



LAKELAND
SCHOOL SYSTEM
— *Learn. Grow. Lead.* —

INTERNAL CONTROL MANUAL

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1 INTRODUCTION

Lakeland School System has the responsibility to its taxpayers, ratepayers, and constituents to be good stewards of public monies and property. In our efforts to serve the public as Lakeland School System school board members or employees, Lakeland School System established this Internal Control Manual using state and federal directives, and widely recognized best practices

State of Tennessee statutes require the Comptroller's Office, Department of Audit to prescribe uniform accounting systems for entities that handle public funds. Those statutes require public officials to adopt and use the system designated by the Comptroller's Office. The Tennessee Legislature amended TCA Section 9-2-102 in 2015 to require local governments to establish and maintain internal controls in accordance with guidance issued by the U.S. Government Accountability Office (GAO). The guidance is titled *Standards for Internal Control in the Federal Government* (Green Book). The Green Book follows the format developed by the Committee of Sponsoring Organizations (COSO) which has been the gold standard of internal control for all entities except the federal government for several years.

The internal control system consists of three objectives and five main components.

THREE (3) OBJECTIVES OF INTERNAL CONTROLS:

1. **Reporting** – reliability
2. **Operations** – effective and efficient
3. **Compliance** – compliant with applicable laws, regulations, contracts and grant agreements

FIVE (5) MAIN COMPONENTS OF INTERNAL CONTROLS THAT ARE REQUIRED TO BE ADDRESSED:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

The purpose of this manual is to ensure that the objectives of reporting and compliance are established. The policies to achieve these objectives are derived from various financial best practices, state and federal laws, and regulations. Policies may be developed to suit the specific needs of Lakeland School System's functions and resources. Detailed procedures are developed and documented as a means for entities to comply with its established policies.

2 CONSIDERATIONS IN DEVELOPMENT OF INTERNAL CONTROLS

Internal control is defined as a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance Lakeland School System's objectives will be achieved. Before developing its Internal Control System (ICS), Lakeland School System as a whole and each department should determine its mission, strategic goals, and objectives, and then formulate a plan to achieve those objectives. The internal controls are policies and procedures put in place to help achieve those goals and objectives. By describing how Lakeland School System and its departments expect to meet its various goals and objectives, using compensating controls to minimize risk, the entire Lakeland School System becomes more aware of expectations. Each department's internal control plan will be unique; however, it must be based on polices included in this guide which incorporate or reference other comprehensive state, federal or standard setting agency polices that have been adopted.

Constant monitoring of all components will ensure that the ICS (which must be reviewed and updated at least annually) is revised whenever changing conditions justify.

Since Lakeland School System's policies and procedures are the control activities for its internal control plans, it is important that they be reviewed in conjunction with the plans and referenced where appropriate. Everyone in Lakeland School System has a responsibility to ensure that internal controls operate effectively.

As directed by T.C.A. 9-18-102 (a) and in accordance with the guidance issued by Tennessee Comptroller's Office, the Lakeland School System has adopted this internal control manual. It is critical to note that the development and operation of the internal control system involves everyone in the organization. As such, management must ensure that the manual is shared with all of its employees. The manual is a work in process and will be assessed periodically.

The following sections document the five components of internal control and significant financial and compliance areas that are deemed high risk.

The Green Book states documentation is management's responsibility:

3.09 Management develops and maintains documentation of its internal control system.

3.10 Effective documentation assists in management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.

3 FIVE COMPONENTS OF INTERNAL CONTROL

CONTROL ENVIRONMENT

Overview

The control environment is the foundation for all other components of internal control, providing discipline and structure. Moreover, management establishes the tone regarding the importance of internal control and the expected standards of conduct; and reinforces those expectations at various levels. Control environment factors include the integrity, ethical values and competence of Lakeland School System's personnel; the distribution of authority and responsibility; the development of its personnel; and the attention and direction provided by the governing body.

Objectives

1. The governing body and management should conduct business with integrity and ethical behavior.
2. The governing body and management should provide direction and oversight for Lakeland School System's internal control system.
3. The governing body and management should hire qualified and competent employees.
4. The governing body and management should establish structure, authority and responsibility to hold individuals accountable for internal control responsibilities.

