiation of purchases of goods and services by properly authorized requisitions bearing the approval of officials designated to authorize requisitions

9. Using and accounting for prenumbered requisitions
10. Indicating the appropriation to be charged on the purchase requisition by the person requesting the purchase
11. Before commitment, verification by the accounting or budget department that there are sufficient unobligated funds remaining under the appropriation to meet the proposed expenditure
12. Having technical specifications accompanying requests for special purpose (nonshelf items) materials or personal services

Purchasing

13. Structuring purchasing authorizations to give appropriate recognition to the nature and size of purchases and the experience of purchasing personnel
14. Purchase order and contract issuance and approval procedures
15. Periodic review of purchase prices by a responsible employee independent of the purchasing department
16. Use of competitive procurement procedures
17. If practicable, rotation on a regular basis of contract or purchasing officer's areas of responsibility
18. Provisions in contracts for materials, services or facilities acquired on other than a fixed-price basis that provide for an audit of contractors' costs, with payments subject to audit results
19. Procedures for public advertisement of nonshelf item procurements in accordance with legal requirements
20. Periodic review of recurring purchases and documentation of the justification for informal rather than competitive bids

21. Establishing, documenting and distributing policies regarding conflicts of interest and business practice policies
22. Issuing purchase orders and contracts under numerical or some other suitable control
23. Obtaining an adequate number of price quotations before placing orders not subject to competitive bidding
24. Prohibiting splitting orders to avoid higher levels of approval
25. Maintenance of price lists and other appropriate records of price quotations by the purchasing department
26. Maintenance of a record of suppliers who have not met quality or other performance standards by the purchasing department
27. Modification of procedures when funds disbursed under grant or loan agreements and related regulations impose requirements that differ from the organization's normal policies
28. Institution of procedures to identify, before order entry, costs and expenditures not allowable under grant (federal/state) programs
29. Maintenance of an adequate record of open purchase orders and agreements
30. Prohibiting or adequately controlling purchases made for the accommodation of employees
31. Considering bid and performance bonds if construction contracts are to be awarded
32. Predetermining selection criteria for awarding personal service or construction contracts and requiring adequate documentation of the award process
33. Subjecting changes to contracts or purchase orders to the same controls and approvals as the original agreement

Receiving

34. Preparation of receiving reports for all purchased goods
35. Procedures for the filing of claims against carriers or vendors for shortages or damaged materials
36. Taking steps to ensure that goods received are accurately counted and examined to see that they meet quality standards
37. Maintaining a permanent record of material received by the receiving department
38. Numerically accounting for or otherwise controlling receiving reports to ensure that all receipts are reported to the accounting department
39. Sending copies of receiving reports directly to purchasing, accounting and, if appropriate, inventory record keeping
40. With respect to procurements of special purpose materials, services or facilities, assigning a district technical representative to monitor and evaluate contractor performance and approve receipt of services
41. If a receiving department is not used, adequate procedures to ensure that goods for which payment is made have been received; verification by someone other than the individual approving payment that goods have been received and meet quality standards

Invoice Processing

42. Invoice processing procedures providing for:
 - Obtainment directly from issuing departments of copies of purchase orders and receiving reports
 - Comparison of invoice quantities, prices and terms with those indicated on purchase order
 - Comparison of invoice quantities with those indicated on receiving reports

- As appropriate, checking accuracy of calculations

- 43. Receiving all invoices from vendors in a central location, such as the accounting department

- 44. Procedures ensuring that the accounts payable system is properly accounting for unmatched receiving reports and invoices

- 45. Relating requests for progress payments under long-term contracts to contractors' efforts and formally approving them

- 46. Procedures for processing invoices not involving materials or supplies (for example, lease or rental payments, utility bills)

- 47. Procedures ensuring accurate account distribution of all entries resulting from invoice processing

- 48. If applicable, limiting access to EDP master vendor file to employees authorized to make changes

- 49. Maintenance by the accounting department of a current list of those authorized to approve expenditures

- 50. Procedures for submission and approval of reimbursement to employees for travel and other expenses

- 51. Establishment of control by the accounting department over invoices received before releasing them for departmental approval and other processing

- 52. Review of the distribution of charges in the accounting department by a person competent to pass on the propriety of the distribution

- 53. Review and approval of invoices (vouchers) for completeness of supporting documents and required clerical checking by a senior employee

- 54. If an invoice is received from a supplier not previously dealt with, taking steps to ascertain that the supplier actually exists

