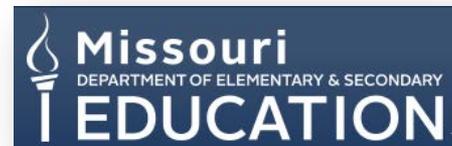




Best Practices for Effective Oversight of Your School

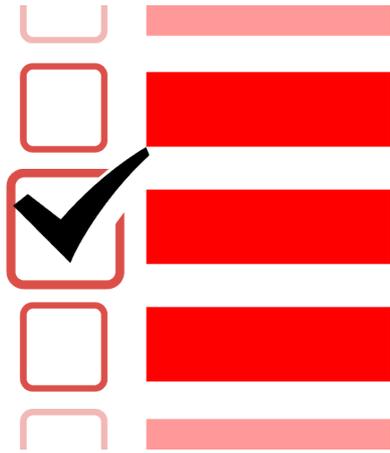
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Agenda



- Effective Practices in Board Governance
- Internal Control Considerations
- Top 10 Risks in Schools
- Tips on What You DON'T Know

Effective Practices in Board Governance

Board Responsibilities Overview

- Governance and Oversight
- Accountability and Transparency
- Develop Policies
- Advocate



Governance and Oversight

- Mission, Vision, Direction
- Bylaws, Articles, Agreements
- Strategic and Business Plan
- Laws and Regulations
- Organizational Structure and Committees
- Organizational Performance Measurements
- Staffing Performance Measurements
- Succession Planning



Accountability and Transparency

- Code of Ethics
- Executive Director
- Organizational Performance
- Financial Accounting and Reporting
 - Budgets
 - Audits
 - Tax filings
 - Internal reporting oversight



Develop Policies

- Board
- Internal Control
- Accounting and Financial
- Human Resources
- Gift Acceptance



Advocate

- Personal Support
 - Meetings
 - Financial resources
 - Event volunteer
- Public Relations
 - External solicitation
 - Positive profile
 - Awareness campaigns



Board Best Practices

- Board Member Recruitment Considerations
 - Passion
 - Skillset
 - Diversity
 - Availability
 - Resources



Board Best Practices

- Board Rotation
 - Supports succession planning
 - Diversity in ideas
 - Addresses various “types” of members



Board Best Practices

- Advanced Scheduling and Agenda
 - Preparedness
 - Promotes efficient meeting
 - Allows input
 - No surprises