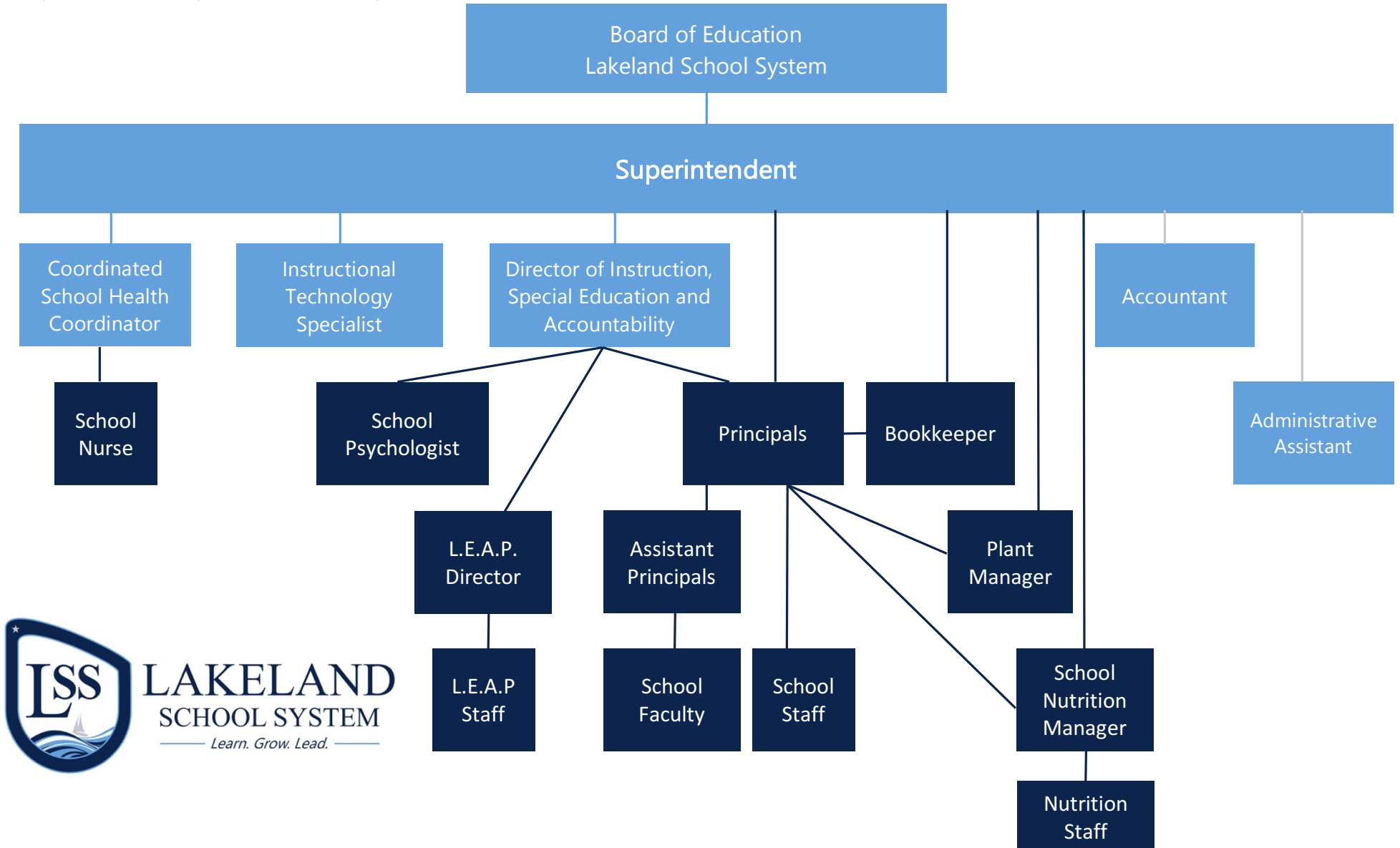
Policies

1. Conflicts of interest must be disclosed before business is conducted.
2. A code of Ethics has been adopted by the Board of Education and management and is reviewed annually with all employees.
3. The Board of Education, has adopted a policy manual.
4. The Board of Education uses the budget process as a means of oversight with department heads.
5. Organizational charts are reviewed for needed changes in regards to authority and responsibility.

