



INTERNAL CONTROL HANDBOOK

INTERNAL CONTROL HANDBOOK
ILLINOIS STATE BOARD OF EDUCATION
SCHOOL BUSINESS SERVICES DIVISION

Revised July, 2017

Most Content remains the same as published in 1993
Prepared by School Business Services Division

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FOREWORD

For some time, public accounting firms have noticed in districts' annual financial reports, a need to address internal accounting control practices. A contributing factor for addressing these internal control needs has been insufficient staffing to address the segregation of staff duties. We know all too well that additional staff would be desirable, but for small to mid-sized school districts, hiring additional staff would be considered a luxury, not a practical solution.

In response to this concern, the Illinois Financial Accounting Committee, an advisory group to the State Superintendent of Education, embarked upon the development of an Internal Control Handbook, dated June, 1993 as a viable administrative/procedural approach to improving school district accounting controls.

The following is an updated version of that handbook and should serve as a guide for small to mid-sized districts.

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INTRODUCTION

Internal controls are an integral part of any accounting system. This system of controls can be defined as a network of checks and balances incorporated into an accounting system which detects errors and irregularities so they can be eliminated within a timely period.

The primary purpose of this manual is to provide Local Education Agency (LEA) personnel with an overview of the means of achieving proper and effective internal accounting and administrative controls. The major areas requiring such control are identified in checklist format. The manual places a special emphasis on the means by which to achieve adequate segregation of duties for offices of limited staff size.

Local Education Agencies (school districts, joint agreements, and vocational education delivery systems) usually exist as complete, separate accounting entities. As a separate accounting entity, each LEA must recognize the need for an effective set of internal controls. The responsibility of implementing a working set of internal controls rests with the LEA management. Responsibility for maintaining the effectiveness of the control system rests with each LEA central office staff member. A well-designed system that is not correctly and effectively implemented is of little more value than the absence of a defined system.

Internal accounting controls can be divided into two separate, yet interlocking categories:

Administrative controls and accounting controls. Administrative controls are concerned with the decision processes leading to management's authorization of transactions. Administrative controls are the responsibility of upper-level management (board of education, superintendent, fiscal officer). Administrative controls serve to provide assurance that management authorization is present and serve as an initiator for all book transactions. An example of an administrative control is the practice of securing prior board approval of all claims before payment is made. The board's approval authorizes the transaction of a cash disbursement.

Accounting controls are designed to safeguard district assets and the reliability of the district financial statements. Accounting controls are intended to achieve the following objectives:

1. Transactions are executed in accordance with upper-level management's authorization.
2. Access to LEA assets is controlled and limited.

In summary, the LEA should implement controls to provide assurance that all transactions are authorized by management, that these authorized transactions are properly recorded, that assets are adequately safeguarded, and that periodic comparisons are made of LEA records and actual assets.

A well designed system of internal controls emphasizes the need for a segregation of the accounting duties and the general accounting function. This segregation of the responsibilities stresses the need for an LEA to segregate the following duties:

- Authorization to execute a transaction;
- Recording of the authorized transaction in the LEA accounting records; and
- Custody (direct handling) of the related LEA asset.

If segregation of duties has a general meaning, it is this: *no single employee should be responsible for authorizing a transaction, recording that transaction in the accounting records, and directly handling the related assets resulting from the transaction process.* The segregation of these responsibilities among two or more employees provides

greater assurance that errors and irregularities in the accounting process will be detected and corrected within a timely period and in an effective manner.

An example of a common situation which requires segregation of duties is presented below:

No segregation: A bookkeeper receives cash receipts in the mail (custody), signs the bank deposit slip in the absence of the fiscal officer (authorization), prepares the bank deposit slip, enters the transaction into the accounting records (transaction recording), and deposits the cash receipts (custody).

