



Parkrose School District

Internal Controls

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Introduction to Internal Controls

The four basic functions of management are often described as planning, organizing, directing, and controlling. Internal control relates to the fourth function, controlling. Adequate internal controls allow principals and managers to delegate responsibilities to subordinate staff and contractors with reasonable assurance that what they expect to happen, actually does happen. Administration must develop internal controls for each activity for which they are responsible. The internal controls exercised over individual activities, when taken collectively, become the internal controls of the program or administrative function of which they are a part. The internal controls for each school, department, program, and administrative functions, when combined with district-wide internal controls, comprise the school district's internal control documentation.

The paramount management objective in a school district is the education of children. The major activity is the instruction of students with the associated support activities being secondary. Internal controls apply primarily to the supporting service activities.

Management's role is to provide leadership and support to achieve the educational goals and objectives of the school district. Board policy, administrative rules and internal controls are tools used by managers and principals to help the district achieve educational objectives. Internal controls are the structure, policies, and procedures used to ensure that management accomplishes its objectives and performs its responsibilities.

Any discussion of fundamental management responsibilities would include effectiveness, efficiency, compliance with laws and regulations, and accuracy in reporting. Effectiveness measures whether an organizational unit achieves its objectives. Efficiency measures how well managers make use of available resources in achieving these objectives. While effectively and efficiently achieving the organization's objectives, managers must also comply with Oregon statute, board policy, administrative rules and internal policies and procedures. Finally, in order to make sound decisions and comply with oversight requirements, managers must receive accurate information and prepare accurate reports. Internal controls can then be defined as a coordinated set of policies and procedures used by managers to ensure their agencies, programs, or functions operate efficiently and effectively in conformance with applicable laws and regulations.

What are Internal Controls?

The Committee of Sponsoring Organization (COSO) of the Treadway Commission developed the current official definition of internal controls. In its influential report, *Internal Control – Integrated Framework*, the Commission defines internal control as follows:

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

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

This definition reflects certain fundamental concepts:

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

A less technical definition might state that:

Internal controls are tools that help managers be effective and efficient while avoiding serious problems such as overspending, operational failures and violations of law.

Internal control has been further defined as consisting of five interrelated components. The *COSO Report* identifies these as (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

The process of internal control also incorporates four *basic principles*. Because internal controls are a means to an end, they must help, rather than prevent or delay, an organization from reaching its objectives. Before designing and implementing internal controls, managers should consider the following:

1. Internal controls must benefit, rather than hinder, the organization.
2. Internal controls must make sense within each organization's unique operating environment.
3. Internal controls are not stand-alone practices. They are woven into the day-to-day responsibilities of managers and their staff.
4. Internal controls should be cost effective.

Consider internal controls as a continuous series of decisions affected by changing circumstances that will require periodic review and modification, rather than a static system. When managers evaluate their internal controls, they must first determine whether they are functioning as designed and still applicable given current operations.

Why Do We Need Internal Controls?

School administration is responsible for managing the resources entrusted to them for teaching children in public schools. A major factor in fulfilling this responsibility of trust is ensuring that adequate controls exist in the education programs and support systems. Properly designed internal controls promote effectiveness and efficiency in our activities.

Public officials, legislators, and taxpayers are entitled to know whether government agencies are properly handling funds and complying with laws and regulations. They need to know whether government organizations, programs and services are achieving the purposes for which they were authorized and funded. Officials and employees who manage programs must be accountable to the public. Frequently specified by law, this concept of accountability is intrinsic to the governing process of Oregon.

Governance Structure and Environment

Control Environment

Integrity and ethical environment – sound integrity and ethical values, particularly of top management, are developed and understood and set the standard of conduct for operations and financial reporting.

- **Board of Directors** – The Board understands and exercises oversight responsibility related to Oregon statute, administrative rules and board policy.
- **Management philosophy and operating style** – Management’s philosophy and operating style support achieving effective internal control over financial reporting and compliance with applicable rules and regulations.
- **Organizational structure** – The organizational structure supports compliance and effective internal control over financial reporting.
- **Authority and responsibility** – Management and employees are assigned appropriate levels of authority and responsibility to facilitate compliance and effective internal control over financial reporting.

Senior Management	Under the oversight of the board. Sets strategic direction and establishes an entity’s value system. Provides assurance that risks are managed as part of a risk management process, operations are monitored, results are measured, and corrective actions are implemented in a timely fashion.
Operating Management	Deploys strategy, enforces internal control, and provides direct supervision for areas under its control. Accountable to executive management, and ultimately the board, for implementing and monitoring the risk management process and establishing effective and appropriate internal control systems.
Internal Auditing	Performs assessments to provide assurance that governance structures and processes are properly designed and operating effectively. Provides advice on potential improvements to governance structures and processes.
External Auditing	Provides independent assurance on the financial statement preparation and reporting activities, in accordance with applicable regulations and accounting principles.
The roles of the parties are separate, and the responsibilities of each role are different. Effective governance is diminished if role boundaries are not respected. Good governance results from effective synergy generated among the activities of these differing roles.	

