

INTERNAL CONTROL - AR

Talbot County Public School's management and employees have established and maintained an environment throughout the organization that sets a positive and supportive attitude toward strong governmental governance and internal control.

This document provides a checklist to review the internal control environment.

I. Definitions and Regulations

- A. **Assessable Unit**
A unit is a division, department, or segment which is to be the subject of measurement and risk assessment.
- B. **Control Objectives**
An Objective is a goal or target to be achieved for each internal control. Objectives are tailored to fit the specific operations in each assessable unit.
- C. **Cycle**
The processes used to initiate and perform related activities in order to create the necessary documentation, and to gather and report related data (e.g., revenue cycle, accounts payable cycle).
- D. **General Control Environment**
This includes Talbot County Public Schools' concepts of integrity, ethical values, competence, philosophy and operating style, organizational structure, delegation of authority, and written policies and procedures.
- E. **Inherent Risk**
Means the degree to which activities are exposed to the potential for loss, inappropriate disclosure, or other negative conditions.
- F. **Internal Control Review**
This is a periodic review of internal methods and systems to determine whether adequate measures exist and are actually implemented to prevent or detect the occurrence of potential risks or incorrect financial reporting.
- G. **Project/Program Controls**

These controls cover the planning, executing, and accomplishment of specific goals and objectives.

H. Risk Assessment

Risk assessment is the process of determining the relative potential for negative impact of an assessable unit's resources due to inadequate control techniques and/or other environmental factors. The results of the assessment are used to mitigate inherent risks.

I. Internal Control Activities

Policies

Procedures

Sequences or combination of procedures

Assignments of duties, responsibilities, and authorities

Physical arrangements or processes

Combinations of the above

J. Control Framework

Talbot County Public Schools has implemented an internal control system and framework based on its internal and external needs. This framework includes elements modeled according to the Committee of Sponsoring Organizations (COSO) model. COSO is a voluntary organization sponsored by five major professional Associations – American Accounting Association, AICPA, Financial Executive International, Institute of Internal Auditors and Institute of Management Accountants.

It is the policy of Talbot County Public Schools to ensure that its control framework provides for strong governmental governance.

It is the policy of Talbot County Public Schools that its internal control system is a relevant evaluation tool for internal control over financial reporting.

It is the policy of Talbot County Public Schools that its own internal control framework and review evaluations:

Be free from bias

Permit reasonably consistent qualitative and quantitative measurements of Talbot County Public School's internal control system

Are sufficiently complete so that those relevant factors that would alter a conclusion about the effectiveness of Talbot County Public School's internal controls are not omitted

- K. **Control Environment**
The core values of Talbot County Public Schools promote high standards of integrity, ethics, and competence.
- L. **Risk Assessment**
Talbot County Public Schools has a risk management policy.
- M. **Control Activities**
Control policies and procedures are established and executed to help ensure that actions necessary to achieve objectives are effectively carried out. These activities include an integrated system of policies, procedures, internal controls, and evaluation tools.
- N. **Monitoring**
The control process is monitored, evaluated, and modified as necessary to react to changing conditions. Control evaluations are a continuous process and are reported as required by certain regulations and Talbot County Board of Education policy.
- O. **Internal control policy statements:**
Talbot County Public Schools shall use both management and accounting control measures. The internal control measures shall be designed to be detective, preventative, physical, technological, and corrective. The controls shall consist of hard controls, like testing, validating, reconciling, and measuring, and soft controls, like tone and attitude.
- P. **Accounting Controls**
Accounting controls relate to protecting Talbot County Public Schools assets and ensuring the accuracy of financial reports.

Talbot County Public Schools uses policies and procedures associated with the activities concerned with authorizing, processing, recording, and reporting financial transactions. The accounting controls shall ensure that information resulting from these activities is accurate, reliable, and useful.
- Q. **Communication**
Talbot County Public Schools communicates its policies, procedures, and internal controls through various handbooks, programs, training, and computer network. Management shall also communicate by example.