Proper segregation: The office secretary opens the district office mail, prepares a detailed Listing of cash receipts, prepares the bank deposit slip, and deposits the money in the bank (custody). Prior to deposits, the fiscal officer compares the bank deposit slip amount with the total for the detailed listing of cash receipts, signs the bank deposit slip, and detailed list (authorization). The district bookkeeper enters the transaction into the accounting records from the detailed listing supplied by the office secretary (transaction recording).

The most effective segregation of duties can be achieved only through adequate staffing and a clear division of duties. Many LEAs have a limited number staff members in the central office. This limitation may prevent the LEA from segregating accounting duties to the point of ideal internal control. However, LEAs with limited staff members can segregate accounting duties, to the greatest extent possible, in order to bring about a more distinct division of accounting responsibilities.

The most frequently performed duties will be discussed for general control requirements and labeled for division possibilities. Each general duty area will be presented for five LEA examples:

- A central office with 2 staff members: Example I
- A central office with 3 staff members: Example II
- A central office with 4 staff members: Example III
- A central office with 5 staff members: Example IV
- A central office with 6 staff members: Example V

The duty functions to be presented include:

- Cash Receipts
- Cash Disbursements
- Payroll
- Purchasing
- Investment Transactions
- Revolving Account Fund/Petty Cash Transactions
- Inter-fund Transfers

Each function will be discussed for general control requirements. The function area will then be presented in a possible segregation pattern for each of the five example LEAs. The segregation patterns can be used as guidelines in the implementation of a more effective internal control system for the LEA. The patterns are designed to provide segregation in the areas of *authorization*, *bookkeeping*, and *asset custody*. While the segregation patterns presented are not meant to be all-inclusive, they will serve as a good starting point in the process of formulating a clear line of responsibility segregation. In all instances, references made to authorizations by the local Board of Education represent information required to be in the Board minutes.

CASH RECEIPTS

The area of cash receipts requires careful consideration of needed internal controls. The following checklist gives the controls which are typically necessary in various cash receipt transaction cycles and accounts. In establishing effective controls over district cash receipts, a careful consideration of the following checklist is essential.

- Mail should be opened by two staff members (when staff is adequate).
- Mail receipts should be listed in detail.
- Cash receipts should be deposited daily.
- All cash custodians should be bonded.
- Cash receipts must be properly authorized (cash receipts/bank deposits slips signed by fiscal officer prior to transaction being entered into accounting records).
- Returned non-sufficient funds items must be properly handled.
- Duplicate deposit slips should be compared with the cash book.
- Cash-receipts personnel should be segregated from other accounting duties. (Cash receipts personnel really should not have access to the accounting records).
- Documentation (cash receipts vouchers) should be pre-numbered.
- All pre-numbered documentation (cash receipts vouchers) should be accounted for.
- Bound copies of documentation (cash receipts vouchers) should be maintained on file.
- Cash receipts bookkeeper should not have access to cash receipts.
- Cash receipts bookkeeper should not prepare the bank deposit.
- Cashing of checks payable to the LEA by LEA personnel should be prohibited by an agreement with the bank.
- All receipts should be immediately endorsed "For Deposit Only."

CASH RECEIPTS

Example I: Central office with two staff members – Bookkeeper and Secretary.

Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listings
- Reconciles monthly bank statements

Secretary: (C)

- Opens mail
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund
- Makes daily deposits of cash receipts
- Compares detailed listing of cash receipts to postings in the accounting records

Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposits and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations

(A) – Authorization

(B) – Bookkeeping

(C) - Custody

CASH RECEIPTS

Example II: Central office with three staff members – Bookkeeper, Position I, and Position II

Bookkeeper: (B)

- Enters transactions data into the books from detailed receipts listing

Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listings of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records
- Reconciles monthly bank statements

Fiscal Officer: (A)

- Signs detailed cash receipts list prior to deposit and transaction entry into the accounting records
- Periodically compares duplicate deposit slips with cash book
- Reviews and approves monthly bank statement reconciliations