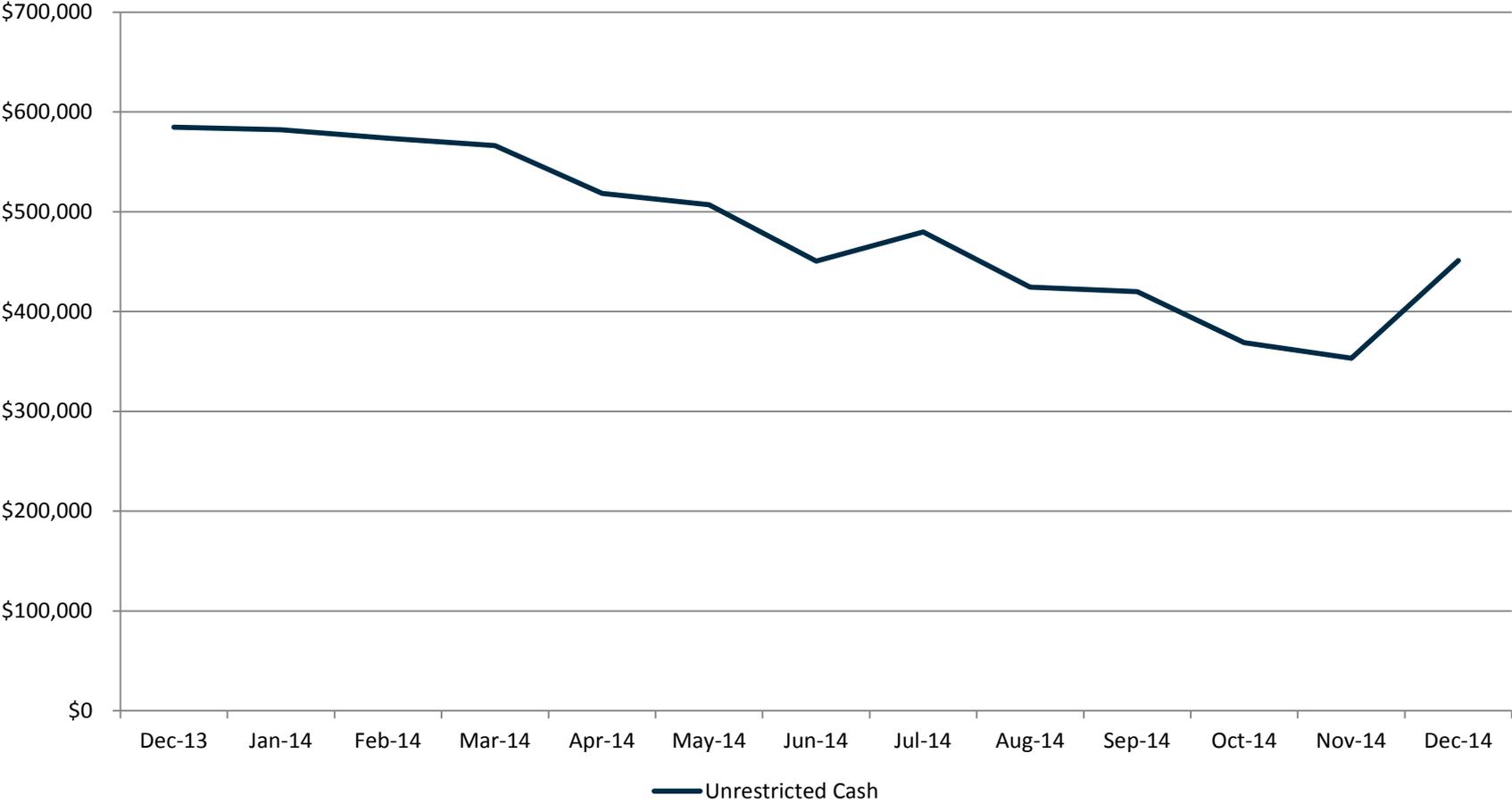


Board Best Practices

- 50,000 Foot View
 - Delegate detail to committees/management
 - Promotes efficient meeting
 - Proper focus on critical issues