- R. Internal Control Checklists
Talbot County Public Schools has developed a series of Internal Control Checklists. These checklists are reviewed on an annual basis and used as an evaluation tool of the internal control system.
- S. Employee Rotation
Where practicable, administrative employees shall be rotated to different assignments, so that “irregular activities” are more easily identified
- T. External and Internal Auditing
Talbot County Public Schools, from time to time, performs external (CPA) and internal (employee initiated) audits.
- U. Risk Assessment and Mitigation
Talbot County Public Schools continually seeks to identify, assess, and mitigate business risks. Talbot County Public Schools has defined risk management policies and procedures.
- V. Talbot County Board of Education Mail
When practicable, someone other than the finance department opens Talbot County Public School mail. The person who opens the mail maintains a list of all checks received each day and stamps the back of each check “For Deposit Only...” At the end of each month the list of checks received is totaled and reconciled to the bank statement.
- W. Cash
Talbot County Public Schools maintains strict control over cash. There are detailed documented cash management practices which are dutifully adhered to.
- X. Check Stock
The blank check stock shall be managed and safeguarded according to the Internal Control – checks policy and procedures.
- Y. Blank Checks
Talbot County Public Schools does not sign blank checks.
- Z. Bank Signatories
The bookkeeper or accountants are not bank signatories.
- AA. Spoiled Checks
Spoiled checks are stamped VOID and if the check is signed the signature should be removed (torn off).

- BB. Monthly Bank Statements
The monthly bank statement shall be transmitted unopened to someone other than the bookkeeper or accounting department for an initial review. The initial review should confirm that all signatures were proper, no checks were altered, no unauthorized transfers occurred, and that the deposits reconcile to the running total kept by the person opening the mail.
- CC. Fidelity Bonds
Talbot County Public Schools obtained fidelity bonds through the MABE Group Insurance Pool on the bookkeeper, accountant and persons controlling vulnerable assets.
- DD. Talbot County Board of Education Transactions
All transactions of Talbot County Public Schools must be authorized, approved, executed and recorded.
- EE. Asset Accounting and Custody
Any employee that has custody of an asset should not perform the accounting for the asset. For example, an employee in charge of cash receipts should not reconcile the bank account.
- FF. Related Transactions
No one person or department handles any transaction from start to finish in the Finance Department.
- GG. Documentary Evidence
All transactions require documentary evidence to verify the transaction.
- HH. Serially Numbered Documents
All documents like checks, purchase orders, and invoices will be serially numbered.
- II. Employee, Vendor, Customer Setup
Someone other than the person who does the data entry should set up new employees, vendors, and customers in the accounting system. For example, the person who enters payroll time should not set up new employees in the system to minimize the opportunity of keying time to a fictitious employee. All new setups should have a physical master file paper signed by an administrator to authorize the setup in the computer system.
- JJ. Control Modification
Policies, procedure, division of duties, forms, and other internal controls shall only be modified as authorized by the Talbot County Public Schools Director of Finance.

KK. Annual Review

Talbot County Public Schools reviews its control framework including, policies, procedures, division of duties, forms, systems, programs and training on an annual basis. This review is performed at the direction of Talbot County Public Schools Director of Finance. All employees are encouraged to provide input regarding controls and suggest measures that may help Talbot County Public Schools be more effective in reaching its objectives.

Specifically, Talbot County Public School's management, with the participation of the Superintendent and Director of Finance, will evaluate any change in Talbot County Public School's internal control over financial reporting that occurred during a fiscal year that has materially affected, or is reasonably likely to materially affect, Talbot County Public School's internal control over financial reporting.

Inquiry alone generally will not provide an adequate basis for management's assessment. The assessment of a Talbot County Board of Education's internal control over financial reporting is to be based on procedures sufficient both to evaluate its design and to test its operating effectiveness. Controls subject to such assessment include, but are not limited to: controls over initiating, recording, processing and reconciling account balances, classes of transactions and disclosure and related assertions included in the financial statements; controls related to the initiation and processing of non-routine and non-systematic transactions; controls related to the selection and application of appropriate accounting policies; and controls related to the prevention, identification, and detection of fraud. An assessment of the effectiveness of internal control over financial reporting must be supported by evidential matter, including documentation, regarding both the design of internal controls and the testing processes. This evidential matter should provide reasonable support: for the evaluation of whether the control is designed to prevent or detect material misstatements or omissions; for the conclusion that the tests were appropriately planned and performed; and that the results of the tests were appropriately considered.