Commonly Identified Organizational Governance Principles

Organizational governance is a broad concept. A partial list of principles often included in defining effective governance processes are:

1. Ensure a properly organized and functioning board that has the correct number of members; an appropriate board committee structure; established meeting protocols; sound, independent judgment about affairs of the organization; and periodically reaffirmed membership.
2. Make sure board members possess appropriate qualifications and experience, with a clear understanding of their role in the governance activities, a sound knowledge of the organization's operations, and an independent/objective mindset.
3. Assure that the board has sufficient authority, funding, and resources to conduct independent inquiries.
4. Maintain an understanding by executive management and the board of the organization's operating structure, including structures that impede transparency.
5. Articulate an organizational strategy against which the success of the overall enterprise and the contribution of individuals are measured.
6. Create an organizational structure that supports the Board in achieving its goals and strategy.
7. Establish governing policy for the operation of key activities of the organization.
8. Set and enforce clear lines of responsibility and accountability throughout the organization by adopting appropriate policy.
9. Ensure effective interaction among the board, management, external and internal auditors, and any other assurance providers.
10. Secure appropriate oversight by management, including establishment and maintenance of a strong set of internal controls.
11. Make sure that compensation policies and practices related to senior management are consistent with the organization's ethical values, objectives, strategy, and control environment, and encourage appropriate behavior.
12. Communicate and reinforce throughout the organization an ethical culture, organizational values, and appropriate tone at the top, including an environment that allows employees to raise concerns without fear of retaliation, the avoidance of potential conflicts of interest and requesting monitoring and investigations by senior management as deemed necessary.
13. Effectively use internal auditors, ensuring the adequacy of their independence, resources, scope of activities, and effectiveness of operations.
14. Clearly define and implement risk management policies, processes, and accountabilities at the board level and throughout the organization.
15. Effectively use external auditors, ensuring their independence, adequate resources, and scope of activities.
16. Provide appropriate disclosure of key information, in a transparent manner, to stakeholders.
17. Provide disclosure of the organization's governance processes, comparing those processes with recognized national codes and best practices.
18. Ensure proper oversight of related party transactions and conflict of interest events.

Segregation of Duties

It is common knowledge that one of the best ways to protect assets is to have strong internal controls. Segregation of duties is an important piece of that effort. Everyone also knows that many school business offices do not have enough staff members making it difficult to distribute work sufficiently to attain complete segregation of duties.

However, no school business office should be complacent. Almost everyone can improve internal control, which will provide more confidence that the school district, employees and management are protected. No single list of questions can assure you of a perfect internal control system. However, here are questions about common internal control procedure for your consideration.

1. Who collects incoming money? _____

a. Does this person make a list of amounts, payers and reasons for the receipt, which they subsequently compare to the cash receipts book? Yes No

b. Do this person's duties exclude all other accounting duties? Yes No

c. Does this person restrictively endorse checks immediately upon opening mail?
Yes No

2. Who prepares District checks? _____

a. Do this person's duties exclude general ledger access? Yes No

b. Do this person's duties exclude access to cash receipts? Yes No

c. Are controls for hand-prepared checks the same as for machine-prepared checks? Yes No

d. How is access to unused checks controlled? _____

3. Who signs District checks? _____

a. Do this person's duties exclude general ledger access? Yes No

b. Do this person's duties exclude access to cash receipts? Yes No

c. How is access to the check signing machine and signature plates controlled?

d. Does the check signer maintain a log of the check signer counter, and account for all usage? Yes No

- e. Does the person who signs checks physically control them until they are mailed? Yes No
- f. Are original invoices cancelled immediately upon payment? Yes No
4. Who records District checks? _____
- a. Do this person's duties exclude access to cash receipts? Yes No
- b. Do this person's duties exclude those involving general ledger, and disbursement preparation and approval? Yes No
5. Who is the internal auditor (if applicable)? _____
- a. Do this person's duties exclude all other accounting duties? Yes No
- b. Are payments approved only on the basis of original invoices? Yes No
6. Who is authorized to issue receiving reports for merchandise received? _____
- _____
- a. Do this person's duties exclude all other disbursement and receipt duties? Yes No
- b. Is a list of persons authorized to issue receiving reports approved by senior management? Yes No
7. Would an undeliverable W-2 be returned to a person with no other payroll processing duties? Yes No
- a. To whom? _____
8. Is a live labor test done periodically by a person with no other payroll processing duties? Yes No
- a. How often? _____
- b. By whom? _____
- c. Describe how the live labor test is performed: _____
- _____
- _____
9. How often are all accounting staff reminded that all bank accounts must be approved by the Board? _____

10. Who maintains the cash receipt book? _____
11. Who maintains the general ledger? _____
12. Who reconciles the bank account? _____
- a. Do this person's duties exclude all other cash receipt and disbursement duties?
Yes No
- b. Does the bank reconciler obtain the "book balance" directly from the general ledger, and neither through an intermediary person, or from some other document? Yes No
- c. Are bank statements delivered unopened to the person who reconciles the account? Yes No
- d. Does the bank reconciler compare bank statement deposit dates and amounts with cash receipts book entries? Yes No
- e. Does the bank reconciler compare date, payee and amount on cancelled checks with cash disbursements book/warrant entries? Yes No
- f. Does the bank reconciler evaluate endorsements on checks for reasonableness?
Yes No
13. Are periodic tests of the overall reasonableness of amounts of categories of receipts documented (such as tuition, extra classroom, interest, etc.)? Yes No
- a. Is this documentation reviewed by a management employee who did not prepare it? Yes No
14. Is the bank notified promptly of any change in staff who are authorized to perform banking transactions? Yes No
15. Describe how wire transfers are authorized: _____

