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**Manager's Internal Control Program**

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## **BOARD POLICY**

It is GEPB policy that a Manager's Internal Control (MIC) Program be established within the GPSS to review, assess, and report on the effectiveness of Internal Controls (IC). A manager's internal controls are policies, procedures and practices used to reasonably ensure:

- Safeguarding of assets
- Compliance with polices, laws, and procedures
- Accomplishing stated goals and objectives
- Reliable information and records
- Efficient and effective organizations

The objective of the MIC Program is to ensure that GPSS' goals, objectives, polices, and procedures are conducive to achieving sound management controls, and that the school system places a high level of importance on management integrity and ethics. The Board expects all GPSS Administrators/Managers to assume "ownership" of the internal controls in their areas of responsibility.

The Superintendent of the GPSS shall establish procedures to implement the MIC Program and ensure that they are adhered to by all Administrators/Managers throughout the entire organization. The procedures must require that Administrators/Managers take systemic and proactive measures to: (1) develop and implement appropriate, cost-effective internal controls for results oriented management; (2) assess the adequacy of internal controls in all GPSS programs and operations; (3) identify needed improvements and take corrective action; (4) take prompt action to resolve all audit findings; and (5) develop measureable performance standards for their areas of responsibility.

Adopted: GEPB **09/10/08**



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SOP# 1600-002

## STANDARD OPERATING PROCEDURES

**SUBJECT:** The Guam Public School System (GPSS) Manager's Internal Control (MIC) Program

**EFFECTIVE DATE:** September 11, 2008

**INQUIRIES:** Internal Audit Office

This Standard Operating Procedure (SOP) supersedes all other Guam Public School System (GPSS) regulations previously issued on the topics contained herein.

### I. REFERENCES:

Guam Education Policy Board - Manager's Internal Control (MIC) Program

### II. APPLICABILITY:

This Standard Operating Procedure (SOP) applies to the entire GPSS organization.

### III. PURPOSE:

This SOP provides guidance to Administrators/Managers for improving the accountability and effectiveness of GPSS programs, functions, and operations by establishing, assessing, correcting, and reporting on internal controls in their areas of responsibility. The GPSS Superintendent has identified Control Self-Assessment as the preferred method of evaluation to promote management responsibility within the organization. The attachment to this SOP provides definitions, and guidance on conducting Risk Assessments and Internal Control Reviews.

### IV. RESPONSIBILITIES:

- a. The Superintendent is responsible for maintaining an in-house capability to independently, and objectively assess the overall efficiency and effectiveness of all GPSS functions. Therefore, the Superintendent shall require Administrators/Managers to; (1) develop and implement appropriate, cost effective internal controls for results oriented management; (2) assess the

adequacy of internal controls in all GPSS programs and operations; (3) identify needed improvements and take corrective actions; (4) take prompt action to resolve all audit findings; and (5) establish measurable performance standards for their areas of operation.

- b. Administrators/Managers are responsible for conducting Control Self-Assessments, establishing, assessing, correcting and reporting on internal controls; maintaining a general control environment that sets a positive and supportive attitude towards internal controls; and completing within established timeframes, all actions that correct or otherwise resolve audit or other findings brought to their attention.
- c. The Chief Internal Auditor is responsible for providing training for implementing the MIC Program; and assisting Administrators/Managers in developing, implementing, and testing internal controls. The Chief Auditor will also assist with the development of measurable performance standards.

## **V. PROCEDURES:**

Administrators/Managers shall initiate the MIC Program by conducting risk assessments of the General Control Environment in their areas of responsibility and completing Control Self Assessments using the forms provided.


### **GENERAL CONTROL ENVIRONMENT**

The control environment reflects the integrity, ethical values, operating styles and competence of the people employed by GPSS. It includes management's philosophy and operating style, the way management assigns responsibility and authority, and the way management organizes and develops its people. The GEPB, Superintendent, and others influence the control environment throughout GPSS, but the Administrator/Manager at each work site also influences it, particularly as it relates to that site.

### **Control Self-Assessment**

GPSS has identified Control Self-Assessment as the preferred method of evaluation to promote management responsibility and accountability within the organization. The self-assessment process has three phases; (1) the site manager conducts a self-assessment and documents results (managers should maintain the appropriate level of documentation to support assessments; (2) documentation is reviewed by the Internal Audit Office and a subsequent review is conducted on site to validate the manager's self-assessment; and (3) the results of the review are used to determine if further corrective action is necessary. The manager can use a variety of information sources to perform the assessment. Sources of information include: management knowledge gained from daily operations; management reviews conducted by other agencies; audit reports; compliance reviews; budget summaries and other studies. The self-assessment should evaluate the work site's effectiveness in carrying out its mission, and identify system process improvements. The self-assessment should

- VI. **Effective Date:** Upon date and signature of the Superintendent.
- VII. **Changes:** Suggestions for change(s) to this SOP should be submit in writing to the Chief Internal Auditor.

  
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**NERISSA BRETANIA SHAFER, Ph.D.**      9/10/08  
Superintendent of Education      Date

## INTERNAL CONTROL REVIEW GUIDE

In order to implement the Manager's Internal Control (MIC) Program a manager must conduct a detailed assessment of internal controls in his /her area of responsibility. If the unit assessed is rated as "High Risk" the manager may wish to conduct a Manager's Internal Control Review (MICR). The process of performing a MICR is described in the following steps.

