

# Diocese of Sioux City Internal Controls for Schools

## DISBURSEMENT PROCEDURES

While it is important to safeguard all receipts for the school, it is equally important to ensure that disbursements are made for legitimate purposes. Many objectives are achieved by having an effective system of internal control over cash disbursements. The following objectives are critical to the overall effectiveness of any organization's accounting system:

- To prevent loss or theft of school/parish assets and minimize the opportunity for employees or volunteers to steal.
- To provide information to accurately report on all financial activities of the school.

We recommend implementing the following procedures:

1. A purchase order system should be established and all disbursements should be supported by an approved purchase order form. Purchase orders provide documentation of the principal's pre-approval of the purchase or the item or service as well as pre-approval of purchase terms, price, quantity, and account classification. Purchase orders are typically a three-part form: one copy is sent to the vendor, one copy is given to the employee originating the request, and one copy is forwarded to bookkeeper/accounts payable (A/P) coordinator for processing in the accounting system. Once the invoice is received by the book-keeper/AP coordinator, he/she should determine if the principal has pre-approved what the vendor has billed by comparing the invoice with the purchase order. The following should be reviewed when comparing the invoice with the purchase order:

- Item number
- Item description
- Cost
- Quantity
- Discount
- Payment due date
- Freight charges
- Other purchase terms

2. The bookkeeper/AP coordinator should carefully review all vendor invoices for:

- Math accuracy
- Application of credit memos and credit for returned items
- Statements should be reconciled with invoices
- Invoices should be reconciled with purchase orders
- Account codes are properly assigned

Expenses should be monitored closely and unusual expenditures should be questioned to determine if it is a valid school expense. All disbursements must be supported by a purchase order and an invoice or receipt. Policies should be established regarding travel advances, cell phones, business travel expenses, etc.

3. The delivery of goods or services should be verified before an invoice is processed for payment. The person who verifies the receipt of goods should initial the packing slip to document that the verification has been performed.

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### **DISBURSEMENT PROCEDURES** (Continued)

4. After the bookkeeper/AP coordinator has reviewed the supporting documentation, he or she should prepare the checks and forward the unsigned checks and supporting documentation to their supervisor for review. If the finance office has an AP coordinator, then the business manager should review the supporting documentation and sign the check. If the bookkeeper does not have a support staff, then the principal should review the supporting documentation and sign the checks. We recommend that the responsibilities of authorizing disbursements (signing the checks) be segregated from recordkeeping functions (processing the transactions in the accounting system). The employee responsible for processing and preparing the checks should not be authorized to sign checks.
5. In addition to signing the checks, the principal/business manager should initial the invoices to document his authorization of the disbursement. Payments should not be processed without his/her authorization. This task also enables him/her to be aware of where school funds are being expended. The employee who signs the checks should not be assigned the responsibility of reconciling the monthly bank statements or recording transactions in the accounting software.
6. The use of rubber signature stamps are prohibited.
7. Checks should never be signed in advance or signed without documentation.
8. To achieve a proper segregation, the bookkeeper/AP coordinator should not be a signer on the bank account. His or her name should be removed from the signature card.
9. Another employee who is independent of check processing (superintendent) should be added to the checking account to sign checks when the principal/business manager is absent. A policy should be established authorizing the additional signer. Parish schools will likely have the pastor sign checks in the principal's absence. You might also consider having a member of the school board as an additional signer. A policy can be established indicating the dollar amount for which he/she has authority. (for example \$1,000.00 per check or two signers required for amounts in excess of \$xxxx.xx).
10. Once paid, all invoices and supporting documentation should be marked paid. In addition, the date and check number should be recorded on the invoice to assure that the invoice is not paid twice.
11. Invoices, store receipts, and other support for disbursements should be maintained in an orderly filing system.
12. Pre-numbered checks should always be used. Voided checks should be entered into the accounting software and the checks should be properly marked "void" to prevent their reuse.
13. All bank accounts should be reconciled in a timely manner using the bank reconciliation feature in the accounting software. The bank reconciliations should be printed out and retained.

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14. A listing of paid bills should be presented to the finance committee of the school board for their review. The invoices and supporting documentation should be available upon request.
15. A Balance Sheet and Profit and Loss Statement generated from the accounting software should be submitted to the school board at monthly meetings. These financial reports should contain all operations of the school and should not be filtered to exclude some components of the school operations.
16. An organization-wide budget should be prepared and adopted for the entire school system. The budget should cover all funds and all sources of income and expenses, including food service, athletics, capital campaigns, development fund raising, etc. The budget should be amended by board motion if circumstances change substantially from those anticipated during the budget process. The bookkeeper/AP coordinator should include the budget in QuickBooks. Budget verses actual comparative financial statements should be submitted to the board monthly.
17. Diocesan policy requires schools and parishes to obtain an approved resolution prior to engaging in any of the following activities.
  - Raising money
  - Borrowing money
  - Investing money
  - Expenditures over \$5,000.00 (for extraordinary, non-operational expenses)
  - Selling property
  - Other (establishing endowments, trusts, appointment of Parish Directors)
18. The disbursement procedures should be tailored to meet the needs of your school without compromising the intended controls. The disbursement procedures should be presented to the school board in written form. The school board should formally approve the procedures and any subsequent amendments to the procedures.
19. It's appropriate for certain people to have credit cards so it's not necessary to send cash. Credit cards provide a statement to document the purchase and there's a credit limit.