



PUBLIC SCHOOLS OF NORTH CAROLINA

STATE BOARD OF EDUCATION :: Howard N. Lee, *Chairman*

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DEPARTMENT OF PUBLIC INSTRUCTION :: Patricia N. Willoughby, *State Superintendent*

May 6, 2005

MEMORANDUM

TO: LEA Superintendents
LEA Finance Officers
Charter School Administrators

FROM: Philip W. Price

SUBJECT: Importance of Strong Internal Controls

Assuring that all the proper checks and balances are in place for an effective internal control environment is important for all LEAs and Charter Schools. These organizational checks and balances provide authority for certain functions that minimize the potential for waste, fraud, abuse, and mismanagement.

The ultimate responsibility for a strong internal control structure rests with management. LEAs and Charter Schools need to continually assess and evaluate their internal control structure to assure that it is well designed and operating, appropriately updated to meet changing conditions, and provides reasonable assurance that the objectives of the organization are being achieved. Specifically, managers need to examine internal control to determine how well it is performing, how it may be improved, and the degree to which it helps identify and address major risks for fraud, waste, abuse, and mismanagement.

It is important to consider all five internal control standards in assessing and evaluating your internal control environment. The first internal control standard, which relates to the control environment, requires management and employees to establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. Management is required by the second internal control standard to formulate an approach for risk management and decide upon the internal control activities required to mitigate risks and achieve the internal control objectives of efficient and effective operations, reliable financial reporting, and compliance with laws and regulations. The third control standard addresses control activities as the policies, procedures, techniques, and mechanisms that

... **OFFICE OF FINANCIAL AND BUSINESS SERVICES**
... PHILIP W. PRICE, Associate State Superintendent :: EMAIL pprice@dpi.state.nc.us
... 6326 Mail Service Center :: Raleigh, North Carolina 27699-6326 :: 919.807.3600 :: Fax 919.807.3604

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help ensure that management's directives to mitigate risks identified during the risk assessment process are carried out. Appropriate information and communication systems for the entity's needs and the degree to which they accomplish the objectives of internal control are required by the fourth internal control standard. Finally, the fifth internal control standard requires monitoring to assess the quality of performance over time and to ensure that the findings of audits and other reviews are promptly resolved.

As you know, there are numerous internal control management and evaluation tools and resource guides, including the DPI LEA Compliance Supplements, available for your use in assessing and evaluating your internal control structure. The DPI Financial and Business Services area is currently investigating the need to provide an Internal Control Management and Evaluation Tool specifically designed for use in North Carolina LEAs and Charter Schools.

If you have any questions about assessing your internal control environment, please call me at 919-807-3600 or Larry McLamb at 919-807-3610.

PWP:LEM:seh

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