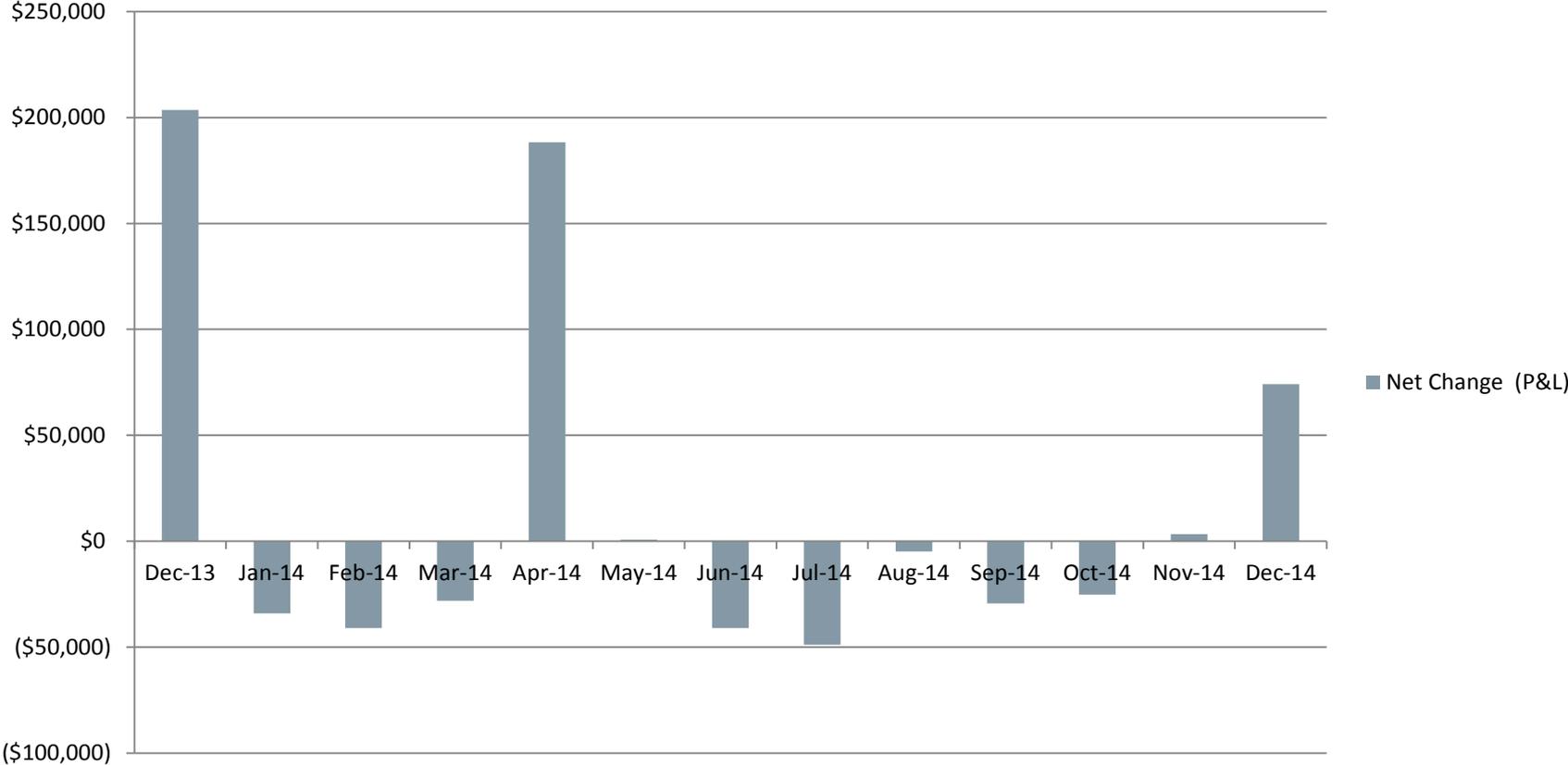


Example Unrestricted Cash

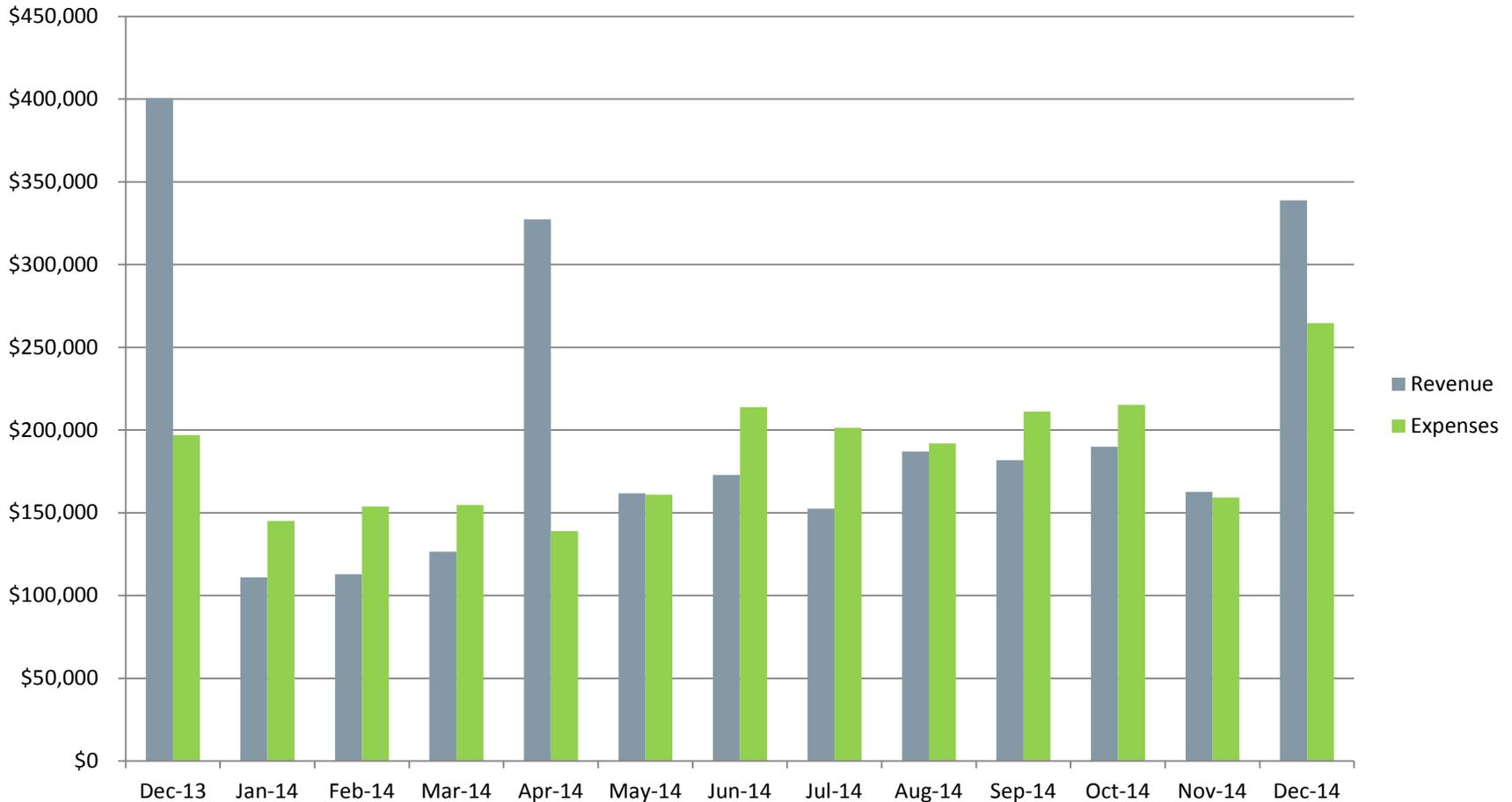


