INTERNAL CONTROLS

A system of internal control consists of all the measures taken by the Direct Service Provider for the purpose of the following:

- Protecting its resources against waste, fraud and inefficiency;
- Ensuring accuracy and reliability in accounting and operating data;
- Securing compliance with Board policies and
- Evaluating the level of performance in all areas of the Direct Service Provider.

In short, a system of internal control includes all of the measures designed to assure management and the Board of Directors that the Direct Service Provider is operating according to plan.

A basic principle of internal control is that no one person should handle all phases of a transaction from beginning to end. When business operations are organized so two or more employees are required to participate in every transaction, the possibility of fraud is reduced and the work of one employee gives assurance of the accuracy of the work of another. The principal reason for many documents and procedures is to achieve strong internal control.

Guidelines for achieving strong internal control are:

- Establish clear lines of responsibility -- persons responsible for each function must be clearly identified. The lines of authority and responsibility can be shown by an organization chart supported by written job descriptions and by procedures manuals that explain in detail the authority and responsibility of each person or department.

- Establish routine procedures for processing each type of transaction and document them in a procedure manual.

- Segregation of Duties – the most important element in achieving internal control is an appropriate segregation of duties. Responsibilities should be assigned so that no one person or department handles a transaction completely from beginning to end. When duties are divided in this manner, the work of one employee serves to verify that of another and any errors tend to be detected promptly.

Basic to this concept is that an employee who has custody of an asset (or access to an asset) should not maintain the accounting record for that asset. If one person has custody of assets and also maintains the accounting records, there is both opportunity and incentive to falsify the records to conceal a shortage. However, the person with custody of the asset will not be inclined to waste it, steal it, or give it way if he or she is aware that another employee is maintaining a record of the asset.

Satisfactory internal control is more difficult to achieve in a small agency with only a few employees, but it is critical that management and the Board of Directors give attention to the basic principles of internal control.

Even the best-designed system of internal controls will not work well unless the people using it are competent. Competence and integrity of employees are in part developed through training programs, but they also are related to the policies for selection of personnel and the adequacy of supervision.