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

CASH RECEIPTS

Example III: Central office with four staff members – Bookkeeper, Position 1, Position 2, and Position 3

Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listing

Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listing of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips
- Makes daily deposits of cash receipts

Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Compares detailed listing of cash receipts to postings in the accounting records

Position 3: (C)

- Prepares monthly bank reconciliations
- Periodically compares duplicate deposit slips with cash book

Fiscal Officer: (A)

- Signs documentation (detailed cash receipts list) prior to transaction entry into the accounting records
- Reviews and approves monthly bank statement reconciliations

- (A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH RECEIPTS

Example IV: Central office with five staff members – Bookkeeper, Position 1, Position 2, Position 3, and Position 4

Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listing

Position 1: (C)

- Opens mail (along with Position 2)
- Prepares detailed listing of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips (along with Position 2)

Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Prepares deposit slips (along with Position 1)

Position 3: (C)

- Periodically compares duplicate deposit slips with cash book
- Makes daily deposits of cash receipts
- Sorts receipts by source and fund

Position 4: (C)

- Reconciles monthly bank statements
- Compares detailed listing of cash receipts to postings in the accounting records

Fiscal Officer: (A)

- Signs documentation (detailed cash receipts list) prior to transaction entry into the accounting records
- Reviews and approves monthly bank statement reconciliations

- (A) – Authorization
- (B) – Bookkeeping
- (C) – Custody

CASH RECEIPTS

Example V: Central office with six staff members – Bookkeeper, Position 1, Position 2, Position 3, Position 4, and Position 5

Bookkeeper: (B)

- Enters transaction data into the books from detailed receipts listing

Position 1: (C)

- Opens mail (along with Position 2)
- Sorts receipts by source and fund
- Prepares detailed listing of cash receipts by source and fund (along with Position 2)
- Prepares deposit slips (along with Position 2)
- Makes daily deposits of cash receipts

Position 2: (C)

- Opens mail (along with Position 1)
- Prepares detailed listing of cash receipts by source and fund (along with Position 1)
- Prepares deposit slips (along with Position 1)

Position 3: (C)

- Periodically compares duplicate deposit slips with cash book
- Compares detailed listing of cash receipts to postings in the accounting records

Position 4: (C)

- Reconciles monthly bank statements

Position 5: (C)

- Sorts receipts by source and fund

Fiscal Officer: (A)

- Signs documentation (detailed cash receipts list) prior to transaction entry into the accounting records
- Reviews and approves monthly bank statement reconciliations

- (A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH DISBURSEMENTS

Internal control systems include measures designed to prevent fraud. Actually, such measures are a rather small part of internal control. The basic purpose of internal control is to promote efficient operation of an organization. The area of cash disbursements requires careful consideration of needed internal controls. The following checklist lists the controls which are typically necessary in various cash disbursement transaction cycles and accounts.

- Pre-numbered checks.
- Limited authorization to sign checks.
- No signing of blank checks.
- All voided or mutilated checks accounted for.
- Proper authorization of persons signing checks
- Control over signature machines (if used).
- Detailed listing of checks.
- Periodic comparing of check listing with disbursement journal.
- Control over inter-fund transfers.
- Checks not payable to cash.
- Physical control over unused checks.
- Control over long outstanding checks.
- Periodic reconciliation of bank account
- Independence of person reconciling bank statements (when number of staff permits).
- Bank statements sent direct to person reconciling.
- No access to cash records or receipts by check signers.
- Bank reconciliations accounting for the sequence of all check numbers.
- Invoices, vouchers, and other supporting evidence presented with the warrants submitted for signature.
- Proper safeguards preventing duplicate payment of bills by the use of a “paid” stamp or other mark.