Example Change in Net Assets

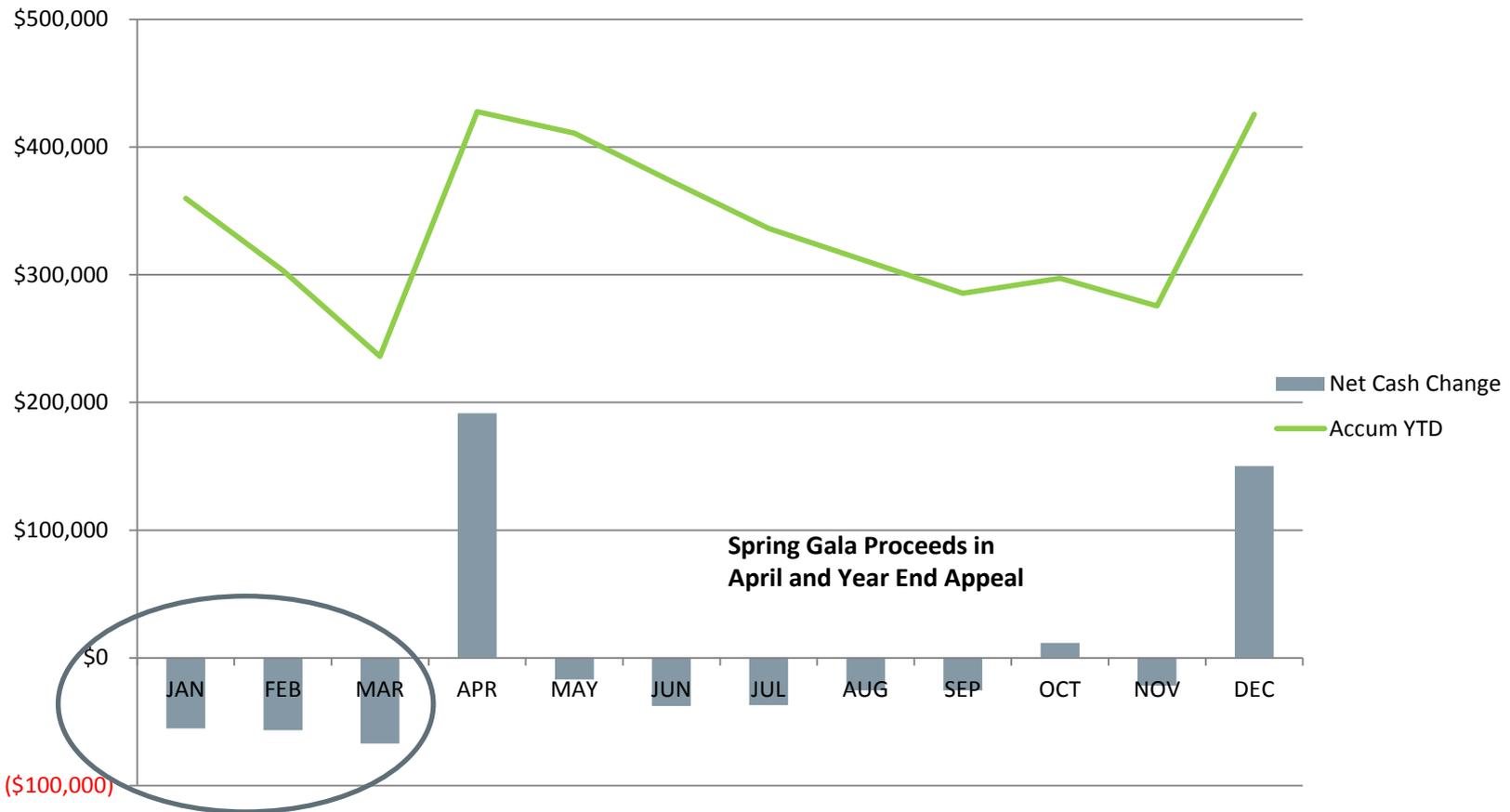
Net Change (P&L)