Procedures

- If there is a conflict of interest, the disclosure statement from the policy manual must be completed and signed in front of a witness and given to the appropriate supervisor.
- The policy manual and corresponding forms are available to all employees and board members on the Lakeland School System website.
- The Board of Education formally adopts an annual budget. The adopted budget is given to the City for approval by the Board of Commissioners.
- Lakeland School System adopted a policy manual based on TSBA guidelines. Those policies are reviewed and updated annually by the Board of Education.
- Monthly, the policy review committee reviews current policies and submits their findings to the Board of Education.
- Based on legislative changes, TSBA provides recommended policy updates.
- The Board of Education has adopted a personnel policy related to the recruitment and retention of highly-qualified employees for the Lakeland School System.
- All positions shall be approved through the budget process in accordance with the organizational plan submitted by the Superintendent.
- Lakeland School System's organizational chart is available on the system website to establish a defined chain of command.
- All positions require a job description and copies shall be maintained in the Superintendent's office.
- All Lakeland School System employees are required to complete annual online training and are encouraged to obtain additional professional and/or continuing education credits.

Organizational Chart for Lakeland School System



RISK ASSESSMENT

Overview

Lakeland School System officials and management assess the risk of operations continually. The Lakeland School System has chosen to transfer the most common types of risk through the purchase of the following types of insurance:

- Property and Casualty
- Liability
- Errors and Omissions
- Worker Compensation
- Surety Bonds

There are some risks that cannot be anticipated as they relate to financial and compliance issues. We have assessed the following areas and identified certain risks that necessitate the development of internal control policies and procedures. Internal controls will not eliminate all risk but will help reduce risk to gain reasonable assurance that reporting and compliance objectives are met.

Objectives

1. Collections are complete, timely and accurate.
2. Disbursements are for valid Lakeland School System purposes and are properly recorded.
3. Assets are properly safeguarded.
4. Lakeland School System is in compliance with contractual, local, state and federal laws and regulations.

Significant Areas of Risk

Collections (General/ACH)

- Deposits not made within 3 days as required by law
- Deposits not made intact
- Funds not locked away until they are deposited
- No segregation of duties in counting and preparing deposits
- Receipts not coded to proper revenue codes
- Receipts not assigned to appropriate funds
- Unreconciled accounts
- Comingling of funds

Disbursements/Drafts

- Broken law – expenditures must be appropriated
- Owing late fees and penalties
- Improper reporting in financial statements; inaccurate reporting for the governing body – monthly budget vs actual
- Possible loss of school district funds; inappropriate disbursement; theft malfeasance

Safeguarding Assets

- Misuse or loss of assets, not just capital assets (ie. checking accounts, investment accounts, etc.).
- Payback of grant funds

Reconciliation of Accounts

- Misuse or loss
- Missing entries

Control of Investments

- Lower than expected rates of return
- Assessed liability for OPEB investment fund subject to change based on school district policy

Debt Management

- Debt issuances not in compliance with state law
- Violations of the policies of the OSLF
- Additional effort with the annual budgetary practices
- Potential for defaulting on principal and interest payments

Grant Management

- Grant requirements may have changed
- The Accountant is not made aware of the grant transactions

The significant areas of risk are identified above and policies and procedures will be documented in the next section to explain how Lakeland School System plans to implement internal controls to help reduce the risks associated with these area of operations.

CONTROL ACTIVITIES

Overview

This section is where detailed implemented procedures are documented. The objectives, policies; and procedures are described for each of the significant areas identified in the Risk Assessment section.

Collections (General/ACH)

Objectives

1. Collections are complete, timely, and accurate.
2. Collections are safeguarded.
3. Collections are recorded accurately and in a timely manner in the accounting system.

Policies

1. To receipt all revenues to the appropriate fund and revenue code.
2. To receipt all monies in compliance with the state statutes and intact.
3. Pre-numbered receipts are issued for all collections.
4. Two people are involved in the receipting/depositing process.
5. Each person involved in the receipting process has their own cash drawer.
6. All collections are recorded in the General Ledger (G/L).
7. Reconciliations are completed monthly.