CASH DISBURSEMENTS

Example I: Central office with staff members – Bookkeeper and Secretary

Bookkeeper: (B)

- Enters transaction data into the books
- Reconciles monthly bank statements
- Mails checks
- Prepares bills payable list

Secretary: (C)

- Audits invoices and bills for mathematical computation before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Prepares checks after board approval of bill list

Fiscal Officer: (A)

- Compares checks with the documentary evidence before the signature is affixed
- Directs checks to treasurer for signature
- Reviews and approves monthly bank statement reconciliations

Board of Education/Trustee: (A)

- Approve bills payable list

(A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH DISBURSEMENTS

Example II: Central office with three staff members – Bookkeeper, Position 1 and Position 2

Bookkeeper: (B)

- Enters transaction data into the books
- Reviews bank reconciliations
- Prepares bills payable list

Position 1: (C)

- Audits invoices and bills for mathematical computation before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Mails checks

Position 2: (C)

- Prepares checks after board approval of bill list
- Compares checks with the documentary evidence before the signature is affixed
- Reconciles monthly bank statements

Fiscal Officer: (A)

- Directs checks to treasurer for signature
- Reviews and approves monthly bank statement reconciliations

Board of education/Trustees: (A)

- Approve bills payable list

- (A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH DISBURSEMENTS

Example III: Central office with four staff members – Bookkeeper, Position 1, Position 2, and Position 3

Bookkeeper: (B)

- Enters transaction data into the books
- Prepares bills payable list

Position 1: (C)

- Audits invoices and bills for mathematical computations before checks are written (Purchase requisition, purchase order, receiving report, and invoice should be reviewed and all amounts verified.)
- Compiles data for bills payable list
- Mails checks

Position 2: (C)

- Prepares checks after board approval of bill list
- Reviews monthly bank reconciliations

Position 3: (C)

- Compares checks with the documentary evidence before the signature is affixed
- Reconciles monthly bank statements

Fiscal Officer: (A)

- Directs checks to treasurer for signature
- Reviews and approves monthly bank statement reconciliations

Board of Education/Trustees: (A)

- Approve bills payable list

- (A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH DISBURSEMENT

Example IV: Central office with five staff members – Bookkeeper, Position 1, Position 2, Position 3, and Position 4.

Bookkeeper: (B)

- Enters transaction data into the books
- Prepares bills payable list

Position 1: (C)

- Audits invoices and bills for mathematical computations before checks are written (Purchase requisition, purchase order, receiving report, and invoice should reviewed and all amounts verified).
- Compiles data for bills payable list
- Mails checks

Position 2: (C)

- Prepares checks after board approval of bill list

Position 3: (C)

- Reviews and approves monthly bank reconciliations
- Compares checks with documentary evidence before the signature is affixed

Position 4: (C)

- Reconciles monthly bank statements

Fiscal Officer: (A)

- Directs checks to treasurer for signature

Board of Education/Trustees: (A)

- Approve bills payable list

- (A) – Authorization
(B) – Bookkeeping
(C) – Custody

CASH DISBURSEMENT

Example V: Central office with six staff members – Bookkeeper, Position 1, Position 2, Position 3, Position 4, and Position 5.

Bookkeeper: (B)

- Enters transaction data into the books
- Prepares bills payable list

Position 1: (C)

- Audits invoices and bills for mathematical computations before checks are written (Purchase requisition, purchase order, receiving report, and invoice should reviewed and all amounts verified).
- Compiles data for bills payable list

Position 2: (C)

- Prepares checks after board approval of bill list

Position 3: (C)

- Reviews and approves monthly bank reconciliations
- Compares checks with documentary evidence before the signature is affixed

Position 4: (C)

- Reconciles monthly bank statements

Position 5: (C)

- Mail checks

Fiscal Officer: (A)

- Directs checks to treasurer for signature

Board of Education/Trustees: (A)

- Approve bills payable list

(A) – Authorization

(B) – Bookkeeping

(C) – Custody

PAYROLL

Payroll transactions comprise a major dollar value of the LEA budget. The accounting function inherent in the payroll process should be segregated to the greatest extent possible. A formalized system of duty segregation can provide greater controls over payroll transactions.

