

Internal Controls Policy Statement

(Accounting Procedures Manual for Activity and Welfare Funds, September 2000)

The management (governing body) is responsible for establishing and maintaining an effective internal control structure. To fulfill this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs for internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable assurances that assets are safeguarded against loss from unauthorized use or disposition, and that financial transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

In addition, management is responsible for adhering to the prescribed accounting policies and procedures as promulgated by the Office of the State Comptroller in the State Accounting Manual (SAM) and in this manual.

a. Effective Internal Controls

The United States General Accounting Office describes the establishment and maintenance of an internal control structure as an important management responsibility. Effective internal controls are essential to achieving the proper conduct of government business with full accountability for the resources made available. Internal controls also facilitate the achievement of management objectives by serving as checks and balances against undesired actions.

More specifically, internal control may also be defined as a process, effected by an entity's management, personnel, and oversight agencies, designed to provide reasonable assurance regarding the accomplishment of the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

A well-designed internal control structure will reduce improper activity. The responsibility of designing and implementing internal controls is a continuous process. As conditions change, control procedures may become outdated and inadequate. Management must anticipate that certain procedures will become obsolete and modify internal control systems in response to these changes. Accountability Directive Number 1 (Revised), issued by the Office of the State Comptroller, the Office of Policy and Management, and the Auditors of Public Accounts, can provide guidance and assistance to State Agencies in establishing, evaluating, and maintaining adequate internal controls.

b. Relevant Internal Controls for Activity and Welfare Funds

Sufficient controls to prevent theft, shortages, operational inefficiency or a breakdown in the control structure are necessary. In addition to general controls provided in Accountability Directive Number One (Revised), relevant internal controls specific to activity and welfare funds may also include:

- Statement of policy providing guidance for acceptable fund usage;
- Establishment of a separate fund group for restricted accounts that may include assets, liabilities, and fund balances;
- Establishment of appropriate budgetary procedures for expenditure from restricted accounts;
- Maintenance of adequate records indicating the authorized use for restricted funds;
- Establishment of procedures adequate for acknowledging the receipt of gifts;
- Submission of financial statements to grantors and donors.