

Internal Controls

Fresno County Office of Education

1111 Van Ness Avenue, Third Floor

Fresno, CA 93721

559.497.3770

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I. PHILOSOPHY ON FISCAL RESPONSIBILITY

Every individual within The Foundation @ FCOE plays a role in influencing the internal control system. Responsibilities vary depending on the role but, the executive director is ultimately responsible for the appropriate use and control of the financial and material assets that are overseen by, and entrusted to, him/her. The executive director is accountable to the Superintendent of County Schools, and informally to the Board of Directors, which provides governance, guidance and oversight. He/she is accountable to the Foundation's contributors, board of directors, IRS and other applicable funding agencies of federal, state and private grants and contracts.

II. KEY CONCEPTS OF INTERNAL CONTROL

Internal control is a *process of checks and balances*. The goal is to maintain and provide a reliable financial reporting system, effective and efficient operations, and compliance with laws and regulations.

Internal control is a process affected by *people*. It is a process that contains policy manuals and forms, but also, is heavily influenced by people's actions at every level of the Foundation.

III. COMPONENTS OF INTERNAL CONTROL

The key concepts that are taken to achieve internal control are:

Preventive Controls

Preventive controls are implemented in an effort to prevent or deter undesirable acts from occurring. These proactive controls are designed to prevent a loss, error, or omission.

Examples of preventive controls are:

- separation of duties
- proper authorizations
- adequate documentation
- physical security over cash and other assets

Monitoring Controls

Monitoring controls are implemented in an effort to detect undesirable acts that have occurred. They provide evidence after-the-fact that a loss or error has occurred, but do not prevent them from occurring.

- Regular reviews by the executive director and other supervisory staff, of account activity, reports, and reconciliations is essential.
- Perform routine, random, informal audits of transactions, records and reconciliations.
- Variance analysis, comprised of comparisons with budget and actual comparisons.
- Physical inventories of all Foundation assets.

Information Systems

- A database will be maintained to administer contributor information to provide accurate and necessary information to the appropriate people, at the necessary level of detail, on a timely basis.

- An electronic financial record-keeping system will manage all financial transactions (revenue and expenses).

Risk Assessment

The executive director is responsible for assessing risks that could undermine the objectives of financial statements:

- Establishing the existence/ownership of assets and liabilities.
- Proper valuation of assets and liabilities.
- The reporting of all transactions during a given reporting period.
- Accurate presentation and disclosure.

Controlled Environment

A *control-conscious environment* is necessary and is comprised of supporting ethical values and business practices. The executive director is responsible for serving as the example. This includes encouraging the highest levels of integrity and ethical behavior, as well as exhibiting leadership behavior that promotes internal control and accountability such as:

- Advising applicable parties that fraud and conflicts of interest will not be tolerated and the consequences thereof.
- Communicating to all applicable parties the Foundation policies and procedures and the importance of following them.
- Making employees fully aware of their responsibilities, including internal controls.
- Monitoring the internal controls system on an on-going basis.
- Keeping channels open for the communication of suspected improprieties.

IV. SUSPECTED THEFT OR MISUSE OF ASSETS

The executive director will be alerted of any suspected loss of money, securities and/or property immediately. The executive director will investigate the suspected loss and determine the validity of such and take corrective measures for recovery and prevention. Prompt reporting of losses increases the likelihood of recovering assets and limiting their misuse.

V. SEGREGATION OF DUTIES

Segregation of duties is essential to effective internal control and reduces the risk of both erroneous and inappropriate actions. The segregation of duties serves as a deterrent to fraud.

Major functions that must be adequately separated within the Foundation are described below.

- No single person should:
 - record transactions and reconcile balances.
 - handle cash and verify deposits.
 - handle assets and reconcile perpetual records to physical counts.
 - enter or approve a check request and have the check returned to themselves.

When it is extremely difficult to separate these functions, a detailed supervisory review of

related activities or transactions is required as a compensating control activity. To ensure proper separation of duties, a person should never approve a transaction for which they are the payee.