55. Making payments only on the basis of original invoices
56. Fixing responsibility for seeing that all cash discounts are taken and, if applicable, that exemptions from sales, federal excise and other taxes are claimed
57. Referring differences in invoice and purchase order price, terms, shipping arrangements or quantities to purchasing for review and approval
58. Recording and following up partial deliveries by the accounting department
59. Promptly notifying the accounting and purchasing departments of returned purchases, and correlating such purchases with vendor credit advices
60. Reviewing the program and expenditure account to be charged for propriety and budget conformity
61. Having check signers or other responsible officials determine that restricted revenues are expended only for restricted purposes
62. If applicable, procedures to ensure adjustment of the reserve for encumbrances (obligations) when invoices are prepared for payment

Disbursements

63. Disbursement approval and warrant or check signing procedures
64. Control over warrant or check signing machines as to signature plates and usage
65. Procedures to notify banks when a new signer is authorized or a previous signer leaves the employ of the government
66. Furnishing and having the signer review invoices and supporting data before signing the warrant or check
67. Setting reasonable limits on amounts that can be paid by facsimile signatures

68. Requiring two signatures on all warrants or checks over a stated amount
69. Maintaining signature plates in the custody of the person whose facsimile signature is on the plate when not in use
70. Using plates only under the signer's control and having that person or an appropriate designee record machine readings to ascertain that all checks or warrants signed are properly accounted for
71. Cancellation of invoices and supporting documents by or in the presence of the signer at time of signing
72. Delivery of signed warrants or checks directly to the mail room, making them inaccessible to persons who requested, prepared or recorded them
73. Cross-referencing warrants or checks to vouchers
74. Control of and accounting for warrants or checks with safeguards over those unused and voided
75. Prohibiting the drawing of warrants or checks to cash or bearer
76. Procedures ensuring that warrants or checks that have been signed and issued are recorded promptly

Accounts Payable Encumbrances or Obligations

77. Regular comparison of statements from vendors with recorded amounts payable
78. If an encumbrance (obligation) system is used, monthly reconciliation of outstanding purchase orders to the reserve for encumbrances (obligations)
79. Recording encumbrance (obligation) entries based only on approved purchase orders
80. Procedures ensuring that accounts payable and encumbrances (obligations) are applied against the appropriate account

81. Procedures ensuring that department heads are notified of payments made against accounts payable and encumbrances (obligations)

General Ledger

82. Regular preparation of trial balances of reserve for encumbrances (obligations) and accounts payable
83. Checking the footing and testing the trial balances to the individual items as well as comparing the total to the general ledger balance by an employee other than the accounts payable clerk
84. Posting transactions between funds in all affected funds in the same accounting period and on a timely basis

Grant and Entitlement Monitoring

85. Disbursing grants only on the basis of approved applications
86. Defining (for example, in regulations) and communicating to grantees their reporting and compliance requirements
87. Procedures to monitor grantee compliance with grant terms
88. Subjecting financial operations of grantees to periodic and timely audit
89. Sufficiently timely monitoring of recipients to permit curtailment of any abuse before complete funds disbursement
90. Disbursing funds to grantees only on an as-needed basis
91. A level of grant approval authority that appears appropriate
92. Investigation of failure by grantees to meet financial reporting requirements on a timely basis

93. Requiring grantees to evidence correction of previously detected deficiencies before approval of an extension or renewal of a grant
94. Entitlement procedures ensuring that statistics or data used to allocate funds are accurately accumulated (for example, census bureau forms)
95. Requiring statements of recipient compliance with entitlement conditions (for example, statement of assurances) to be filed and having a responsible official review them
96. Review of audited financial statements or other compliance requirements of entitlement recipients on a timely basis and investigation of unusual items

1.5.4.7 Employee Compensation

Segregation of Duties

1. Segregation of responsibilities for supervision and time-keeping functions from personnel, payroll processing, disbursement and general ledger functions
2. Segregation of responsibilities for the payroll processing function from the general ledger function
3. Supervision of payroll distribution by employees:
 - Who are not responsible for hiring or firing employees
 - Who do not approve time reports
 - Who take no part in payroll preparation
4. Segregation of responsibilities for initiating payments under employee benefit plans from accounting and general ledger functions
5. Reconciliation of the payroll bank account regularly by employees independent of all other payroll transaction processing activities
6. If EDP is used, maintaining the principle of segregation of duties in processing activities

Procedural Controls

Personnel

7. Properly authorizing, approving and documenting all changes in employment (additions and terminations), salary and wage rates, and payroll deductions
8. Promptly reporting notices of additions, separations and changes in salaries, wages and deductions to the payroll-processing function
9. Maintaining appropriate payroll records for accumulated employee benefits (vacation, pension data, etc.)
10. Interviewing terminating employees as a check on departure and as a final review of any termination settlement by the personnel department
11. Written personnel policies
12. Establishing controls to ensure that payroll costs charged to grants are in compliance with grant agreements
13. Payroll and personnel policies governing compensation that are in accordance with the requirements of grant agreements
14. Determining that wages are at or above the federal minimum wage