Example Revenue Expense



Example Cash Projection Chart



Current Board Considerations

- Health Care Reform
- Omni-Circular
- Impact of IT and related compliance issues
- Management of risks



Internal Control Considerations

What are Internal Controls?

Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

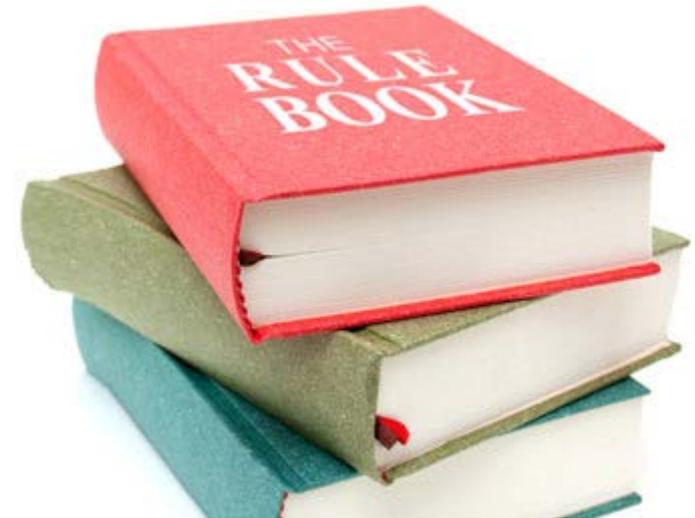
Examples

Internal Control	Risk
Compare credit card statement to receipts	Charges are not accurate on your statement
Lock car and house	Someone could possibly take your car without permission
Keep debit card pin number separate from card	Getting a hold of the pin can result in monies being withdrawn without your permission

True/False

1. Internal control starts with a strong set of policies and procedures.

FALSE!



Internal control starts with a strong control environment.

True/False

2. We have controls for auditors.

FALSE!



Internal Audit appreciates controls; however, management is the primary owner of internal controls.

True/False

3. Only certain departments use internal controls.

FALSE!



Internal control is integral to each department.