V. REVIEWS BY THE EXECUTIVE DIRECTOR

- Perform budget to actual expense comparisons and examine significant discrepancies.
- Routinely perform informal audits to randomly check transactions, records, and reconciliations to ensure expectations are met as to accuracy timeliness, completeness, segregation of duties, propriety of the transaction, etc.
- Investigate unexpected results or unusual transactions as they may be indications of theft or fraud. Ask for explanations of unforeseen results and ask for reasons for uncommon transactions. Question the explanations and rationale behind the actions if they do not seem appropriate (i.e., ask to see the items that were purchased, etc.).
- Document the outcomes of the audit and the results of reviewing the reports and reconciliations by initialing and dating them and briefly indicate the resolution, note whether or not future follow-up is needed, and make note of unexpected results or unusual transactions.

VI. RECONCILIATIONS

Broadly defined, the process of *reconciliation* consists of comparing different sets of data in order to make certain that the data is accurate and complete as it relates to the transactions for a designated period. Recognizing and exploring differences and taking corrective action are integral parts of the reconciliation process and are necessary to resolve any differences.

To properly exercise the separation of duties, the person who enters or approves transactions or handles cash receipts will not be the person who performs the related reconciliations.

Reconciliations will be performed monthly, by the designated FCSS Internal Business Services Supervisor or designee, Internal Business Services Department.

Examples of important reconciliations that will be performed are:

- Reconciling the dollar amount of cash and checks received per original records (not per the receipt vouchers) to the dollar amount actually deposited.
- Reconciling financial bank statements with data maintained in the financial record keeping system will be conducted by the assigned FCSS Accountant and the FCSS Internal Business Services Supervisor on a monthly basis.
- Monthly bank reconciliations will be signed by the assigned FCSS Accountant and the FCSS Internal Business Services Supervisor upon completion.

VII. APPROVALS

To ensure proper separation of duties, a person should never approve a transaction for which they are the payee.

Approval authority should only be given to:

1. Executive Director
2. Treasurer
3. Deputy Superintendent of Business Services
4. Board President

These individuals will have sufficient authority and knowledge to recognize and challenge unusual transactions by ensuring that:

- All approval levels necessary have been met.
- Proper supporting documentation is included.
- Transactions are in compliance with Foundation policies and procedures.
- Unusual items are questioned.
- Transactions are within means of the existing budget.
- Charges are allowable.
- No "rubber stamps" or "blind" approvals are used.
- Passwords are not shared.
- Transactions are not split as to avoid higher approval levels.

If approval authorities have a question regarding any transaction(s), he/she should contact the executive director and/or the Foundation Finance Chair and/or the Deputy Superintendent of Business Services.

To ensure that Foundation assets remain secure, all security passwords will be reset upon an employee's/signee's termination, withdrawal, transfer, or change in responsibilities.

VIII. ASSETS

In addition to cash, all equipment and supplies, regardless of original cost, are considered *assets* of the Foundation.

- **All assets must be kept in a secure location.**

Cash, equipment, and supplies must be safeguarded from unauthorized access, use or theft. Some controls that will be used to safeguard assets are keeping doors, filing cabinets, drawers, and safes locked when not in immediate use. The number of individuals with access to the keys or lock combinations will be kept to a minimum. Locks will be changed upon an employee's/signee's termination, withdrawal, transfer, or change in responsibilities if the individuals had prior access to keys where a significant amount of assets are stored.

- Conduct periodic counts of inventories.
- Update the fixed asset information annually.

- Record any asset disposals and transfers timely.

Fixed asset listings will be reviewed annually and compared to assets physically on-hand. Missing items will be investigated, resolved, and analyzed for possible control deficiencies. Fixed asset listings will be updated accordingly.

IX. PETTY CASH

If petty cash funds are needed to be held in the Foundation’s main office, the amount will be limited the following guidelines will be followed:

- Keep the petty cash fund in a locked, secure place.
- Access to the petty cash fund should be restricted to the executive director or designee.
- Petty cash should be disbursed only by the executive director or designee.
- Original and itemized receipts shall be provided in order to reimburse from petty cash. Receipts will be kept in the petty cash box for reconciling.
- The original receipts should be approved and signed by the executive director and purchaser.
- Petty cash will not be used for personal expenses, personal loans, or to cash personal checks.
- The executive director or designee is responsible for reconciling the petty cash fund on a monthly basis. (The remaining cash plus original receipts should equal the full, original amount of the fund.)
- Random and unannounced audits of the petty cash fund should be performed by someone other than the executive director or designee.
- In the event of an unexplained petty cash shortage, see section on “Suspected Theft or Misuse of Assets”