Supervision/Time-keeping

15. Review and approval of hours worked, overtime hours and other special benefits by the employee's supervisor
16. Time-keeping and attendance records and procedures
17. Review for completeness and approval of timecards or other time reports by the employee's supervisor

18. Punching of timecards, if used, only by the employees to whom they are issued
19. Placing the time clock in a position where it can be observed by a supervisor
20. Procedures for authorizing, approving and recording vacations, holidays and sick leave, and approving and controlling compensatory time

Payroll Processing

21. Controls over payroll preparation
22. Approval and documentation of changes to the EDP master payroll file
23. Limiting access to the EDP master payroll file to employees who are authorized to make changes
24. Review and approval of completed payroll registers before disbursements are made
25. Review of documents supporting employee benefit payments (such as accumulated vacation or sick leave) before disbursements are made
26. Review for reasonableness of comparisons (reconciliations) of gross pay of current to prior-period payrolls by a knowledgeable person not otherwise involved in payroll processing
27. Review of the payroll (examination of authorizations for changes noted on reconciliations) by an employee not involved in its preparation
28. Balancing the distribution of dollars and hours of gross pay with payroll registers, and review by someone independent but knowledgeable of this area
29. Including in the review a comparison to amounts appropriated and budgeted
30. Prohibiting payroll advances to officials and employees or subjecting them to appropriate review

Disbursement

31. Keeping the signature plates and use of the payroll check signing machines under control of the official whose name appears on the signature plate or an employee to whom he has delegated that responsibility
32. Maintaining a log that reconciles the counter on the check signing machine with the number of checks issued in each payroll
33. Maintaining a separate, imprest-basis, payroll bank account
34. Regularly reconciling the payroll bank account
35. Comparing payroll check endorsements, on a test basis, with signatures on file by someone independent of the payroll department
36. If payment is made in cash, requiring signed receipts, having someone independent of the payroll department compare them, on a test basis, with signatures on file
37. Controlling the supply of unused payroll checks
38. Requiring employees to provide identification before being given checks or pay envelopes
39. Prohibiting employees from accepting another employee's pay
40. Returning unclaimed wages to a custodian independent of the payroll department
41. Having employees who distributed checks or pay envelopes make a report of unclaimed wages directly to the accounting department
42. Making payments of unclaimed wages at a later date only upon presentation of appropriate evidence of employment and approval by an officer or employee who is not responsible for payroll preparation or time reporting
43. Comparing W-2 forms to payroll records and mailing by employees not otherwise involved in the payroll process

44. Procedures for investigating returned W-2s
45. Periodic distribution of payroll checks by the internal auditors to ascertain that employees exist for all checks prepared

General Ledger

46. Adequate account coding procedures for classification of employee compensation and benefit costs so that such costs are recorded in the proper general ledger account
47. Proper recording or disclosure of accrued liabilities for unpaid employee compensation and benefit costs

1.5.4.8 Information Technology

Segregation of Duties

1. Independence of the EDP department from the accounting and operating departments for which it processes data
2. Appropriate segregation of duties within the data processing function for (a) systems development (design and programming), (b) technical support (maintenance of systems software) and (c) operations
3. In smaller and minicomputer installations with limited opportunities for segregation of duties, procedures for user departments to:
 - Utilize batch or other input controls
 - Control master file changes
 - Balance master files between processing cycles
4. Having the personnel policies of the EDP function include such procedures as reference checks, security statements, rotation of duties and terminated employee security measures that enhance segregation of duties and otherwise improve controls

Procedural Controls

User Controls

5. Controls over preparation and approval of input transactions outside the EDP department and prohibiting the department from initiating transactions
6. Having the user exercise control procedures over input to ensure that all approved input is processed correctly through the system and only once
7. Having controls over entry of data in on-line systems to restrict access to terminals and data entry to authorized employees
8. On-line systems controls that prevent documents from being keyed into the system more than once and that permit tracing from computer output to data source and vice versa
9. Controls over changes to master files, such as requiring preparation of specific forms indicating data to be changed, approval by a supervisor in the user department, and verifying against a printout of changes
10. User controls over rejected transactions through the use of a computerized suspense file of rejected transactions or an auxiliary manual system
11. User department management reconciliation of output totals to input totals for all data submitted, reconciliation of the overall file balances, and review of outputs for reasonableness

Application Controls

12. Procedures within the data processing control function that provide that data is properly controlled between the user and EDP department
13. Controls over data entry, for example, that include adequate supervision, up-to-date instructions, key verification of important fields and self-checking digits
14. Program controls over entry of data into on-line systems

