



Policy and Procedure # 173

Internal Controls

Approval: _____ Effective Date: _____

POLICY:

EFI maintains a strong system of internal controls as a best business practice. Sound internal control is best achieved by a clearly defined process. It is critical to ensure that each employee is acting ethically and that all transactions are done legally and with high standards of quality. This policy is designed to detect and prevent fraud and to protect EFI resources.

1. Bank Accounts and Check Signatories

- A. The board of directors is responsible for authorizing all bank accounts and check signers.
- B. Financial institutions where EFI accounts are maintained are notified of any changes in check signers following the change of officers or changes in employees with check signing responsibilities.

2. Reporting

Financial reports shall be presented to the board of directors for review on a monthly basis.

3. Cash and Check Receipt

- A. Employees handling cash and checks have the necessary knowledge and skills to perform the job and are carefully supervised.
- B. Adequate physical controls are maintained over cash receipts from the time of receipt to deposit in the bank.
 1. The Finance Director receives the incoming checks unopened from the mail.
 2. Incoming cash and checks are counted and recorded.
 3. Copies of incoming cash and checks will be made and logged on an incoming receipts log. These copies will be attached to the log.
 4. Cash receipts are deposited within 5 days of receipt or when the deposit amount exceeds \$5,000, whichever comes first.
 5. Incoming checks are endorsed "for deposit only" with EFI's account number when received.
 6. Until deposited, cash and checks are stored in a secure place, such as a safe or locked cash box secured in a locking drawer or file cabinet. Keys to the cash box are issued to authorized employees only.
- C. Bank deposit receipts are compared and attached to the bank deposit slips. Copies of the checks and cash will be made and attached to the weekly deposit slip and receipt.



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- D. The incoming check and cash log totals are compared and reconciled to the bank deposit receipts on a weekly basis.
 - 1. Records of cash and checks received are totaled and initialed by authorized employees.
 - 2. This reconciliation is done by two or more persons authorized to perform these functions.
 - 3. Funds received in bank accounts electronically via Electronic Funds Transfer (EFT) are posted to accounting software within 3 days of receipt.

4. Cash Disbursements

- A. Check Authorization and Signing
 - 1. The Finance Director provides supporting documentation to the Executive Director in order to receive approval for all disbursements. The supporting documentation accompanies checks when presented for signature.
 - 2. The Executive Director signs the accounts payable checks.
 - 3. The Finance Director, with the Executive Director's approval, may also sign accounts payable checks when the Executive Director is not available.
- B. The Finance Director verifies payroll, including the direct deposit disbursements, by reviewing and approving the payroll register. The Executive Director reviews and approves the Finance Director's payroll.
- C. The Executive Director or the Finance Director is authorized to sign payroll checks.
- D. Disbursements are made by check with the exception of electronic fund transfers for quarterly tax reports and mortgage payments.
- E. Only pre-numbered checks are used and always in sequence.
- F. Signing of blank checks is strictly prohibited.
- G. Checks are made payable to specific payees based upon appropriate documentation and never to "cash" or "bearer".
- H. Prior to preparing checks, purchase orders and receiving reports are compared to vendor invoices for accuracy.
- I. Checks are prepared from vendor invoices. Vendor statements are reconciled with invoices before payment.
- J. Access to blank checks is limited to persons authorized to prepare checks.
- K. Blank check stocks are locked in a secure place when not in use.
- L. Any voided/spoiled checks are marked "Void", with the signature portion removed and are attached to the appropriate bank statement.



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5. Bank Reconciliations

- A. The Finance Director receives the bank statements, including canceled checks, etc., unopened from the bank.
- B. Checks outstanding over 90 days are periodically investigated, with payment stopped and an entry made restoring such items to cash if appropriate.
- C. Bank accounts are reconciled against the general ledger balance on a monthly basis by the Finance Director or the finance technician.
- D. All check numbers are accounted for.

There are two reconciliations done on each account. When possible, separation of duties procedure will be followed (see paragraph 15).

6. Petty Cash

- A. Petty cash banks are issued to the Finance Technician and the Residential Director.
- B. Petty cash banks are secured in a locked box and placed in locked cabinet or drawer or placed in the safe. Keys are issued only to authorized personnel and are kept on their person.
- C. Petty cash is used for infrequent, non-recurring purchases. Reimbursement should be less than \$20. Exceptions to this limit are made at the discretion of the Executive Director or Finance Director.
- D. In order to be reimbursed, staff signs the receipt, and the department director initials the receipt to signify that the purchase was authorized.
- E. Petty Cash is audited and replenished not less than once a month.