16. Are all general journal entries supported by a voucher packet of documentation that provides support for the reason and amount of the entry, and includes documentation of supervisory approval? Yes No

17. How often are investments reviewed?_____

a. By whom?_____

b. Who periodically reviews bank collateral to assure statutory amounts are adequate?_____

18. Do accounts payable records contain documentation that the remaining balance of blanket purchase orders was sufficient for the purchase? Yes No

19. Who prepares bills, when necessary, for district services?_____

a. List and consider any other general ledger, cash receipts or cash disbursements duties this person performs._____

b. Are bills sent every month, with a recap of billed and paid amounts sent at year-end? Yes No

c. Are unpaid bills listed monthly, with the list reviewed by supervisory staff and the total agreed to the general ledger posting? Yes No

20. Does the Board specifically inquire into the reasons for under-budget revenues and over-budget expenditures? Yes No

a. Does the Board inquire into the methodology used to budget for revenues?
Yes No

21. Is there a policy requiring mandatory vacations, during which another staff member performs the duties of the staff member on vacation? Yes No

22. Is an environment strongly fostered by the administration in which ethical behavior is frequently mentioned, and ample opportunity is routinely provided for staff members to discuss questions they may have in the course of their work? Yes No

Budget Preparation and Additional Appropriations

The Governing Board appoints the Budget Officer and appoints additional committee members as required for the committee. (ORS 294.331-336)

A Budget Calendar is developed listing budget meeting dates, considering the required public meeting notices and budget preparation timelines. The budget period is for the fiscal year beginning July 1st and ending June 30th of the following year.

Under the direction of the Budget Officer, the proposed budget is prepared for the Budget Committee to consider for approval.

Two public meeting notices are prepared for the first Budget Committee Meeting. The two notices should be published no more than 30 days before and not less than 5 days prior to the first meeting. The two notices should also be separated by 5 days.

Budget Committee Meeting

The first Budget Committee Meeting includes the following activities:

1. A Presiding Officer is elected by the Budget Committee. (ORS 294.331-336)
2. The Budget Message is presented by the Budget Officer. (ORS 294.391,396)
3. An estimate of budget resources is presented for each fund including: (ORS 294.361)
 - Estimated student ADMw and the associated SSF revenue
 - Estimate of the Local Revenue available.
 - An estimate of the Beginning Fund Balance.
 - Estimated taxes to be levied under the statutory limitations.
 - Estimated grant revenue available for educational programs.
4. An estimate of expenditures is presented for each fund including: (ORS 294.352)
 - Current budget amount and FTE compared to the estimate for the new year.
 - An estimate for an increase in benefits.
 - Including a placeholder for short term interest in case of a need to borrow.
 - Consideration of the impact of existing contract obligations.
 - Necessary textbook adoptions in the regular cycle.
 - Review insurance premium increases.
 - Identified bond principal and interest by issue.
 - A sufficient operating contingency in operating funds.
 - Estimate unappropriated fund balance necessary to start the succeeding year.

Budget Committee Action

The Budget Committee meets, receives the budget document, reviews the proposed budget estimates and makes changes as agreed. After making changes, if any, the budget committee approves the proposed budget with changes. The committee also approves the permanent tax rate and an estimated tax amount necessary to balance the fund budgets.

The tax amount necessary to pay for bonded debt obligations or a local option tax are also approved by the committee.

As approval is given by the budget committee, a Budget Hearing held by the Board of Directors is scheduled to allow public input and comment on the budget as approved by the committee. A Budget Hearing notice is required with required forms completed containing the amounts approved by the budget committee. The approved amounts are also compared to the prior year actual amounts and the current year budget amounts. The required forms are:

- ED-1 Notice of Hearing & Financial Summary
- ED-2 Funds Not Requiring Property Taxes
- ED-3 Funds Requiring Taxes to be Levied

Governing Board Action

A Budget may be revised after the Budget Committee has approved the budget and after the Budget Hearing has been held. The Governing Board may increase expenditures in any fund by 10%. The Board may not increase the tax levy or rate greater than the amounts approved by the Budget Committee and published in the Budget Hearing notice.

The Governing Board must adopt the budget, make appropriations, levy and categorize taxes by amount or rate. The appropriations must be made by function within each fund and be enacted by a resolution by the Board. Board action must occur before June 30 of the current fiscal year.

Budget Document Distribution

Budget document distribution begins with the delivery of the ED-50 form to each county assessor in which a tax is levied by July 15th. The ED-50 serves as a certification of the tax amount or rate the assessor is authorized to levy. Documents to accompany the Form ED-50 include the budget resolution(s) enacted by the Board. If a district has successfully passed a bond levy or an option tax levy, a copy of the ballot question should also be included.

The same documents should be filed with a copy of the budget document delivered to Oregon Department of Education, the education service district and the Tax Supervising and Conservation Commission. Some assessors may also require a copy of the budget. Verification of receipt of the documents may be obtained by a date stamp from each agency.