Typical controls necessary for a more effective payroll system include:

- Authorization to employ.
- Maintenance of personnel data records (updated on a regular basis).
- Maintenance of updated tax records
- Use of time clock or time sheet for hourly employees, which is signed by employees' supervisor
- Review of payroll calculations by an employee other than the preparer.
- Responsibility for "payroll clearing accounting."
- Responsibility for payroll records designated.
- Compliance with state and federal statutes.
- Distribution of payroll checks by personnel independent of the bookkeeping function.
- Control over unclaimed wages.
- Responsibility for distribution to outside entities (Federal and State taxes, insurances, annuities, charities, garnishments, retirement).
- All wage rates fixed by Board of Education.
- Contracts of all certified personnel on file.

PAYROLL

Example I: Central office with two staff members – Bookkeeper and Secretary

Bookkeeper:

- Performs payroll computations
- Enters transaction data into accounting records
- Processes all withholdings
- Compares net check amounts to payroll ledger
- Maintains payroll ledger

Secretary:

- Maintains personnel data records (Tax records, authorized withholdings, etc.)
- Reviews payroll calculations
- Prepares checks

Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer for signature

Board of education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

Principals:

- Prepare hourly wage reports
- Distribute payroll checks

PAYROLL

Example II: Central office with three staff members – Bookkeeper, Position 1 and Position 2

Bookkeeper:

- Enters transaction data into accounting records
- Compares net check amounts to payroll ledger

Position 1:

- Reviews payroll computations
- Prepares checks

Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger
- Maintains personnel data records (Tax records, authorized withholdings, etc.)

Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage reports
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer for signature

Board of Education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

Principals:

- Prepare hourly wage reports
- Distribute payroll checks

PAYROLL

Example III: Central office with four staff members – Bookkeeper, Position 1, Position 2, and Position 3

Bookkeeper:

- Enters transaction data into accounting records

Position 1:

- Reviews payroll computations
- Prepares checks

Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger

Position 3:

- Compares net check amounts to payroll ledger
- Maintains personnel data records (Tax records, authorized withholdings, etc.)

Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer

Board of Education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

Principals:

- Prepare hourly wage reports
- Distribute payroll checks

PAYROLL

Example IV: Central office with five staff members – Bookkeeper, Position 1, Position 2, Position 3 and Position 4

Bookkeeper:

- Enters transaction data into accounting records

Position 1:

- Reviews payroll computations
- Prepares checks

Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger

Position 3:

- Compares net check amounts to payroll ledger

Position 4:

- Maintains personnel data records (Tax records, authorized withholdings, etc.)

Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Compares net check amount to payroll ledger before signature is affixed (on a sample basis)
- Directs checks to treasurer

Board of Education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

Principals:

- Prepare hourly wage reports
- Distribute payroll checks

PAYROLL

Example V: Central office with six staff members – Bookkeeper, Position 1, Position 2, Position 3, Position 4 and Position 5

Bookkeeper:

- Enters transaction data into accounting records

Position 1:

- Reviews payroll computations
- Prepares checks

Position 2:

- Performs payroll computations
- Processes all withholdings
- Maintains payroll ledger

Position 3:

- Compares net check amounts to payroll ledger

Position 4:

- Maintains personnel data records (Tax records, authorized withholdings, etc.)

Position 5:

- Reviews hourly wage reports

Fiscal Officer:

- Signs contracts of salaried employees
- Approves hourly wage report
- Directs checks to treasurer

Board of Education/Trustees:

- Regularly approve employment documents of all personnel
- Set salary amounts or wage rates for all personnel

Principals:

- Prepare hourly wage reports
- Distribute payroll checks

PURCHASING

In a centralized purchasing operation all purchases are made by a designated purchasing agent Who is responsible for all purchasing of the Local education Agency (LEA). The following recommended forms Provide additional controls over purchasing, statutory purchasing requirements, and asset custody and protection.

