

	<p><b>HCDE Internal Control Structure:</b> <b>A Primer for Safeguarding Assets and Preventing Fraud</b></p>
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**Purpose**

All HCDE Divisions and Campuses are required to implement internal controls designed:

- (a) to maintain the integrity of financial and operational systems, and
- (b) to prevent fraudulent activities that may lead to inaccurate financial data or loss of assets.

**Accountability**

Each division director or campus administrator is assigned the authority to implement internal controls in their area of responsibility as well as adhering to internal controls established by Grant Program Directors and Executive Team Members in order to safeguard the Department’s assets.

**Board Policy**

The Board of Trustees has authorized the Superintendent and the Assistant Superintendent for Business Services as part of the Executive Management Team to implement an internal control structure over all assets of the Department.

The Business Office had developed a new accountability goal which is: “To implement and monitor appropriate accountability measures to protect the resources of the Department including, but not limited to, money, materials, supplies, and equipment.”

**Source Policies**

- CH Legal
- CH Local

**What is an Internal Control? A definition.**

An Internal Control is a procedure implemented to ascertain a financial asset or to prevent loss of asset.

Qualities of an internal control:

- Detection: To bring out problems
- Prevention: To avoid problems
- Assertion: To account for

**What is Fraud? A definition.**

Fraud, unlike an error, is intentional and usually involves deliberate concealment of the facts.

**Elements of Fraud**

1. Incentive
2. Opportunity
3. Rationalize
4. Potential

## Risk Assessment

**Part I Conduct a Risk Assessment of a division/campus to evaluate the internal controls in place.** This process is conducted when a new department director or principal is to begin their first day at work or shortly thereafter. Once this Risk Assessment is conducted, the administrator can perform parts II and III. See Attachment A.

**Conduct an overview of asset locations and determine areas that require secure financial assets.**

Fiscal Resources:	Human Resources:
(1) Cash	(5) Employees
(2) Receivables	(6) Contracts
(3) Inventory	
(4) Fixed Assets	

**Once these areas have been identified, determine the following:**

Are there proper internal controls to prevent loss of assets?

Are these internal controls proper to prevent fraud?

Are there proper internal controls to prevent collusion?

Are there proper segregation of duties over financial assets?

Use the **Attachment A** template to document the review of internal controls.

**Part II Conduct an annual review of internal controls.**

This part includes the annual review of internal controls to make sure that internal controls are working as designed. Repeat Part I annually. See **Attachment A**.

**Part III Document Internal Controls**

Document the annual review and provide a certification to the Assistant Superintendent for Business Services and the independent auditors that Internal Controls are being implemented, reviewed, and inspected for efficiency. **Attachment A** must be signed by the (1) Department Director and/or the Principal and the (2) Compliance Officer or Assistant Superintendent for Business Services.

### **Responsibility of the Administrator in Charge**

1. Receive annual training from Business Services on how to establish internal controls
2. Provide training to internal staff
3. Conduct Risk Assessment
4. Document Annual Review
5. Safeguard Department assets
6. Maintain and monitor internal controls

### **Responsibility of Business Services**

1. Provide training to campuses and divisions on internal controls
2. Conduct Risk Assessments Department-wide
3. Document Annual Reviews

For questions regarding any of these procedures, contact Elaine Nichols at (713) 696-8250 or [enichols@hcde-texas.org](mailto:enichols@hcde-texas.org).

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