Control Roles and Responsibilities

- Board of Directors
- Management
- Internal Audit or similar function
- Other personnel/everyone else



Internal Control Purpose

- Promote orderly, economical, efficient and effective operations
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud
- Promote adherence to laws, regulations, contracts and management directives
- Develop and maintain reliable financial and management data, and accurately present data in timely reports

Why Internal Controls Fail

- **Control override** “The policy says it’s supposed to be done this way, but it’s easier to do things my way.”
- **Lack of knowledge** “I did not know that!”
- **Too much trust in key employees** “We trust ‘Susie’ who handles all of those tasks.” Or, “He has been here longer than I have; he must be honest.”
- **Inappropriate access** “I don’t have access, so I use my manager’s password for posting payments.”
- **Outdated controls** — Processes change; therefore, procedure doesn’t apply.

Best Practices & Examples

Best Practices & Examples

Do You Have?

- A fraud & ethics policy
- Fraud risk assessment
- An audit committee
- Whistle blower hotline/fraud hotline
- Internal audit or similar function



Best Practices

1. Handling of cash receipts
2. Accounting entries
3. Reconciliations
4. Information technology
5. Establish Internal Audit or redefine mission
6. Signature authority
7. Procurement and Accounts Payable
8. Payroll
9. Conflict of interest
10. Property & equipment

1. Cash Receipts

- Ideally, checks should be sent to lockbox
- Checks and payments should be physically secured, documented, and custody tracked
- Payments should not go directly to those who maintain records (i.e., property records division)
- Documentation and procedures are sufficient so that loss or misappropriation of funds can be traced to the responsible individual(s)

Cash Receipts

Assign a separate cash drawer to each employee responsible for collecting cash.

Reason for Control

Assigning separate drawers provides individual accountability over the cash for that person.

Cash Receipts

Endorse checks as soon as they are received.

Reason for Control

Immediately limit the checks to ensure they can only be deposited into a bank account.

2. Accounting Entries

- Each entry should be reviewed and approved independently of originator
- Any entry which creates a negative should be reviewed in a timely manner
- Periodic review should be performed to look for any irregularities

3. Reconciliations

One of the most common audit findings!

Many schools are cited simply because basic reconciliations are not being performed.

- To detect and correct errors as they occur
- Checked by someone not involved in the process



"Today's reconciliation is ready - 50% of our numbers are real, 50% are made up."

Reconciliations

The fiscal officer or internal auditor should periodically ask each depository for a listing of all bank accounts in the name of the school with the school's tax ID.

Reason for Control

A periodic review is a good way to detect accounts that may have been opened without the knowledge of the fiscal officer.

4. Information Technology

- Audit IT security annually
- Employees with access to computer systems have an established need for the access
- Passwords are secure and not shared
- Procedures are in place to prevent unauthorized use or transmission of information
- Access to the system is removed for terminated or transferred staff, timely
- Computers located in heavily traveled public areas have a screen saver with password activation invoked
- Each computer software package is licensed for the current user
- Computer files are backed up on a regular basis. Backup data is stored in a location away from the originals

IT Controls

- IT should approve all new hardware/software purchases
- Establish procedures for creating, modifying and deleting user accounts
- Ensure all users have a unique user name
- IT should only add users to network after notified by HR

IT Controls

- Passwords should contain complexity requirements
- Lock out accounts after 3 consecutive log-on attempts
- Require employees to sign a computer use policy

5. Internal Audit

...adds value to school district's internal control system by bringing a systematic, disciplined approach to the evaluation of risk and by making recommendations to increase the effectiveness of risk management efforts, improve internal control structure and promote good governance.

- Establish/redefine mission to reflect the school district's goals/objectives
- Internal Audit (or similar function) can help keep school districts on track and help identify problems before they arise



6. Signature Authority

- Transactions must be reviewed and approved by those officers under whose responsibility the project lies
- Signatory authority may be delegated; however, primary responsibility for funds and transactions remains with the budgetary unit head
- It is therefore necessary for a policy to be in writing to ensure the delegation is authorized

7. Procurement and Accounts Payable

- Transactions are properly approved and the stated purpose is reasonable
- Vendors are added to the system by approved individuals
- Account status reports are independently reviewed for accuracy of charges



Procurement

Clear lines of authority for approving purchases should be established. Depending on the size of the school, approvals may be electronic.