Additional Appropriations

The Governing Board may make additional appropriations in the new fiscal year for the following events:

- Unanticipated grants or gifts.
- Emergency and/or natural disaster.
- Debt service requirements as a result of the sale of bonds, bond proceeds or debt proceeds.
- Appropriation transfers from one appropriation to another.
- Transfers from contingency-limited to 15% of fund expenditures.
- Appropriations made as a result of a supplemental budget.

Supplemental Budget

A supplemental budget may be prepared for a fund in which the occurrence or condition had not been ascertained at the time the district budget document was prepared. If the estimated expenditures for the supplemental budget are less than 10% of any fund the supplemental budget may be adopted and appropriated at a regular board meeting. A public notice must be published at least five days prior to the meeting. The notice should contain sufficient details for the revenue and expenditures for the supplemental budget.

If the estimated expenditures for the supplemental budget will exceed 10% of the original fund budget, a public hearing must be held. A public notice must be published following the publication rules for the regular budget hearing. Following the public hearing the governing board must adopt the supplemental budget and make appropriations for the additional expenditures.

Appropriation Transfers

Appropriation transfers may be authorized by the governing board during the fiscal year. The authority to move appropriations from a major function to another must be granted by the governing board in a formal resolution.

Working Budget

A working budget may be developed from the adopted budget as budget line items are changed to reflect under spending in one line item to be offset by overspending in another.

A working budget may also be developed to reflect a grant budget that was received subsequent to the preparation and adoption of the original budget. The working budget provides flexibility to track internal differences that may occur after the original budget was prepared. However, formal financial reports must reflect the adopted budget and include additional appropriations enacted by the governing board.

Federal and State Grant Compliance

Internal Control Objectives

The objectives of internal control regarding compliance requirements for Federal programs, as found in OMB Circular A-133, are as follows:

1. Transactions are properly recorded and accounted for to:
 - Permit the preparation of reliable financial statements and Federal reports
 - Maintain accountability over assets
 - Demonstrate compliance with laws, regulations, and other compliance requirements
2. Transactions are executed in compliance with:
 - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program
 - Any other laws and regulations that are identified in the compliance supplements
3. Funds, property, and other assets are safeguarded against loss from authorized use or disposition.

Allowable Costs & Cost Principles

The standards for allowable costs must be consistent with OMB Circular A-87. The allowable costs and cost principles apply to federal grants received directly as well as those received through the Oregon Department of Education. Supporting documentation must be provided to assure expenditures comply with the list of allowable expenditures.

An adequate separation of duties must exist to allow for a review and comparison of expenditures with the allowable costs and cost principles. The separate review must determine if the expenditures align with the objectives of the grant.

Payroll documentation must clearly divide federal and non-federal expenditures using time records or the semi-annual certification method. Documentation should clearly reflect the portion of the federal vs. non-federal time allocated.

Reports reflecting grant expenditures compared to the grant budget must be available to those responsible for program expenditures. Reporting frequency may be immediate for on-line reporting or available at least quarterly. Grant budget over-expenditures should be reviewed to determine if a budget transfer from the Grantor may be necessary to sustain continuing program activity.

Cash Management

Cash drawdown must be limited to the immediate needs of each grant. Oregon Department of Education grant funds are assessed using the Electronic Grants Management System (EGMS). Actual grant expenditure levels should be used to determine the amount and the frequency of cash draw downs.

Davis-Bacon Act

Management understands and communicates to staff, contractors and subcontractors the requirements to pay prevailing wages for construction projects according to the Davis-Bacon Act. The request for proposal must clearly state the necessity of compliance with the Davis-Bacon Act and provide current information or references for the prevailing wage rates. Certified payrolls serve to provide documentation of compliance of the prevailing wage rates. Program Directors/Managers are responsible for monitoring compliance of the certified payrolls submitted to the District.

Eligibility

Only eligible individuals or organizations should receive assistance under Federal & State grants. Documentation for procedures and calculations used to determine eligibility should be maintained for program participants. Verification of the accuracy of the data used in eligibility determination should be periodically reviewed by supervisors.

Equipment & Property Record Management

Accurate records must be maintained for all acquisitions and dispositions of property acquired with Federal awards. Property records must contain a description (including serial number or other identification number), source, who holds title, acquisition date and cost, percentage of Federal participation in the cost, location, condition, and disposition data. The appropriate amount of reimbursement must be returned to the Federal awarding agency if the amount of sale exceeds certain thresholds.

Matching, Level of Effort, Earmarking of Funds

Responsibility and policies for assuring matching, level of effort or earmarking requirements are met as required in the grant document. Matching or level of effort funds should be marked in the accounting system so the calculations and amounts are accurately maintained.

Authorized Grant Periods

Program Manager and Business Office understand the beginning and ending dates for each specific grant award. The effectiveness dates must be honored and expenditures and claims made within the stated dates. A reasonable estimate of any remaining balances must be provided to the program manager for effective decision making as the funding limits are approached.

Procurement

Procurements of goods and services must comply with federal requirements as well as Oregon statute. Oregon bidding requirements are generally followed as capital purchases and construction projects are not commonly available to the District.

Individual integrity, avoiding conflicts of interest and good moral behavior are all expected standards to assure competition is in place for procurements.

Program Income

Management and Business Office staff understands how program income is to be receipted and subsequently expended for activities directly related to program requirements.