X. FINANCIAL RECORDKEEPING and BANKING PROCEDURES

- Cash or credit cards will be accepted.
- All checks shall be written to The Foundation @ FCOE mailed to the main office located at:
The Foundation @ FCOE
1111 Van Ness, 3rd Floor
Attn: Executive Director
Fresno, CA 93721
- An electronic financial record-keeping system (Quickbooks or similar) will be maintained to log all check payments received. Data to be recorded in the system will include:
 1. Issuer name and contact information
 2. Date received
 3. Check number
 4. Amount
 5. Purpose of the check (endowment, event specific, etc.)
- Numbered receipts will be kept for all payments received.

- Contributors will receive an acknowledgment letter for their contribution to the Foundation.
- All receipts will be properly accounted for and coincide with the log maintained with the electronic record-keeping system.
- Checks will be immediately endorsed when received with a bank endorsement stamp.
- Checks will be kept in a locked, secure, and restricted location, such as a drawer or safe, until they are deposited. Access to the location by others will be limited.
- Deposits will be made on a weekly basis.
- All deposits will be reconciled with the electronic financial record-keeping system on a monthly basis.
- With regard to all short term funds held, any interest generated will become revenue to the unrestricted account of the Foundation.
- In following the separation of duties, the assigned FCSS Accountant of finance or designee will verify that the amounts actually deposited equal the amounts from the log.
- Separation of duties for processing checks is as follows:
 1. Checks will be received by the Program Assistant and recorded in the check log.
 2. Program Assistant will make a copy of the checks for the executive director to determine fund designation and to complete the Foundation Contribution Processing form (yellow).
 3. Assigned FCSS Accountant will record received checks in the electronic financial record-keeping system.
 4. Program Assistant will prepare deposits and assigned FCSS Accountant will verify.
 5. Executive Director or designee will take the deposit to the bank.
 6. Executive Director will deliver the bank deposit slip to Program Assistant to record in the check log.
- Fund transfers between subaccounts will be documented using the Bank Transfer requisition form (green) and verified by executive director or designee.

XI. ACCOUNTS PAYABLE

- Vendors/debtors will submit original invoices directly to the Foundation main office located at:

The Foundation @ FCOE
1111 Van Ness, 3rd Floor
Attn: Executive Director
Fresno, CA 93721
- Supporting documentation will be kept for all payments.
- All payments will be approved by the executive director before processing.
- Two signatures are required on all checks.
- W9s will be obtained from vendors and reviewed, entered and scanned by assigned FCSS Accountant.

XII. PURCHASING

- No purchases of personal items are permitted with the Foundation funds.
- California sales tax should be calculated as it applies.
- The conflict of interest policy shall be followed when purchasing products or services from other Foundation members and/or relatives of the members.
- Competitive bids or sole source justifications will be obtained when necessary and approved by the executive director.

Credit cards/Visa debit card:

- If credit cards are obtained in the Foundation's name, they will be kept in a secure location.
- The only person authorized to use a credit card is the executive director or designee.
- Because of the potential misuse of credit cards, transactions should be carefully scrutinized. Under no circumstances, are credit cards to be used for personal expenses.
- Advance approval is required, to the extent possible, using a Purchase Requisition form (blue)
- **Original and itemized receipts** for all transactions will be kept on file at the Foundation main office.

XIV. GIFT CARDS DISTRIBUTION

The Foundation @ FCOE may from time-to-time purchase gift cards as approved by the executive director for awards or incentives. When gift cards are obtained, they should always be kept in a secure and locked location. FCSS departments obtaining gift cards purchased by The Foundation @ FCOE, for instance under a grant or incentive program, are responsible for ensuring that they are kept in a secure and locked location. Department representatives will sign acknowledging receipt of the gift cards for distribution. A log will be maintained by The Foundation @ FCOE for cards held with the Foundation, and departments will assign someone to maintain the distributions of gift cards that pertain to their program(s). Each gift card recipient must sign for the gift card acknowledging receipt. Once all the cards have been distributed, or the campaign/grant, etc. has ended the completed logs must be submitted to the Foundation office for reconciliation along with any undistributed cards. Gift cards will be kept in a locked safe at all times until distribution.

