

# INTERNAL CONTROLS

## **PURPOSE:**

The purpose of this policy is to set forth the internal controls for the accounting functions of the Pennsylvania State Lions administration. All organizations have internal controls which are needed to establish responsibility for the various accounting functions of an organization. Small organizations have a problem with internal control because of a lack of segregation of duties. Therefore, the internal control policy shows the weaknesses and how the organization is handling the potential problem. The organization has very few individuals that are employees of the organization, but there are volunteers that can assist in performing checks on the employees of the organization to help safeguard the organization from possible misappropriation of the organization's assets. This also helps the employees with someone else checking the data. The following definitions shall apply to this document:

1. Administrator: this shall mean the State Administrator or any individual the State Administrator designates to handle the procedures.
2. Print outs: this shall mean any document in paper form or document in electronic form that is saved in an electronic file.
3. All procedures are completed in the Pennsylvania State Council of Lions Clubs General Ledger unless specifically designated as using the Pennsylvania Lions Per Capita General Ledger.

The following individuals should be involved in the internal control:

1. State Administrator-employee
2. Council Chairperson-volunteer
3. Vice Council Chairperson-volunteer

Council Chairperson and Council Vice Chairperson shall be added to all financial accounts by the State Administrator and have authority for financial transactions.

## **GENERAL:**

1. The Administrator's duties in the billing of dues and sales of merchandise to customers are:
  - a. Billing of dues to District Clubs:
    - i. Pennsylvania Lions Per Capita Ledger:
      - 1) Prepares the invoice on the computer. The computer makes the following entry: Debits the accounts receivable account and the subsidiary ledger for the customers and credits the revenue account(s).
      - 2) Sends the invoice to the customer.
    - ii. No action is taken in the Pennsylvania State Council of Lions Club General Ledger.

- b. Sale of merchandise:
  - i. Prepares the manual sales receipt listing the item sold and amount collected or to be billed.
  - ii. Inventories items paid by cash or checks:
    - 1) Posts the items to be sold to the computer. The computer makes the following entry: Debits the cash account and credits the revenue account(s) and debits the cost of sales account and credits the inventory account and the subsidiary ledger account for the item sold.
    - 2) For the cash or checks received, see the receipt of cash of checks section below.
  - iii. Inventories items charged to customer:
    - 1) Posts the items sold to the computer. The computer makes the following entry: Debits the accounts receivable account and the subsidiary account for that customer and credits the revenue account(s) and debits the cost of sales account and credits the inventory account and the subsidiary ledger accounts for the item sold.
    - 2) Sends the invoice to the customer.
- 2. The Administrator's duties on the receipt of money are:
  - a. Dues in the Pennsylvania Lions Per Capita General Ledger:
    - i. Posts the receipt to the computer. The computer makes the following entry: Debits the cash account and credits the accounts receivable account and also the subsidiary ledgers for customers.
    - ii. This is all that is done in the Pennsylvania Lions Per Capita General Ledger.
  - b. Entries in the Pennsylvania State Council of Lions Club General Ledger:
    - i. Checks:
      - 1) Posts the checks to the computer. The computer debits the cash in bank account and the subsidiary ledger for the customer if it is billed per above, and if not, a billed item credits the revenue/other accounts.
      - 2) Scans the checks.
      - 3) Prints a copy of the cash in bank account showing the total of the checks.
      - 4) Verifies that the total of the scanned checks agree with the amount on the cash in bank account.
      - 5) Electronically transmits the deposit to the bank.
      - 6) Attaches the checks to the print out (item 3) above).
      - 7) Files the checks and printout in a file.

- ii. Cash received:
  - 1) Posts the money to the computer. The computer makes the following entry: Debits the cash in the bank account and credits the appropriate revenue/other account.
  - 2) Puts the cash and receipt in a money bag until cash is sufficient to make a trip to the bank.
  - 3) When cash amount is sufficient to make a deposit:
    - a) Prints a copy of the un-deposited cash in the cash in bank account.
    - b) Prepares a deposit slip for the cash.
    - c) Verifies that the cash agrees with the printout (item a) above).
    - d) Delivers the cash to the bank and receives a validated slip.
    - e) Attaches the invoices and the validated slip together.
    - f) Files the copy of the un-deposited cash printout in a file (item a) above).
- 3. The Administrator shall order all necessary items and, when received, checks them for correctness.
- 4. The Administrator receives invoices for all items:
  - a. Non-merchandise items:
    - i. Receives the invoice and verifies that it is correct.
    - ii. Posts the computer that makes the following entry. The computer makes the following entry: Debits the appropriate expense account and credits the accounts payable account and the subsidiary ledger account.
    - iii. Files the invoice until due date.
  - b. Merchandise items:
    - i. Receives the merchandise and verifies to order.
    - ii. Enters the merchandise into the computer inventory. The computer enters the items into the inventory and records the accounts payable.
    - iii. Files the invoice until due date.
- 5. The Administrator shall pay all bills under \$2,500:
  - a. Prepares the check on the computer that makes the following entry. The computer makes the following entry: Debits the accounts payable account and subsidiary accounts or debits the appropriate expense account/liability account and credits the cash in the bank account.
  - b. Voids the invoice by marking it with the date paid and check number.
  - c. Files the invoice.
  - d. Signs and mails the check(s) to the vendor.
- 6. For paying all bills over \$2,500:
  - a. Administrator:
    - i. The same as the above in General 5, plus:
    - ii. Forward the check(s) to the Council Chairperson or the Vice Council Chairperson.

- b. Council Chairperson or the Vice Council Chairperson:
  - i. Looks over the check(s) and invoice(s).
  - ii. Signs the check(s) and mails the check(s).
  - iii. Returns the invoice(s) and documentation to the Administrator.
- 7. Month End Bank Statement:
  - a. Administrator duties:
    - i. Receives bank statements either by mail or by internet.
    - ii. Reconciles the bank statements with the computer general ledger (cash in bank account).
    - iii. Reviews all old items that need attention and prepares necessary entries.
    - iv. Files the bank statements and reconciliations for the auditor.
    - v. Prints out from the computer a report of the transactions for the month for each bank account.
    - vi. Emails the computer report to the Council Chairperson and the Vice Council Chairperson.
  - b. Council Chairperson and Vice Council Chairperson:
    - i. Receives copy of the bank statements from the bank by e-mail.
    - ii. Receives copy of the cash accounts from the Administrator.
    - iii. Reconciles each bank statement using the information from the prior bank reconciliation and the information from the Administrator.
    - iv. E-mails the Administrator that you agree, and if you do not agree, call the Administrator and figure out the difference.
    - v. Files the monthly bank statements, cash accounts, and bank reconciliations in a file till the end of the year.
    - vi. At year end, forwards the bank reconciliation file to the Administrator to give to the auditor.