- 2-Part Purchase Requisition
Original to central office
Copy to person making request
- 3-Part Purchase Requisition
Original to vendor
Copy retained in central office in vendor file
Copy filed in numerical purchase order file
- 4-Part Purchase Orders
Original to vendor
Copy retained in central office in vendor file
Copy retained by receiving
Copy filed in numerical order in purchase order file
- 2-Part Receiving Reports
Original to central office
Copy retained by receiving

The forms are recommended for all purchasing systems since adequate controls are needed in any system, regardless of size or type. The main considerations in the formulations and implementation of a well-designed system revolve around the three responsibility areas (authorization, bookkeeping and custody) and compliance with statutory requirements of State purchasing laws.

While the volume of paper work may appear large, closer consideration of the recommended forms reveals the purpose of each form and the control advantages that use of the form can provide.

PURCHASING

2-Part Purchase Requisitions

The two-part purchase requisition serves as a transaction initiator. The form is used by a teacher, principal, secretary, or other district personnel member to make a request for materials needed. The requisition must be approved by the next higher level of management to the person making the request. This act of approval authorizes the transaction to begin travel through the purchasing system. A copy is retained by the person making the request, and the original is forwarded to the central office, either to the designated purchasing agent or central office bookkeeping department. The requisition serves as hard-copy evidence of the authorized need for materials.

3-Part Purchase Order

Once the requisition reaches the centralized purchasing department or central office, several activities occur simultaneously. The purchase requisition is analyzed and compared to the unencumbered balance in the appropriate expenditure budgetary control function. The purchase amount is also subjected to the requirements of the State purchasing laws. After the amount of the purchase has been determined to be within budgetary limits and State purchasing laws have been complied with, the purchase order is issued. The original copy of the purchase order is sent directly to the vendor. Copy 1 is retained in the central office, and Copy 2 is filed in a numerical purchase order file. At this point the central office has the original copy of the purchase requisition and Copy 1 of the purchase order. The purchase order serves as physical evidence of an approved order being placed with an outside vendor.

4-Part Purchase Order

The four-part purchase order works in the same manner as the three-part purchase order along with two-part receiving report (these are still needed for partial orders). The receiving department uses an actual copy of the purchase order with an area for date and signature of receipt of goods. In addition, the receiving department has information on where to deliver order within the LEA. Copies of these purchase orders are signed, dated, (attaching any shipping papers) and returned to the purchasing department. Purchase order copies are only returned to the purchasing department when orders are complete. Any partial orders would utilize a short "Partial Order Received" form. This process provides the central warehouse custodian (or the supervisor) with information related to their types, numbers, and timing of outstanding orders; the central warehouse custodian (or the supervisor) can then better plan for personnel and/or space requirements.

PURCHASING

2-Part Receiving Report

When the merchandise is received, a 2-part receiving report is instrumental in providing controls over the physical custody of the district assets. The person receiving the merchandise indicates the description and quantity received on the report, signs the report, and forwards the original copy to the central office, attaching any shipping papers sent with the order.

NOTE: For internal control purposes, attaching the shipping paper is important.

Upon receipt of the report, the central office bookkeeping department compares the quantity actually received with the quantity ordered. The central office has on file the original purchase requisition, Copy 1 of the purchase order, and the original receiving report. When an invoice for payment is received, the three documents on file in the central office serve as hard-copy evidence of the authorized request for materials, the authorized purchase of the materials, and the actual receipt of the materials. All material-purchase invoices should ideally be supported by a requisition, a purchase order, and a receiving report prior presentation for approval to be paid. (Individual board policy may vary on amounts of purchases that are subject to purchase by purchase order. Amounts below a designated amount may be exempt from the requirement of a purchase order.)

In the absence of the implementation of a 2-part receiving report system by the school district, a signature of the person receiving the merchandise should appear on the original invoice. A receiving report is verification of the actual quantity and condition of goods received by the person who actually receives them.

