

209 INTERNAL CONTROLS

209.1 Statement of internal control

STEP Academy is committed to maintaining a system of internal controls sufficient both to safeguard the organization's assets and to ensure that transactions are properly captured, summarized, categorized and reported. Upon board approval, changes in policy may be made at any time, which will serve to strengthen the organization's internal control structure. The content of this section is subject to change to reflect the most up to date practices available to our employees and the entire organization.

STEP Academy Finance Director has the fiduciary responsibility for the accounting records of STEP Academy and the ultimate responsibility for the adequacy and effectiveness of the overall system of internal control. In order to meet these responsibilities within STEP Academy's decentralized operating environment, the responsibility for a variety of controls must be delegated to the various operating entities of STEP Academy. Therefore, all STEP Academy departments are required to:

1. Construct and maintain books, records and accounts which, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets for their respective operating units.
2. Establish and maintain a system of administrative control which promotes operational efficiency and effectiveness, and ensures adherence to STEP Academy's policies and procedures. These controls include, but are not limited to, budgets, schedules, job assignment and monitoring sheets, policy and procedure manuals, organization charts, job descriptions, employee training programs and various quality controls.
3. Establish and maintain an adequate system of internal accounting control sufficient to provide reasonable assurance that:
 - a. Transactions are executed in accordance with STEP Academy management's general or specific authorization;
 - b. Transactions are recorded as necessary (a) to permit the preparation of financial statements in conformity with generally accepted accounting principles and STEP Academy's financial and accounting policies, and (b) to maintain accountability for STEP Academy assets;
 - c. Access to assets is permitted only in accordance with management's general or specific authorization; and

- d. The recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

209.2 Design of Internal Control Systems:

The Finance Director, with support from the Executive Director, is responsible, in both the central and decentralized operating units, for establishing, maintaining and promoting effective business practices and effective internal controls. Such systems of internal control will vary from activity to activity depending upon the operating environment, including the size of the entity, its diversity of operations and the degree of centralization of financial and administrative management. While there may be practical limitations to the implementation of some internal controls, each business function throughout STEP Academy must establish and maintain a system of controls which meets the minimum requirements as established by STEP Academy's Internal Control Policy. A properly functioning system of controls improves the efficiency and effectiveness of operations, contributes to safeguarding the Academy's assets and identifies and discourages irregularities, such as questionable or illegal payments and practices, conflict of interest activities and other diversions of the Academy's assets.

209.3 Documentation of Internal Control Systems

Internal control systems must be documented. The nature and extent of documentation will depend upon the operating environment of each business function, and may take various forms including, but not limited to:

1. Written policies and procedures.
2. Formalized reporting responsibilities within the activity and descriptions of authority and responsibility. These may be in the form of organization charts, job descriptions and/or narratives.
3. Control objectives and control techniques which contribute to the achievement of those objectives (such as those stated on internal control questionnaires).
4. Flowcharts of systems with the identification of key control points.
5. Support for decisions regarding the implementation of controls, preferably in a cost-benefit format.

209.4 Administration of Internal Controls

Each STEP Academy's department and employee, with support from the Finance Director, is responsible for the application of this policy and the design, development, implementation, documentation and maintenance of a system of

internal controls within his/her area of responsibility. Additionally, unless otherwise specifically stated in the policy, all personnel engaged in activities affecting the adequacy of controls are subject to the provisions of this policy.

209.5 Review and Evaluation of Internal Controls

The Chair and Board of Directors has the responsibility to review and measure the effectiveness of the controls established within the framework of this policy as they relate to STEP Academy's accounting, financial and operating systems. The purposes of these reviews are to:

1. Ascertain the reliability and integrity of accounting, financial and operating information and the means of generating and reporting that information.
2. Ensure that systems comply with STEP Academy's policies, objectives, standards and procedures, and with federal, state and local laws and regulations. Evaluate computer-based systems in production, in development or undergoing change; and evaluate the systems development process and computer operations.
3. Evaluate the adequacy of methods used to safeguard STEP Academy's assets.

The Board of Directors assists the Executive Director and Finance Director by furnishing impartial, independent analyses, appraisals, recommendations and pertinent comments.

209.6 Internal Controls Processes

209.6.1 Payment Process

The payments process includes transaction flows pertaining to expenditures and related controls over such activities as ordering and receipt of goods and services, payroll processing, accounts payable and other cash disbursements.

General standards

1. Purchases should be initiated only on the basis of appropriate authorizations and records of commitments should be maintained in order to determine that transactions are executed in accordance with authorization; and establish the amount of any provision required for losses arising from unfulfilled commitments.

2. Control should be established over goods and services received in order to determine and record the liability for goods and services received but not entered as accounts payable; and post the items to detailed inventory records, where required.
3. Control should be established over goods returned to and claims made on suppliers in order to obtain credit for all such items; and post the items to the detailed inventory records, where required.
4. Invoices and related documents should be properly checked and approved as valid relative to unit price, quantity, dollar amount, commodity received vs. ordered, and payment terms before being entered as accounts payable.
5. Payments in respect to wages and salaries should be made only to STEP Academy employees at authorized rates of pay; made in accordance with records of work performed; and calculated accurately.
6. Payroll deductions should be correctly accounted for and paid to third parties to whom they are due, on a timely basis.
7. Reimbursements of funds should be made only for valid transactions.
8. Disbursements from bank accounts should be made only for valid transactions.
9. Accurate detailed records should be maintained of materials and supplies inventories.
10. Additions to and disposals of property and equipment should be properly authorized.
11. Accurate records should be maintained of the cost and accumulated depreciation of property and equipment.
12. General ledger entries arising from the payments process should be accurately determined.
13. Payments in connection with transactions not directly related to the main business activities of the organization should be made only on the basis of properly approved, adequate and valid documentation.

