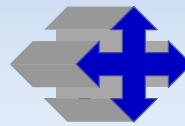


Discussion Item

Framework for Internal Control

Presented By



Government Financial Solutions, Inc.

OBJECTIVES

The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

RESPONSIBILITIES

Management is responsible for establishing and maintaining effective internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls.

COST / BENEFIT

Low Cost

High Cost

LOW
CONTROL

HIGH
CONTROL

Little Involvement

Heavy Involvement

MANAGEMENT'S JUDGEMENT

Low Cost

Reasonable Cost

High Cost

LOW
CONTROL

HIGH
CONTROL

Little Involvement

Good Internal
Control

Heavy Involvement

EXAMPLE - PAYROLL

Low Cost

LOW
CONTROL

HIGH
CONTROL

Little Involvement

No review of input
No review of output

EXAMPLE - PAYROLL (CONT)

High Cost

LOW
CONTROL

HIGH
CONTROL

Heavy Involvement

Board in field supervising employees
Board review and approves timesheets
Board review and approves payroll calculations
Board creates, signs, and distributes checks

EXAMPLE - PAYROLL (CONT)

Reasonable Cost

Board: review
financials &
budget; investigate
variances

Manager: review
detailed payroll
reports; investigate
concerns

LOW
CONTROL

HIGH
CONTROL

Good Internal
Control

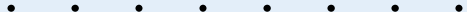

Supervisors:
check attendance;
review & approve
timesheets; review
rates of pay; deal
with concerns

Finance: review
pay calcs; review
reports; prepare
financial
statements; monitor
budget; investigate
variances



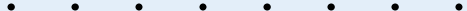

PURCHASING AREA

Estimates and judgments by management are required to assess the expected benefits and related costs of the controls.



PURCHASING AREA (CONT)

Appropriate levels of oversight are needed for each of the participants in the purchasing process. Oversight should include both purchasing and disbursements.



PURCHASING AREA (CONT)

Example (purchasing):

Board approves all POs over \$50,000

Executive Director approves all POs
between \$2,000 and \$50,000

Supervisors approve all POs under
\$2,000

PURCHASING AREA (CONT)

Example (disbursements):

Board signs all checks over \$5,000

Executive Director signs checks under
\$5,000

Note: payroll is processed by ADP and
therefore, no checks are actually signed
by anyone from SEMSWA.

PURCHASING AREA (CONT)

Use of purchasing cards can facilitate ease of purchasing as well as enhance internal control. Features include:

- Individual card limits
- Limits on vendors by card
- Supervisory review and approval
- Just like using VISA

BOARD FEEDBACK

Board ideas and concerns?