Reporting

The required reports for federal and state grants are reported timely and have underlying data as a basis for the reports. Attention is given to assure the report includes financial activities within the authorized grant award dates. Internal report for management must also have time periods identified and fiscal years delineated to clearly reflect expenditures for a specific period.

Sub Recipient Monitoring

Some grant awards may contain pass-through opportunities to sub recipients, such as school districts or non-profit entities. The sub recipient activities must also comply with the grant requirements to be certain the program objectives are met. Monitoring may consist of reliance on the school district's independent audit report, requesting documentation for expenditures and/or obtaining progress reports comparing results to program goals.

The CFDA title and number must be communicated with the sub recipient and compliance and reporting requirements must be explained. Agreements for compliance according to the federal guidelines should be used to strengthen the likelihood of compliance. Assistance should be provided to the sub recipient in resolving audit findings or program deficiencies.

Compliance Matrix

A compliance matrix reflecting federal awards for education is attached for quick reference in determining the compliance areas that need attention for a specific grant. The matrix identifies the compliance requirements that are applicable to educational programs. The box for each type of compliance requirement will either contain a "Y" (for "yes" if the type of compliance requirement may apply) or be shaded (if the program normally does not have activity subject to this type of compliance requirement). The matrix is intended to bring an immediate awareness of the compliance requirements for grant program managers and business office staff.

C F D A	Types of Compliance Requirements													
	A.	B.	C.	D.	E.	F.	G.	H.	I.	J.	K.	L.	M.	N.
	Activities Allowed or Un-allowed	Allowable Costs/Cost Principles	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability of Federal Funds	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition Relocation Assistance	Reporting	Sub-recipient Monitoring	Special Tests And Provisions
84 – Department of Education (ED)														
84.002	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.010	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.011	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y
84.027 84.173	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.032	Y											Y		Y
84.041	Y	Y		Y			Y					Y		Y
84.042 84.044 84.047 84.066 84.217	Y	Y	Y		Y	Y	Y	Y	Y			Y		
84.048	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.126	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y		
84.181	Y	Y	Y			Y	Y	Y	Y			Y		
84.186	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.282	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	
84.287	Y	Y	Y		Y	Y	Y	Y	Y	Y		Y	Y	Y
84.288 84.290 84.291	Y	Y	Y			Y	Y	Y	Y			Y		Y
84.298	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.318	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.357	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.365	Y	Y	Y			Y	Y	Y	Y			Y	Y	Y
84.366	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.367	Y	Y	Y		Y		Y	Y	Y			Y	Y	Y
84.938	Y	Y	Y		Y	Y	Y	Y	Y			Y	Y	Y

Human Resources

Recruitment, selection and training of employees are critical functions in maintaining good internal controls. An employee having a high standard of integrity lessens the likelihood of loss or diversion of assets. Background checks, references and fingerprint screenings are a critical part of selecting candidates with reputable work histories.

A professional growth, supervision and evaluation system is in place to assist staff in their professional development. The systems are designed to:

- Promote self-directed professional growth and development
- Improve and enhance professional practice and job performance
- Ensure accountability to high standards of performance
- Provide a process and framework for assessing performance

Evaluations are conducted annually for employees in an attempt to encourage continual professional development. Individual goal setting and self reflection are key elements in the professional growth and development of employees.

As employment applicants are selected for hiring, the human resource office provides orientation, determines the salary scale range and step, completes the employment data in the financial accounting system and communicates work assignment codes to the payroll staff. Employee deductions for insurance, pre-tax elections and other voluntary withholding items are maintained by the payroll staff. Salary schedules, federal and state reporting and disciplinary actions are managed by human resource staff.

The separation of employment activities and employee set-up in the financial system provides a continuous review of the actual employees hired compared to those being paid. The separation provides strengthened internal control over the potential creation of non-existent employees being paid in payroll.

Internal Controls Applied

Internal Control Objectives	Description of Activity
Separation of employee setup procedures	Human resource office consults with the principal or manager regarding job description modification as vacancies exist. Wording used for advertising is developed and the vacancy is posted. Recruiting, interviewing, selection and terminations are facilitated by the human resource office and the principal or manager. Personnel action forms are used to communicate hiring of new employees or terminations to the business office in a timely manner.
Employee Discipline	The human resource office serves as a consultant to management for disciplinary problems and provides counsel regarding warnings, probation, a plan of assistance and termination activities.

Payroll Procedures

Concepts of Internal Control

The payroll procedure consists of four functions; (1) authorization of payroll additions and changes, (2) maintenance of time-attendance and accrual records, (3) payroll preparation and (4) distribution of payroll checks. Effective internal control must be an integral part of each function. Control elements include staff competence and integrity, independence of their assigned function and their understanding of the related procedures. Three major control objectives are; (1) no payments are made to fictitious employees, (2) no overpayments are made to bona fide employees, and (3) payroll related expenses are properly accrued and classified in the financial statements. Accurate and appropriate reporting is the ultimate goal of the entire payroll process. Records of each Payroll generated must be maintained for the appropriate time periods as designated by Oregon statute.