Talbot County Public School's public accounting firm is required to annually attest to, and report on, management's assessment of the effectiveness of Talbot County Public School's internal control over financial reporting. Talbot County Public School's public accounting firm is also required to develop and maintain evidential matter to support management's assessment. Under no circumstances shall Talbot County Public School's management delegate its responsibility to assess its internal controls over financial reporting to the auditor.

II. Internal Control – Environment

Talbot County Public School’s management and employees have established and maintained an environment throughout the organization that sets a positive and supportive attitude toward strong governmental governance and internal control.

This document provides a checklist to review the internal control environment.

A. Values

1. Policies and Procedures

Talbot County Public Schools has established and uses formal policies, procedures and codes of conduct and other devices communicating expected behavioral standards, acceptable business practices, and conflicts of interest. The policies and procedures are comprehensive, in writing, communicated to and acknowledged by the employees.

2. Tone

An ethical tone is of paramount importance to Talbot County Public Schools. This ethical tone will be communicated to the employees by use of web sites, intranets, manuals, handbooks, and meetings.

Talbot County Public Schools has policies and procedures for reporting unacceptable behavior. Reports of unacceptable behavior will be addressed by management. Obstacles will be implemented on a regular basis that minimize temptation for unethical behavior.

The policies, procedures, and overall general attitude of Talbot County Public Schools should create a culture of conformity to high ethical and moral standards.

3. Community

Dealings with the public, government, employees, suppliers, auditors, and others are conducted based on standards communicated in the Ethics Policy.

Talbot County Public Schools reporting will be proper and accurate and shall not be intentionally misleading. Management will cooperate with auditors and other evaluators.

Accounting errors will be quickly corrected.

Talbot County Public Schools has functioning grievance policies and procedures.

Policies require that only the Superintendent and Director of Finance can approve any modification of the internal control system. Reasons for modifying internal control are fully and properly documented.

4. Human Resources

Talbot County Public Schools has a human resource internal control system complete with formalized policies and procedures which helps identify supervisory requirements, needed positions, position requirements, qualified applicants, and performance appraisal.

5. Education

Talbot County Public Schools provides internal and external training in order to help all employees maintain and improve their skill sets for their jobs.

Talbot County Public Schools provides financial educational assistance which helps ensure that all employees have the opportunity for increased appropriate training. This is available to both certified and support staff.

6. Senior Management

Senior managers should have significant general management experience relating to the operation of Talbot County Public Schools.

Senior managers should be well schooled in professional management techniques.

7. Organizational Structure

The organizational structure of Talbot County Public Schools will be appropriate and efficient given the environment and should facilitate excellent communication throughout Talbot County Public Schools.

Talbot County Public Schools has a documented organizational chart that is available to employees and the general public. The organizational structure is reviewed during the strategic planning process.

8. Delegated Authority

The delegation of authority will be as designated by the approved organization's structure and be such that employees are not responsible for activities they lack the authority to complete.

III. Internal Control - Information and Communications

Internal control of information and communications refers to the controls ensuring timely communication of useful, relevant and reliable information. Information includes both financial and non-financial data which may relate to both internal and external events. Communication refers to the publishing of the information.

A. Information

Management will regularly review important internal information which is critical to achieving Talbot County Public Schools objectives as defined by its Master Plan.

Management will have mechanisms in place to ensure internal information is timely, useful, and accurate.

Talbot County Public Schools has financial management and reporting policies.

Management will regularly review internal and external information, which may indicate either opportunity or risk to Talbot County Public Schools.

Talbot County Public Schools has a mechanism for identifying and distributing pertinent information to the right people and ensure pertinent information is accessible.

B. Communications

Management will ensure effective communication by regularly reviewing communication within the organization and with stakeholders. Management will ensure accurate and effective communications with all stakeholders and ensure that accurate information is communicated to outside parties.