XV. REQUEST FOR FOUNDATION FUNDS

The mission of The Foundation @ FCOE is to support student development by encouraging community investment in enriching the lives of Fresno County public school students through exemplary educational programs and services of the Fresno County Superintendent of Schools.

Departments requesting funds to sponsor all, or a portion of an event must complete the *Request for Funds* form. This form is to be completed by the department head and approved by the cabinet member.

XVI. ROLE AND DUTIES OF BOARD OF DIRECTORS FINANCE COMMITTEE

Per the bylaws of The Foundation @ FCOE, the role of the Finance Committee is the management of funds, including investments and disbursements. Disbursements will be in accordance with predetermined needs and goals established by the Board and approved by the Fresno County Superintendent of Schools. The Finance Committee also provides advice and guidance in the management of properties, which may from time to time be gifted to the Foundation. The Committee analyzes the annual budget as proposed by the Executive Director and proposes a budget for approval by the Executive Committee. The FCSS Deputy Superintendent of Business Services shall also serve on the Finance Committee. The Committee shall also act as the Audit Committee.

The Finance Committee will meet quarterly to review the performance of all endowed funds and to provide regular review of the following reports:

- 1) statement of financial position
- 2) statement of activity
- 3) detail of revenues and expenditures.

XVII. ROLE OF AN EXTERNAL AUDIT

An external audit will be conducted on The Foundation @ FCOE annually by an outside accounting agency. External audits provide and assist management with an independent and objective analysis of activities and controls that are exercised within the Foundation. The detail of the audit will range from a review of certain activities to a formal audit of all financial transactions. After the external audit is conducted, a management letter will be provided to the Board of Directors with the results and any recommendations.

The Foundation main office is responsible for coordinating all activities of all external audits conducted within the Foundation.

XVIII. RECORD RETENTION AND DESTRUCTION POLICY

The Purpose of this policy is to ensure that necessary records and documents of The Foundation @ FCOE are adequately protected and maintained and to ensure that records that are no longer needed by the Foundation or are of no value are discarded at the proper time.

The Record Retention Schedule is approved as the initial maintenance, retention and disposal schedule for physical records of the Foundation and the retention and disposal of electronic documents. The Executive Director is the officer in charge of the administration of this Policy and the implementation of processes and procedures to ensure that the Record Retention Schedule is followed. The Administrator is also authorized to make modifications to the Record Retention Schedule to ensure that it is in compliance with local, state and federal laws and includes the appropriate document and record categories for the Foundation; monitor local, state and federal laws affecting record retention; annually review the record retention and disposal program; and monitor compliance with this policy.

The Policy applies to all physical records generated in the course of the Foundation's operation, including both original documents, reproductions and electronic documents.

The Record Retention Schedule is organized as follows:

Record Type	Retention Period
Fiscal/Sponsor Project Records	
• Sponsorship Agreements	Permanent
• General Ledgers	Permanent
• Interim Financial Statements	7 years
• Notes Receivable ledgers and schedules	7 years
• Investment records	7 years
• Bank Statements	7 years
• Annual Audit Reports	Permanent
• Annual Report	Permanent
• Contribution Reports	Permanent
Contracts	
• Contracts and related records	7 years after expiration or termination
Corporate Records	
• Minute books	Permanent
• Articles of Incorporation	Permanent
• Bylaws	Permanent
• Annual Corporate Reports	Permanent
• Licenses and Permits	Permanent
Tax Records	
• Annual 990 Report	Permanent
Grant Records	
• Original Proposal	7 years
• Agreement	7 years
• Report	7 years
Insurance Records	Permanent
Other	As appropriate

XIX. CONTACTS FOR ASSISTANCE

For assistance with any questions or concerns about internal control, please contact:

MaryEllen Galvan, Executive Director	559-497-3770	mgalvan@fcoe.org
Sarah Olmos, Program Assistant	559-265-3098 ext. 4245	solmos@fcoe.org
Kevin Otto, Deputy Superintendent, Business Services	559-265-3083	kotto@fcoe.org
Eyvonne James, Accountant	559-443-4855	ejames@fcoe.org
Andrea Soto Internal Business Services Supervisor	559-265-3022 ext. 3356	asoto@fcoe.org