Procedures

For funds collected at School

- Each person involved in the receipting process must have their own cash drawer.
- All monies collected are receipted on pre-numbered receipts.
- Money receipted at the school is counted by the employee who collects the funds and initials for accuracy. Money is then turned into the School Bookkeeper, who counts and prepares the deposit.
- Deposit slips are prepared in duplicate and initialed by the Bookkeeper; Cafeteria Manager takes all school deposits to the bank.
- Funds are deposited daily if possible, but no later than three (3) days after receipt. If funds are kept at school overnight, they must be kept in a secure location.
- Once deposit has been made, the bank receipt is given to the Bookkeeper and attached to the duplicate deposit slip.
- The Bookkeeper sends an electronic copy of the deposit slip to the Accountant who assigns the proper revenue code and receipts it to the G/L.

Procedures (continued)

For ACH collections

- Funds collected at board office are usually deposited via ACH. The School District Accountant prints the remittance advice or verification of deposit, applies the proper revenue code, and receipts to the G/L.

For Collections at Board Office

- School System Administrative Assistant receives payments and stamps "For Deposit Only."
- The Accountant prepares the deposit slip in duplicate, initials, and makes a copy of the payment or stub.
- Administrative Assistant verifies the deposit slip and initials, then carries to the bank to execute deposit within three (3) days of receiving, and returns with the deposit receipt.
- The deposit receipt is initialed by the Administrative Assistant and attached to duplicate deposit slip.
- The Accountant attaches the deposit and duplicate deposit slip to backup documentation, applies the proper revenue code, and receipts to the G/L.

Disbursements/Drafts

Objectives

1. Disbursements are for a valid school system purpose and are necessary.
2. Disbursements are timely.
3. Disbursements are accurately coded and recorded in the accounting system.
4. Disbursements are legally appropriated.

Policies

1. Accounts Payable (A/P) are processed weekly.
2. More than one person reviews the A/P payment process.
3. An off-site vendor prints checks through approved A/P file.
4. Separate employees will code invoices and PO's, enter requisitions, and process check files.
5. A purchase order system is in place.
6. All vendor checks are mailed, or deposited via ACH, or via V-Card payment.

Procedures

- Before purchases are made, electronic purchase orders approved by the CFO are required.
- When purchases are received or a service is completed, the packing slips are matched with invoices and submitted to the school bookkeeper for payment.
- The school bookkeeper issues an electronic check file to bank and a third party prints and disburses payments.
- The Accountant receives an automated email from integrated payables alerting that checks have been processed.
- At the end of the month, all checks are reconciled by the Accountant. An outstanding check register is pulled and filed with the bank reconciliation.
- At year end, the Accountant will review all of the previous years' accounts, prior year activity, and invoices received to help determine what is still outstanding.

Safeguarding Assets

Objectives

1. Ensure school system assets are properly valued and protected.
2. Ensure cash, accounts receivable and other asset accounts are reconciled.
3. Ensure school system assets are protected against loss, misappropriation or theft.
4. Ensure inventory items are available when needed.
5. Ensure inventory is necessary and reasonable.
6. Ensure all capital assets and inventories are properly recorded.

Policies

1. Accountant reconciles all bank and investment accounts on a monthly basis within 15 days of receipt of a bank statement.
2. Bank accounts are appropriately collateralized.
3. All bank accounts are held in the School System's name.
4. All assets with a value of \$500 or more must be tagged.
5. The School System keeps an asset and inventory log that is updated as assets are acquired and disposed of.

Procedures

- Accountant reconciles all bank and investment accounts monthly and gives to Superintendent for review and approval.
- All reconciliations are kept in Accountant's office.
- All employees who handle school monies are bonded and all accounts are in the School System's name and properly collateralized.
- When new assets are acquired, the Instructional Technology Specialist records them on the appropriate list (inventory or capital assets). If the item is over \$500 he/she will affix an asset tag.
- When items are determined to be surplus, destroyed, or need to be sold, the Instructional Technology Specialist is responsible for editing the inventory and asset logs.
- Annually, the Accountant will review the fixed asset listing. The fixed asset list is provided to auditors annually.

Reconciliation of Accounts

Objectives

1. Ensure that all bank and investment accounts are recorded and reconciled.
2. Ensure that change funds are secure and properly accounted for.