7. Credit Cards

- A. The Executive Director, department directors and Residential Supervisors are issued credit cards on a permanent basis.
 - a. Issued credit cards can be held in the Finance Director's safe when not in use.
- B. Retail credit cards are held by the Finance Director in the safe and will be signed out on a per use basis by authorized employees. The sign out sheet records the date and time checked out, the credit card name and last 4 numbers, the name and initials of the staff signing out the card, and the date and time turned back in.

8. Purchasing



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- A. The Finance Director and directors may authorize purchases up to \$500 without Executive Director approval. For regular, recurring purchases that are consistently over this \$500 limit, the Finance Director and directors submit a list with vendor names and types of items to be purchased to the Executive Director for approval. Once the Executive Director approves the submitted vendor list and items, the purchases may be made without additional Executive Director approval.
- B. Any other purchases over \$500, but less than \$10,000 are approved by the Executive Director.
- C. Purchases over \$10,000 are approved by the Board of Directors.
- D. Purchase orders are required for any purchases made on behalf of clients or when required by a vendor. If the purchase is approved by an authorized person, a purchase order is not required.
- E. If a purchase order is required, a copy is turned in with the original receipt.

9. Travel and Expenses

- A. Employees are required to submit receipts in order to be reimbursed for authorized expenses.
- B. The receipts are signed by the employee and approved by their director prior to reimbursement.

10. Small and Attractive Items

- A. Small and attractive items that are not permanently assigned to employees will be kept at the Kimbel building locked securely in a cabinet in the mailroom. The receptionist or Finance Director signs these items out on a per use basis.
- B. Employees issued items such as cell phones, keys or cameras for the duration of their employment are required to sign for these items on an Employee Property receipt that is kept in their personnel file.
- C. Small and attractive items located at the residential homes, and cost less than \$500, are put on an inventory list for tracking purposes.
- D. It is the responsibility of the residential employees to ensure that all items owned by EFI are in place at the start of each shift.

11. Computer Systems

- A. The network server is in a locked room with access limited to the Executive Director and department directors.



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- B. EFI contracts with an outside vendor to perform system updates and network maintenance services and functions. Background checks are performed on vendor employees that access EFI data.
- C. A daily back-up of the server data is performed, and the external hard drive back-ups are taken off site each night.
- D. These external drives are protected with a hardened password or encryption.
- E. All terminals require the use of a password to gain access to the system.
- F. The financial software is operated and accessed on a peer-to-peer network with the Finance Director's system serving as the server.
- G. The financial terminals require a password to access the system and a separate password to access the financial software.
- H. Financial data is backed-up on an external storage device and taken off-site on a daily basis.
- I. The storage device is protected with a hardened password or encryption.

12. Inventory

- A. A company-wide inventory is completed at the end of each year.
- B. This inventory includes both properties that are on the fixed assets inventory as well as the small and attractive items list.

13. Long term Debt

- A. The Board approves all loans.
- B. A contract file is maintained for each loan payable.
- C. The Finance Director is responsible for ensuring compliance with loan terms.

14. Yearly Audit

- A. An annual financial audit is conducted by a qualified outside accountant.
- B. Applicable financial and administrative guidelines relating to specific funding are followed.
- C. Copies are sent to funding agencies per contractual requirements.

15. Separation of Duties

- A. Separation of duties is the means by which no one person has the sole control over the lifespan of a financial transaction.
- B. Ideally, no one person is able to initiate, record, authorize and record a transaction.
- C. There are at least two sets of eyes for every transaction.
- D. The separation of duties ensures that mistakes, intentional or unintentional, cannot be made without being discovered by another person.



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E.

The number of employees in the financial department limits the efforts to properly segregate duties, however, all efforts are made to ensure checks and balances are in place to prevent fraud, waste or unauthorized transactions. When these functions cannot be separated, there is supervisory review of related activities as a compensating control. This review helps detect errors in a timely fashion and deter improper activities.

16. Recordkeeping

- A. Documentation and record retention are maintained and controlled with the established record retention schedule.
- B. Destruction of expired records is done by a contracted vendor who shreds them on-site.