Reason for Control

Purchase approvals help ensure each purchase is necessary for operations.

Procurement

Prior to authorizing a major purchase and for routine purchases, the budget should be verified.

Reason for Control

Checking purchases against the budget ensures you stay within the specified budgets.

Record Keeping

All purchase forms should be designed to include relevant reporting details including quantity, amount, terms, etc.

Reason for Control

Proper forms allow easy comparisons and leave a nice clean audit trail.

8. Payroll

- Staff members who approve or process payroll documents do not have access to payroll checks
- Payroll vouchers are properly approved by an appropriate supervisor having knowledge of the hours worked
- Payroll vouchers are signed and approved on the last working day of the pay period
- Overtime, if paid, is allowable and approved in advance
- Time cards are not returned to employees after they are approved by supervisors
- Terminated employees are removed promptly from payroll
- New hires are processed and paid in the appropriate pay cycle

Payroll

Board or officer should establish and approve all salary and hourly rates by position.

Reason for Control

Establishing salaries and wages is part of the board's oversight responsibilities. These authorizations prevent officers or department heads from establishing new pay rates or schedules without proper approval.

Payroll

Segregate payroll authorizations (hiring, firing, pay rate setting, and other payroll changes) from the preparation and processing of payroll records and checks.

Reason for Control

Segregating payroll authorizations from preparation duties reduces the risk of a single employee establishing ghost employees, increasing hourly rates and salaries, or recording overtime not worked.

Payroll

In schools with more than 100 employees, require employees to pick up payroll statement/stub in person periodically.

Reason for Control

Periodic verification of the legitimacy of all direct deposits may detect unauthorized or fictitious employees. It may also detect any terminated or retired employees on payroll.

Payroll

Requests for direct deposit should be made in writing and kept on file for audit purposes.

Reason for Control

Direct deposit can be used to disguise payments to nonexistent employees.

Time and Attendance

Require employees to document days and hours worked and leave time on time sheets. Time sheets should be reviewed and approved by the employees' direct supervisor.

Reason for Control

A lack of appropriate time and attendance records increases the likelihood that an employee could be paid for time not worked or for unauthorized absences.

Time and Attendance

Use electronic time clock to record arrival and departure times to provide additional control over days and hours worked by employees. These can also reduce manual processing and the number of errors.

Reason for Control

An electronic time clock system will help keep track of employees' shifts and reduce data entry if time clock entries can be downloaded directly into payroll software.

Payroll Procedures

Pay checks should not be distributed before actual pay dates.

Reason for Control

Premature distribution creates the possibility that a check will be deposited prior to pay date.

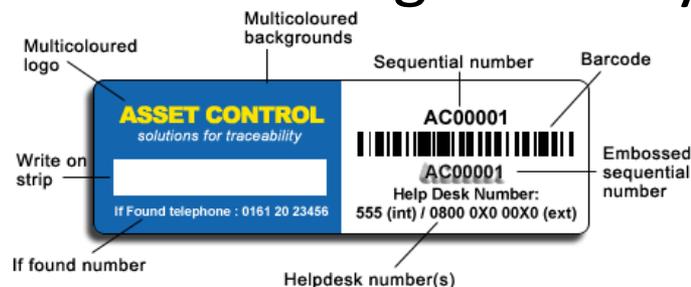
9. Conflict of Interest

- All staff in the department have access to the conflict of interest policy
- Staff know the conditions when special permission needs to be obtained before undertaking any commitment that may appear to be a conflict of interest
- Staff have not made purchases with vendors where there is a personal interest or reward
- The department is free of situations where a staff member supervises another staff member who is his/her relative or is someone with whom he/she shares a residence



10. Property and Equipment

- Equipment purchases are made in accordance with purchasing guidelines, properly authorized and recorded
- All equipment has an asset tag that is easily visible
- Asset management are notified of:
 - Donations, transfers or fabrication of equipment
 - Equipment lost, stolen, salvaged or scrapped
 - Equipment moved to an off-site location
- An annual departmental inventory report is completed and returned to asset management by a specified date



Equipment

The board should put together policies for control over equipment such as:

- Identify major types of equipment and the persons responsible for safeguarding these assets
- Require periodic physical inventory be conducted to compare records to actual assets

Reason for Control

A formal policy establishes guidelines for managers to follow when implementing procedures to safeguard equipment for misuse or theft.