Policies

1. Accountant reconciles all bank and investment accounts on a monthly basis within 15 days of receipt of the bank statement.
2. Cash drawers are locked.
3. All accounts are accounted for in the general ledger.

Procedures

- Monthly, the Accountant reconciles all general ledger accounts with the bank statements.
- CFO reviews and approves all reconciliations.
- All signed reconciliations are filed in the Accountant's office.
- All cash drawers are counted down daily and locked.
- Deposits are made within the three (3) day rule and verified by multiple employees.
- All accounts (assets, liabilities, revenues, and expenditures) are listed within the accounting software.
- The State of Tennessee's Uniform Chart of Accounts is used, and all active account numbers are in the accounting software.
- Trial balances are periodically pulled and reviewed by the Accountant.

Control of Investments

Objectives

1. Ensure investments are safe and in accordance with adopted investment policy.
2. Ensure that investments are authorized and provide for maximum returns with minimum risks.
3. Ensure investments comply with legal requirements.
4. Ensure investments are recorded accurately.

Policies

1. The Superintendent is authorized to invest excess funds of Lakeland School System.
2. Interest earned shall be credited to the appropriate funds and revenue codes.

Procedures

Other Post-Employment Benefits (OPEB)

- The Board of Education approves OPEB trust contributions as part of the annual budget. Upon Superintendent's approval, the Accountant issues payment to the OPEB trust.
- The School System has an actuarial at least every three (3) years, and annually, auditors record OPEB liability.

LGIP (Local Government Investment Pool)

- Funds invested in the LGIP, with Superintendent's approval, can be wired between the School System's account and the LGIP.
- All interest earned on the LGIP is receipted into the proper fund and revenue code.
- The LGIP statement is printed monthly and reconciled by the Accountant.
- The reconciliation is given to the CFO to verify and approve.
- Signed reconciliation statements are kept in the Accountant's office.

Debt Management

Objectives

1. Ensure that state and federal regulations are understood and followed in regard to issuance of debt.
2. Ensure that all grant regulations are understood and followed in regard to issuance of debt.
3. Ensure that note disclosures in the financial statements contain all required elements.

Policies

1. All debt issuances are made in compliance with state law
2. All transfers are examined to ensure they do not meet qualifications to be classified as debt.
3. All debt issuances will only be made after approval of the Board of Education.

Procedures

- LSS complies with all legal requirements for notices and public meetings related to issuing debt.
- In the interest of transparency, all associated costs (including interest, issuance, continuing, and one-time) are disclosed in a timely manner.
- Professionals involved in debt transaction are required to disclose any conflicts of interest.

Grant Management

Objectives

1. Ensure that all grant requirements are met.
2. Ensure that all grant transactions are properly recorded.
3. Ensure that matching funds are available and approved.

Policies

1. Every department must notify the Accountant when a grant application is submitted and awarded.
2. ALL grant applications must be approved by the Superintendent and all grants with matching requirements must be approved by the Board of Education prior to submission of the application.
3. Once awarded, a detailed budget is prepared outlining the grant.
4. Grant management responsibilities are assigned to an appropriate employee for every grant.

Procedures

- Appropriate personnel complete grant application and submit to Superintendent for approval. If the grant requires matching funds or maintenance of effort, the application must be approved by the Board of Education and budgeted for in annual budget or via budget amendments.
- A copy of the grant application and award letter is given to Accountant. Accountant assigns a project code specific to the grant for tracking in the accounting system.
- The awarded grant has an approved budget detail in E-Plan and that budget is entered into school system accounting software. If any amendments need to be made to the grant budget, state approval is required.
- The Superintendent assigns grant management responsibilities to the appropriate employee. Accountant submits grant reimbursement requests. Grant reimbursements are issued through ACH and receipted to the G/L. The grant manager reviews grant periodically to ensure that funds are properly expended

INFORMATION AND COMMUNICATION

Overview

Management has the responsibility to adequately communicate information to both internal and external parties. It is important that employees know the objectives, policies and procedures management has established and what the expectations are for internal controls. External stakeholders may also seek information regarding objectives and reliable financial information.