14. Entitlements under vacation pay arrangements should be authorized and recorded so that only valid payments are made to employees.
15. All advances made to employees for expenses and all claims recorded in the accounts for the reimbursements of expenses incurred should be valid.
16. Bills, acceptances, and notes payable should be processed only in respect to valid transactions; and accurately recorded, in order to determine the outstanding liability.
17. General ledger entries in respect to accrued and prepaid expenses and deferred charges should be accurately determined.
18. Accrued interest and other credit charges payable should be accurately calculated and accounted for in the correct financial period.
19. Accurate records should be maintained of goods received on consignment so as to establish the liability for any such goods sold or used by STEP Academy.

209.6.2 Revenue Process

The revenue process includes transaction flows pertaining to the revenue generating and collection functions, and related controls over such activities as sales, collection of tuition and fees, accounts receivable, investments and other revenues.

General standards

1. Control should be established over credit sales, fees, and services performed so as to establish an accounts receivable record and make appropriate charges to customers or students for all such credit transactions; determine the amount of the related revenue which has not been entered as accounts receivable; make the related entries in the detailed inventory records, where required; and establish a proper reserve for uncollectible accounts.
2. All charges and credits to students should be appropriately checked as being valid before being entered in the accounts receivable records.

All valid accounts receivable transactions, and only those transactions, should be accurately recorded as accounts receivable.

3. Control should be established over all cash and checks received. Such receipts should be deposited promptly in the appropriate STEP Academy bank account.
4. Accurate detailed records should be maintained of inventories whether purchased for use or resale.
5. General ledger entries arising from the revenue process should be accurately determined.
6. All documents and transactions pertaining to bills, acceptances, and notes receivable should be accurately recorded in order to determine the outstanding amounts receivable; and adequately safeguarded prior to maturity.
7. Accurate records should be maintained of accounts receivable which have been written off. A regular review should be made to ensure that any possible recoveries are received by STEP Academy.
8. All income from miscellaneous sales (e.g., disposal of assets) should be received and recorded.
9. General ledger entries with regard to accrued and deferred income should be accurately determined.
10. Accrued interest and credit charges receivable should be accurately calculated and accounted for in the correct financial periods.

209.6.3 Time process

The time process, not strictly related to transaction flows, includes events caused by the passage of time, controls that are applied only periodically, certain custodial activities, and the financial reporting process. Included in the time process are controls over the continuous transaction processing systems, such as budgeting, trial balance preparation, inventories and fixed asset verification.

General standards

1. All financial reports (both internal and external) should be prepared accurately and submitted on a consistent and timely basis.
2. Adequate procedures should be followed to confirm the physical existence of inventories recorded in the general ledger.
3. Costs attributable to inventories should be accurately determined.
4. Adequate steps should be taken to identify all inventories for which provisions may be required.
5. Adequate steps should be taken to confirm the physical existence of, and, if appropriate, the title to property and equipment.
6. All doubtful accounts receivable should be identified (either individually or by categories) in order to determine any provisions required for such accounts.
7. Adequate steps should be taken to confirm the accuracy of the bank balances shown in the general ledger.
8. Investments should be accurately accounted for and adequately safeguarded.
9. All valid general ledger entries, and only those entries, should be accurately recorded in the general ledger.
10. Amortization of deferred expenditures and intangible assets should be provided at appropriate rates and the value of such assets should be periodically reviewed so as to determine any required amortization provisions.
11. All doubtful accounts receivable and others, expense advances or uncollectible pledges should be reviewed periodically in order to determine the adequacy of the reserve provisions against such receivables.

209.7 Computer and Technology Controls

Computer and technology controls includes controls over the creation, implementation, security, and use of computers and computer programs, controls over the operations in computer centers, and controls over the security of data files. Computer controls (1) enhance assurance of the accuracy and reliability of

the results of data processing, (2) contribute toward safeguarding STEP Academy assets, and (3) promote operational efficiency and effectiveness.

1. Procedures should be established to ensure the selection, installation and implementation of the proper facilities and equipment to meet current and future data processing requirements.
2. There should be effective control over the deployment and use of personnel and computer resources in the user and computing departments.
3. A systems development methodology should be followed to ensure the development of effective, efficient, maintainable and auditable computer systems. Changes to existing systems should be governed by the same criteria that exist for the development of new systems.
4. Controls should be in place to ensure the continuous operating capability of the data center (e.g., a computer disaster recovery plan) and the prevention and/or timely detection of equipment misuse and data loss.
5. There should be programmed procedures in computer programs to ensure the complete and accurate processing of all authorized data, including prevention, detection and correction of errors; and prevention and/or timely detection of unauthorized data.
6. Methods and procedures should be in place to ensure the adequate documentation of the programs and systems for use by user personnel, data processing personnel, management and auditors.
7. Procedures should be established to ensure the proper selection, use and control of outside computer centers and service bureaus.

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