Authorization of Payroll Changes and Conditions

The human resource staff are responsible for initiating all salary changes for employees. Records are maintained for changes to be made in each payroll period. Letters of resignation, retirement and other supporting documents are maintained by the human resource staff. The changes would include hours to be paid, work location, paid and unpaid leaves, new employees and terminated employees. Payroll staff possesses access to actually issue a pay check creating a separation of duties between human resources staff and the payroll staff. The separation of duties strengthens internal control over the payment of employees. Final pay checks should be carefully calculated to assure the final pay reflects the actual days worked if annualized and leave accruals are properly adjusted if awarded at the beginning of the fiscal year. The timeliness of delivery of final checks at termination must meet Oregon legal requirements. A personnel action notice is used by human resource office to communicate the termination of payroll staff.

Time and Attendance Records

A supervisor is responsible for certifying the completeness and accuracy of time reported for each employee. The reporting duty may be assigned to support staff as desired although the records must be signed by the supervisor. Following the review and signature of the supervisor, the time and leave records are submitted to the business office for system entry.

Payroll Preparation

Annual calendars, attendance and leave data provide the basis for the monthly salary calculation for each employee. Leave taken in excess of a balance available triggers a calculation warning. Leave reports are available to principals and managers to view on the payroll system. System check registers are generated by payroll period and postings are made according to the position but may be changed at data entry if the position worked is different than the position assigned.

Supplemental pay code classification options are also available at the time of entry. As the payroll is executed posting entries are generated complete with classification coding.

Payroll Check Distribution

The direct deposit program for payroll checks is aggressively encouraged for the convenience of the employee and the employer. Printed payroll stubs are delivered or mailed for employees using the direct deposit program. Checks are dispersed to principals and managers or designated staff to be distributed to the appropriate employees. Substitute teachers and educational assistants have their checks mailed to them directly from the payroll office. Payroll vendor checks are mailed directly from the business office. The payroll bank account is reconciled by business office staff other than the payroll clerk.

Internal Controls Applied

Internal Control Objectives	Description of Activity
Separation of employee setup procedures	Human resource office consults with the principal or manager regarding job description modification as vacancies exist. Wording used for advertising is developed and the vacancy is posted. Recruiting, interviewing, selection and terminations are facilitated by the human resource office and the principal or manager. Personnel action forms are used to communicate new employees or terminations to the business office in a timely manner.
Time and attendance	Each principal or manager is responsible for time and attendance for employees they supervise. Time records and employee contracts form the basis for pay for each employee. Time and leave information authorized by a supervisor's signature is then forwarded to the payroll office for review then entered in to the system. The time record is not returned to the employee after the supervisor signature is added to the record.
Payroll Processing	Time and leave records are reviewed by payroll staff prior to manual entry into the system. Voluntary deduction information is modified as requested by employees. A preliminary payroll is processed, reviewed and a subsequent final payroll is generated. Payroll checks, stubs and vendor checks are produced for timely release.
Check Printing	Restricted access is maintained for the printer micr cartridge under the direction of the business manager. Review of the payroll may be accomplished by access to the payroll transactions and reports available in the system.
Check Distribution	Principals, managers, or designated staff distributes checks to the employees. Checks for substitutes are mailed directly to the substitute staff.
Payroll Records	Payroll records are maintained for each individual. Established procedures dictate the process for maintaining pay-related documentation. The records are archived and maintained as required by state record retention guidelines.

System Security	System security is maintained by the IT staff. The MESD assigns staff security levels according to the related business functions. School principals, department managers and secretaries have access to employee leave balances under their supervision.
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Monitoring Payroll

Payroll expense reports are reviewed by each building principal or department manager in relation to their budget limitations. Grant payroll expenses are monitored by each respective grant manager or assigned staff to assure correct classifications. Oversight and review functions are performed monthly by the district business office staff. The Governing Board also receives reports reflecting salaries and benefits compared to appropriation limits.

Purchasing Materials and Services

Authorization to purchase materials and supplies is resident with the principals or department managers. The purchases are limited by the amounts in the budget document as appropriated by the Board of Directors. The business office provides the secondary check to limit expenditures to the authorized appropriations. Dollar level authorizations may be assigned by the business office, principals and department managers.

The formal recording of the expenditure is the responsibility of the business office staff. Although purchase requests are initiated in the principal's or manager's office, the creation of the purchase order, verification of quantities, vendors and the classification code are reviewed and corrected if necessary in the business office. A purchase order is encumbered and the expenditure recorded as the purchase order is created.

Materials and supplies are generally drop-shipped to each school building or department office. The principal or manager is responsible to determine variances in the amount ordered compared to the amount received. Payments are made for purchases as the materials are received at de-centralized locations. Receiving documents are compared to shipments received, exceptions noted, initialed and forwarded to the business office for payment.

Expense reports are available on demand reflecting the actual expenditures compared to budget, the encumbrances outstanding and the remaining budget balance. The reports are available to the business office, the principal's office or the department manager's office providing current information for purchase decisions.

Internal Controls Applied

Internal Control Objectives	Description of Activity
3-Way document match & review	Receiving documentation and purchasing documentation originate within school sites or departments. Vendor invoices are received by the district office separating the purchasing and ordering functions with that of recording invoices in preparation for payment. The purchase order and receiving document are matched with the invoice prior to paying the vendor.
Principal/department review and approval	Invoice, purchase order and receiving document are reviewed by school principal or department manager for appropriateness and completeness providing authorization for payment.