Objectives

1. Necessary information for achieving the entity's objectives is available and used.
2. Necessary information for achieving the entity's objectives is internally communicated by management.
3. Necessary information for achieving the entity's objectives is externally communicated by management.

Policies

1. Information maintained in a format should be communicated in that same format. For example, if the general ledger is maintained on computer, the monthly budget to actual reports should be provided through a computer generated report from that software package.
2. Reliable and accurate information from Lakeland School System must be communicated to the people who need it in a timely and useful format.
3. Because the credibility of Lakeland School System, its Board of Education, and its employees is at stake whenever information is released to outside parties, management should be confident the information being released is accurate and in compliance with policies and procedures.
4. The Board of Education communicates the types of information required to achieve their objectives and mitigate risk.

Procedures

- The staff of Lakeland School System is required to submit quality information that allows the Board of Education to make informed decisions and evaluate whether the school system is achieving its objectives.
- Lakeland School System clearly defines lines of communication through the policy manual and organizational chart.
- The internal control manual is available to all staff via the Lakeland School System website.
- Lakeland School System abides by Tennessee's Open Records laws for communicating with external parties, which includes the redaction of sensitive information.
- System generated reports pulled from various software programs are available in both electronic and printed formats.
- Information presented to the Board of Education is provided on a monthly basis and is also available upon request

MONITORING

Overview

The internal control system changes as technology, staff, objectives and policies change. Management is charged with continually monitoring the internal control system to determine if it is operating as designed and to ensure the policies are being followed.

Objectives

1. To practice activities that monitor the internal control system and evaluate the results.
2. To address deficiencies noted in the internal control system in a timely manner.

Policies

1. To ensure that internal controls do not deteriorate and continue to work as designed over time, an annual risk assessment will be conducted by Lakeland School System.
2. To establish more efficient and effective operations over time.
3. To ensure that accurate and reliable financial information is used in decision-making.

Procedures

- Monitor internal control through built-in monitoring activities and separate periodic evaluations and document the results.
- Evaluate differences to determine if:
 1. Changes in internal control have occurred but have not been documented
 2. Internal control has not been properly implemented
 3. Internal control design changes are needed.
- All accounts with financial institutions (checking, savings, investment, etc.) will be reconciled to the general ledger within 15 days of receipt of any statement from the financial institution.
- The above reconciliation will include a listing of outstanding checks and will be reviewed by the Superintendent.
- Reports comparing actual to budget amounts for revenues and expenditures will be generated monthly and reviewed by those in a position of authority over financial operations. Those in a position of authority include, but are not limited to, the Bookkeeper, Accountant, CMFO, CFO, Superintendent, and Board of Education.

4 SUMMARY

The framework of this manual complies with the state requirements and was created using the Green Book as guidance. This manual will be reviewed annually and updated as needed. All members of Lakeland School System will be required to abide by the policies and procedures outlined in this manual and it will be made available for reference on the school system website.

In turn, Lakeland School System will abide by the Internal Control and Compliance Manual for Governmental Entities and other Audited Entities in Tennessee issued by the Comptroller. This policy manual does not supersede the requirements outlined in the Administration of Federal Education Programs Uniform Grant Guidance policy manual. Application of the policies and procedures will default to whichever policy manual is most stringent in its requirements.

SUPPLEMENTARY INFORMATION

UGG Policy Manual

<http://www.lakelandk12.org/res/pdf/LSS-UGG-Policy-and-Procedures.pdf>

State regulations, rules, and policies

TN State Board of Education Rules and Regulations

http://www.tn.gov/sbe/rul_reg.shtml

TN State Board of Education Policies, Standards, and Guidelines

<http://www.tn.gov/sbe/policies.shtml>

TN Comptroller of the Treasury

<https://www.comptroller.tn.gov>

Internal Control and Compliance Manual (12/2015)

http://www.comptroller.tn.gov/la/pdf/20150202ICCMannual_Complete.pdf

TN Internal School Uniform Accounting Policy Manual

http://tennessee.gov/assets/entities/education/attachments/loc_fin_internal_sch_uniform_acct_policy.pdf

Lakeland School System regulations, rules, and policies

<http://www2.ed.gov/policy/fund/reg/edgarReg/edgar.html>