
October 17, 2018

TO: RAILS BOARD OF DIRECTORS

FROM: JIM KREGOR

SUBJECT: REPORT ON RAILS INTERNAL CONTROLS

At last month's meeting, the Board accepted RAILS' Annual Financial Report, which was audited by Sikich LLP. In the Independent Auditor's Report, it was noted that "Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United State of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error." This report discusses the major internal controls that RAILS employs in its daily accounting operations.

There are several over-riding principles that guide the establishment of internal controls. These include:

- Separation of Duties
- Non-access to cash and RAILS accounts
- Approval/second reviews of all transactions

A less formal, but important principle or goal of the internal control structure is that it eliminate, or at least greatly reduce, the opportunity for a person to commit fraud or make a material error in financial reporting.

Examples of RAILS major internal controls and procedures include the following:

- Separate people work on billings, accounts payable, cash receipts, and general ledger entries
- All journal entries to the ledgers are reviewed and approved by a second person, usually myself.
- Expense reports and requests for payment require documentation and supervisory approval in accordance with written policies and procedures.
- One person receives and processes payment requests, another reviews and approves the payments and then runs the checks, and then another person signs the checks. If the checks are above \$10,000, the check is also signed by a board member who is an officer.

- Virtually all receipts of funds go directly to a lock box, from which they are directly deposited into a RAILS' account.
- Nearly all receipts of funds have been billed. When received, they are credited to the account receivable.
- All internal electronic movements of funds are initiated by one person, then approved by a second person before the transfer may occur.
- External investments of funds must be approved by either the Executive Director or the Associate Executive Director and a board member who is an officer before the transaction may occur.
- Payroll, which in aggregate is RAILS' largest annual expenditure, has multiple levels of approval before a check is issued. The biweekly time card is first approved by the employee, then the designated supervisor. After all time cards are approved, the payroll is processed by the Finance Department, then verified and approved by Human Resources. Direct Deposit is encouraged to all employees and is being utilized by 95% of the staff.
- Access to the accounting system is limited to accounting personnel, who all have separate passwords.