Business office review and verification	A secondary review of the documents, account coding and authorized signatures is performed by the business office.
Payment of checks	Vendor checks are prepared by the accounts payable clerk. Restricted access is maintained for the printer micr cartridge under the direction of MESD. A final review of the payment transaction is provided by the business manager as a review of the check batch is performed. Purchase documents are made available for the accountant as the final review is performed.
Check Distribution	Checks are mailed direct to the vendor by the District receptionist to strengthen controls over fraudulent payments.
System Security	System security is maintained by the IT staff. The MESD assigns access levels according to the needs of the related functions. School staff, department managers and secretaries have access to the purchasing and receiving system as well read-only access to the general ledger accounts related to their areas of responsibility.

Monitoring Purchases

Purchases are monitored by reports generated from the accounting system. Defined reports are available to school building staff as well as specialized reports for a specific transaction or a range of transactions. Reports are available using a date range or an account number range to suit the needs of the user.

The business office has full access to additional detail reports needed to perform their specific function. The accounting system tracks each individual transaction or change of transaction on the system with user and date stamp included in the system. As a result a complete audit trail is maintained internally for all activity on the system.

Higher level reports are available for executive managers and the governing board to review as they compare the year-to-date activity to the amount of the budget appropriation authorized when the budget was adopted.

Safeguarding Assets

Cash and Investments

Checking, Savings, Investments and the Local Government Investment Pool are utilized to control cash in the District. Savings accounts, investments and the Local Government Investment Pool are utilized to maximize earnings of cash accumulations.

Accounts Receivable

There is a small amount of activity in the area of accounts receivable. There are a limited number of retiree and COBRA checks for insurance coverage that are submitted monthly. Tracking procedures are in place to assure correct payments are in fact received.

Federal and state grant awards result in subsequent billings to federal or state agencies for amounts expended. Federal and state agencies transmit the funds electronically directly into District bank accounts. As a result there is little risk of the funds being diverted. Grant balances are monitored by program staff as well as business office staff.

Land, Buildings and Equipment

District land and buildings are consistently secured and maintained for authorized use according to District policy and procedures. The frequent utilization of buildings for student and community activities provides minimal time periods for vandalism or destruction.

Fixed Asset Records

Asset records are maintained for land, buildings, and equipment. Surplus property is disposed of according to Oregon statute, specific grant requirements and/or District policy. Inventory records are maintained for specific high-risk assets that do not meet the fixed asset dollar threshold.

Electronic Transactions-Federal and State Agencies

Funds Transferred Electronically

The following agencies participate in Electronic Interface Transactions involving cash amounts received and paid:

Oregon Department of Education

Local Government Investment Pool

Internal Revenue Service

Oregon Department of Revenue

Oregon Department of Justice

Agencies remitting funds to the District have extensive access requirements requiring written authorization from the Superintendent or another authorized administrator.

All electronic cash transactions have password security authorized by the Business Manager. The Business Manager also provides security for the business accounting programs password protection and specific user assignment.

Student Activity Accounting

The student activity accounting procedures provide the rules, regulations and procedures to be used by the building principals, faculty advisors, student activity club officers, and school office staff. The following procedures are designed to provide consistency, completeness and continuity in the recording and reporting of student activity transactions. Careful observance of the procedures will:

1. Establish uniformity of practices and procedures.
2. Reduce or eliminate the misunderstanding of established procedures.
3. Assure financial operations are properly conducted.
4. Assure financial reports are properly presented.
5. Provide a reference for required and recommended accounting procedures.
6. Serve as a training tool for new employees.
7. Assure all financial transactions are recorded.
8. Strengthen internal control procedures.

The accounting system described herein has been developed in accordance with the following assumptions:

1. The Student Activity Fund transactions will be recorded in a Special Revenue Fund in the district accounting system.
2. Student Activity Funds should be accounted for on a modified accrual basis of accounting for year-end financial reporting purposes.

Introduction

Management of Student Activity Funds must be accomplished within the framework of state laws and regulations, board policy, and administrative rules. It is fundamental that management of student activities be organized to best serve the interest of pupils. The School Board has set forth in Board Policy IGDG the purpose, definition and authority for student “co-curricular activities,” defined as those activities which are sponsored or approved by the Board but which are conducted outside the regular classroom program.

Student activities and their corresponding revenues and expenditures, are generally separated in to four categories:

Students who choose to participate in various activities should be involved in the fiscal management of those activities; consequently, each activity group should consist of a Student President, Student Treasurer, and Faculty Advisor. The Faculty Advisor may or may not be paid by the School District for their participation. The Faculty Advisor and Student Treasurer must maintain a record of their activity balance.

At the end of each month, the Faculty Advisor and Student Treasurer must review the financial report received from the school office. Any discrepancies must be brought to the immediate attention of the school office and differences reconciled. Discrepancies that cannot be reconciled must be reported to the Principal. Discrepancies that cannot be resolved should be reported to the District Business Office immediately.

The accounting system will account for revenue and expenditures of activity funds by various student groups. These funds should include only student funds, should be custodial in nature and should be used to promote the general welfare, education, and morale of all the students and to finance the normal, legitimate co-curricular activities of the various individual student groups. All funds derived from an individual student activity, as a whole must be expended only to benefit that student activity as a whole. Fund activities that cannot be identified with a specific student group should be referred to the School District Business Office.