<http://www.isbe.state.il.us/savings/Default.htm>

PURCHASING

Example: (Position segregation can be used in all five example LEAs)

Purchasing Agent:

- Maintains a listing of regularly used materials
- Receives purchase requisitions
- Monitors requisitions for feasibility of bulk-purchasing for additional cost savings
- Determines need for compliance with State purchasing laws
- Secures quotes when necessary for compliance with LEA requirements
- Advertises for bids when necessary for compliance with statutory requirements
- Issues purchase orders
- Forwards original requisition and Copy 1 of purchase order to bookkeeping for further processing
- Maintains bid/quote file
- Maintains numerical purchase order file

Bookkeeper:

- Compares requisition amount to the unencumbered balance in the appropriate expenditure budgetary control function

Fiscal Officer:

- Reviews measures to comply with State purchasing laws

Board of Education/Trustees:

- Formulate and adopt a district purchasing policy
- Approve measures to comply with State purchasing laws, including acceptance/approval of bid items
- Approve emergency purchases (bids not required)
- Approve purchases of one-source items (bids not required)

Central Warehouse Custodian:
(When central warehousing is used)

- Receiving materials
- Prepares receiving report
- Requisitions materials when quantity reorder point is reached
- Distributes materials to divisions (schools, central office, transportation department, etc)
- Maintains adequate inventory records

INVESTMENT TRANSACTIONS

Controls should exist to provide reasonable assurance of compliance with laws and regulations governing the investment of district assets. An efficient, carefully planned investment plan should include adequate internal controls over the authorization of investment activities, the recording of investment transactions, and the physical access to and custody of district investments.

General control features of a well-designed investment plan include consideration of the following check points.

- Proper authorization of transactions
- Investments under control of a custodian
- Investment custodian bonded
- Investment custodian independent of cash-receipts duties
- Investment custodian independent of investment record maintenance
- Safety deposit box for storage of investments
- Access to investments limited
- Record of all safety deposit visits
- Presence of two required for access to safety deposit box
- Periodic reconciliation of detailed investment records with control subsidiary ledger
- Maintenance of advices, interest statements, etc.
- Securities in name of school district
- Periodic appraisal of investment by Fiscal officer and Board of education/Trustees
- Adequate investment records encompassing all investment transactions

INVESTMENT TRANSACTIONS

Example: Central office with two or more staff members – Bookkeeper and Secretary

Bookkeeper: (B)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Enters investment transaction data into books
- Maintains subsidiary investment records
- Performs periodic reconciliation of detailed investment records with control subsidiary ledger
- Prepares monthly investment report

Secretary: (C) or Position 1 (2, 3, 4, etc.)

- Receives funds from the sale of investments and makes deposits
- Prepares checks for the purchase of investments
- Performs periodic review of investment subsidiary ledger
- Receives interest on investments and makes deposits

Fiscal Officer: (C)

- Performs periodic analysis of cash balances to determine surplus cash on hand and feasibility of investments
- Approves investment transactions
- Acts as investment custodian
- Purchases and sells investments (after board approval)
- Appraises investments (monthly)
- Develops investments policies

Board of Education/Trustees: (A)

- Approve investment policies

(A) – Authorization
(B) – Bookkeeping
(C) – Custody

REVOLVING ACCOUNT FUND AND/OR PETTY CASH TRANSACTIONS

The need for segregation of accounting responsibilities becomes critical when establishing internal controls for petty cash disbursements and fund replenishment. The following control points are effective for the control of petty cash transactions:

- Imprest system
- Reasonable total petty cash fund amount
- Completeness of vouchers
- Separate custodian responsible for each fund
- Surprise checks
- No employee check cashing
- Physically secure
- Custodian has no access to cash receipts
- Custodian has no access to accounting records
- Detailed descriptions on monthly board bill list (not just reimbursements of petty cash fund or revolving account fund).
- Two signatures required on fund checks