Equipment

Purchasing forms should be numbered in sequence.

Reason for Control

Sequential numbering allows easy tracking of purchase orders, requisitions and unused purchase orders.

Receiving Procedures

When goods are received, packing slips should be compared against the quantity, type and condition of goods. Amounts received should be compared to amounts ordered. Packing slips should be forwarded to the appropriate person.

Reason for Control

Verification of the packing slip to the goods received and to the purchase order will detect any errors and payment will only be made for items received.

Receiving Procedures

The responsibility for the receipt and verification of items ordered should be segregated from the employee who authorized the purchase.

Reason for Control

An employee with both responsibilities could order items that are not necessary and keep those items for their own personal use.

Inventory

Physical inventory assigned to each department should be counted and documented annually.

Reason for Control

Physical inventory verifies the existence of equipment.

Inventory

Periodic verification of the inventory should be conducted by someone who does not have custody of the asset.

Reason for Control

If the employee responsible for safeguarding is also responsible for verifying their existence, an opportunity exists to disguise the theft of loss of assets.

Top 10 Risks in Schools

10. School Safety

- Outdated and inadequate school safety policies, including IT security

- Risks

- Vulnerability
- Legal and regulatory risks

- Suggestions

- Perform risk assessment to identify deficiencies
- Implement strategy to correct
- Monitor



9. Internal Audit

- No internal audit function
 - Risks
 - Improper control monitoring
 - Suggestions
 - Develop or contract for internal audit function



8. Attendance Monitoring

- Improper attendance controls and employee access to records
 - Risks
 - Potential loss of state funding
 - Suggestions
 - Policies
 - Reconcile logs to system



7. Computer Controls

- Lack of controls over password requirements and login attempts
 - Risks
 - Unauthorized access to system
 - Financial losses and liability
 - Suggestions
 - Policies
 - Monitoring



6. Fuel Use

- Lack of policies surrounding vehicle and fuel use
 - Risks
 - Overpayment
 - Private inurement
 - Suggestions
 - Reconcile usage to invoices
 - Develop policies
 - Track fuel usage by vehicle



5. Capital Assets

- No capital inventory periodically performed
 - Risks
 - Resources wasted
 - Material misstatements in financial reporting
 - Suggestions
 - Annual inventory of capital assets



4. Segregation of Duties

- Lack of proper segregation between cash collected and recording in financial records
 - Risks
 - Misappropriation of assets
 - Reputation
 - Funding loss
 - Suggestions
 - Properly segregate custody, recording and authorization



3. Expenditures

- Charged to wrong year, expense report errors and lack of review
 - Risks
 - Financial misstatements
 - Noncompliance with IRS rules
 - Suggestions
 - Develop policies
 - Appropriate level reviews



2. Procurement Cards

- Inappropriate employee access and levels; no approval, review or monitoring of use
 - Risks
 - Public awareness
 - Misappropriation, losses, liability
 - Suggestions
 - Policies
 - Review
 - Monitoring



1. Cash Controls

- Cash deposits were not always made in a timely manner; bank accounts not reconciled
 - Risks
 - Fraud
 - Errors
 - Suggestions
 - Reconcile monthly
 - Review
 - Segregation



Tips on What You DON'T Know!
*5 Best Practices You
May be Missing*

Construction Audit

- Pre-Construction audit services
- Periodic and/or Post Closeout Audits
- Energy studies/LEED
- Utility usage reviews

Insurance Review

- Identify cost savings with District insurance plans (plan adequacy, coverage limits, etc.)

Data Security & Privacy

- Maintain proper controls around electronic data
- Keep District out of the news for data breaches

Healthcare

- Ensure the District meets requirements for adoption and implementation of the Reform
- Assist with implementation and requirements

PCI Compliance

- Ensure your District is in compliance with PCI (credit card) standards
- Avoid credit card fraud and hefty fines for non compliance

Connect



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Questions