Monies received from Parent Student Organizations, booster clubs and other student organizations may be kept in your student body books. Donations given for specific student activities or student clubs, and donations under \$1000 may be retained in your student books. Donations over \$1000 from individuals/corporations must be sent to the District Business Office. A special fund will be established for the school/individual program. The school/individual program director will have complete control over the expenditures.

Cash Disbursements

Student activity accounts should not be used to account for School District expenses.

Fees, donations from students, parent groups or commissions for providing services which the District General Fund bears the majority of expense should not be deposited in the Student Activity Fund. An example would be fees paid by users of facilities or cafeteria sponsored banquets. The receipts should not be deposited in student activity accounts but rather into the appropriate General Fund or Cafeteria Fund.

Prohibited expenditures from student activity accounts include:

- Refreshments served at parent events
- Receptions for community members or staff
- Other expenditures not made to benefit the student body as a whole.

All payments for activities should be made by check. No expense should be paid in cash directly from ticket sales, dues collection, sales or other cash receipts.

The Building Principal, as trustee, will be ultimately responsible for the proper disposition of these funds.

Cash Receipt Procedures

1. Funds will be collected and counted by two of the following: the Faculty Advisor, Student Officer, or other authorized individuals, and a cash reconciliation form completed for each activity.
2. The Faculty Advisor and/or Student Officers shall compare the cash reconciliation form with the respective deposit slip for accuracy.
3. A copy of the deposit slip and the associated cash reconciliation form shall be retained in the club files.
4. One copy of the cash reconciliation sheet shall be placed in a completed bank envelope.
5. One copy of the cash reconciliation sheet shall be placed in the school safe if the deposit cannot be recorded immediately.

Depositing Receipts

1. The Bookkeeper will endorse all checks with a special deposit stamp as follows: FOR DEPOSIT ONLY, ACCOUNT NAME, and BANK ACCOUNT NUMBER. If a stamp is not readily available, please legibly write this information on the back of the check where indicated.
2. A deposit slip must be completed and include the date, check amount, and cash amount.
3. As the deposit is completed an entry should be recorded in the accounting system, providing credit to the appropriate student organization.
4. The original deposit slip plus two copies (along with one copy of the cash reconciliation form) shall be placed in a completed bank envelope, sealed and deposited in the school safe, which is located within the building.
5. If the total of all deposits in the safe exceed \$1000, all deposits must be deposited by the close of the school day.
6. All receipts not deposited immediately will be kept under the safekeeping of the School Principal or a designated staff member.
7. When the validated bank receipt is received from the bank, the receipt shall be compared with the deposit slip and any discrepancies resolved immediately.
8. A copy of the bank receipt should be attached to a copy of the deposit and filed sequentially in a deposit control file to be available for audit.

Monthly Bank Reconciliation

A reconciliation of the bank statement balance and Student Activity Accounts must be performed monthly. A copy of the reconciliation should be signed by the Principal and sent to the District Business Office. Any corrections or adjustments should be made immediately.

Admission Tickets

Ticket sales will be required for cash control at all school sponsored events where an admission price is charged.

One person is to be custodian of admission tickets. The person having custody of the tickets will take the appropriate measures to safeguard the tickets. A detailed record is to be maintained of tickets issued and unused tickets. This record should contain a perpetual inventory of tickets on hand by color code (price) and serial number. Resale of previously used tickets is prohibited.

All tickets acquired must be pre-numbered, pre-printed and color coded. Different colors allow more than one admission price to be charged for a single event. Special admission tickets may be produced on campus for season tickets, complimentary and guest passes. The printing and distribution of special admission tickets must be approved by the building principal.

Tickets are to be issued to the sponsor of the event. The sale of tickets by the person making the deposit or recording the accounting entry is strictly prohibited. The person selling the tickets should not be the person responsible for collecting them at the door/gate. The sponsor is held totally accountable for all tickets issued.

A ticket reconciliation report for each event must be executed and presented to the school Bookkeeper and made available for audit. Ticket inventory records the remaining tickets must also be on hand for audits. The loss or theft of tickets is to be reported to the District Business Office as soon after the occurrence as possible. All monies generated by an event are to be deposited with the school bookkeeper intact. No expenditures are to be made from receipts.

Graduated Class Funds

Money left over in senior class funds following the graduation of each senior high school class must be used to further a school-related purpose. The class officers must remove the funds within six months of graduation. Maintaining or distributing funds for class reunions after graduation is not a legitimate use of the funds.

Upon graduation, senior class funds/assets should be handled in one of the following methods:

1. Expend remaining funds in a way that will benefit the student body;
2. Transfer remaining funds to the next year's graduating class accounts.
3. Transfer the remaining balance to the General Student Activity Account.

Senior Class officers should make the decision and clearly document, with records of minutes, etc., how the class funds were distributed within six months of graduation. If Senior Class officers do not make this decision within six months of graduation, the remaining graduated class funds will be transferred to the General Student Activity Account.

Inactive Accounts

Student groups that are no longer active may have any remaining balance in their activity account transferred to the General Student Activity account. All transfers of inactive accounts will be ordered by the building principal after considering the length of the inactivity and the potential resurgence of the group.

District Responsibility

Student Activity Funds must be supported by detailed records maintained at the school building responsible for the organization. Due to the fiduciary responsibility of the Board of Education, these funds are subject to the same internal controls and subject to audit as all other district funds.