REVOLVING ACCOUNT FUND AND/OR PETTY CASH TRANSACTIONS

Example: Central office with two or more staff members – Bookkeeper and Secretary

Bookkeeper: (B)

- Reviews petty cash vouchers
- Prepares voucher for reimbursement
- Prepares reimbursement check (payable to petty cash fund custodian)
- Enters data (from reimbursement voucher) into accounting records

Secretary/Principal: (C)

- Serves as the petty cash fund custodian
- Reviews and countersigns petty cash vouchers
- Deposits reimbursement check to replenish petty cash fund

Fiscal Officer: (A)

- Approves voucher for reimbursement
- Signs check
- Conducts surprise petty cash counts

Board of Education/Trustees: (A)

- Fix dollar amount of Imprest fund
- Review expenditures from fund (on detailed bill list, when fund is reimbursed)

(A) – Authorization
(B) – Bookkeeping
(C) - Custody

INTERFUND TRANSFERS

Inter-fund transfers present the need for additional safeguards to insure financial statement reliability. Due to the infrequency of inter-fund transactions, LEA management may tend to overlook the need for responsibility segregation in this important area of school accounting. Inter-fund transfers should be made only after the general or specific authorization of LEA management is given. General authorization may be in the form of a blanket authorization (Resolution) in the official minutes of the Board. A more specific authorization may come from a transfer-by-transfer approval by the board of education. Regardless of the form taken, the authorization should be given by LEA management and be segregated from the bookkeeping function.

No one person should be delegated both the responsibility of authorizing an inter-fund transfer and entering the transaction into the district accounting records.

INTERFUND TRANSFERS

Example: (Position segregation can be used in all five examples.)

Bookkeeper: (B)

- Prepares itemized listing of needed inter-fund transfers to be presented for authorization
- Enters data into the accounting records (after approval is granted)
- Retains approved itemized listing in transfer file

Fiscal Officer: (C)

- Reviews inter-fund transfers (itemized listing presented for approval)
- Authorizes specific inter-fund transfers with general board authorization
- Assures compliance with established rules and guidelines governing inter-fund transfers

Board of Education/Trustees: (A)

- Authorize all inter-fund transfers and their repayments

INTER-FUND TRANSFER APPROVAL REQUEST

SCHOOL DISTRICT

DATE

TRANSFER TO	TRANSFER FROM	PURPOSE	AMOUNT
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Approved by

Date

SCHOOL DISTRICT

MONTH OF _____

Investment Number	Type/Fund	Date of Purchase	Date of Maturity	Rate %	Amount \$	Interest Earned to Date
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Signature (approval)

Date

Total Interest earned for the month

Total Interest earned for the year

RECEIVING REPORT

_____ SCHOOL DISTRICT

ITEM NUMBER	DESCRIPTION	QUANTITY RECEIVED
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Prepared by

Date

Note: Submit to Central Purchasing

PURCHASE ORDER

_____ SCHOOL DISTRICT

_____ Purchase Order Number

_____ Purchase Order Date

Vendor: _____ Ship To: _____

Requested Delivery Date _____ Shipping Request: _____

Item Number	Fund Code	Function Code	Object Code	Part Number	Description	Quantity	Unit Price	Bid Reference	Total Price

Prepared by

Date

Note: Submit original to vendor. File first copy with purchase requisition, invoice and receiving report. File second copy in purchase order numerical order.

PURCHASE REQUISITION

SCHOOL DISTRICT

School Department: _____ Deliver To: _____ _____ _____	Requisition Date: _____ Date Required: _____ Recommended Source: _____ _____
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Item Number	Description	Quantity	Unit Price	Price

Prepared by	Date
<i>Approved by</i>	<i>Date</i>

Note: Submit original to Central Purchasing for filing with invoice and receiving report. Duplicate copy retained by preparer.