- **Analyze the General Control Environment.** The general control environment is the environment in which management operates. The purpose in analyzing the general control environment is to determine if management's attitude is conducive to a strong internal control system. The analysis of the general control environment will provide the manager with a preliminary opinion about the effectiveness of specific controls. The factors that influence the general control environment are; organization, delegation of authority, policies and procedures, personnel, planning, budgeting and accounting, and reporting.
- **Identify and Document Event Cycles.** An event cycle is a series of related steps within a component. An example of an event cycle in the accounting component is accounts payable. An event cycle in procurement is small purchases. An event cycle in NAF is cash management. An event cycle in property management is fixed assets. An event cycle in Food Service is renewing and obtaining sanitary permits. Finally, an event cycle in C&I is ordering textbooks. Most program components normally include planning, budgeting, executing, reporting, and administrative event cycles.
- **Identify and Document Risks.** The potential risks within each event cycle must be identified. The reviewer should categorize the risks identified within each cycle as "High", "Medium", or "Low". The impact (consequences) of each risk should be considered. High risks are those which could prevent the event cycle from achieving its objective or result in substantial loss to GPSS resources or even school closures. For example, the event cycle, for sanitary permits would be considered High Risk because the consequences for failing to renew are school closures. The reviewer should determine, based upon knowledge of the component and the objective of the event cycle which risks are high.
- **Identify and Document Control Objectives.** A specific aim, goal, condition or level of control established by a manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately and that organizational, operational or administrative objectives are accomplished. The manager must state what the objective will achieve and how it will be known whether the objective was achieved.

## INTERNAL CONTROL REVIEW GUIDE CONTINUED

- **Identify and Document Control Techniques.** Control techniques are carefully constructed checks and balances designed to provide reasonable assurance that

the control objectives are met in an efficient and effective manner. Control techniques should be observable and cost effective.

- **Test Selected Controls.** Testing verifies the effectiveness of control techniques in operation by determining if they are operating as intended, meeting the control objectives and reducing risks. The control techniques to be tested should be those that contribute most to achieving the control objectives or managing the risk. Analyze the test results and develop conclusions and plans for corrective action.
- **The Final Step in the MICR Process is to Document the Review.** This documentation should include written evidence concerning:
  - Participants in the review
  - Risks reviewed
  - Controls examined
  - Extent and type of control tests performed
  - Analysis of tests conducted
  - Description of any weakness found
  - Actions recommended to correct the weakness

## **RISK ASSESSMENT STEPS**

THE FOLLOWING ARE THE GENERAL STEPS USED TO DEVELOP A RISK ASSESSMENT MATRIX

### **Step No. 1: Original Matrix Development**

- A. Review GPSS' mission, goals and objectives, and existing background information such as:
  - Budget Summaries
  - GPSS' recommended budget
  - Legislative adopted budget
  - Other reports
- B. Identify potential internal control risks by reviewing completed audits.
  - Single Audit Reports
  - OPA Reports
  - GPSS Internal Audit Reports
  - CCAP Semi-Annual Reports
- C. Brainstorm initial risks, expected internal controls, and potential effects of inadequate controls.
- D. Identify other control risks and get a better understanding of the operational environment. Communicate with the following:
  - Grantor Agencies
  - Internal Auditors
  - Fiscal Officers
  - Other Interested Parties

- E. Brainstorm further risks and refine original risks based on the above communications.

**Step No. 2: Modify and Refine Matrix**

- A. Gain further understanding of operations and program emphasis by reviewing the following:

- GPSS Organizational Chart
- Functional Charts
- Detailed Budget
- School Report Cards
- GPSS Annual Report
- Performance Measures
- Any Other Pertinent Documents

- B. Determine whether internal controls are in place. If controls are in place, review relevant documents.
- C. Review a small number of records or transactions to determine whether Controls are or not working.

**Step No. 3: Finalize Matrix**

Assign High, Medium, or Low risk level based on the adequacy of controls and the effects of inadequate controls. For example, a risk that has weak controls and high negative effect would receive a high rating. Conversely, a risk that has strong controls and relatively small negative effect would receive a low rating.

**INTERNAL CONTROL STANDARDS**

***Foundations for controls  
Definitions and objectives***

An integral part of GPSS' management that provides reasonable assurance that the following objectives are being achieved.

1. Effectiveness and efficiency of GPSS operations
2. Reliability and timeliness of financial reporting
3. Compliance with applicable laws, regulations, Federal Grant agreements and GEPB policies

**Fundamental Concepts of Internal Control**

1. A continuous built-in component of operations
2. Effected by people
3. Provides reasonable assurance, not absolute assurance

**The Five Standards for Internal Control**

1. Control Environment
2. Risk Assessment
3. Control Activities

4. Information and Communications
5. Monitoring

### **Control Environment**

GPSS Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

### **Risk Assessment**

Internal control should provide for an assessment of the risks GPSS faces from both internal and external sources.

### **Control Activities**

Internal control activities help ensure that GEPB policies and management directives are carried out. The control activities should be effective and efficient in accomplishing the GPSS' control objectives.

### **Examples of Control Activities**

1. Top level reviews of actual performance
2. Reviews by management at the functional or activity level
3. Management of human capital
4. Establishment and review of performance measures and indicators
5. Segregation of duties
6. Accurate and timely recording of transactions and events
7. Appropriate documentation of transactions and internal control

### **Information and Communications**

Information should be recorded and communicated to the GEPB, the Superintendent, managers and others within GPSS as requested. It should be in the proper format, accurate, and delivered within a timeframe that enables them to carry out their internal control and other responsibilities.

### **Monitoring**

Internal control monitoring should assess the quality of performance over time and ensure that the findings of Single Audits, OPA Audits, Internal and other Audits, management reviews, or Investigations are promptly resolved.