



## Policy: Internal Control

**ChildNet Number:** CN 010.018

**Original Approved Date:** June 18, 2003

**Policy Revised Date(s):** December 23, 2009, March 2010, May 20, 2010

**Policy Sunset Date:**

**COA Standard(s):** HR 5.01, RPM 2.01, FIN 2

### Statement of Policy

It is the policy of ChildNet to establish sufficient internal accounting controls to meet control objectives in order to provide reasonable assurance of the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

### Scope

Internal controls are designed to provide reasonable assurance that transactions are executed in accordance with Generally Accepted Accounting Principles (GAAP) and management's general or specific authorization. Transactions are recorded as necessary and access to assets is permitted only in accordance with management's authorization.

**Board Chair's Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

11/15/10



## **Procedure: Internal Control**

**ChildNet Number: CN 010.018**

**Original Approved Date: June 18, 2003**

**Procedure Revised Date(s): December 23, 2009, March 2010, May 20, 2010, June 10, 2014**

**Procedure Sunset Date:**

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### **Definitions (If any)**

Internal control environment - Those factors which contribute to an appropriate atmosphere include organizational structure, personnel, delegation of authority, explicit and implicit communication of policies and responsibilities, budgets, financial reports, and organizational checks and balances. An effective internal control environment should include procedures and policies designed to preclude fraud, minimize errors, promote efficient operations, and achieve compliance with established policies and procedures. Senior management establishes a tone at the top by supporting the internal controls, which sets the foundation for all the other components of internal control.

Reasonable Assurance - The definition of accounting control contemplates reasonable, but not absolute, assurance that the objectives expressed in it will be accomplished by the system. The concept of reasonable assurance recognizes that the cost of internal control should not exceed the benefits expected to be derived. The benefits consist of reductions in the risk of failing to achieve objectives implicit in the definition of accounting control.

Delegation of Authority and Communication of Responsibility - At each level in the organization, there is a need for a clear understanding of the authority delegated and the relationships individuals have with respect to others in the organization.

### **Statement of Procedure**

ChildNet's Finance Department implements an internal control structure encompassing the five components established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The five components are:

- Internal Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring



## **Finance Department Evidence of Internal Control**

### **A. Segregation of Duties**

Segregation of duties involves the assignment of duties in such a way that more than one employee is required to complete a task or transaction. Therefore, duties of one employee automatically provide a cross check on the work of one or more other employees. Anyone who records transactions and has access to the related assets ordinarily is in a position to perpetrate errors or irregularities. Appropriate segregation of duties helps to detect errors in a timely manner and deter fraud, waste and abuse. Internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset (i.e., the employee who prepares the deposit or maintains the checkbook should not be authorized to sign checks).

### **B. Enforcement of Vacation Policies**

Periodic vacations for staff should be enforced with another employee performing the vacationing employee's duties. This allows an unencumbered review of that particular function which should assist in detecting any irregularities which might be occurring. Failure to have someone perform the vacationing employee's duties negates the internal control function of requiring periodic vacations.

### **C. Documentation**

Proper documentation of transactions helps to ensure adequate support and authorization, permits proper accounting, aids in the control of transactions, and reduces the chance of errors. The complete documentation of transactions is essential to sound internal accounting control.

Important aspects of documentation include:

1. description of the transaction
2. written approval authorizing the transaction
3. written evidence that any necessary subsequent steps, such as comparison to other prior documents
4. ensuring clerical accuracy and coding were performed.

Accounting control procedures and techniques should provide reasonable assurance that all transactions are accounted for and that proper documentation is maintained according to ChildNet's policy CN 010.001 – Accounting Procedures.

### **D. Supervision and Review**

Systematic and thoughtful supervision, as well as review of employees' work, helps to ensure that accounting control procedures are, in fact, understood and followed. The frequency and extent of supervision and review depends on many factors, such



as the sensitivity and risk of transactions and the ability and experience of the employee. Systematic and well-conceived supervision by all levels of management helps to detect and correct misunderstandings, errors, and improper practices in a timely manner and, at the same time, improve employee performance. Management should ensure that control accounts are properly reconciled to supporting details, transactions are being accounted for, errors are appropriately investigated and corrected, and established policies and procedures are being followed. It is desirable to document specific acts of supervision and review.

#### **E. Timeliness**

It is important that reports, reconciliations, document reviews, and other procedures and techniques that are intended to meet specific internal accounting control objectives be prepared or performed on a timely basis. The importance of the degree of timeliness varies with each circumstance, and management should take this into consideration when evaluating its control procedures and techniques.

#### **F. Responsibility of Management**

It is management's responsibility to establish and maintain an effective system of internal control. This responsibility entails implementing accounting control measures and then monitoring compliance with established control procedures to obtain reasonable assurance that the controls in place continue to be appropriate and remain in effect. Monitoring takes place through such actions as management supervision, audits, spending plans, financial statement presentation and approval and control of changes in budget allocations and procedures.

#### **G. Inherent Limitations**

There are inherent limitations in any system of internal accounting control. Limitations of control procedures include, for example, management override of established controls and an aversion by individuals to challenge such override, the possibility of circumvention by employee collusion, and changes in the degree of compliance due to changing conditions within the organization or simply deterioration in compliance. Also, in the performance of most accounting control procedures, there are possibilities for errors arising from such causes as misunderstanding of instructions or mistakes of judgment. However, with the implementation of compensating controls for areas with inherent limitations, this can improve the design of a process and provide management with reasonable assurance that the anticipated objective(s) of a process will be achieved.

**President's Signature:**

**Date:**

06-25-14