Employees are advised that reprisals will not occur for reporting negative information or information concerning violation of Talbot County Public School policy, procedure, or internal control.

Stakeholder grievances and suggestions are welcomed, reported centrally, and used to identify internal control weaknesses and improve operations.

Management will properly communicate with oversight bodies and various groups.

Significant risks and unusual circumstances will be properly reported both internally and externally.

Talbot County Public Schools Code of Ethics policy will be properly communicated.

C. Communication Methods

Talbot County Public Schools will emphasize the use of technology for communication, continually evaluating new and emerging communication technologies. Talbot County Public Schools will also continually monitor and enhance security with regard to the use of technology.

Management will communicate by example.

IV. **Internal Control – Monitoring**

Monitoring refers to the continuous assessment and implementation of Talbot County Public School's internal control system. Monitoring includes the normal day to day standard operating procedures used by Talbot County Public Schools to conduct business and the evaluation of employees understanding of those procedures. Monitoring also includes both internal and external quality assessments of the internal control system. The results of the quality assessments are used to produce a positive impact on the internal control system and that recommendations are actually implemented.

- A. Management will ensure that employees understand the control system and standard operating procedures.
- B. Employees understand they are responsible to ensure that the internal controls are effective.
- C. Employees' understanding of the internal controls system is evidenced by training and interview.
- D. Employees know they are expected to notify management of suspected internal control weaknesses.
- E. Employees know they are expected to notify management of information inaccuracies because they may indicate internal control weaknesses.
- F. Talbot County Public School's internal control checklists are reviewed on an annual basis.
- G. External CPA audits are conducted annually.
- H. External CPA audits include a review of Talbot County Public Schools internal control system.

- I. Internal control weaknesses and deficiencies are immediately corrected by management.

V. Internal Control Activities

Internal control activities are the policies, procedures, and systems used to help ensure proper general management and strong governmental governance. This includes both Talbot County Public School's written documentation and the activities used to measure and evaluate performance and conduct. Specific control activities include internal and external reviews, authorizations and approvals, and the tools used to evaluate and measure performance and test the adequacy of Talbot County Public School's internal controls system.

- A. This document provides a tool to help evaluate Talbot County Public School's overall control activities.
- B. All relevant policies and procedures are in writing.
- C. Employees are educated in internal control and participate in the process.
- D. Review of the specific internal control checklists indicates the policies and procedures are actually employed.
- E. Review of the specific internal control checklists indicates there are no "holes" or deficiencies.
- F. Talbot County Public Schools objectives and related risks are identified and linked.
- G. Control activities are properly monitored.
- H. Talbot County Public Schools has properly safeguarded its assets.
- I. Especially vulnerable assets are physically secured.
- J. Strategic plans, forecasts, budgets, and actual performance are monitored against targets.
- K. Talbot County Public Schools utilizes a well respected and sophisticated computerized accounting system.
- L. If custom modifications have been made to the computerized accounting system, they have been thoroughly tested.

- M. Financial and trend analysis are employed to evaluate performance.
- N. A management continuity and succession plan is in place.
- O. A disaster recovery plan is in writing and in place.
- P. All facilities meet or exceed current fire codes.
- Q. A security plan is written and in place.
- R. Talbot County Public Schools understands its human assets, both existing and required.
- S. A proper compensation system is used to retain and attract human capital.
- T. Talbot County Public Schools has a division of duties policy and that policy is incorporated into all other relevant policies and procedures.
- U. Duties are actually properly segregated.
- V. Talbot County Public Schools has records management and retention policies and procedures.
- W. Inspection of the records indicates they are properly current, classified, coded, and retained.
- X. Proprietary and restricted records are locked upon inspection.
- Y. Management keeps records of management decisions.
- Z. Internal control documentation exists and complies with Talbot County Public Schools and government requirements.
- AA. There is evidence of internal control review by employees.
- BB. Internal control review is properly reported in Talbot County Public Schools financial statements.
- CC. There is evidence of external review like audited financial statements.
- DD. The audited financial statements contain a review of Talbot County Public School's internal controls.

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