15. Editing and validation of input data
16. Data processing controls over rejected transactions
17. Controls for balancing transaction and master files
18. Procedures within the data processing control function concerning review and distribution of output

General Controls

19. Controls over changes to system software
20. Controls over use and retention of tape and disk files, including provisions for retention of adequate records to provide backup capabilities
21. Controls that limit access to data processing equipment, tapes, disks, system documentation and application program documentation to authorized employees
22. Use of a job accounting system (or console logs) to ensure that scheduled programs are processed and proper procedures followed and that supervisory personnel know that only required programs have been processed
23. Supervision of EDP department employees for all shifts
24. Documentation of procedures to be followed by computer operators
25. Documentation of the data processing system such that the organization could continue to operate if important data processing employees leave
26. Procedures to protect against a loss of important files, programs or equipment
27. Insurance to cover equipment, programs and data files

28. User-approved written specifications for new systems and modifications to existing application systems
29. Procedures to test and implement new systems and modifications to existing application systems

1.5.4.9 Financial Reporting

Segregation of Duties

1. Segregation of the final review and approval of financial reports from the responsibility for preparation of the reports
2. Segregation of the responsibilities for maintaining the general ledger from those for maintaining subsidiary ledgers
3. Segregation of the responsibilities for maintaining the general ledger and custody of assets
4. Segregation of the preparation and approval functions for journal entries
5. Segregation of principal accounting, treasury and custody functions
6. If EDP is used, maintaining the principle of segregation of duties within processing activities

Procedural Controls

General Ledger

7. A formal plan of organization for the unit of government under which reporting responsibilities are clearly defined and reasonably aligned

8. Supervision of a principal accounting officer over accounting records and accounting employees at all locations
9. General ledger control over all assets and transactions of all departments of the organization
10. Bonding employees in positions of trust in amounts required by statutes or organization policy
11. Written accounting, policy and procedural manuals that are distributed to appropriate personnel
12. Updating the accounting, policy and procedural manuals as necessary
13. Procedures to ensure that only authorized persons can alter or establish a new accounting principle, policy or procedure to be used by the organization
14. Security for accounting records
15. A formal policy regarding conflicts of interest
16. Requiring written representations from appropriate personnel as to compliance with accounting policies and procedures and ethics policies
17. Prohibiting or closely controlling loans to officials or employees
18. Periodically evaluating the adequacy and effectiveness of the internal accounting controls related to the organization's transaction systems (procurement, revenues and receivable, etc.)
19. Implementing measures to correct weaknesses

Closing

20. Procedures and policies for closing the accounts for a reporting period sufficient to ensure that accounts are closed, adjusted and reviewed on a timely basis

21. Procedures to ensure that all accounting systems have included all transactions applicable to the reporting period
22. Review and approval of valuation reserves or other account balances based on estimates
23. Having all journal entries reviewed, approved and supported by adequate descriptions or documentation
24. Controls that ensure that only authorized individuals can initiate entries

Combining

25. Procedures to ensure the orderly and effective accumulation of financial data
26. Procedures for the orderly processing of financial data received from departments and other accounting units
27. Procedures to permit the recording and review of special entries generated in the combining process

Preparation, Review and Approval

28. Procedures to ensure that financial reports are supported by either underlying account records or other documentation
29. Procedures providing reasonable assurances that all data required to be included in legal as well as public reports are properly disclosed
30. Procedures to ensure that financial reports are prepared on a consistent basis
31. Review and approval of financial reports at appropriate levels of management and, if appropriate, the board before public release

32. Procedures to ensure that all requirements for filing of financial reports are met (for example, senior levels of government, bondholders and public)

1.6 Cost Accounting

The state of Texas and the federal government both impose certain cost accounting requirements on Texas school districts. The federal government allows an *indirect cost rate* to be established to help defray certain expenditures of a school district when those expenditures are ineligible under grant provisions. The rate is applied to eligible expenditures in the grant to determine an amount that may be transferred to the general fund of the school district to offset costs not allowed in the grant.

In House Bill 72, passed in 1984, the Texas legislature mandated that school districts provide *cost accounting* for certain expenditures by campus and by program. School districts, as a local option, may elect to apply cost accounting on a more comprehensive basis.

This discussion of cost accounting addresses the two distinct and separate requirements:

- Calculation and use of an *indirect cost rate and resulting revenues*
- State-required and local option *cost accounting methodology* including:
 - Minimum requirements for state reporting
 - Administrative costs, as used in the administrative cost formula
 - Allocations of salary and fringe benefits, including Teacher Retirement System of Texas matching expenditures
 - Suggested methodology for cost allocation

1.6.1 Indirect Cost Rates

For most federally funded grants, a school district can receive indirect cost revenues if indirect cost rates are established and approved by appropriate entities. The indirect cost rates topics addressed in this section are: